

# 2019 ANNUAL REPORT



# CONTENTS

4 At a glance

## STRATEGIC REPORT

### *Business overview*

10 Performance summary  
12 Chairman's Statement  
16 Business model  
18 Our strategy, goals and progress  
22 Investment case  
23 Five-year summary

### *Performance and future outlook*

24 Chief Executive Officer's Review  
29 Financial Review  
40 Value added statement  
41 Clinical services overview

### *Risk management*

55 Risk management, principal risks and uncertainties  
60 Viability statement

### *Divisional reviews*

62 Divisional Review - Switzerland  
67 Divisional Review - Southern Africa  
71 Divisional Review - UAE

### *Non-financial performance*

76 Sustainable development overview  
100 Non-financial information statement

## GOVERNANCE AND REMUNERATION

103 Chairman's Introduction  
104 Board of Directors  
110 Group Executive Committee  
114 Corporate Governance Statement  
136 Audit and Risk Committee Report  
150 Clinical Performance and Sustainability Committee Report  
154 Nomination Committee Report  
159 Directors' Remuneration Report  
179 Statement of Directors' Responsibilities

## FINANCIAL STATEMENTS

182 Group Financial Statements  
280 Company Financial Statements

## ADDITIONAL INFORMATION

296 Shareholder information  
300 Company information  
302 Forward-looking statements  
303 Glossary

# OVERVIEW

## ADAPTING MEDICLINIC TO THE CHANGING GLOBAL HEALTHCARE ENVIRONMENT

is a priority with focus throughout the Group to invest across the continuum of care

## 750 000 INPATIENT ADMISSIONS

across the Group as the demand for quality healthcare services remains strong

## REVENUE UP 2%

to £2 932m; up 4% in constant currency

## ADJUSTED EBITDA DOWN

## 4%

to £493m; down 2% in constant currency reflecting the financial impact of regulatory changes on Hirslanden

## LOSS OF £151M\*

impacted by non-cash Hirslanden and Spire impairment charges and other exceptional items

\* Refer to loss attributable to equity holders.

## £232M

## SIGNIFICANT ONGOING INVESTMENT

across the Group supporting patient experience, clinical excellence, maintenance, upgrades and expansion

## ADJUSTED EARNINGS PER SHARE DOWN

## 10%

to 26.9 pence

## TOTAL DIVIDEND FOR THE YEAR

## 7.9 PENCE







# REPORT PROFILE

## SCOPE, BOUNDARY AND REPORTING CYCLE

This annual report and financial statements (“**Annual Report**”) of Mediclinic International plc (the “**Company**” or “**Mediclinic**”) presents the financial results and the economic, social and environmental performance of Mediclinic for the financial year ended 31 March 2019 (the “**reporting period**”) and reports on the operations of the Company’s subsidiaries in Switzerland, Southern Africa and the United Arab Emirates (“**UAE**”) (collectively, the “**Group**”).

## REPORTING PRINCIPLES

This **Annual Report** contains information that is deemed useful and relevant to stakeholders, with due regard to their expectations through continuous engagement or information that the board of Directors of Mediclinic (the “**Board**” or the “**Board of Directors**”) believes may influence stakeholders’ perception or decision-making. The information aims to provide stakeholders with an understanding of the Group’s financial, economic, social and environmental impacts to enable them to evaluate the ability of Mediclinic to create and sustain value.

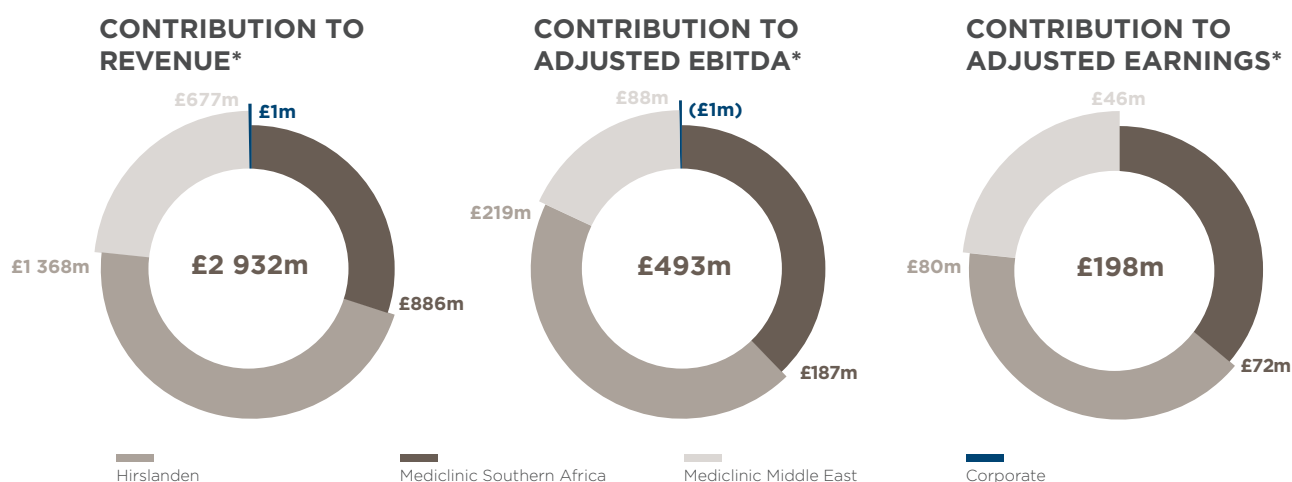
This **Annual Report** was prepared in accordance with the International Financial Reporting Standards (“**IFRS**”), the listing rules of the London Stock Exchange (“**LSE**”), the listings requirements of the JSE Ltd (“**JSE**”), the United Kingdom (“**UK**”) Corporate Governance Code and the UK Companies Act 2006 (including the Companies, Partnerships and Group [Accounts and Non-Financial

Reporting] Regulations 2016 aimed at improving the transparency of companies regarding non-financial and diversity information), where relevant. The Company complied with all the provisions of the UK Corporate Governance Code, other than the exceptions explained in the **Corporate Governance Statement** on page 114 of this **Annual Report**. The Company’s reporting on sustainable development included in this report (supplemented by the **Sustainable Development Report** which is available on the Company’s website at [www.mediclinic.com](http://www.mediclinic.com)) was done in accordance with the Global Reporting Initiative Sustainability Reporting Standards 2016 (“**GRI Standards**”) and the non-financial reporting regulations referred to above.

## EXTERNAL AUDIT AND ASSURANCE

The Company’s annual financial statements and the Group’s consolidated annual financial statements were audited by the Group’s independent external auditor, PricewaterhouseCoopers LLP (the “**external auditor**”), in accordance with International Standards of Auditing (UK).

The Group follows various other voluntary external accreditation, certification and assurance initiatives, complementing the Group’s combined assurance model, as reported on in the **Risk management** section of this **Annual Report**. The Group believes that this adds to the transparency and reliability of information reported to its stakeholders.



\* The Group uses adjusted income statement reporting as non-IFRS measures in evaluating performance. Refer to the **Financial Review** on page 31 for an explanation and for a reconciliation to the equivalent IFRS measures.

# AT A GLANCE

## TO ENHANCE THE QUALITY OF LIFE.

Mediclinic is focused on providing specialist-orientated, multi-disciplinary services across the continuum of care in such a way that the Group will be regarded as the most respected and trusted provider of healthcare services by patients, medical practitioners, funders and regulators of healthcare in each of its markets.

### UNITED KINGDOM ○

29.9% investment in Spire Healthcare Group plc.

For more information, please refer to page 38 and visit: [www.spirehealthcare.co.uk](http://www.spirehealthcare.co.uk)

### SWITZERLAND ○

With continuing regulatory changes during the year in Switzerland, Hirslanden is adapting to the evolving outpatient environment while delivering ongoing cost management and efficiency savings which, along with seasonal benefits, delivered an improved second-half financial performance.

For more information, please refer to page 62 and visit: [www.hirslanden.ch](http://www.hirslanden.ch)

### UNITED ARAB EMIRATES ○

The new Mediclinic Parkview Hospital in Dubai was successfully opened in September 2018, six months ahead of the original schedule. Revenue and EBITDA growth achieved during the year are expected to continue over the medium term as the benefits from investments support the operational delivery of the division.

For more information, please refer to page 71 and visit: [www.mediclinic.ae](http://www.mediclinic.ae)

### SOUTHERN AFRICA ○

Mediclinic's continued strategic focus to invest across the continuum of care resulted in the expansion of the division's sub-acute hospital, day case and outpatient clinics during the year. The investment in the Intercare group, completed in November 2018, supported revenue and patient growth with a strong operational focus delivering broadly stable EBITDA margins.

For more information, please refer to page 67 or visit: [www.mediclinic.co.za](http://www.mediclinic.co.za)  
[www.mhr.co.za](http://www.mhr.co.za)  
[www.er24.co.za](http://www.er24.co.za)

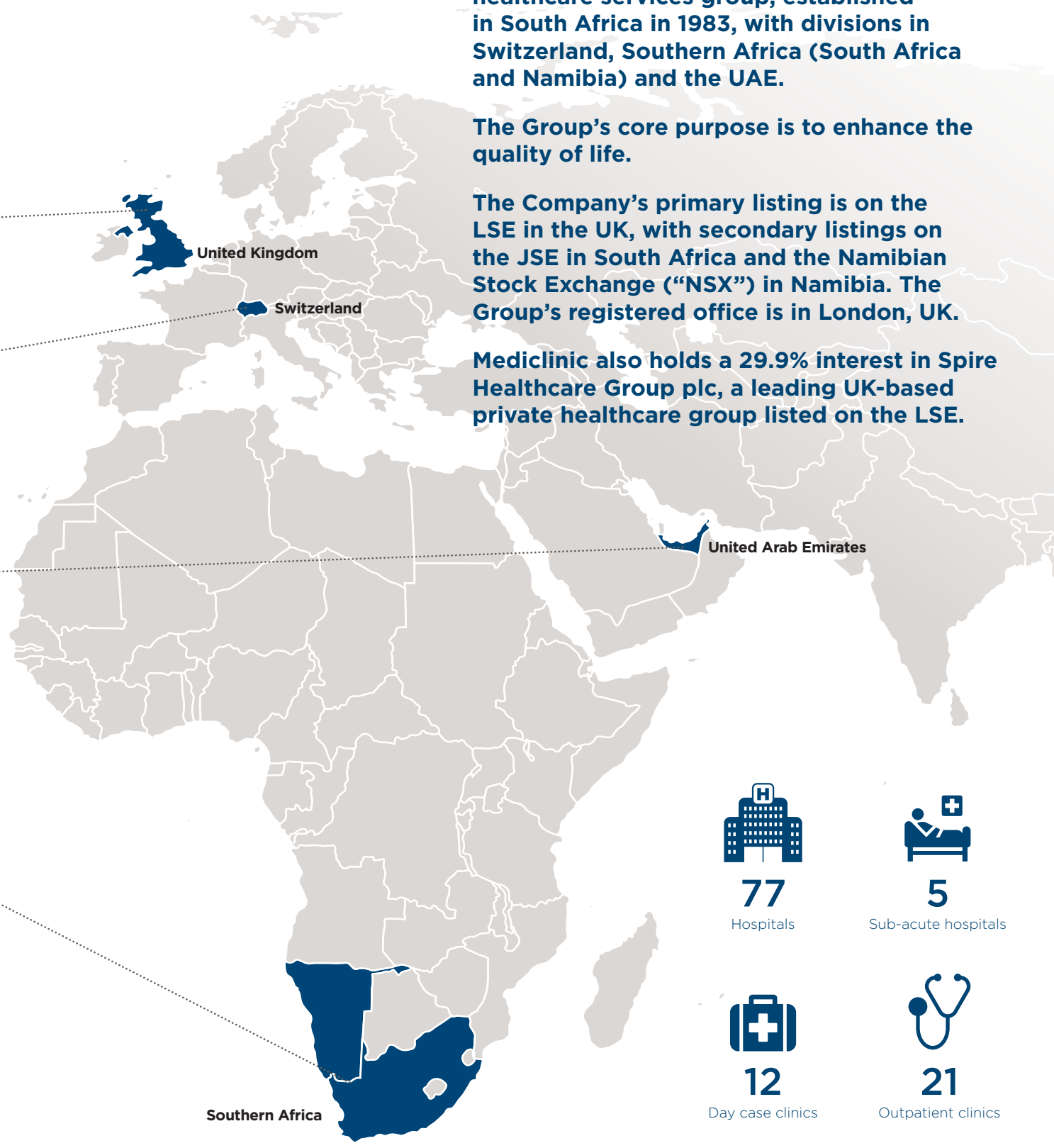
## About Mediclinic

Mediclinic is an international private healthcare services group, established in South Africa in 1983, with divisions in Switzerland, Southern Africa (South Africa and Namibia) and the UAE.

The Group's core purpose is to enhance the quality of life.

The Company's primary listing is on the LSE in the UK, with secondary listings on the JSE in South Africa and the Namibian Stock Exchange ("NSX") in Namibia. The Group's registered office is in London, UK.

Mediclinic also holds a 29.9% interest in Spire Healthcare Group plc, a leading UK-based private healthcare group listed on the LSE.



**77**

Hospitals



**5**

Sub-acute hospitals



**12**

Day case clinics



**21**

Outpatient clinics



**32 398**

Employees



**11 359**

Inpatient beds



**445**

Theatres



## AT A GLANCE (CONTINUED)



“WE ARE ADAPTING THE BUSINESS TO ADDRESS THE CHANGING LANDSCAPE AND TO CAPITALISE ON GROWING OPPORTUNITIES IN THE GLOBAL HEALTHCARE SERVICES SECTOR.”

**Dr Ronnie van der Merwe**  
Chief Executive Officer


77 HOSPITALS	
Switzerland	18
Southern Africa	52
South Africa	49
Namibia	3
UAE	7

12 DAY CASE CLINICS	
Switzerland	2
Southern Africa	8
UAE	2

11 359 INPATIENT BEDS	
Switzerland	1 916
Southern Africa	8 517
UAE	926

5 SUB-ACUTE HOSPITALS	
Southern Africa	5

21 OUTPATIENT CLINICS	
Switzerland	3
UAE	18

445 THEATRES	
Switzerland	112
Southern Africa	296
UAE	37

### 32 398 EMPLOYEES

	Permanent	Full-time equivalents
Switzerland	10 442	8 303
Southern Africa	15 804	19 646 (including agency employees)
UAE	6 152	6 152

EMPLOYEE ENGAGEMENT (MAXIMUM SCORE OF 5)	
Switzerland	4.01
Southern Africa	3.94
UAE	4.02

CONTROLLABLE EMPLOYEE TURNOVER	
Group	6.9%
Switzerland	7.6%
Southern Africa	6.7%

PATIENT EXPERIENCE	
Switzerland	87.6%
Southern Africa	82.2%
UAE	85.6%

Refer to page 85 for more information.

Refer to page 80 for more information.

Refer to page 43 for more information.

Refer to the **Investments in Subsidiaries, Associates and Joint Ventures** annexed to the consolidated annual financial statements for more information on the Group's ownership structure.

## Company culture

Mediclinic is committed to conducting its business with honesty and integrity. The Company's Code of Business Conduct and Ethics ("Ethics Code") and its core values represent the basic beliefs to which it aspires.

### OUR VALUES

Client orientation	Mutual trust and respect	Teamwork	Performance driven
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Mediclinic takes a sustainable, long-term approach to business, putting patients at the heart of its operations and consistently delivering high-quality healthcare services. In order to deliver on these priorities, the Group upholds the highest standards of clinical governance and ethical behaviour across its divisions, invests significant time and resources in recruiting and retaining skilled employees, makes considerable investment into its facilities and equipment and respects the communities and environment in the areas in which it operates.

Diversity is valued and Mediclinic provides equal opportunities for all in the workplace. No form of unfair discrimination is tolerated.

Mediclinic recognises its accountability to stakeholders and is committed to effectively and regularly engaging with them. This is fundamental in maintaining Mediclinic's corporate reputation as a trusted and respected provider of healthcare services and positioning itself as a leading international private healthcare group. The Group is committed to conducting its business in a manner that respects and promotes the human rights and dignity of all those within its sphere of influence throughout its operations and relationships.

## FURTHER INFORMATION

This **Annual Report** is published as part of a suite of reports, as listed below.

[2019 Annual Report](#)

[2019 Clinical Services Report](#)

[2019 Sustainable Development Report](#)

[2019 Notice of Annual General Meeting](#)

These reports are available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports> from the date of distribution of this **Annual Report** and the Company's notice of annual general meeting by no later than 21 June 2019.

## GLOSSARY

Capitalised terms used in this report are defined in the glossary of terms on page 303.

## APPROVAL OF THE 2019 ANNUAL REPORT

This **Annual Report**, including the **Strategic Report** herein, was approved by the Board on 22 May 2019. The Strategic Report incorporates the following sections by reference: **Report profile** and **At a glance** (pages 3-7).



**Dr Edwin Hertzog**

*Non-executive Chairman*

22 May 2019





# STRATEGIC REPORT

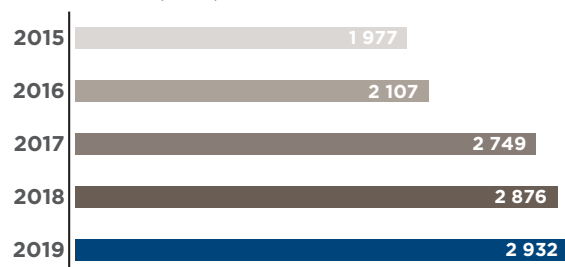
**“BETTER INTEGRATION  
OF OUR SERVICE  
OFFERING ACROSS ALL  
THREE DIVISIONS WILL  
NOT ONLY IMPROVE  
THE EFFICIENCY OF  
OUR OPERATIONS,  
BUT ALSO ENABLE US  
TO LEVERAGE OUR CORE  
COMPETENCIES.”**

**Dr Ronnie van der Merwe**  
*Chief Executive Officer*

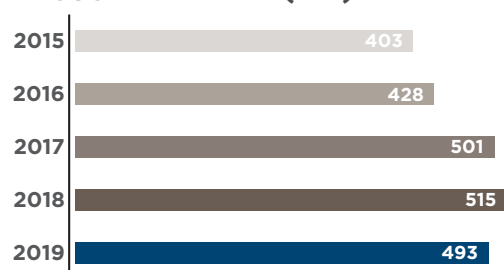
# PERFORMANCE SUMMARY

## GROUP FINANCIAL RESULTS

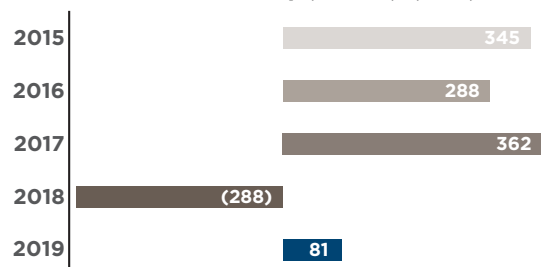
### REVENUE (£'M)



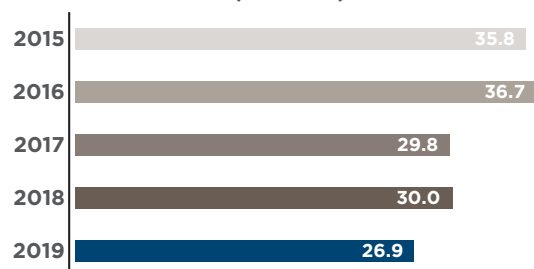
### ADJUSTED EBITDA (£'M)



### OPERATING PROFIT/(LOSS) (£'M)



### ADJUSTED EPS (PENCE)



### OPERATING CASH FLOW (£'M)



## OPERATIONAL SUMMARY

### Adapting to the changing healthcare landscape

With trends of an ageing population and a growing disease burden coupled with new medical technology, digital health and greater consumerism, healthcare providers are facing unprecedented developments. This also presents Mediclinic with the opportunity to learn, adapt and grow, as it has done in the past. One of the challenges in the industry will always be the affordability of healthcare and Mediclinic maintains a strong focus on cost management and efficiencies across the Group. The Group is actively adapting and optimising the way it delivers healthcare to help address the regulatory trend of outmigration.

### Benefits of international scale

Today's healthcare industry remains fragmented, and with only a few truly global healthcare service providers. Mediclinic is focused on improving the integration of its service offering across all three divisions to enhance the efficiency of its operations, but also to enable the Group to leverage its core competencies and unique approach to knowledge sharing. As one of the largest Europe, Middle East and Africa ("EMEA") healthcare groups, with each division recognised as a leader in its own market, Mediclinic is well positioned to provide diversified services across the continuum of care.

### Patients First strategic objective

During the year, the Group's commitment to delivering high-quality, cost-effective healthcare services on a sustainable basis supported the achievement of its core strategic objective of putting *Patients First*. Mediclinic deeply appreciates the 750 000 inpatients who chose it as their preferred healthcare service provider and the growing number of patients attending its expanding day case and outpatient clinics. Progress continued this year in the key areas of clinical performance, patient experience and employee engagement.

### Focused on cash flow generation and responsible leverage

While recent profitability has challenged the achievement of appropriate returns, the invested capital of the Group remains underpinned by a philosophy of property ownership. Strong cash flow generation and responsible leverage are key to delivering on the long-term success of the Group. Therefore, Mediclinic focuses on profitable growth and disciplined capital allocation to generate returns in excess of the bottom-up hurdle rates established for each division. This year, the Group successfully refinanced debt facilities in Southern Africa and the UAE. In Switzerland, where Hirslanden has the highest value of fixed assets and the lowest cost of borrowing, the Group proactively took action to re-calibrate the covenants to reflect the impact of regulatory changes on the profitability of the business.

## KEY PERFORMANCE INDICATORS

FINANCIAL		2019	2018	% change
Revenue <sup>1</sup>	£'m	<b>2 932</b>	2 876	2%
Adjusted EBITDA <sup>2</sup>	£'m	<b>493</b>	515	(4%)
Operating profit/(loss)	£'m	<b>81</b>	(288)	128%
Reported loss <sup>3</sup>	£'m	<b>(151)</b>	(492)	69%
Adjusted earnings <sup>2</sup>	£'m	<b>198</b>	221	(10%)
Loss per share	pence	<b>(20.5)</b>	(66.7)	69%
Adjusted earnings per share <sup>2</sup>	pence	<b>26.9</b>	30.0	(10%)
Total dividend per share <sup>4</sup>	pence	<b>7.90</b>	7.90	0%
Net debt at the year end	£'m	<b>1 717</b>	1 676	2%
Capital expenditure on projects, new equipment and replacement of equipment	£'m	<b>232</b>	245	(5%)
Switzerland	£'m	<b>72</b>	101	(29%)
Southern Africa	£'m	<b>66</b>	64	3%
United Arab Emirates	£'m	<b>94</b>	80	18%

### Notes

<sup>1</sup> An income statement reclassification has increased Mediclinic Southern Africa FY18 revenue and cost of sales by £6m. Refer to note 2.1 of the **Group annual financial statements** on page 197.

<sup>2</sup> The Group uses adjusted income statement reporting as non-IFRS measures in evaluating performance and as a method to provide shareholders with clear and consistent reporting. See the reconciliations between the statutory and the non-IFRS measures in the **Financial Review** on page 31.

<sup>3</sup> Reported loss refers to loss attributable to equity holders.

<sup>4</sup> The total dividend per share for the year ended 31 March 2019 in pound sterling comprises the final dividend of 4.70 pence per share (2018: 4.70 pence) and the interim dividend of 3.20 pence per share, paid in December 2018 (2018: 3.20 pence).

Group results are subject to movements in foreign currency exchange rates. Refer to page 36 for exchange rates used to convert the divisions' results to pound sterling.



# CHAIRMAN'S STATEMENT



**“THE BOARD REMAINS CONFIDENT THAT THE GROUP’S OPERATIONAL PERFORMANCE AND STRATEGIC FOCUS WILL SUPPORT AND ENHANCE MEDICLINIC’S POSITION AS AN INTERNATIONAL LEADER IN THE PROVISION OF PRIVATE HEALTHCARE SERVICES.”**

**Dr Edwin Hertzog**  
*Non-executive Chairman*

## **STRATEGIC DELIVERY IN A CHANGING ENVIRONMENT**

During the year under review (“FY19”) our commitment to delivering high-quality, cost-effective healthcare services on a sustainable basis supported the achievement of our core strategic objective of putting *Patients First*. The year also brought significant regulatory changes, particularly in Switzerland, which we are adapting to but which negatively impacted our financial performance.

Navigating the regulatory changes will continue to require the Board and management team’s relentless focus in order to achieve the Group’s strategic and financial goals. Strategically, we will continue to seek improved operational efficiencies, pursue attractive growth opportunities and leverage our international scale, while also continuing to invest in employees, information and communications technology (“ICT”) and analytics. From a financial perspective, we remain focused on improving the returns of the business, generating good free cash flow and maintaining a responsible approach to leverage. Prudent capital allocation is a fundamental part of our strategy. To this end, the Board remains diligent and scrutinises all activities, aligning its output to the financial and strategic goals of the Group and delivering value to shareholders over the longer term.

## OUR PEOPLE AND PATIENTS

Through my 36 years of involvement with Mediclinic, the one thing that has remained constant is the commitment of our people to support the patients that put their trust in us to deliver appropriate care. This is underpinned by our strong values and purpose of enhancing the quality of life.

We believe that diversity across Mediclinic promotes better performance and a stronger organisational culture. We invest in leadership development and training programmes at all levels of the organisation to support our goals and to ensure that Mediclinic, as an employer of choice, remains able to attract high-quality international talent. These skills, along with the governance measures in place, allow us to enhance clinical outcomes and the patient experience, both of which are fundamental to the long-term success of the Group. This culture must be instilled from the very top of the organisation and we demonstrated this successfully when Mediclinic ranked eighth out of the FTSE 100 companies in the Parker Review Committee's Report into the Ethnic Diversity of UK Boards ("**Parker Report**"), issued in October 2017.

We deeply appreciate the 750 000 inpatients who chose Mediclinic as their preferred healthcare service provider during the year. As healthcare services continue to evolve, more of the care we offer is delivered in an outpatient setting. Already approximately 30% of the Group's revenue is generated by surgical day cases and outpatient consultations and procedures. The demand for treatment in these lower acuity, convenient care settings is expected to grow and Mediclinic is positioning itself for this trend in all its operational regions.

We clearly value the important roles each stakeholder has to play in the successful delivery of our operations. One important change is the formal appointment of a designated non-executive Director with responsibilities for employee representation on the Board. Mr Danie Meintjes was selected as the most appropriate member of the Board to fulfil this responsibility given his many years of experience in human resources and his more recent engagement with our people across all divisions through his previous role as Chief Executive Officer ("**CEO**"). The Board strongly encourages all employees to participate in the annual Gallup® Employee Engagement Profile survey; the collated information and subsequent implementation of follow-up processes will be communicated to the Board formally. Mr Meintjes will be responsible for ensuring that the Board is informed regularly of challenges, corrective actions and progress.

## FINANCIAL PERFORMANCE

Overall, the Group remains in a strong financial position. Challenging market and regulatory environments in all

three divisions were reflected in the Group's overall financial performance.

At the Group level, in constant currency, FY19 revenue was up 4% and adjusted earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was down 2%. However, after the translation effect of foreign currency movements, FY19 revenue was up 2% at £2 932m (FY18: £2 876m) and adjusted EBITDA decreased 4% at £493m (FY18: £515m). This performance was driven by marginal revenue growth in Switzerland with a lower adjusted EBITDA margin impacted by regulatory changes including tariff reductions and the outmigration of care partly offset by ongoing cost management and efficiency savings. In Southern Africa, there was modest revenue growth with a stable adjusted EBITDA margin driven by a continued focus on cost management and efficiencies during a period of low volume growth. The Middle East experienced mid-single digit revenue growth with a stable adjusted EBITDA margin irrespective of the start-up losses associated with the new Mediclinic Parkview Hospital in Dubai. Adjusted earnings per share ("**EPS**") for the Group was down 10% to 26.9 pence (FY18: 30.0 pence).

During the year, the Group reported non-cash exceptional items relating to impairment charges at Hirslanden and Spire. Due to the changes in the Swiss market and regulatory environment, Hirslanden recorded a £241m (FY18: £644m) impairment charge on intangible assets and property. An impairment test on Spire was carried out, which resulted in an impairment charge of £164m (FY18: £109m) recorded against the carrying value of the equity accounted investment. As a result of these impairment charges and other exceptional items, the reported earnings loss for the year was £151m (FY18: loss of £492m).

## DELIVERING CLINICAL EXCELLENCE

I am pleased to report that during the year under review, the majority of patient safety and clinical effectiveness indicators showed improvement. Much of the progress can be attributed to a strong collaborative effort between the clinical services teams of the respective divisions and the corporate centre. Highlights from across the Group included:

### At Group level:

- Integration of the Ward-to-Board accountability continued in order to strengthen clinical service leadership across the Group, with a successful pilot project completed in Southern Africa.
- A Patient Safety Committee was established to standardise and enhance collaboration across the Group.
- An initiative commenced to coordinate collaboration of nursing services across divisions.

# CHAIRMAN'S STATEMENT (CONTINUED)

- A clinical adverse event and clinical risk management solution suitable for the Group was sourced.

## Hirslanden:

- As part of the HIT2020 project, Hirslanden progressed with its goal of rolling out an electronic health record ("EHR") and patient data management system ("PDMS").
- Fast-track orthopaedics was established in three hospitals and rollout is planned at a further two hospitals.
- Following the successful opening last year of the first dedicated day case clinic at Bellaria in Zürich, the division opened its second unit at the train station at St. Anna in Lucerne.

## Mediclinic Southern Africa:

- Infection rates were further reduced through the implementation of a comprehensive infection prevention and control strategy.
- The first phase of the national stroke management implementation plan was completed.
- As part of theatre management workshops, improved employment methodology was rolled out to align employee competencies and tasks with theatre slates and utilisation.

## Mediclinic Middle East:

- Rollout of an EHR commenced at one hospital and one clinic and will continue during the coming year.
- The Department of Health in Abu Dhabi approved research licences for all Mediclinic hospitals in the region with 29 active projects, 45% of which are conducted in collaboration with Mohammed Bin Rashid University of Medicine and Health Sciences ("MBRUHS") student research.
- Mediclinic City Hospital entered into an agreement for a paediatric residency training programme between MBRUHS and Al Jalila Hospital.

## REGULATORY LANDSCAPE

The affordability of healthcare remains an overarching focus of governments, regulators, insurers and patients. As healthcare is a unique sector where the demand for services is predicted to continue growing, it is entirely appropriate that the cost of healthcare services should be monitored against the clinical quality and patient experience that providers deliver. That is why we believe in the need to deliver sustainable integrated healthcare services that offer value to all stakeholders. Different care settings are required to align with the migration of care. Across Mediclinic, we have employed a variety of different approaches for this which will continue to evolve over time.

Over the years, we have invested in recruiting and training our people to ensure we have experienced and well-informed management teams who can successfully navigate the changing regulatory landscape.

This year significant regulatory changes in Switzerland impacted the financial performance of the division. These included the national outpatient tariff ("TARMED") reductions effective from 1 January 2018 and the outmigration of certain medical treatments from an inpatient to an outpatient tariff, which has gradually occurred in cantons across Switzerland for the past 18–24 months, with official national implementation from 1 January 2019. Hirslanden continues to adapt its business model to address the current trends in inpatient and outpatient activity driven by the recent regulatory changes while maintaining excellent clinical performance.

## BOARD CHANGES AND GOVERNANCE

The Board announced the appointment of Dr Ronnie van der Merwe as the Company's new CEO in November 2017, following the planned retirement of Mr Meintjes. The appointment became effective on 1 June 2018.

Dr Van der Merwe's achievements during the year under review to further enhance strong team alignment at the executive management level and focus the divisions on the need to deliver cost-effective quality healthcare services, which expand more across the continuum of care, were evident in the operational performance of the business. After qualifying and practising as an anaesthesiologist, Dr Van der Merwe joined Mediclinic in 1999 and has been a member of the Group's Executive Committee since 2008. He established the Clinical Information, Advanced Analytics, Health Information Management and Clinical Services functions at Mediclinic and has been Group Chief Clinical Officer since 2007. I believe Dr Van der Merwe's in-depth knowledge of the healthcare sector and long history with the Company put Mediclinic in a strong position to deliver on its operational performance and strategic priorities.

I am pleased to announce that this year the Board made one independent non-executive Director appointment that further strengthens the Board's clinical governance and global healthcare experience.

Dr Anja Oswald was appointed as an independent non-executive Director and member of the Remuneration Committee and Nomination Committee on 25 July 2018. Qualified as an orthopaedic surgeon along with an MBA degree, she is currently the CEO of Klinik Sonnenhalde, a well-established private clinic for psychiatry and psychotherapy with inpatients, day-care



clinics and outpatients in Riehen, Switzerland. She is also President of the Association of Private Hospitals in Basel, as well as a board member of *Integrierte Psychiatrie Winterthur* in Canton Zürich and of the Alliance for a Free Health Care System in Switzerland. Prior to this, she was Head of Medical and Pharmaceutical Services and Deputy Medical Officer in the Department of Health of the Cantonal Government in Basel and a member of various cantonal, regional and national committees.

I was very pleased to welcome Dr René Toua to the Group Executive Committee. She replaced Dr Van der Merwe as Chief Clinical Officer and has been an integral part of Mediclinic's successful clinical team in Stellenbosch. We all wish her well in her new role. Additionally, Mr Daniel Liedtke was appointed as the new CEO of Hirslanden in January 2019 and I welcome him to the Group Executive Committee.

Mr Desmond Smith will retire as an independent non-executive Director and as Senior Independent Director with effect from the conclusion of the annual general meeting on 24 July 2019. Mr Smith will be succeeded as Senior Independent Director and as Chairperson of the Audit and Risk Committee from that date by Mr Alan Grieve.

Various other changes were made to Board committee memberships: Mr Trevor Petersen stepped down as a member of the Nomination Committee, with Dr Felicity Harvey appointed as a new committee member. Mr Meintjes stepped down as a member of the Clinical Performance and Sustainability Committee, with Mr Seamus Keating and Dr Van der Merwe appointed as new committee members. Mr Seamus Keating stepped down as a member of the Investment Committee, with Dr Van der Merwe appointed as a new committee member.

## DIVIDEND

For FY19, the Board recommends a final dividend of 4.70 pence per share which, together with the interim dividend of 3.20 pence per share, results in the total dividend maintained for the year at 7.90 pence per share (FY18: 7.9 pence per share). This represents a 29% pay-out

ratio to adjusted earnings per share, in line with the Group's policy of 25-30%.

## LOOKING AHEAD

The global healthcare industry continues to evolve with the affordability of healthcare remaining the primary focus of governments, regulators, insurers and patients. Mediclinic has always been aware of this and will continue to move promptly and decisively to adapt to changes in the healthcare landscape. The Board remains confident that the Group's operational performance and strategic focus will support and enhance Mediclinic's position as an international leader in the provision of private healthcare services.

## APPRECIATING YOUR CONTINUED SUPPORT

It is those people who play an instrumental role in the day-to-day delivery of our business who I once again wish to thank. It is your dedication, drive and continued focus on our clients that ensure we remain a healthcare partner of choice across all our divisions. To our patients and supporting medical professionals, we deeply appreciate that you have chosen Mediclinic as your preferred healthcare service partner. We will continue to work tirelessly to ensure that our clinical performance and customer experience exceed your expectations.

Finally, I would like to thank our valued shareholders for their continued trust and support.

We enter the new financial year with confidence in our ability to retain our leading market positions that will deliver sustainable long-term shareholder value.



**Dr Edwin Hertzog**  
Non-executive Chairman  
22 May 2019

# BUSINESS MODEL

## PURPOSE

Mediclinic's purpose is to

**ENHANCE  
THE QUALITY  
OF LIFE.**

## VISION

**TO BE PREFERRED  
LOCALLY AND  
RESPECTED  
INTERNATIONALLY**

**We will be preferred locally for:**

- delivering excellent patient care;
- ensuring aligned relationships with doctor communities;
- being an employer of choice, appointing and retaining competent staff;
- building constructive relationships with all stakeholders; and
- being a valued member of the community.

**We will be respected internationally for:**

- delivering measurable quality clinical outcomes;
- continuing to grow as a successful international healthcare group;
- enforcing good corporate governance; and
- acting as a responsible corporate citizen.

**Our relentless focus on patient needs will create long-term shareholder value and establish Mediclinic as a leader in the global healthcare industry.**

## OUR ASSETS AND RESOURCES

### Strong financial position

Mediclinic has a strong financial profile, underpinned by an extensive property portfolio. The Group has good access to capital, a disciplined capital allocation approach and invests for growth.

See the **Financial Review** on page 29 for more information.

### Facilities and technology

The Group provides high-quality healthcare facilities and continuously invests in the expansion and maintenance of these facilities, as well as in new technology.

See the **Divisional Reviews** from page 62 for more information.

### Engaged employees

The Group employs more than 32 000 employees. Mediclinic believes that client experience depends highly on interaction with its employees; those working with and for the Group are highly valued. Fair labour practices are followed and competitive remuneration, training and development opportunities are offered. Continuous investment in the training and development of employees creates a highly trained, client-oriented workforce and talent pipeline.

The Group's overall employee engagement grand mean score, as measured by the Gallup® Employee Engagement Profile survey, increased meaningfully in all divisions during the 2018 survey. The improvement in the central themes indicated a positive return on the resources invested in supporting initiatives and this approach will be continued based on the most recent results. The participation rate also increased from 77% in the previous financial year to 82% in this reporting period.

See the **Sustainable development overview** on page 76 for more information.

### Operational expertise

Mediclinic has an experienced Board and management team. The Group's clinical expertise is a critical element of its business, enabling it to provide quality healthcare services. Deep operational expertise delivers a seamless patient experience, underpinned by high-quality nursing care.

See the **Clinical services overview** on page 41 for more information.

### Sound relationships

Mediclinic is committed to ensuring a high standard of ethics, social responsibility, accountability, cooperation and transparency. The Group maintains excellent relationships with key stakeholders through regular engagement with employees, funders, patients, supporting medical practitioners, suppliers, government and communities.

Any initiative to improve the quality of clinical care needs the support and engagement of the treating medical practitioners. For this reason, the Group openly acknowledges its supporting medical practitioners as a key stakeholder and is actively involved with various programmes to engage with them.

See the **Corporate Governance Statement** on page 114 and the **Sustainable Development Report** (available on the Company's website) for more information.

### Responsible environmental management

The Group is committed to efficient energy use in all its facilities and continuously strives to reduce water consumption and carbon emissions, with an increasing number of its facilities certified to the ISO 14001 standard.

See the **Sustainable development overview** on page 76 for more information.

## OUR STRATEGY TO DELIVER VALUE

## WHAT WE DELIVER

### 2019 STRATEGIC OBJECTIVES

#### Putting *Patients First*

Patients are at the core of everything Mediclinic does. The Group strives to deliver superior clinical performance through efficient structures, processes and outcomes, in accordance with its clinical performance framework.

#### Improving efficiencies

By using the Group's combined international capacity and effective collaboration, it is able to achieve efficiencies through the principles of simplification, standardisation and centralisation.

#### Continuing to grow

Mediclinic has a record of investing in carefully selected capital projects and has demonstrated the ability to integrate and extract value from acquisitions and expansions of existing facilities.

#### Adapting to a changing business environment

By positioning itself to effectively respond to changes in the business environment, the Group is able to minimise its risk exposure.

### KEY STRATEGY ENABLERS

- Invest in employees
- Invest in ICT
- Invest in analytics

See ***Our strategy, goals and progress*** on page 18 for more information.

### RISK MANAGEMENT

The Group has established an integrated and effective risk management framework wherein important and emerging risks are identified, assessed and managed. The framework is aligned to and supports the Group's strategy.

See ***Risk management, principal risks and uncertainties*** on page 55 for more information.

**Mediclinic's business model is aimed at delivering quality healthcare services, in particular, and at sustaining growth and creating value for its stakeholders, in general.**

### Quality healthcare services

During the year, the clinical performance across the Group made good progress and several patient safety and clinical effectiveness indicators showed improvement. In addition, many initiatives in support of clinical performance and quality improvement were launched and completed.

See the ***Clinical services overview*** on page 41 for more information.

### Shareholder value

Mediclinic seeks to deliver sustainable long-term shareholder value through return on invested capital. While recent profitability has challenged the achievement of appropriate returns, the invested capital of the Group remains underpinned by a philosophy of property ownership.

The Company's diligent approach to financial management across the Group presents Mediclinic with medium-term sustainability and flexibility to invest in incremental growth propositions across the continuum of care; manage the level of debt to covenants across all divisions; and improve shareholders returns.

See the ***Financial Review*** on page 29 for more information.

# OUR STRATEGY, GOALS AND PROGRESS

## GOALS AND PROGRESS IN THE 2019 FINANCIAL YEAR

During the reporting period, Mediclinic focused on creating long-term shareholder value through:

- putting *Patients First*;
- improving Group and operational efficiencies;
- pursuing attractive growth opportunities; and
- leveraging the Group's international scale; while
- continuing to invest in employees, ICT and analytics.

STRATEGIC PRIORITIES		DESCRIPTION	PROGRESS 2019 FINANCIAL YEAR
<p><b>PUTTING PATIENTS FIRST</b></p> <p>More information on this priority is included in the <b>Clinical services overview</b> on page 41 and the more detailed <b>Clinical Services Report</b> available on the Company's website at <a href="https://investor.mediclinic.com/results-centre/results-and-reports">https://investor.mediclinic.com/results-centre/results-and-reports</a></p>	<p><b>SUPERIOR CLINICAL PERFORMANCE IN A SAFE CLINICAL ENVIRONMENT</b></p>	<p>The Group strives to deliver superior clinical performance through efficient structures, processes and outcomes in accordance with the Group clinical performance framework.</p>	<ul style="list-style-type: none"> <li>• Further strengthened clinical leadership at hospital and corporate levels across all divisions and the Group.</li> <li>• Established a formal Clinical Performance Committee for Mediclinic Southern Africa.</li> <li>• Strengthened the application of health technology assessment as the cornerstone of making clinical investment and process decisions to the benefit of the Group.</li> <li>• Established an Internal Audit function for clinical services.</li> </ul>
	<p><b>IMPROVE PATIENT EXPERIENCE</b></p>	<p>The Group strives to deliver superior patient experience before, during and after treatment, through efficient structures, processes and outcomes to identify and respond to the needs of patients, family members and visitors.</p>	<ul style="list-style-type: none"> <li>• Managed the patient experience indices and worked toward improvement targets across the Group.</li> <li>• Maintained the patient experience index overall mean score for Hirslanden at 87.6% (2018: 87.8%) and for Mediclinic Southern African at 82.2% (2018: 81.9%). The index overall mean score for Mediclinic Middle East improved from 82.7% in 2018 to 85.6% in 2019.</li> </ul>
	<p><b>DELIVER INTEGRATED AND COORDINATED CARE</b></p>	<p>The Group strives to become a horizontally integrated healthcare system provider by focusing on effective collaboration with associated medical practitioners and allied healthcare professionals.</p>	<ul style="list-style-type: none"> <li>• Strengthened relationships with medical practitioners to reduce fragmentation and enhance the patient value proposition across the Group.</li> <li>• Initiated the rollout of an EHR at Hirslanden and Mediclinic Middle East.</li> <li>• Strengthened research initiatives across the Group, especially at Mediclinic Middle East where 45% of the research projects are due to a collaboration with MBRUHS.</li> </ul>
<p><b>IMPROVING GROUP AND OPERATIONAL EFFICIENCIES</b></p> <p>More information on this priority is included in the <b>Chief Executive Officer's Review</b> on page 24.</p>		<p>The Group strives to use combined international capacity and effective collaboration to achieve Group efficiencies through the principles of simplification, standardisation and centralisation.</p>	<p>Refer to the <b>Divisional Reviews</b> from page 62 for more information.</p>



STRATEGIC PRIORITIES	DESCRIPTION	PROGRESS 2019 FINANCIAL YEAR
<p><b>CONTINUING TO GROW</b> More information on this priority is included in the <b>Chief Executive Officer's Review</b> on page 24.</p>	<p>The Group strives to increase the performance of the business by identifying and pursuing growth opportunities.</p>	<p>Refer to the <b>Divisional Reviews</b> from page 62 for more information.</p>
<p><b>CONTINUING TO ADDRESS THE BUSINESS ENVIRONMENT</b> More information on this priority is included in the <b>Chief Executive Officer's Review</b> on page 24.</p>	<p>In order to minimise risk to the business, the Group positions itself to effectively respond to changes in the business environment.</p>	<p>Engaged continuously with regulators to monitor and influence the regulatory environment in all divisions.</p>
<p><b>INVESTING IN EMPLOYEES</b> More information on this priority is included in the <b>Sustainable development overview</b> (material issue 1) on page 76 and the more detailed <b>Sustainable Development Report</b> available on the Company's website at <a href="https://investor.mediclinic.com/results-centre/results-and-reports">https://investor.mediclinic.com/results-centre/results-and-reports</a></p>	<p>The Group strives to provide human resources services to attract, develop, engage and retain a diverse workforce that effectively enables its objectives and performance.</p>	<ul style="list-style-type: none"> <li>Increased the overall participation rate in the annual <i>Your Voice</i> Gallup® employee engagement programme to 82% (2018: 77%), higher than the Gallup® Healthcare (peer) overall participation rate of 78%.</li> <li>Increased <i>Your Voice</i> employee engagement grand mean scores across all divisions and, consequently, across the Group.</li> <li>Significantly improved the ratio of Engaged to Actively Disengaged employees to 4.5:1 (2018: 3.33:1).</li> <li>Continuously entrenched trackable action planning by line managers toward improving employee engagement.</li> </ul>
<p><b>INVESTING IN ICT</b></p>	<p>ICT solutions and support across the Group should effectively enable business objectives and performance.</p>	<ul style="list-style-type: none"> <li>Progressed with the rollout of SAP at Hirslanden (enabling business process standardisation and centralisation).</li> <li>Completed phase 1 rollout of the SAP SuccessFactors-based HR system across the Group.</li> <li>Progressed with EHR systems across the Group, especially at Mediclinic Middle East where implementation is in progress.</li> <li>Completed the rollout of a Group-wide digital marketing platform.</li> <li>Progressed with a Group-wide data privacy programme based on the principles and standards of the General Data Protection Regulation ("GDPR").</li> <li>Further enhanced the information security capabilities of the Group.</li> </ul>
<p><b>INVESTING IN ANALYTICS</b> More information on this priority is included in the <b>Clinical services overview</b> on page 41 and the more detailed <b>Clinical Services Report</b> available on the Company's website at <a href="https://investor.mediclinic.com/results-centre/results-and-reports">https://investor.mediclinic.com/results-centre/results-and-reports</a></p>	<p>The Group strives to provide analytics solutions and support that effectively enable business objectives and performance.</p>	<ul style="list-style-type: none"> <li>Strengthened the central clinical data warehouse and continued improving clinical performance measurement and benchmarking across the Group.</li> <li>Continued developing machine learning capabilities to the benefit of the Group.</li> </ul>

# OUR STRATEGY, GOALS AND PROGRESS (CONTINUED)

## OUR STRATEGY

### Future objectives

During the year under review, the Group Executive Committee collectively examined the operational, market and regulatory environments across the Group. The focus of this project was to define the evolution needed to support the future direction and success of the business. As a result, Mediclinic's strategic goals have been refined so it is specifically geared toward anticipating market developments and counteracting potential risks.

Amended objectives came into effect on 1 April 2019 and are closely aligned with the Group's refined strategic goals, as described below. These objectives - and progress against them - will be disclosed in detail in the 2020 annual report.

## STRATEGIC GOALS

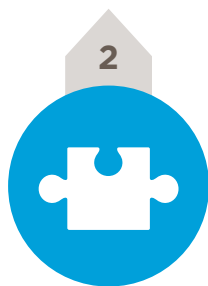


Refined strategic goals, with effect from 1 April 2019

### TO ENHANCE THE QUALITY OF LIFE



To improve our client **value proposition** significantly



To become an **integrated healthcare provider** across the continuum of care



To transform our healthcare services and client engagement through **digitalisation**



To **grow** in existing markets and to **expand** into new markets



To achieve superior long-term **financial returns**

BY:

**BEING  
ANALYTICS DRIVEN**

**BEING THE  
EMPLOYER OF CHOICE**

**BEING CLIENT CENTRED  
IN EVERYTHING WE DO**



# INVESTMENT CASE

IN PURSUIT OF MEDICLINIC'S VISION TO BE PREFERRED LOCALLY AND RESPECTED INTERNATIONALLY, THE COMPANY OFFERS AN ATTRACTIVE INVESTMENT CASE THAT ALIGNS WITH SEEKING TO ACHIEVE LONG-TERM VALUE CREATION:

## STRONG MARKET FUNDAMENTALS



Continued growth in demand for healthcare services:

- Ageing population
- Growing disease burden
- Technological advances
- Consumerisation of services

## DIVERSIFIED PRESENCE



One of the largest independent pan-EMEA healthcare services groups:

- Leading market positions across all divisions
- Developed markets – Switzerland and UK
- Emerging markets – Southern Africa and the UAE

## LEVERAGING INTERNATIONAL SCALE



Competitive advantage created from efficient integration of international divisions:

- Internationally recognised clinical expertise
- Sustainable and efficient operating practices
- Intellectual property of highly skilled and engaged human capital
- International procurement synergies
- Powerful data analytics

## ATTRACTIVE GROWTH OPPORTUNITIES



Well positioned to take advantage of growth opportunities that generate sustainable long-term value:

- Leveraging system relevance
- Operational flexibility through extensive property ownership
- Returns-driven organic and inorganic expansion
- Evolving care delivery models
- Expanding across the continuum of care

## EXPERIENCED MANAGEMENT TEAM WITH PERFORMANCE MINDSET



A record of operating international private healthcare services for more than 30 years:

- Focused on long-term value creation
- Financial discipline and strong cash flow generation
- Relentless focus on patient safety and excellent clinical performance
- Experienced international executive and senior management teams
- Supportive long-term investor since inception – Remgro Ltd
- Dividend pay-out ratio:<sup>1</sup> 25–30% of adjusted EPS

**Note**

<sup>1</sup> Given the anticipated impact of IFRS 16 accounting changes, the Board deemed it appropriate to proactively adjust the future payout ratio to 25%–35% of adjusted earnings.



# FIVE-YEAR SUMMARY

The **Five-year summary** is presented in pound sterling, rounded to the nearest million. Financial information of 2015 was reported in South African rand and has been translated to sterling using the procedures outlined below:

- assets and liabilities were translated at the closing sterling rates;
- income and expenses were translated at average sterling exchange rates; and
- differences resulting from re-translation have been recognised in the foreign currency translation reserve.

<b>INCOME STATEMENTS</b>	<b>2019</b> £'m	2018	2017	2016	2015
		£'m	£'m	£'m	£'m
Revenue <sup>1</sup>	<b>2 932</b>	2 876	2 749	2 107	1 977
Operating profit/(loss)	<b>81</b>	(288)	362	288	345
(Loss)/profit after tax	<b>(130)</b>	(474)	243	190	254
Adjusted operating profit	<b>330</b>	370	360	335	318
Adjusted EBITDA	<b>493</b>	515	501	428	403
Adjusted earnings	<b>198</b>	221	220	219	193

<b>EARNINGS PER SHARE</b>	<b>2019</b> pence	2018	2017	2016	2015
		pence	pence	pence	pence
Basic (loss)/earnings basis	<b>(20.5)</b>	(66.7)	31.0	29.6	44.6
Diluted (loss)/earnings basis	<b>(20.5)</b>	(66.7)	31.0	29.5	43.8
Basic adjusted earnings basis	<b>26.9</b>	30.0	29.8	36.7	35.8
Diluted adjusted earnings basis	<b>26.9</b>	30.0	29.8	36.7	35.1
Dividends declared per share	<b>7.90</b>	7.90	7.90	7.90	9.33

<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>2019</b> £'m	2018	2017	2016	2015
		£'m	£'m	£'m	£'m
<b>ASSETS</b>					
Non-current assets	<b>5 337</b>	5 382	6 353	5 604	3 654
Current assets	<b>1 091</b>	961	1 069	945	742
<b>Total assets</b>	<b>6 428</b>	6 343	7 422	6 549	4 396
<b>EQUITY</b>					
Owners of the parent	<b>3 151</b>	3 286	4 086	3 509	1 779
Non-controlling interest	<b>115</b>	87	78	61	61
<b>Total equity</b>	<b>3 266</b>	3 373	4 164	3 570	1 840
<b>LIABILITIES</b>					
Non-current liabilities	<b>2 576</b>	2 445	2 668	2 192	2 114
Current liabilities	<b>586</b>	525	590	787	442
<b>Total liabilities</b>	<b>3 162</b>	2 970	3 258	2 979	2 556
<b>Total equity and liabilities</b>	<b>6 428</b>	6 343	7 422	6 549	4 396

<b>STATEMENTS OF CASH FLOWS</b>	<b>2019</b>	2018	2017	2016	2015
Operating cash flow (£'m)	<b>451</b>	466	492	411	440
Adjusted EBITDA cash conversion (%)	<b>91%</b>	90%	98%	96%	109%

#### Note

<sup>1</sup> An income statement reclassification has increased Mediclinic Southern Africa 2018 revenue and cost of sales by £6m. Refer to note 2.1 of the **Group annual financial statements** on page 197.

# CHIEF EXECUTIVE OFFICER'S REVIEW



**“WE ARE ADAPTING THE BUSINESS TO ADDRESS THE CHANGING LANDSCAPE AND TO CAPITALISE ON GROWING OPPORTUNITIES IN THE GLOBAL HEALTHCARE SERVICES SECTOR.”**

**Dr Ronnie van der Merwe**  
*Chief Executive Officer*

## INTRODUCTION

Upon my appointment as CEO Designate in November 2017, I purposefully set out to consult widely across the organisation in preparation for my official appointment in June 2018; I met with members of the Board as well as with the top 40 organisational leaders and presented each of them with the same list of questions. We discussed business challenges and opportunities at length. Their feedback provided me with valuable insight and helped me more clearly define the Group's core competencies, identify common areas of concern and align our focus to meet strategic priorities.

I also carefully considered the nature of the relationship between Mediclinic and those who make use of our services within an evolving healthcare landscape. A patient is a person awaiting or receiving medical care; a client is a person who receives advice. The latter implies a level of trust and a long-term relationship that extends beyond mere treatment. We would like our patients to interact with Mediclinic beyond the conventional treatment process, rather as a client who turns to us to enhance their quality of life.

Throughout this process, I was reminded of what a valuable role we have to play in the lives of our patients and their families; what a privilege it is to know that they have trust in our expertise. We exist to care for them when they are at their most vulnerable. And therein lies our true value: harnessing the exceptional talent, compassion and energy of Mediclinic employees and partners to ensure that our patients receive cost-effective, quality care and outstanding client experiences.

## GROUP FINANCIAL OVERVIEW

Each division functions in its own unique macro, political, social, disease and healthcare regulatory environment which influences the performance of the respective businesses to varying degrees.

Regulatory and operational disruptions impacted the Group's financial performance this year. The largest contributor to the Group financial performance is Hirslanden in Switzerland. The previously announced regulatory tariff reductions and outmigration of care requirements have significantly impacted the entire healthcare market in this country. This process has gradually occurred in cantons across Switzerland for the past 18-24 months, with official national implementation from 1 January 2019. In addition, the growth in outpatient volumes was offset by the significant TARMED reductions effective from 1 January 2018. Hirslanden revenue was up 2%, while adjusted EBITDA was down 10.0% with a decrease in the adjusted EBITDA margin, as guided, to 16.0% (FY18: 18.3%).

At Mediclinic Southern Africa, performance was stable in this mature healthcare market which lacks macro-economic tailwinds. Revenue was up 5%, adjusted EBITDA was up 4% and the margin was broadly stable at 21.2% (FY18: 21.3%) driven by a continued focus on cost management and efficiencies during a period of low volume patient growth.

At Mediclinic Middle East, which remains the medium-term growth driver for the Group, revenue was up 7% (compared to the adjusted FY18 IFRS 15 revenue), adjusted EBITDA was up 7% and the adjusted EBITDA margin remained stable at 13.0% (FY18: 13.0% IFRS 15 adjusted), which includes the ramp-up costs associated with the new Mediclinic Parkview Hospital which opened in September 2018.

As a result, Group revenue increased by 2% to £2 932m (FY18: £2 876m), while adjusted EBITDA decreased by 4% to £493m (FY18: £515m), with an adjusted EBITDA margin of 16.8% (FY18: 17.9%).

## HIRSLANDEN

Hirslanden's performance was disappointing during the year with all Swiss public and private operators impacted by regulatory changes. The greatest impact on Hirslanden's financial performance resulted from the rapidly implemented outpatient tariff reductions and outmigration of care. Steps were taken to improve the financial performance including accelerated cost-saving initiatives, driving efficiency savings and securing additional revenue. As these plans started to take effect, it moderated the financial impact of the regulatory changes in the

second half of the year resulting in a 16.0% adjusted EBITDA margin for the full year.

The combination of the Hirslanden Clinique La Colline and Clinique des Grangettes in Geneva was announced in September 2018 and consolidated from 1 October 2018. The combination, which included a cash consideration of CHF77m for a 60% controlling interest in the combined entity, strengthens Hirslanden's leading market position in Geneva and will deliver enhanced services for patients.

As part of the plan to adapt to and address the growing outmigration trend, progress continues on delivering the Hirslanden 2020 strategic project. The focus of this project is to standardise, centralise and simplify the existing operating business, delivering future efficiencies and cost savings. In addition, the project addresses the outpatient delivery model in Switzerland to capture the growing requirement for outpatient procedures in an affordable manner.

Due to the changing circumstances in Switzerland, the Group Executive Committee and senior management invested significant time and resources to support the local management team as they adapt the operating model to more efficiently address the rapidly changing healthcare landscape. This integrated approach of sharing knowledge and competency internationally is only possible due to the Group's breadth, scale and more than 35 years of experience in the healthcare industry. The way in which the organisational leadership has embraced this collaborative approach gives me confidence in our collective ability to improve Hirslanden's performance and returns over the medium term.

Through all this, it is easy to lose sight of the bigger picture and it would be remiss of me to not commend the progress made as part of the Hirslanden 2020 strategic project, with local management's success in attracting new medical practitioners. The patients who put their trust in Hirslanden will continue to receive a world-class healthcare service; their quality of care will never be compromised, but we are making necessary adjustments to the efficiency and setting of the care that they receive to better align with the new tariff environment.

## MEDICLINIC SOUTHERN AFRICA

Investments made over the years in our people and facilities in Southern Africa, and in building strong relationships with medical practitioners, funders and patients, continue to reinforce the division's long-term ambition of growing medical practitioners by expanding across the continuum of care. This landscape offers unique opportunities for developing and delivering appropriate

# CHIEF EXECUTIVE OFFICER'S REVIEW (CONTINUED)

care settings and modalities for patients and offering medical practitioners the convenience of combining the quality they have come to expect with the ability to treat and address an expansive list of medical needs – all under the roof of a single healthcare provider.

Through its acquisition of a stake in the Intercare group – a local healthcare provider with one specialist hospital, four sub-acute hospitals, four day case clinics and 21 outpatient clinics – Mediclinic Southern Africa has already expanded its clinical service offering. Further investment in the Welkom Medical Centre and building three co-located day case clinics at its own facilities (with six more to be opened in the next two financial years) strengthens its pursuit to position the division as not only a leading acute hospital group, but also one of the most extensive providers of primary care and day surgery in the region.

## MEDICLINIC MIDDLE EAST

The performance of Mediclinic Middle East was supported by our established market-leading Dubai business, which continues to grow on its foundation of sustainable, high-quality healthcare service delivery. In 2016, we expanded into Abu Dhabi through the Al Noor combination. It is here where we expect gradual progress over the coming years as we start to reap benefits from the selective investment in upgrades and expansion and operational changes made since the Al Noor combination.

Our 182-bed Mediclinic Parkview Hospital in Dubai was successfully opened in September 2018, more than six months ahead of schedule, and will be a key contributor to the medium-term growth. The facility took two and a half years to complete and at approximately AED680m it is the largest greenfield construction project by value that the Group has ever undertaken. The hospital offers patients a range of comprehensive consultant-led primary, secondary and tertiary level healthcare services. Since opening, its performance has exceeded original expectations and I look forward to seeing this upward trajectory continue as it ramps up over the coming few years. In addition, we continue to make progress with the expansion of Abu Dhabi's Mediclinic Airport Road Hospital which includes a Comprehensive Cancer Centre that is due to open in the first half of the 2020 calendar year.

## ADDRESSING THE CHANGING HEALTHCARE LANDSCAPE

The global healthcare landscape continues to change. Service providers are facing unprecedented developments with trends of an ageing population and a growing disease

burden coupled with new medical technology, digital health and greater healthcare consumerism. This also presents Mediclinic with the opportunity to learn, adapt and grow, as we have done in the past.

One of the counter balances in the industry will always be the affordability of healthcare and we maintain a strong focus on cost management and efficiencies across the Group. Today our industry is fragmented, with only a few truly global healthcare service providers. Better integration of our service offering across all three divisions will not only improve the efficiency of our operations, but also enable us to leverage our core competencies. As one of the largest EMEA healthcare groups, I believe that what will set Mediclinic apart from the rest of the industry is an ability to provide diversified services across the continuum of care with leading market positions, as well as a unique approach to knowledge sharing. Ultimately, this is what will deliver long-term success for the Group.

In order to identify what is necessary to unlock and support the creation of organisational value in this changing healthcare landscape, the Group Executive Committee collectively examined the operational, market and regulatory environments across the Group. The focus of this strategic project was to define the evolution needed to support the future direction and success of the business. As a result, our strategic goals have been refined to meet current market needs and to ensure we are in the best position to provide exceptional value to our clients every day.

More detail on the refined strategic goals can be found in **Our strategy, goals and progress** on page 18. Building on these goals, the Group Executive Committee will continue to review the strategic priorities and objectives which must ensure that we deliver improved financial returns for our shareholders.

## ACHIEVEMENTS DURING THE YEAR

Throughout this **Annual Report**, you will find details relating to achievements made during the year. However, I would like to highlight a few points of specific interest.

In June 2018, we hosted a Capital Markets Day for analysts and investors where a detailed overview of the Group and divisional strategies was presented by members of the Group Executive Committee. I appreciated the opportunity to formally meet and engage with stakeholders in the capital markets for the first time since becoming CEO. We discussed our unique and diversified service offering, growth opportunities, regulatory environments and our financial strategy which sought to enhance the capital markets' knowledge and understanding of the Group.



Across all three divisions, there are opportunities to expand across the continuum of care to ensure that Mediclinic offers patients, medical practitioners, insurers and regulators the full spectrum of clinical services required of a truly integrated healthcare provider. This year, in the Middle East we invested in the UAE-based Bourn Hall International MENA (Pty) Ltd (“**Bourn Hall International**”) *in vitro* fertilisation (“**IVF**”) business and Majid Al Futtaim day case and outpatient clinics, and in Southern Africa and Switzerland day case clinics have been developed or acquired. Further detail can be found in the **Divisional Reviews** from page 62.

The Mediclinic Airport Road Hospital Comprehensive Cancer Centre and 100-bed expansion is an important next stage in the continued growth we expect to see at Mediclinic Middle East. The project is running on schedule and is expected to be completed in the first half of the 2020 calendar year.

Another investment which supports our long-term growth includes the EHR system that is being rolled out across Hirslanden and Mediclinic Middle East. Once completed, this will enable operational improvements relating to the accuracy, efficiency and availability of record-keeping which drives clinical performance, revenue cycle management and client experience. In addition, the EHR system is a critical enabler of future healthcare direction and innovation.

I am proud of our more than 25 000 employees across all divisions who completed the 2018 Gallup® Employee Engagement Profile survey, the results of which showed improved scores in 96% of the measured categories and an increase in the overall engagement index. Highlights include that employees feel their work expectations are clearly defined and they are provided with all the necessary tools to contribute to the Company’s success. Ensuring employees are not only equipped, but also motivated and supported as we pursue the Group’s purpose requires continuing commitment and investment. I will continue to work with the Group Executive Committee, the Board and senior management across all divisions to ensure that

Mediclinic employees are empowered to be positive and productive within an environment that reflects and rewards good performance, diversity and innovation.

Through the diligent stewardship of Mr Jurgens Myburgh, Chief Financial Officer (see the **Financial Review** on page 29), the long-term financial strength of the business will and must remain a key priority for the Board and me. In line with our strategic approach to responsible leverage, we successfully refinanced the debt facilities of Mediclinic Southern Africa and Mediclinic Middle East. This came in addition to the prior year refinancing of Hirslanden’s secured debt facilities and ensures that we have long-dated maturity profiles across all our divisions’ borrowing facilities. Our proactive approach to financial management across the Group was also evident when we agreed covenant amendments in Hirslanden’s borrowing facilities to take account of the recent impact of the local healthcare regulatory changes.

## OUTLOOK

In closing, the Group has proven its resilience in the past. We have learned valuable lessons and absorbed the impact of a number of significant regulatory changes across Switzerland and the Middle East over the past few years. But, in order to thrive, we can no longer continue by simply doing more of the same. We are adapting the business to address the changing landscape and to capitalise on growing opportunities in the global healthcare services sector.

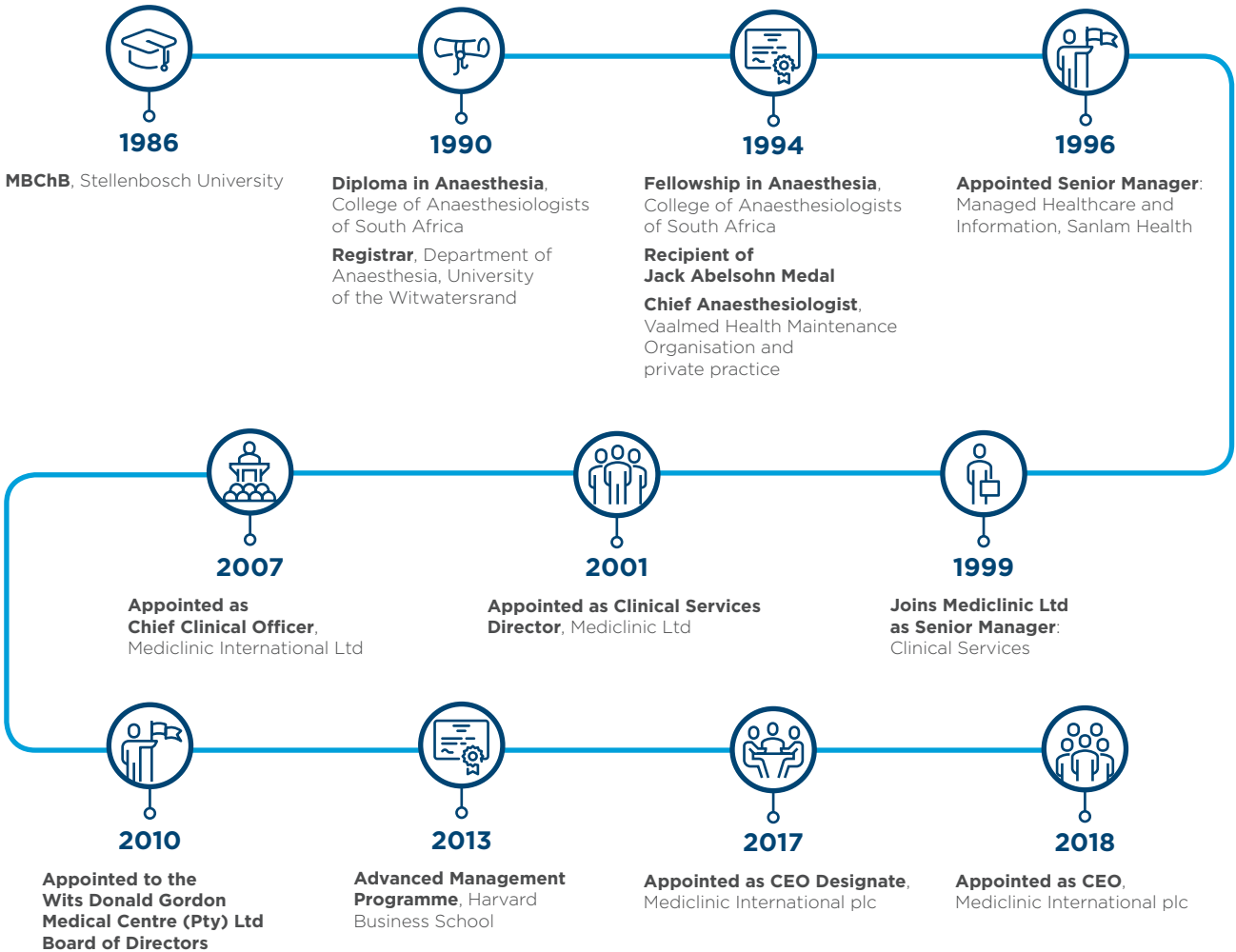
Strengthened by the support and knowledge of our experienced Board, exceptional employees and valued partners, I am confident in our management team’s ability to deliver on our goals and promise of creating stakeholder value. I truly believe Mediclinic’s future is an exciting one and look forward to the year ahead.



**Dr Ronnie van der Merwe**  
Chief Executive Officer

# CHIEF EXECUTIVE OFFICER'S REVIEW (CONTINUED)

## Career timeline



## Mediclinic career highlights



# FINANCIAL REVIEW



## “STRONG CASH FLOW GENERATION IS KEY TO DELIVERING ON THE LONG-TERM SUCCESS OF THE GROUP.”

**Jurgens Myburgh**  
*Chief Financial Officer*

### INTRODUCTION

During the year under review, the changes in the regulatory environment, particularly in Switzerland, and its impact on the operating profit of the business, have tested the resolve of the financial strategy and the Group’s approach to maintaining responsible leverage.

The role of the Finance function at Mediclinic is to support the Group’s strategic position as an international leader in the provision of private healthcare services while ensuring we deliver sustainable long-term shareholder value through return on invested capital. While our recent profitability has challenged the achievement of appropriate returns, the invested capital of the Group remains underpinned by our philosophy of property ownership. Mediclinic as a group has a stated preference of, where possible, owning the properties at which it operates. In Switzerland, we own 15 of the 18 hospital properties; in Southern Africa, 50 of the 51; and in the Middle East, we own both Mediclinic City and Mediclinic Parkview hospitals in Dubai that are situated in so-called free zone areas. As highlighted previously, our preference is premised on both operational and financial benefits:

- From an operational perspective, the ongoing ability to adapt our hospitals to the changing care settings driven by the needs of medical practitioners and patients, and facilitated by information, communication and medical technology, puts us at an advantage regarding the quality and speed of execution.
- From a financial perspective, our property portfolio offers security to our debt financing, providing capital to the Group at competitive borrowing rates. We manage our leverage on a responsible basis with respect to both the cost and maturity/refinance risk of the borrowings. All divisions have been recently re-financed on medium- to long-term maturity profiles with options for further extension. Further, the possible inflexibility of lease

## FINANCIAL REVIEW (CONTINUED)

agreements and charges through business cycles can potentially impact the operating cash flows and restrict ongoing investment and upgrades that support the sustainability and future growth of the business.

On the balance sheet, the Group carries the value of its land and buildings at cost less accumulated depreciation and impairment. Cost was based on fair value at the acquisition date, as appropriate. In Switzerland, there is an annual independent valuation performed on behalf of the banks on the property portfolio for covenant compliance purposes by independent real estate experts, Wüest & Partner. They apply a consistent methodology across key assumptions to determine the rental charges based on appropriate and market-related metrics, which is discounted using a market-related discount rate to determine the value of the properties.

Strong cash flow generation is key to delivering on the long-term success of the Group. Supporting this is our focus on profitable growth and disciplined capital allocation to generate returns in excess of the bottom-up hurdle rates we establish for each division. Through our structured annual financial planning process, we ensure that the appropriate capital is allocated to each division to maintain, upgrade and expand. We will continue to prioritise investment in our existing divisions because we believe that this is where we have a greater line of sight on risks and returns and where we are able to leverage existing infrastructure. In doing so, we will improve the overall return on invested capital.

Having completed a multi-year investment in the Middle East with the opening in September 2018 of the AED680m Mediclinic Parkview Hospital, re-calibrated the annual maintenance and expansion capital investment in Hirslanden to align with the new regulatory environment and nearing completion of a multi-year maintenance upgrade cycle in Southern Africa, we expect to deliver an improvement in the free cash flow generation of the Group over the medium term.

In conclusion, with the current challenging healthcare environment, our diligent approach to financial management across the Group presents Mediclinic with medium-term sustainability and flexibility to invest in incremental growth propositions across the continuum of care, manage the level of debt to covenants across all divisions and improve shareholder returns.

### GROUP FINANCIAL PERFORMANCE

Group revenue increased by 2% to £2 932m (FY18: £2 876m) for the reporting period. In constant currency terms, FY19 revenue was up 4% in a challenging environment.

EBITDA was 4% lower at £493m (FY18: £515m), with adjusted EBITDA margins declining from 17.9% to 16.8%.

Adjusted depreciation and amortisation was up 12% to £163m (FY18: £145m), in line with the continued investment to upgrade and expand the asset base, supporting future growth, enhancing patient experience, and clinical quality and driving efficiencies.

The Group recorded an operating profit of £81m in FY19 (FY18: operating loss of £288m). Adjusted operating profit decreased by 11% to £330m (FY18: £370m). Operating profit was adjusted for the following exceptional items:

- recognition of an impairment charge to Hirslanden property, equipment and vehicles. Non-financial assets are considered for impairment when impairment indicators are identified at an individual cash-generating unit (“CGU”) level. During the year, the CGUs in Hirslanden were tested for impairment. For certain CGUs, the carrying value was determined to be higher than its recoverable amount and as a result an impairment charge of £186m was recognised in the income statement;
- recognition of an impairment charge to the Hirslanden trade name and the Linde trade name. As part of the CGU impairment testing, the carrying amounts of these trade names were determined to be higher than their recoverable amounts and, as a result, impairments of £39m and £16m respectively were recognised in the income statement;
- accelerated depreciation of £5m in Hirslanden relating to abandoned building project cost aligned with the disciplined approach to capital allocation; and
- a loss on disposal of certain non-core businesses at Mediclinic Middle East of £1m.

Adjusted net finance costs decreased by 19% to £57m (FY18: £70m), benefiting from the refinance in all divisions during the current and prior years.

The Group’s reported effective tax rate is significantly skewed by exceptional non-deductible expenses which include: impairment of properties and trade names; impairment of the equity investment and accelerated depreciation. A prior year adjustment relating to a change in the basis of estimating deferred tax on the Swiss properties led to the recognition of a tax credit of £17m. Adjusted taxation was £57m (FY18: £64m), with an adjusted effective tax rate for the period decreasing to 20.4% (FY18: 20.8%) reflecting a lower average tax rate in Switzerland. After adjusting for the amortisation of intangible assets recognised in the notional purchase price allocation of the equity investment, the FY18 income from associates was £2.7m (FY18: £2.8m).



The Group recorded an earnings loss of £151m in FY19 (FY18: £492m). Adjusted earnings decreased by 10% to £198m (FY18: £221m). Adjusted EPS were 10% lower at 26.9 pence (FY18: 30.0 pence). Earnings were adjusted for the following exceptional items:

- recognition of an impairment charge on the equity investment in Spire of £164m. During the year, the Group performed an impairment test updating the key assumptions applied in the value-in-use calculation performed at 31 March 2018. In particular, the Group adjusted the value-in-use calculation for the guidance announced by Spire in September 2018 on the current financial performance and on the related impact on short- and medium-term growth rates, and revisited other key assumptions in this context. As a result, an impairment loss of £164m was recorded against the carrying value; and
- a change in the basis of estimating deferred tax on the Swiss properties giving rise to a tax credit of £17m.

## ADJUSTED NON-IFRS FINANCIAL MEASURES

The Group uses adjusted income statement reporting as non-IFRS measures in evaluating performance and as a method to provide shareholders with clear and consistent reporting. The adjusted measures are intended to remove volatility associated with certain types of exceptional income and charges from reported earnings. Historically, EBITDA and adjusted EBITDA were disclosed as supplemental non-IFRS financial performance measures because these are regarded as useful metrics to analyse the performance of the business from period to period. Measures like adjusted EBITDA are used by analysts and investors in assessing performance.

The rationale for using non-IFRS measures:

- it tracks the adjusted operational performance of the Group and its operating segments by separating out exceptional items;
- non-IFRS measures are used by management for budgeting, planning and monthly financial reporting;

- non-IFRS measures are used by management in presentations and discussions with investment analysts; and
- non-IFRS measures are used by the directors in evaluating management's performance and in setting management incentives.

The Group's policy is to adjust, *inter alia*, the following types of significant income and charges from the reported IFRS measures to present adjusted results:

- cost associated with major restructuring programmes;
- profit/loss on sale of assets and transaction costs incurred during acquisitions;
- past service cost charges/credits in relation to pension fund conversion rate changes;
- accelerated depreciation and amortisation charges;
- mark-to-market fair value gains/losses relating to derivative financial instruments, including ineffective interest rate swaps;
- impairment charges and reversal of impairment charges;
- insurance proceeds; and
- tax impact of the above items, prior year tax adjustments and significant tax rate changes.

EBITDA is defined as operating profit before depreciation and amortisation and impairments of non-financial assets, excluding other gains and losses.

Non-IFRS financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. The adjusted measures used by the Group are not necessarily comparable with those used by other entities.

The Group has consistently applied this definition of adjusted 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 reporting period. It is the Group's intention to continue to consistently apply this definition in the future.

# FINANCIAL REVIEW (CONTINUED)

## EARNINGS RECONCILIATIONS

<b>2019 STATUTORY RESULTS</b>	<b>Total £'m</b>	Hirslanden £'m	Southern Africa £'m	Middle East £'m	Spire £'m	Corporate £'m
Revenue	<b>2 932</b>	1 368	886	677	-	1
Operating profit/(loss)	<b>81</b>	(123)	157	49	-	(2)
(Loss)/profit attributable to equity holders	<b>(151)</b>	(102)	72	43	(161)	(3)
<b>Reconciliations</b>						
Operating profit/(loss)	<b>81</b>	(123)	157	49	-	(2)
Add back:						
Other gains and losses	<b>3</b>	-	(1)	3	-	1
Depreciation and amortisation	<b>168</b>	101	31	36	-	-
Impairment of properties, equipment and vehicles	<b>186</b>	186	-	-	-	-
Impairment of intangible assets	<b>55</b>	55	-	-	-	-
EBITDA	<b>493</b>	219	187	88	-	(1)
Exceptional items						
No adjustments						
<b>Adjusted EBITDA</b>	<b>493</b>	219	187	88	-	(1)
Operating profit/(loss)	<b>81</b>	(123)	157	49	-	(2)
Exceptional items						
- Impairment of properties, equipment and vehicles	<b>186</b>	186	-	-	-	-
- Impairment of intangible assets	<b>55</b>	55	-	-	-	-
- Accelerated depreciation and amortisation	<b>5</b>	5	-	-	-	-
- Fair value adjustments on derivative contracts	<b>2</b>	-	-	2	-	-
- Loss on disposal of businesses	<b>1</b>	-	-	1	-	-
<b>Adjusted operating profit/(loss)</b>	<b>330</b>	123	157	52	-	(2)

**EARNINGS RECONCILIATIONS (continued)**

<b>2019 STATUTORY RESULTS</b>	<b>Total £'m</b>	Hirslanden £'m	Southern Africa £'m	Middle East £'m	Spire £'m	Corporate £'m
<b>Reconciliations</b>						
(Loss)/profit attributable to equity holders	<b>(151)</b>	(102)	72	43	(161)	(3)
Exceptional items						
- Impairment of properties, equipment and vehicles	<b>186</b>	186	-	-	-	-
- Impairment of intangible assets	<b>55</b>	55	-	-	-	-
- Accelerated depreciation and amortisation	<b>5</b>	5	-	-	-	-
- Fair value adjustments on derivative contracts	<b>2</b>	-	-	2	-	-
- Loss on disposal of businesses	<b>1</b>	-	-	1	-	-
- Impairment of associate	<b>164</b>	-	-	-	164	-
- Tax adjustment related to Hirslanden properties	<b>(17)</b>	(17)	-	-	-	-
- Tax on exceptional items	<b>(47)</b>	(47)	-	-	-	-
<b>Adjusted earnings</b>	<b>198</b>	80	72	46	3	(3)
Weighted average number of shares (millions)	<b>737.2</b>					
Adjusted earnings per share (pence)	<b>26.9</b>					

# FINANCIAL REVIEW (CONTINUED)

## EARNINGS RECONCILIATIONS (continued)

<b>2018 STATUTORY RESULTS</b>	<b>Total £'m</b>	Hirslanden £'m	Southern Africa £'m	Middle East £'m	Spire £'m	Corporate £'m
Revenue	<b>2 876</b>	1 349	883	643	-	1
Operating (loss)/profit	<b>(288)</b>	(470)	160	25	-	(3)
(Loss)/profit attributable to equity holders	<b>(492)</b>	(471)	72	17	(106)	(4)
<b>Reconciliations</b>						
Operating (loss)/profit	<b>(288)</b>	(470)	160	25	-	(3)
Add back:						
Other gains and losses	<b>(2)</b>	(9)	-	7	-	-
Depreciation and amortisation	<b>168</b>	86	29	53	-	-
Impairment of properties, equipment and vehicles	<b>84</b>	84	-	-	-	-
Impairment of intangible assets	<b>560</b>	560	-	-	-	-
EBITDA	<b>522</b>	251	189	85	-	(3)
Exceptional items						
- Past service cost credit	<b>(4)</b>	(4)	-	-	-	-
- Pre-acquisition fair value adjustment to debtors	<b>(3)</b>	-	-	(3)	-	-
<b>Adjusted EBITDA</b>	<b>515</b>	247	189	82	-	(3)
Operating (loss)/profit	<b>(288)</b>	(470)	160	25	-	(3)
Exceptional items						
- Past service cost credit	<b>(4)</b>	(4)	-	-	-	-
- Pre-acquisition fair value adjustment to debtors	<b>(3)</b>	-	-	(3)	-	-
- Impairment of properties, equipment and vehicles	<b>84</b>	84	-	-	-	-
- Impairment of intangible assets	<b>560</b>	560	-	-	-	-
- Accelerated depreciation and amortisation	<b>23</b>	-	-	23	-	-
- Release of pre-acquisition Swiss provision	<b>(9)</b>	(9)	-	-	-	-
- Loss on disposal of businesses	<b>7</b>	-	-	7	-	-
<b>Adjusted operating profit/(loss)</b>	<b>370</b>	161	160	52	-	(3)

**EARNINGS RECONCILIATIONS (continued)**

<b>2018 STATUTORY RESULTS</b>	<b>Total £'m</b>	Hirslanden £'m	Southern Africa £'m	Middle East £'m	Spire £'m	Corporate £'m
<b>Reconciliations</b>						
(Loss)/profit attributable to equity holders	<b>(492)</b>	(471)	72	17	(106)	(4)
Exceptional items						
- Past service cost credit	<b>(4)</b>	(4)	-	-	-	-
- Pre-acquisition fair value adjustment to debtors	<b>(3)</b>	-	-	(3)	-	-
- Impairment of properties, equipment and vehicles	<b>84</b>	84	-	-	-	-
- Impairment of intangible assets	<b>560</b>	560	-	-	-	-
- Accelerated depreciation and amortisation	<b>23</b>	-	-	23	-	-
- Release of pre-acquisition Swiss provision	<b>(9)</b>	(9)	-	-	-	-
- Loss on disposal of businesses	<b>7</b>	-	-	7	-	-
- Fair value gains on ineffective cash flow hedges	<b>(4)</b>	(4)	-	-	-	-
- Derecognition of unamortised finance expenses	<b>19</b>	19	-	-	-	-
- Impairment of associate	<b>109</b>	-	-	-	109	-
- Tax on exceptional items	<b>(69)</b>	(69)	-	-	-	-
<b>Adjusted earnings</b>	<b>221</b>	106	72	44	3	(4)
Weighted average number of shares (millions)	<b>737.1</b>					
Adjusted earnings per share (pence)	<b>30.0</b>					



# FINANCIAL REVIEW (CONTINUED)

## FOREIGN EXCHANGE RATES

Although the Group reports its results in pound sterling, the divisional profits are generated in Swiss franc, UAE dirham and South African rand. Consequently, movements in exchange rates affected the reported earnings and reported balances in the statement of financial position. Exchange rate movements also had a significant impact on the statement of financial position. The resulting currency translation difference, which is the amount by which the Group's interest in the equity of the divisions increased because of spot rate movements, amounted to £142m (2018: decrease of £310m) and was credited (2018: debited) to the statement of comprehensive income. The main reason for the increase was the strengthening of the period-end Swiss franc and UAE dirham rates against the pound sterling.

Foreign exchange rate sensitivity:

- The impact of a 10% change in the £/CHF exchange rate for a sustained period of one year is that profit for the period would increase/decrease by £8m (2018: increase/decrease by £12m) due to exposure to the £/CHF exchange rate.
- The impact of a 10% change in the £/ZAR exchange rate for a sustained period of one year is that profit for the period would increase/decrease by £7m (2018: increase/decrease by £9m) due to exposure to the £/ZAR exchange rate.
- The impact of a 10% change in the £/AED exchange rate for a sustained period of one year is that profit for the period would increase/decrease by £5m (2018: increase/decrease by £4m) due to exposure to the £/AED exchange rate.

During the reporting period, the average and closing exchange rates were the following:

	2019	2018
<b>Average rates</b>		
Swiss franc	<b>1.30</b>	1.29
South African rand	<b>18.01</b>	17.22
UAE dirham	<b>4.82</b>	4.87
<b>Period-end rates:</b>		
Swiss franc	<b>1.30</b>	1.34
South African rand	<b>18.90</b>	16.57
UAE dirham	<b>4.79</b>	5.15

## CASH FLOW

The Group continued to deliver strong cash flow and converted 91% (FY18: 90%) of adjusted EBITDA into cash generated from operations.

	2019 £'m	2018 £'m
Cash from operations (a)	<b>451</b>	466
Adjusted EBITDA (b)	<b>493</b>	515
Cash conversion ((a)/(b) x 100)	<b>91%</b>	90%

## INTEREST-BEARING BORROWINGS

Interest-bearing borrowings increased from £1 937m at 31 March 2018 to £1 982m at 31 March 2019 to fund expansion.

	2019 £'m	2018 £'m
Borrowings	<b>1 982</b>	1 937
Less: cash and cash equivalents	<b>(265)</b>	(261)
Net debt	<b>1 717</b>	1 676
Total equity	<b>3 266</b>	3 373
Debt-to-equity capital ratio	<b>53.1%</b>	49.7%

## ASSETS

Property, equipment and vehicles decreased from £3 590m at 31 March 2018 to £3 524m at 31 March 2019. This included an increase of £204m on capital projects and fixed asset additions in line with the continued investment programme expanding the asset base to support growth and enhancing patient experience and clinical quality. In addition, the closing balance increased by £20m as a result of the Clinique des Grangettes acquisition. In addition to the depreciation charge, the balance was further reduced by the impairment charge of £186m recognised on property, equipment and vehicles in Hirslanden and increased by the change in the closing exchange rate.

Intangible assets increased from £1 406m at 31 March 2018 to £1 587m at 31 March 2019. This included the recognition of goodwill of £99m resulting from the Clinique des Grangettes acquisition and on other smaller business combinations of £8m, as well as an increase of £28m on capital projects. In addition to the amortisation charge, the balance was further reduced by the impairment charge of £55m recognised on trade names in Hirslanden. The closing balance increased by the change in the closing exchange rates.

Adjusted depreciation and amortisation was calculated as follows:

	2019 £'m	2018 £'m
Depreciation and amortisation	168	168
Accelerated depreciation and amortisation	(5)	(23)
Adjusted depreciation and amortisation	163	145

## TRADE AND OTHER RECEIVABLES

Trade and other receivables increased from £607m at 31 March 2018 to £732m at 31 March 2019. The increase in the balance was largely due to the effect of HIT2020 billing system implementation and the acquisition of Clinique des Grangettes.

## SWISS PENSION BENEFIT OBLIGATION

Hirslanden provides defined contribution pension plans in terms of Swiss law to employees, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and Hirslanden, taking into account the recommendations of independent qualified actuaries. Because of the strict definition of defined contribution plans in IAS 19, these plans are

classified as defined benefit plans. Since the funds are obliged to take some investment and longevity risk in terms of Swiss legislation. The IAS 19 pension liability was valued by the actuaries at the end of the year and amounted to £52m (2018: £4m), included under "Retirement benefit obligations" in the Group's statement of financial position. The increase in the pension liability was largely due to the decrease in the discount rate from 0.75% to 0.45%, as well as changes in actuarial assumptions.

## DERIVATIVE FINANCIAL INSTRUMENTS

Through the acquisition of Clinique des Grangettes, the Group entered into a put/call agreement over the remaining 40% interest of Clinique des Grangettes and Hirslanden Clinique La Colline. At the end of the year, the fair value of the redemption liability, related to the written put option amounted to £88m (2018: nil).

## DEFERRED TAX LIABILITIES

The deferred tax liability balance decreased from £467m in the prior year to £423m at 31 March 2019. The impairment of the trade names and properties in Hirslanden led to the release of deferred tax liabilities of £12m and £35m respectively. A prior year adjustment relating to a change in the basis of estimating deferred tax on Swiss properties led to the recognition of a tax credit of £17m.

## FINANCE COSTS

Adjusted net finance costs decreased by 19% to £57m (FY18: £70m), benefiting from the refinance in all divisions during the current and prior years.

	2019 £'m	2018 £'m
Finance cost	66	94
Finance income	(9)	(9)
Net finance cost	57	85
Derecognition of unamortised financing costs	-	(19)
Fair value gains on ineffective cash flow hedges	-	4
Adjusted finance cost	57	70

## INCOME TAX

The Group's effective tax rate changed significantly for the period under review to 5.4% (FY18: 1.1%), mainly due to exceptional non-deductible expenses which include the impairment of properties and trade names, impairment of

# FINANCIAL REVIEW (CONTINUED)

the equity investment and accelerated depreciation. In addition, a prior year adjustment relating to a change in the basis of estimating deferred tax on Swiss properties led to the recognition of a tax credit of £17m. Excluding these exceptional items, the effective tax rate would be 20.4% (FY18: 20.8%) for the reporting period.

Adjusted income tax was calculated as follows:

	2019 £'m	2018 £'m
Income tax credit	(7)	(5)
Tax on exceptional items	64	69
- Past service cost credit	-	(1)
- Impairment of properties	35	13
- Impairment of intangible assets	12	55
- Tax adjustment relating to Swiss properties	17	-
- Release of unutilised pre-acquisition Swiss provision	-	(2)
- Derecognition of unamortised finance expenses	-	4
Adjusted income tax expense	<b>57</b>	64

## TAX STRATEGY

The Group is committed to conduct its tax affairs consistent with the following objectives:

- complying with relevant legislation, rules, regulations, and reporting and disclosure requirements in whichever jurisdiction it operates; and
- maintaining mutual trust and respect in dealings with all tax authorities in the jurisdictions the Group does business.

While the Group aims to maximise the tax efficiency of its business transactions, it does not use structures in its tax planning that are contrary to intentions of relevant legislation. The Group interprets relevant tax laws to ensure that transactions are structured in a way that is consistent with a relationship of co-operative compliance with tax authorities. It also actively considers the implications of any planning for the Group's wider corporate reputation.

In order to meet these objectives, various procedures are implemented. The Audit and Risk Committee has reviewed the Group's tax strategy and related corporate tax matters.

## REFINANCING OF DEBT

The borrowing facilities in Mediclinic Southern Africa and Mediclinic Middle East were refinanced during the year. In both instances, the terms of the loans were extended with favourable pricing. The effective date for the funding and the closing was 26 September 2018 and 29 August 2018 respectively. In Mediclinic Middle East, a new term loan of £192m (AED920m) and revolving loan facility of £38m (AED184m) were put in place.

In Switzerland, an amendment to the financing agreement was entered into in March 2019, adjusting the covenants to reflect the impact of the recent regulatory changes on the profitability of the business. There was no change to the interest margin of the debt facility.

## SPIRE HEALTHCARE GROUP

Mediclinic has a 29.9% investment in Spire.

Spire's underlying performance for the 12 months to 31 December 2018 resulted in underlying revenue decreasing 1.3%, underlying EBITDA decreasing 23.3% and the underlying EBITDA margin decreasing to 13.4%. Adjusted basic earnings per share (excluding exceptional and tax one-off items) decreased by 52.1%. Underlying inpatient and day case admissions declined 4.6%, driven by volume declines more than offsetting growth in self-pay.

Mediclinic's investment in Spire is equity accounted. Spire reported profit after tax of £11.3m for the financial year ended 31 December 2018 (31 December 2017: £16.8m). Spire's adjusted profit after tax for the year was £27.5m (31 December 2017: £57.9m). After adjusting for the amortisation of intangible assets recognised in the notional purchase price allocation of the equity investment, the FY19 income from associate was £2.7m (FY18: £2.8m). The underlying and adjusted measures referenced above have been extracted from Spire's results announcement for the year ended 31 December 2018.

As at 30 September 2018, the market value of the investment in Spire was £169m, which was below the carrying value. An impairment test was performed by updating the key assumptions applied in the value in use calculation performed at 31 March 2018. The impairment test was prepared based on the Group's updated expectations of Spire's future trading performance and considered external sources of information, including investor analyst valuations and target prices published. Key assumptions related to cash flow growth rates in the short- and medium-term were adjusted in the value in use calculation. As a result, an impairment loss of £164m was

recorded against the carrying value in the first half year. At year-end, another impairment test (updated for latest guidance announced by Spire in March 2019) was performed and no further impairment charge was required.

## OUTLOOK

The Group provides the following guidance for FY20 before the effect of adopting IFRS 16, which remains unchanged since the **April 2019 Trading Update**:

- **Hirslanden:** In FY20 Hirslanden expects modest revenue growth from an increase in average bed capacity for the year, reflecting the continued integration of Clinique des Grangettes. Under the current regulatory environment, Hirslanden will be impacted by a further nine months' comparative effect in FY20 from the national outmigration care programme that was implemented from 1 January 2019. The anticipated cost management and efficiency savings are likely to be more than offset by reductions in tariffs and the operational effects of outmigration, with the FY20 EBITDA margin expected to be around 15%. Over the medium-term, and assuming no further regulatory changes are implemented, the operating performance is expected to be supported by benefits from the Hirslanden 2020 strategic project and structural efficiencies being implemented in the division.
- **Mediclinic Southern Africa:** In FY20 Mediclinic Southern Africa expects volume growth of around 1% reflecting the additional capacity from the Intercare day case clinics that were consolidated from December 2018. In line with the Group's strategic objectives and a continued focus on improving clinical quality and patient experience, further investment will be made in employees and ICT during FY20. This, together with the expected lower margin contribution from Intercare and the ramp up of the new Mediclinic Stellenbosch facility, is anticipated to result in an EBITDA margin of around 20%.
- **Mediclinic Middle East:** In FY20 the Middle East division is expected to deliver revenue growth of around 10% supported by the continued ramp-up of the new Mediclinic Parkview Hospital. A gradual improvement in the EBITDA margin is expected in FY20 to around 14% incorporating the ramp-up of the Mediclinic Parkview Hospital and investment in the hospital expansion and new cancer centre at Mediclinic Airport Road Hospital, which is scheduled to open in the first half of calendar year 2020. The division continues to target an EBITDA margin of around 20%.
- The Group's capital expenditure budget, in constant currency, for FY20 is expected to decrease by 12% to £207m (FY19: £232m). This comprises £70m in

Hirslanden (FY19: £72m), £71m in Mediclinic Southern Africa (FY19: £65m), £66m in Mediclinic Middle East (FY19: £94m) and £1m (FY19: £1m) in Corporate. The decrease largely results from the conclusion in FY19 of the major new Mediclinic Parkview Hospital project in the Middle East and continued focus on capital allocation in Switzerland to reflect the current regulatory environment. Average FY19 exchange rates used: CHF1.30; ZAR18.01; and AED4.82.

The Group will adopt the new IFRS 16 accounting standard (addressing the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors) from 1 April 2019 and comparatives will not be restated. The EBITDA margin guidance for FY20 under IFRS 16 is set out below, together with the *indicative* corresponding margin for FY19:

- Hirslanden: around 17% (FY19: 18.1%)
- Mediclinic Southern Africa: around 21% (FY19: 21.7%)
- Mediclinic Middle East: around 17% (FY19: 16.1%)

## DIVIDEND POLICY AND PROPOSED DIVIDEND

The Group's existing Dividend Policy targets a pay-out ratio of between 25%–30% of adjusted earnings. The Board may revise the policy at its discretion. Given the impact of IFRS 16 accounting changes, the Board deems it appropriate to adjust the future payout ratio to 25%–35% of adjusted earnings.

The Board proposes a final dividend from retained earnings of 4.70 pence per ordinary share for the year ended 31 March 2019 for approval by the shareholders at the Company's 2019 annual general meeting ("**AGM**") on Wednesday, 24 July 2019. Together with the interim dividend of 3.20 pence per ordinary share for the six months ended 30 September 2018 (paid on 18 December 2018), the total proposed dividend for the year reflects a 29% distribution of adjusted Group earnings attributable to ordinary shareholders.

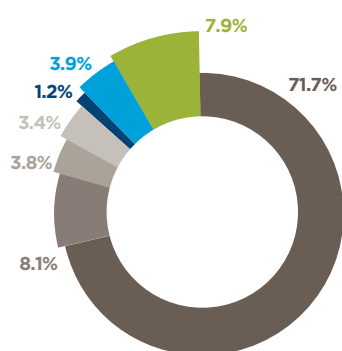
Shareholders on the South African register will be paid the South African rand cash equivalent of 86.24500 cents (68.99600 cents net of dividend withholding tax) per share. A dividend withholding tax of 20% will be applicable to all shareholders on the South African register who are not exempt therefrom. The South African rand cash equivalent has been calculated using the following exchange rate: £1: ZAR18.35, being the five-day average ZAR/£ exchange rate (Bloomberg) on Friday, 17 May 2019 at 15:00 GMT.

# VALUE ADDED STATEMENT

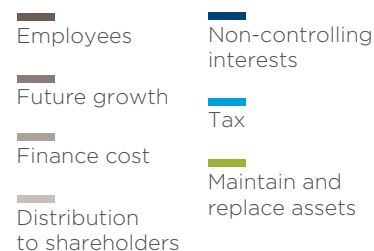
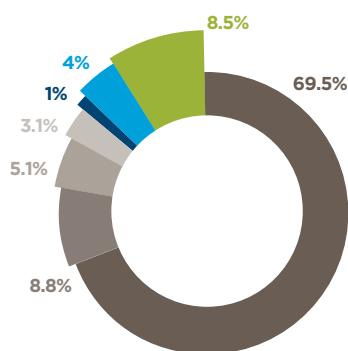
The **Value added statement** depicts the economic benefit created by the Group and how that is distributed among the various stakeholders, comprising employees, shareholders, banks, government, creditors and the economic value retained in the business.

	2019 £'m	%	2018 £'m	%
<b>VALUE CREATED</b>				
Revenue	2 932		2 876	
Cost of materials and services	(1 222)		(1 028)	
Finance income	9		9	
Share of net profit of equity accounted investments	3		3	
	<b>1 722</b>	<b>100.0</b>	1 860	100.0
<b>DISTRIBUTION OF VALUE</b>				
To employees as remuneration and other benefits	1 233	71.7	1 293	69.5
Tax and other state and local authority levies (excluding VAT)	68	3.9	75	4.0
To suppliers of capital:				
Non-controlling interests	21	1.2	18	1.0
Finance cost on borrowed funds	66	3.8	94	5.1
Distributions to shareholders	59	3.4	58	3.1
	<b>1 447</b>	<b>84.0</b>	1 538	82.7
<b>VALUE RETAINED</b>				
To maintain and replace assets	136	7.9	159	8.5
Income retained for future growth	139	8.1	163	8.8
	<b>275</b>	<b>16.0</b>	322	17.3

2019



2018





# CLINICAL SERVICES OVERVIEW



**“OUR ORGANISATIONAL VALUE IS ULTIMATELY REALISED AT HOSPITAL LEVEL WHERE MEDICLINIC EMPLOYEES AND PARTNERS WORK TIRELESSLY TO ENHANCE THE QUALITY OF LIFE OF OUR CLIENTS AND THEIR FAMILIES.”**

**Dr René Toua**  
Chief Clinical Officer

## INTRODUCTION

Mediclinic provides a wide range of clinical services throughout its divisions. These include outpatient consultation services, pre-hospital emergency services, hospital-based emergency centres, day case surgery, acute care inpatient services and highly specialised services. Support services include laboratories, radiology, radiation oncology and nuclear medicine.

During the year under review, the clinical performance across the Group made good progress and several patient safety and clinical effectiveness indicators showed improvement. In addition, many initiatives in support of clinical performance and quality improvement were launched and completed. The restructuring and strengthening of clinical services leadership at hospital and corporate levels continued across the Group, as did the refinement of methodologies to accurately measure and report on the effect of quality improvement initiatives on clinical outcomes and sustainable clinical performance.

To ensure complete and comparable results, a time lag is allowed for the collection of some clinical data. All indicators are therefore reported on calendar year.

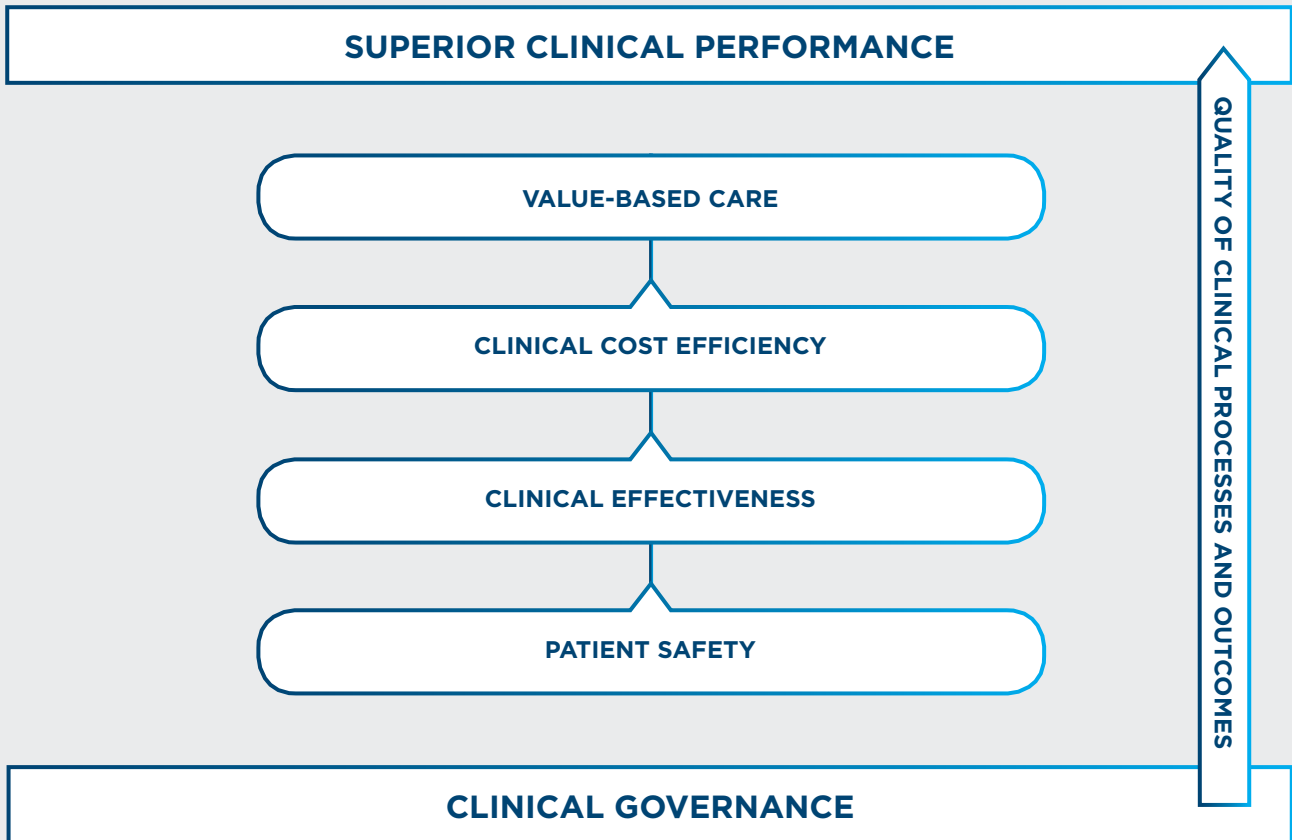
A key focus area of Mediclinic is its commitment to superior clinical performance which encompasses the quality of clinical processes and outcomes. This is done through a simple, yet powerful clinical performance framework built on a sound clinical governance foundation – collectively, the clinical management model (**Figure 1**). The model supports a structured approach to clinical management through a clinical governance foundation layer that provides the structures and processes required for clinical performance.

The Company made a significant investment in the improvement of clinical performance; it believes this to be crucial to future success. Clinical performance is quantified and reported on in line with the framework, including detailed monthly reporting with external oversight at both divisional and Board levels.

This report provides an overview of the Group's clinical performance for the year under review. The detailed **Clinical Services Report**, available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>, provides a more in-depth description.

# CLINICAL SERVICES OVERVIEW (CONTINUED)

FIGURE 1: THE MEDICLINIC CLINICAL MANAGEMENT MODEL



**Figure key**

Where variation in current year data is found to be statistically insignificant when compared to prior reporting periods, the data in the graph is presented as ■ / ■ / ■.

Where variation in current year data is found to be statistically significant when compared to prior reporting periods, the data in the graph is presented as ■ and an explanation is provided, if available. In these instances it is unlikely that the changes in the numbers are due to chance.

Statistical significance is determined by performing a hypothesis test. A difference is deemed to be statistically significant if the p-value exceeds a 5% critical limit. The indicators reported represent the means of their respective distributions and the hypothesis test examines if the means for successive years are from the same distribution (null hypothesis) or not (alternative hypothesis). This result allows us to conclude if a difference is significant or not. The test statistic for the hypothesis test and the distribution of the test statistic are dependent on the type of data being reported on.

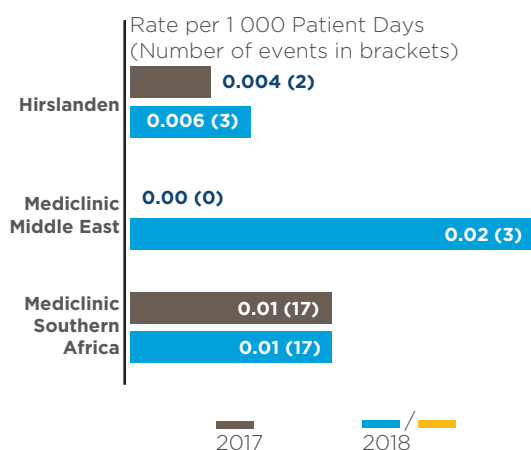
## GROUP

### Clinical performance

#### Never events

The implementation of the safe surgical checklist remains a key focus area. Mediclinic only reports on a subset of surgical and procedural never events at present focussing on the correct identification of patients, procedures and sites and the prevention of retained foreign objects. In future, the list will be expanded to include a wider definition of never events.

**FIGURE 2: NEVER EVENTS**



#### Length of stay and case mix index

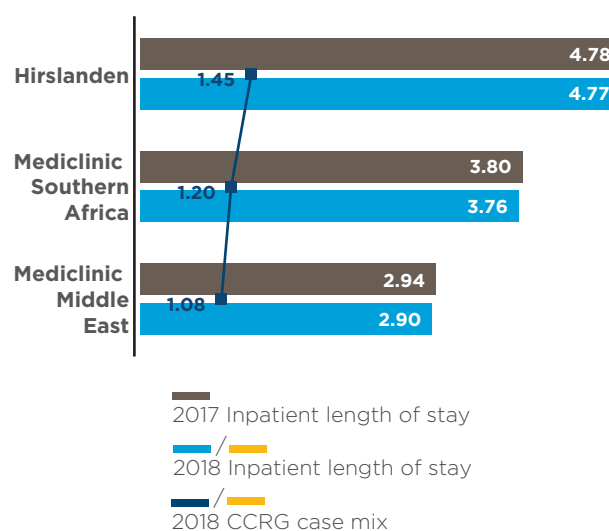
The case mix indexes of the divisions are calculated by using the internally developed clinical and cost-related groupings (“CCRG”) system.

The case mix index of Hirslanden was 1.45 for 2018. This is mainly due to its high load of complex and technologically advanced cases in an older population. In keeping with a high case mix index, Hirslanden’s inpatient length of stay was 4.77 days (measured in calendar days).

The case mix index of Mediclinic Southern Africa was 1.20 for 2018. The inpatient length of stay was 3.76 days (measured in calendar days).

The case mix index of Mediclinic Middle East was the lowest of the three divisions at 1.08 for 2018 due to its younger patient population. In keeping with its low case mix index, the inpatient length of stay was 2.90 days (measured in calendar days).

**FIGURE 3: LENGTH OF STAY AND CASE MIX INDEX**



#### Internal audit

During the reporting period, an internal clinical audit function was established; the audit programme is supported by the Internal Audit department. The audit process will be refined and standardised across the Group in the coming year.

#### Patient experience

Mediclinic benchmarks and publicly reports on patient experience on a divisional level through Press Ganey®, an internationally recognised leading provider of patient experience measurement for healthcare organisations across the continuum of care. Patients are surveyed after discharge and this valuable feedback helps Mediclinic better understand patients’ needs and adapt care services accordingly. A comparative report will be included in the 2020 Clinical Services Report.

**TABLE 1: 2018 PRESS GANEY® RESULTS FOR THE 2018 CALENDAR YEAR**

	HIRSLANDEN	MEDICLINIC SOUTHERN AFRICA	MEDICLINIC MIDDLE EAST
Participating since	February 2017	October 2014	October 2014
Total participating hospitals	17	51 (Jan–June 2018) 50 (July–Dec 2018)	6
Total surveys collected 1 January 2018– 31 December 2018	34 180	40 143	2 345
Overall mean score	87.4	82.0	85.6

# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Performance overview

PROGRESS AGAINST OBJECTIVES			
Group-wide	Hirslanden	Mediclinic Southern Africa	Mediclinic Middle East
<b><i>Patients First at Mediclinic</i></b>			
<ul style="list-style-type: none"> <li>• Clinical performance measures and operational dashboards were refined.</li> <li>• A patient safety sub-committee was established to standardise and enhance collaboration across the Group.</li> <li>• An initiative was started to coordinate collaboration of nursing services across divisions.</li> <li>• A collaborative forum was established for clinical risk management across the Group.</li> <li>• A clinical adverse event and clinical risk management solution suitable for the Group was obtained.</li> </ul>	<ul style="list-style-type: none"> <li>• Patients were surveyed on quality of life before and after joint replacement as part of the patient-related outcome measurement.</li> <li>• A continuous patient experience survey for all inpatients who participate in the Press Ganey® survey was introduced.</li> </ul>	<ul style="list-style-type: none"> <li>• A master data management programme was implemented to compile and govern data relating to affiliated medical practitioners.</li> <li>• Specific training initiatives were implemented to promote best practice with specific clinical procedures that required review.</li> <li>• Action plans aligned with the national hand hygiene strategy were implemented to further improve hand hygiene compliance.</li> <li>• Action plans were developed to improve medication safety.</li> <li>• Additional clinical performance measures were refined.</li> <li>• Additional mechanisms were developed to share clinical information with medical practitioners.</li> <li>• Infection rates were further reduced through the implementation of a comprehensive infection prevention and control (“IPC”) strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• The corporate clinical structure was reviewed and implemented to ensure that the Clinical Services department can effectively execute its mandate and responsibilities across the different geographical locations.</li> <li>• The clinical committees were re-aligned to support the new corporate clinical structure.</li> <li>• The implementation of a standardised performance appraisal process for medical practitioners continued.</li> <li>• A scope and project plan for the nursing performance management system was finalised.</li> <li>• A Joint Commission International (“JCI”) re-accreditation plan was formulated.</li> <li>• The quality and patient safety strategy was updated.</li> <li>• A strategy was developed to manage quality indicators (as defined by the regulators).</li> </ul>

**Performance overview (continued)**

PROGRESS AGAINST OBJECTIVES			
Group-wide	Hirlanden	Mediclinic Southern Africa	Mediclinic Middle East
<b>Value-based care</b>			
<ul style="list-style-type: none"> <li>Initiatives have commenced to coordinate health technology assessments centrally. These initiatives will be refined further.</li> </ul>	<ul style="list-style-type: none"> <li>The policy on indication quality and the introduction of indication boards was completed and distributed. Hospitals offering oncology treatment are running preoperative (pre-treatment) tumour boards.</li> <li>Fast-track orthopaedics was established in three hospitals and rollout at a further two hospitals is planned.</li> <li>A common structure for highly specialised medicine services was introduced.</li> </ul>	<ul style="list-style-type: none"> <li>Additional Hospital Clinical Managers were appointed.</li> <li>Implementation of the new clinical performance, oversight and governance model continued (in collaboration with supporting medical practitioners).</li> <li>A new clinical pathway for obstetric care was developed (in collaboration with supporting medical practitioners).</li> <li>The first phase of the national stroke management implementation plan was completed.</li> </ul>	<ul style="list-style-type: none"> <li>The affiliation agreement with MBRUHS was expanded. Mediclinic City Hospital is an accredited external training facility for medical students; the third intake of medical students enrolled in September 2018.</li> <li>Mediclinic City Hospital entered into an agreement for a paediatric residency training programme between MBRUHS and Al Jalila Hospital.</li> <li>Clinical processes at Mediclinic City Hospital's breast cancer and metabolic centres were further streamlined.</li> <li>The centralisation and consolidation strategy of laboratory services continued.</li> <li>The Mediclinic City Hospital laboratory was successfully re-accredited by the College of American Pathologists.</li> <li>The laboratories in the Abu Dhabi, Al Ain and Western Region obtained ISO certification.</li> <li>A 30% stake in Bourn Hall International was acquired.</li> <li>Existing clinical pathways are being reviewed and additional pathways and guidelines are being developed to prepare for the implementation of diagnostic-related grouping ("DRG") and the new EHR system.</li> <li>The clinical strategy for certain key service lines has been finalised.</li> </ul>



# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Performance overview (continued)

PROGRESS AGAINST OBJECTIVES			
Group-wide	Hirlanden	Mediclinic Southern Africa	Mediclinic Middle East
<b>Clinical information systems</b>			
<ul style="list-style-type: none"> <li>Continued collaboration and support were provided to Hirlanden with the implementation of its EHR system.</li> <li>Thought leadership, oversight and close collaboration were provided in the selection of an EHR system for Mediclinic Southern Africa and Mediclinic Middle East.</li> </ul>	<ul style="list-style-type: none"> <li>Future documentation for catheterisation laboratories and emergency departments was defined.</li> <li>The re-evaluation of the radiology information system was completed and a new system was selected. The pilot project at Hirlanden Klinik Im Park is nearly completed and the go-live for Klinik Hirlanden is scheduled for 2019.</li> <li>The integration of medical source data was reviewed and this project was added to the Hirlanden transformation exercise. Zürich hospitals will be used for the pilot phase.</li> </ul>	<ul style="list-style-type: none"> <li>Specific service providers were engaged to evaluate potential solutions for the market in Southern Africa. Mediclinic Southern Africa is in the final stages of finalising a proposal for implementation.</li> </ul>	<ul style="list-style-type: none"> <li>EHR rollout commenced at Mediclinic Parkview Hospital and Mediclinic Ibn Battuta.</li> </ul>

**Performance overview (continued)**

FUTURE OBJECTIVES			
Group-wide	Hirslanden	Mediclinic Southern Africa	Mediclinic Middle East
<i>Patients First at Mediclinic</i>			
<ul style="list-style-type: none"> <li>• Implement a clinical adverse event and clinical risk management system across the Group.</li> <li>• Further refine and optimise the clinical performance model and clinical performance indicators.</li> <li>• Further drive collaboration on nursing across the Group.</li> <li>• Support the divisions in eradicating never events and decreasing the number of serious adverse events.</li> <li>• Refine and optimise the medication management process across the Group.</li> <li>• Refine and optimise the clinical governance structure to enforce the Ward-to-Board accountability framework across the Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Further rollout of the patient-related outcome measurement.</li> <li>• Patient Safety Policy compliance audit in 2019.</li> <li>• Determine adherence to the safe surgery checklist through unheralded inspections in 2019.</li> <li>• Identify patient pathways that qualify for standardisation, especially in terms of fast-track orthopaedics.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop action plans in collaboration with medical practitioners to prevent adverse events.</li> <li>• Improve nursing skills mix and reposition the Nursing Unit Managers to improve clinical outcomes.</li> <li>• Develop hospital-specific action plans aimed at improving clinical performance.</li> <li>• Improve the overall patient experience.</li> <li>• Enhance the national hand hygiene strategy to further improve hand hygiene compliance.</li> <li>• Implement additional components of the antimicrobial stewardship strategy.</li> <li>• Develop additional action plans to improve medication safety.</li> <li>• Review and refine the comprehensive IPC strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement the Ward-to-Board accountability framework.</li> <li>• Define and align the clinical risk management strategy to the Group.</li> <li>• Continue the implementation of the adverse events management strategy.</li> <li>• Host the second Mediclinic Middle East Annual Research Day in 2019.</li> <li>• Define a clear strategy for establishing centres of excellence.</li> <li>• Refine hospital-level clinical structures.</li> <li>• Refine the clinical strategy for Abu Dhabi and Al Ain.</li> <li>• Continue to implement the standardised appraisal process for medical practitioners.</li> <li>• Further develop and implement a quality management framework.</li> <li>• Implement trauma and urgent care centres.</li> <li>• Implement a 24-hour paediatric service at Mediclinic Welcare Hospital and Mediclinic Parkview Hospital.</li> </ul>

# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Performance overview (continued)

FUTURE OBJECTIVES			
Group-wide	Hirslanden	Mediclinic Southern Africa	Mediclinic Middle East
<b>Value-based care</b>			
<ul style="list-style-type: none"> <li>Centrally advise and coordinate clinical research across the Group.</li> </ul>	<ul style="list-style-type: none"> <li>The fulfilment criteria of the system provider model will be defined. Subsequently, evaluation criteria will be determined for the level of adherence to the model at hospital level.</li> </ul>	<ul style="list-style-type: none"> <li>Appoint additional Hospital Clinical Managers.</li> <li>Continue with the implementation of the new clinical performance, oversight and governance model in collaboration with supporting medical practitioners.</li> <li>Implement clinical initiatives aimed at further improving obstetric care.</li> <li>Complete the final phase of the national stroke management implementation plan.</li> </ul>	<ul style="list-style-type: none"> <li>Define a strategy for benchmarking medical practitioners.</li> <li>Continue the centralisation and consolidation strategy for laboratories.</li> <li>Further develop and expand coordinated care initiatives.</li> <li>Continue to develop the obesity surgery service at Mediclinic Airport Road Hospital and prepare for its accreditation.</li> <li>Investigate a robotic pharmacy system.</li> <li>Develop clinical model for Cost per Event and DRG use.</li> <li>Improve the use of generics.</li> </ul>
<b>Clinical information systems</b>			
<ul style="list-style-type: none"> <li>Continue to collaborate with and provide support to Hirslanden and Mediclinic Middle East with the implementation of their EHR systems.</li> <li>Continue to provide thought leadership, oversight and close collaboration in the selection of an EHR system at Mediclinic Southern Africa.</li> <li>Establish a machine learning capability.</li> <li>Develop an integrated clinical digital roadmap, including artificial intelligence, machine learning and telemedicine.</li> </ul>	<ul style="list-style-type: none"> <li>Continue rollout of the radiology information system in a second hospital in 2019.</li> <li>Introduce a standardised documentation approach for medical practitioners in the EHR. The approach is already defined and will be tested at two hospitals in Zürich in 2019.</li> <li>Continue rollout of the PDMS. The division is preparing for the rollout at two hospitals in Zürich.</li> <li>Conceptualise the integration of the PDMS and the EHR.</li> </ul>	<ul style="list-style-type: none"> <li>Finalise a feasible proposal for the implementation of an EHR and continue with action plans aimed at improving readiness for the implementation plan.</li> </ul>	<ul style="list-style-type: none"> <li>Continue EHR rollout.</li> <li>Comply with the Department of Health Abu Dhabi's Health Information Exchange requirements.</li> </ul>

## HIRSLANDEN

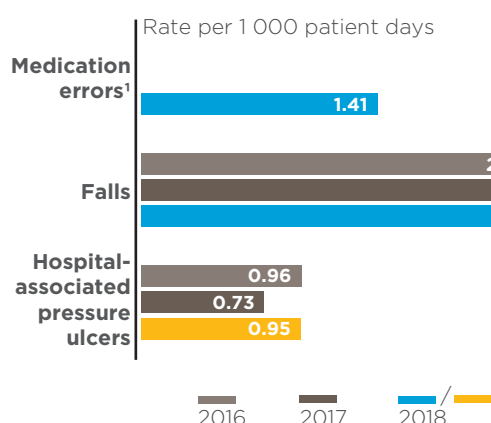
Most cases are elective in nature; services such as advanced neonatal critical care and major trauma are provided by the cantonal and university-teaching facilities. Most admitting medical practitioners are self-employed, but medical practitioners working in the fields of hospital-based specialities, such as anaesthetics and internal medicine, are employed at certain hospitals. Radiology, nuclear medicine and radiation oncology services are, in most instances, owned and operated by the hospitals.

### Clinical performance

#### Patient safety

An important aspect of improving the quality and safety of patient care is preventing adverse events that could harm patients, including medication errors, falls and hospital-associated pressure ulcers (Figure 4).

**FIGURE 4: ADVERSE EVENTS - HIRSLANDEN**



**Note**

<sup>1</sup> The reporting of medication errors is new to the division and data collection is still being optimised.

The 2.84% decrease in fall rate per 1 000 patient days from 2.52 in 2017 to 2.45 in 2018 is not statistically significant. The prevention of falls is a focus area for the hospitals; Hirslanden Klinik Linde is testing a new device to detect unattended stand-up of at-risk patients.

The hospital-associated pressure ulcer rate per 1 000 patient days increased by 30.17% from 0.73 in 2017 to 0.95 in 2018, a statistically significant change. Analysis revealed several challenges in the correct collection of the indicator. Introducing a business partner model in quality management whereby hospital-level Quality Managers report directly to corporate-level quality management will provide further alignment and accountability.

### Infection prevention and control

The rate of healthcare-associated infections (“HAI”) and related conditions remained stable in 2018. As these conditions are rare, a single infection causes a high rate based on small denominators.

**FIGURE 5: DEVICE-ASSOCIATED INFECTIONS - HIRSLANDEN**

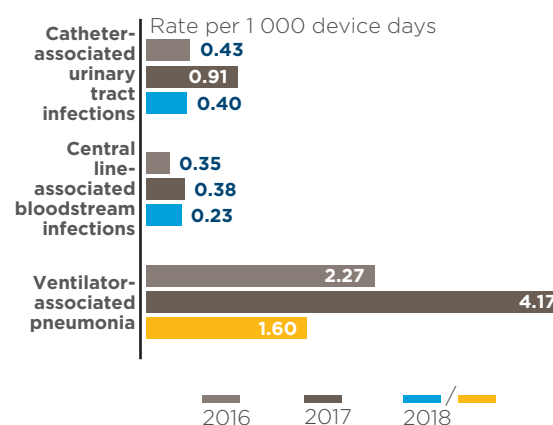


Figure 5 reflects a decrease in all device-associated infections. The ventilator-associated pneumonia (“VAP”) rate per 1 000 device days decreased by 61.59% from 4.17 in 2017 to 1.60 in 2018, a statistically significant change. Improvement across all device-associated infection rates is largely due to a renewed focus on implementation of and adherence to IPC bundles.

### Clinical effectiveness

#### Mortality

**FIGURE 6: INPATIENT MORTALITY RATE - HIRSLANDEN**

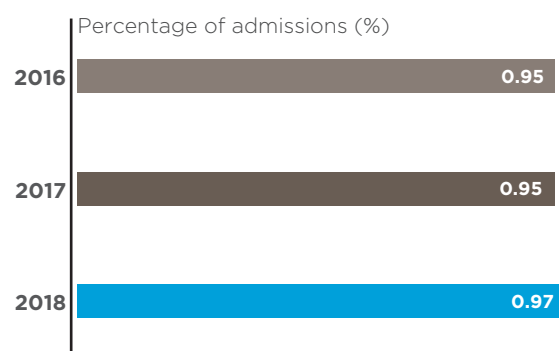
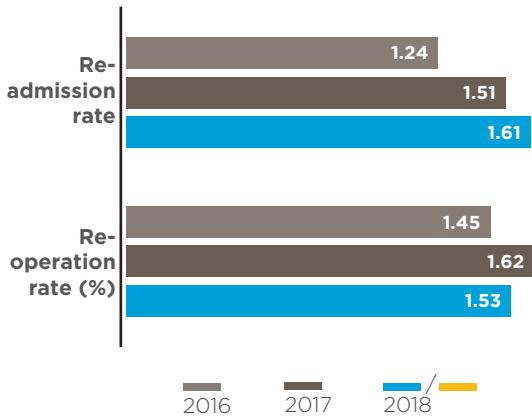


Figure 6 reflects a 1.72% increase in the inpatient mortality rate from 0.95% in 2017 to 0.97% in 2018, however, the variation is not statistically significant and remains in line with the 2016 and 2017 rates.

# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Re-admission and re-operation rate

**FIGURE 7: RE-ADMISSION AND RE-OPERATION RATE - HIRSLANDEN**



The re-admission rate is reported as a 15-day unscheduled re-admission rate as defined by the International Quality Indicator Project. The 6.58% increase in the re-admission rate from 1.51 in 2017 to 1.61 in 2018, as reflected in **Figure 7**, is not statistically significant.

The 5.11% decrease in the re-operation rate from 1.62 in 2017 to 1.53 in 2018, as reflected in **Figure 7**, is not statistically significant.

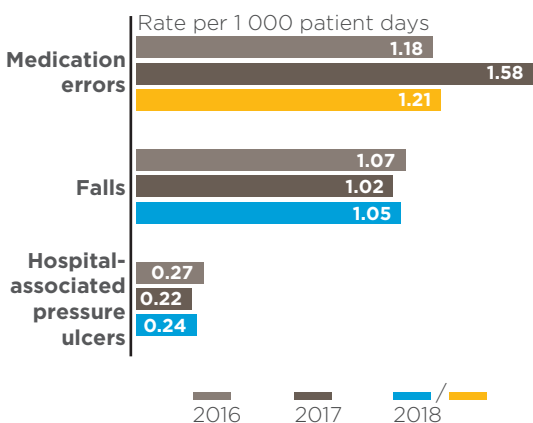
## MEDICLINIC SOUTHERN AFRICA

Most of the hospital cases are elective in nature, but a significant portion is unscheduled, emergency and trauma related. Admitting medical practitioners, excluding emergency medicine practitioners within certain emergency centres, are self-employed and practise independently. Radiology, laboratory and oncology services are also provided by independent practices.

### Clinical performance

#### Patient safety

**FIGURE 8: ADVERSE EVENTS - MEDICLINIC SOUTHERN AFRICA**



Medication errors per 1 000 patient days reduced by 23.26% from 1.58 in 2017 to 1.21 in 2018. The values returned to 2016 levels after quality improvement initiatives were implemented.

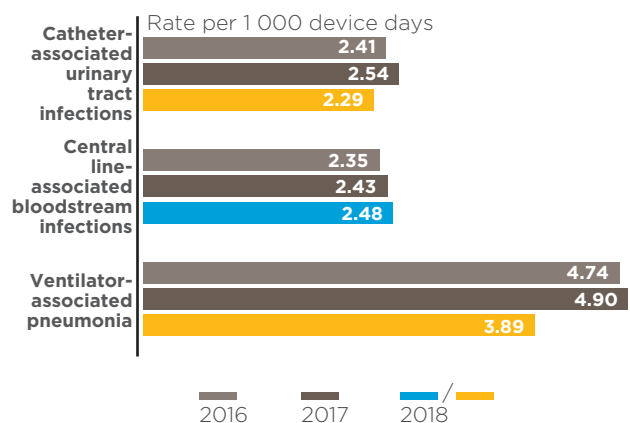
Neither the 2.65% increase in the fall rate per 1 000 patient days from 1.02 in 2017 to 1.05 in 2018 nor the 7.89% increase in hospital-associated pressure ulcer rate per 1 000 patient days from 0.22 in 2017 to 0.24 in 2018 are statistically significant.

#### Infection prevention and control

Southern Africa has a high burden of infectious disease, unlike Hirslanden and Mediclinic Middle East where infectious disease is less of a concern. As such, the identification of infectious diseases and community-acquired infections on admission and the prevention of HAI remains a priority for Mediclinic Southern Africa.

Hand hygiene compliance results showed a 15.06% improvement from 65.74% in 2017 to 75.64% in 2018, a statistically significant increase. Hospitals continue to focus on interventions to improve hand hygiene compliance. There is a huge drive to ensure that employees understand the important correlation between hand hygiene compliance and HAI rates.

**FIGURE 9: DEVICE-ASSOCIATED INFECTIONS - MEDICLINIC SOUTHERN AFRICA**



The catheter-associated urinary tract infections (“CAUTI”) rate decreased by 10.00% from 2.54 in 2017 to 2.29 in 2018, mainly due to improved care bundle compliance and a targeted focus and appropriate interventions after detailed system analysis where it has been identified as a problem. The 1.96% increase in the rate of central line-associated blood stream infections (“CLABSI”) from 2.43 in 2017 to 2.48 in 2018 is not statistically significant. A system analysis is done of each CLABSI case to understand the underlying contributing factors and to implement targeted interventions. The VAP rate decreased by 20.66% from 4.90 in 2017 to 3.89 in 2018, mainly due to regular review of evidence-based care bundle implementation and



compliance (e.g. the importance of subglottic suctioning in continuous ventilation).

### Antimicrobial stewardship

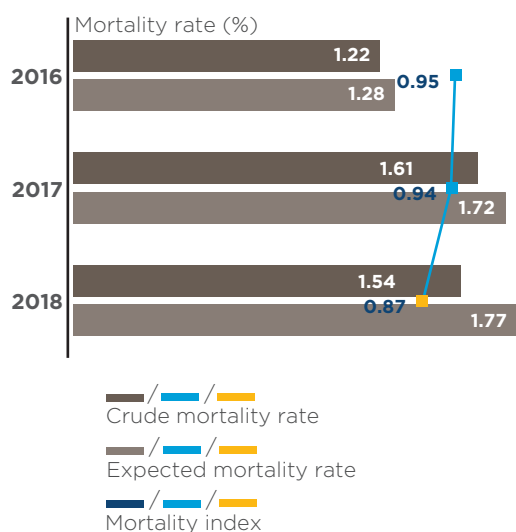
Considering the high burden of infectious disease in Southern Africa, effectively managing antimicrobial resources and preventing multidrug resistance are critical. Antimicrobial resistance increases with increasing utilisation of antimicrobials, therefore Mediclinic Southern Africa monitors total antimicrobial utilisation in Defined Daily Doses. The total antimicrobial usage and utilisation decreased by 1.95% in 2018.

## Clinical effectiveness

### Mortality

The inpatient mortality index decreased by 7.73% from 0.94 in 2017 to 0.87 in 2018, a statistically significant change.

**FIGURE 10: INPATIENT MORTALITY - MEDICLINIC SOUTHERN AFRICA**



### Re-admission rate

Mediclinic Southern Africa reports on a 30-day all-cause re-admission rate.

**FIGURE 11: RE-ADMISSION RATE - MEDICLINIC SOUTHERN AFRICA**



The 1.43% increase in the re-admission rate from 12.50% in 2017 to 12.68% in 2018, as depicted in **Figure 11**, is not statistically significant.

## MEDICLINIC MIDDLE EAST

At Mediclinic Middle East, the relationship between the hospitals and clinics is in the form of a hub-and-spoke model, where the multidisciplinary clinics deliver primary care and specialist consultation services, as well as follow-up from and referrals to the hospitals. Each hospital has a few clinics reporting into the hospital structure and they function as a cluster. This enables closer collaboration and improved oversight of activities between the hospitals and clinics. Traumatology is limited to the state health facilities and patients with major trauma are stabilised and transferred to state facilities.

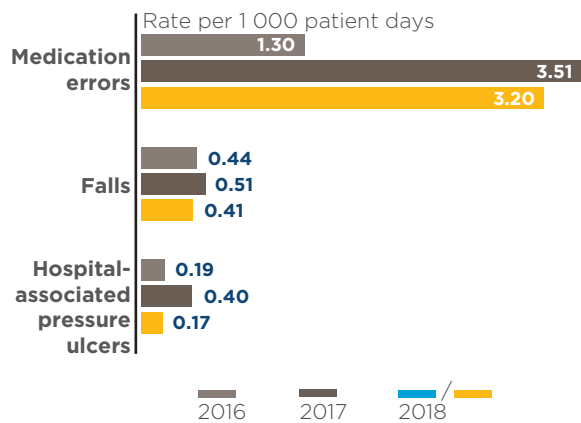
# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Clinical performance

### Patient safety

A patient safety culture is well entrenched at Mediclinic Middle East. It is a “just culture” (Frankl framework) with full support from senior management.

**FIGURE 12: ADVERSE EVENTS - MEDICLINIC MIDDLE EAST**



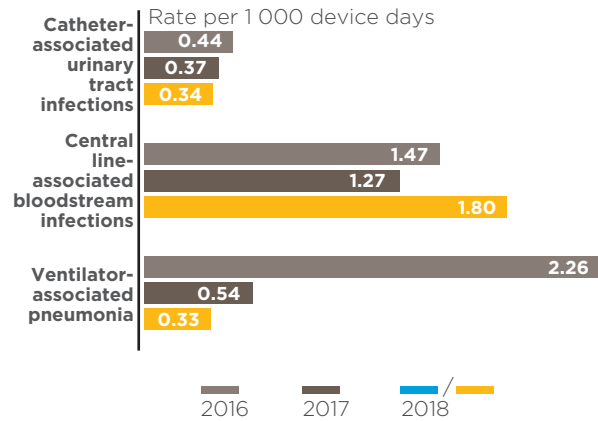
At Mediclinic Middle East both outpatient and inpatient medication errors are reported and are classified as prescription, dispensing and administration errors. The medication error rate per 1 000 patient days decreased by 8.65% from 3.51 in 2017 to 3.20 in 2018, a statistically significant change (**Figure 12**). There is a continued focus on medication management.

The 20.96% decrease in the fall rate per 1 000 patient days from 0.51 in 2017 to 0.41 in 2018, as reflected in **Figure 12**, is statistically significant. The hospital-associated pressure ulcer rate per 1 000 patient days decreased by 57.77% from 0.40 in 2017 to 0.17 in 2018, a statistically significant change (**Figure 12**). Various quality improvement projects were initiated, specifically in the critical care unit where the patient population has higher acuity levels with multiple co-morbidities.

### Infection prevention and control

Preventing HAI remains a key patient safety objective for Mediclinic Middle East. This includes standardising processes around infection control (based on international best practices), implementing care bundles around SSI, VAP, CLABSI and CAUTI, and running a surveillance project with multilayer methodology.

**FIGURE 13: DEVICE-ASSOCIATED INFECTIONS - MEDICLINIC MIDDLE EAST**



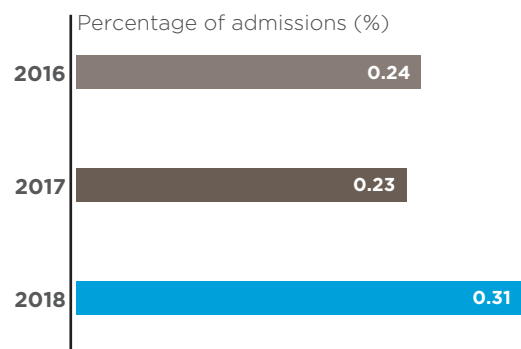
**Figure 13** reflects an 8.44% decrease in the CAUTI rate from 0.37 in 2017 to 0.34 in 2018 and a 41.67% increase in the CLABSI rate from 1.27 in 2017 to 1.80 in 2018. The VAP rate decreased by 39.68% from 0.54 in 2017 to 0.33 in 2018. All three changes are statistically significant, however, the changes are largely driven by small numbers of events. A change in the Centres for Disease Control and Prevention definition of HAI, especially for VAP, contributed significantly to the decrease in the rate.

## Clinical effectiveness

### Mortality

The inpatient mortality rate for the division remains low in comparison to the other divisions.

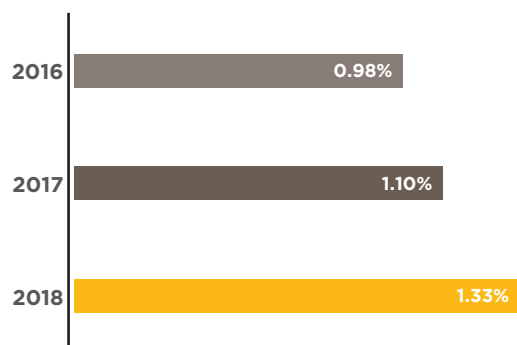
**FIGURE 14: INPATIENT MORTALITY RATE - MEDICLINIC MIDDLE EAST**



The mortality rate increased by 33.00% from 0.23% in 2017 to 0.31% in 2018, as reflected in **Figure 14**, mainly due to the establishment of a Comprehensive Cancer Centre in the north wing adjacent to Mediclinic City Hospital in Dubai, as well as legislative changes made to allow natural death in the UAE.

## Re-admission rate

**FIGURE 15: RE-ADMISSION RATE - MEDICLINIC MIDDLE EAST**



The 21.32% increase in the 30-day re-admission rate from 1.10% in 2017 to 1.33% in 2018, as reflected in **Figure 15**, is statistically significant. Chemotherapy administration, wound care, false labours, maternity-related conditions, lithotripsies, dialysis and removal of an implant are excluded in the 30-day re-admission calculation as the rate refers to unplanned re-admissions.

The increase in the unplanned re-admission rate has been identified as one of the top clinical risks for this division. To effectively manage this risk, a revised reporting framework is planned for categorising all the re-admission cases in a standardised format per department, per diagnosis, and per individual medical practitioner to identify potential improvement areas.

## CLINICAL ETHICS SUMMARY

### Advanced care planning, end of life and terminal care

Clinical governance structures exist to report, audit and address concerns.

### Billing, care management

Operational and clinical management in each hospital are responsible for ensuring the ethical conduct of medical practitioners and employees. An ethics line exists for reporting of fraud committed by medical practitioners and employees.

### Competence, scope of practice

Clinical governance structures exist to monitor and address any concerns. Recruiting the correct skills and continuous employee skills assessment are key focus areas. Strategies to ensure employee competency (e.g. formal training, short courses, and clinical facilitators) are followed.

## Disclosure, reporting of adverse events

Each hospital has a formal adverse event reporting system. A “just culture” (Frankl framework) is promoted. The reporting system is non-punitive and the recorded adverse events are discussed at the hospitals’ Clinical Hospital Committees. To prevent future incidents of a similar nature, learning from incidents is a key focus area.

## Ethical conduct

Operational and clinical management in each hospital are responsible for ensuring ethical conduct of medical practitioners and employees. Human resource policies exist to address issues of misconduct and criminal behaviour.

## Euthanasia

Euthanasia is neither practised nor condoned in any Mediclinic facility. All hospitals have control measures in place to ensure compliance with local legislation.

## Falsification of documentation, diagnosis, sick leave certificates

Operational and clinical management in each hospital are responsible for ensuring the ethical conduct of medical practitioners and employees. Documentation and clinical coding audits ensure compliance with legal, ethical and operational requirements. An ethics line exists for reporting of fraud committed by medical practitioners and employees.

## Forced female circumcision

Control measures are in place to ensure compliance with the respective legislation. Informed consent for any medical or surgical intervention or procedure is upheld by the profession and is entrenched in local legislation.

## Illegal practice

Existing policies manage illegal practice, compliance to which are confirmed through audits and accreditation.

## Inappropriate care

Appropriate care is a key focus area across the Group and is managed by indication boards at Hirslanden and cost per event at Mediclinic Southern Africa and Mediclinic Middle East. Cost reporting, management process and structures are in place. Complex cases are discussed with treating medical practitioners.

# CLINICAL SERVICES OVERVIEW (CONTINUED)

## Medical practitioner cover, availability and response

On-call rosters are compiled and available at emergency centres. A management process and reporting system exist to deal with non-compliant independent medical practitioners. Employed medical practitioners are dealt with via an established human resources process.

## Medical research

Drug trials and medical research are aligned with the Declaration of Helsinki and local legislation.

All requests for clinical drug trials are approved by an independent, accredited Ethics Committee before it is accepted for evaluation and approval by the respective divisional committees. All approved trials are recorded on a registry and no unofficial drug testing is allowed.

Medical research and experiments are managed by a Clinical Research Approval Committee and related policy. Clinical governance structures exist to prevent untested and experimental treatments.

The Group deals with medical ethical issues on a daily basis. Most of these are covered by formal policies, but some are still elusive and quite complex to deal with by way of policy. In all instances, response and reaction are governed by local legislation and regulations.

## Misrepresentations of qualifications and monitoring of medical practitioner performance

Accreditation involves a formal process which confirms registration, qualifications and credentials. In addition, an informal process is undertaken to solicit performance information of the medical practitioner from peers.

Medical practitioners are monitored through annual validation of registration; investigations of deteriorating hospital clinical quality indicators; mortality audits; SAE investigations; investigation of patient, medical practitioner and employee complaints; medico-legal investigations;

ethics line reports; feedback from Clinical Hospital Committee meetings; direct reporting by medical practitioners; and informal feedback from employees regarding recurring concerns.

## Patient protection

Occupational health specialists provide a service at each hospital. On acceptance of employment, all healthcare employees are screened for pulmonary tuberculosis, and screened and vaccinated against Hepatitis B if they do not have sufficient antibodies. In the event of an increase in the incidence or an outbreak of Methicillin-resistant *Staphylococcus aureus*, healthcare employees are screened and decolonised, if necessary. Flu vaccines are offered annually to employees. Other vaccines, e.g. diphtheria and measles, are offered when there is an indication; when there is an increase in cases in a specific area; or as post-exposure. In Hirslanden, radiation exposure and compliance with prevailing acceptable exposure limits are monitored centrally.

## Pharmacy

Pharmacy policies, procedures and audits ensure compliance with legislation, ethical and operational requirements.

## Organ trade

The organ donation and receipt process is carefully documented and complies with relevant legislation.

## Remuneration, kickbacks

Perverse incentives are prohibited. Corporate Office and hospital management ensure strict compliance with established rules.

## Termination of pregnancy

Strict control measures exist to ensure legal compliance. In addition, the Group allows employees freedom of choice as to whether they wish to refrain from participating in any terminations of pregnancy for moral, religious, ethical or related reasons.

# RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES

The Board is ultimately accountable for the Group's risk management processes and system of internal control. It has delegated responsibility to the Audit and Risk Committee for overseeing and reviewing the efficacy of the:

- risk management processes and system of internal control;
- Group's internal auditors; and
- Group's external auditor.

The Board receives regular updates on the activities of the Audit and Risk Committee.

## RISK MANAGEMENT

The Group's Enterprise-wide Risk Management ("ERM") Policy is reviewed annually and follows the international Committee of Sponsoring Organisations of the Treadway


Commission framework. The policy defines the risk management objectives, methodology, risk appetite, risk identification, assessment and treatment processes, and the responsibilities of the various risk management role-players in the Group. Any policy amendments are subject to the approval of the Audit and Risk Committee.


The objective of risk management in the Group is to establish an integrated and effective risk management framework wherein important and emerging risks are identified, quantified and managed. An ERM software application supports the Group's risk management process in all three divisions and at Group level. The Group's principal risk items (grouped by category, business process and strategic priorities), the movement in risk during the reporting period, together with key measures taken to mitigate these risks, are listed in the table below.

### Key:

REFERENCE	CATEGORY	BUSINESS PROCESSES
<b>A</b>	Strategic and business environment risks	<ul style="list-style-type: none"> <li>• Strategy formulation and implementation</li> <li>• Strategic investments and strategic projects</li> </ul>
<b>B</b>	Financial and reporting risks	<ul style="list-style-type: none"> <li>• Revenue cycle</li> <li>• Procure-to-pay cycle</li> <li>• Financial management and control</li> <li>• Treasury</li> <li>• Health information (including coding)</li> </ul>
<b>C</b>	Operational risks	<ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Marketing and corporate communication</li> <li>• Operations</li> </ul>
<b>D</b>	Information technology risks	<ul style="list-style-type: none"> <li>• ICT and related projects</li> </ul>
<b>E</b>	Regulatory compliance risks	<ul style="list-style-type: none"> <li>• Legal and secretarial</li> <li>• Governance, risk and compliance</li> <li>• Environmental management</li> </ul>
<b>F</b>	Clinical risks	<ul style="list-style-type: none"> <li>• Clinical</li> <li>• Nursing</li> <li>• Pharmacy</li> <li>• Coding</li> </ul>
<b>G</b>	People risks	<ul style="list-style-type: none"> <li>• ICT</li> <li>• Human resources</li> <li>• Payroll cycle</li> </ul>

 Risk exposure has increased due to change in business environment, increased investments, increased dependency of operations on information technology, information sensitivity and cost involved.

 Proactive and continuous monitoring, favourable results of negotiations, effective treasury and risk management processes have resulted in lowering of risk exposure.

 Risk exposure has not changed much as the operating and regulatory environments have remained stable and enhanced risk mitigation measures have kept the risk at same level.

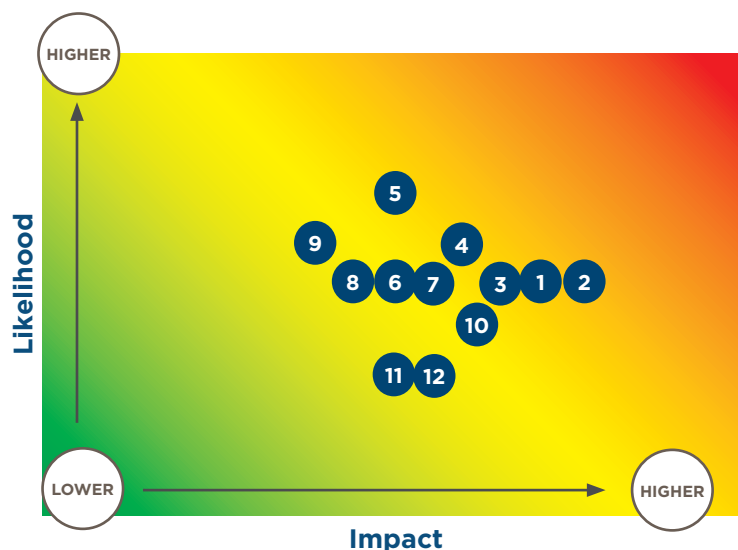


# RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The principal risks are determined through a strategic risk review process where each division's executive committee, as well as the Group Executive Committee re-assess the top risks which could impact on the achievement of strategic objectives. Related risks are aggregated and grouped to determine the principal risks.

## New risks added:

- Business projects
- Disruptive innovation and digitalisation



PRINCIPAL RISK	MOVEMENT IN 2019	DESCRIPTION OF RISK	MITIGATION OF RISK
<b>1. Regulatory and compliance risks</b> <b>E</b>	<p style="text-align: center;">↑</p> <p>The increasing risk relates to the continued healthcare reform and the introduction of new regulations.</p>	<p>These risks relate to adverse changes in legislation and regulations impacting on the Group or the failure to comply with legislation and regulations which may result in losses, fines, penalties or damage to reputation.</p> <p>The risks include healthcare reform by regulators aimed at reducing the cost of healthcare, broadening the access to quality healthcare and increasing the monitoring of quality standards by regulators.</p>	<ul style="list-style-type: none"> <li>• Proactive engagement with stakeholders</li> <li>• Health policy units created to conduct research and to provide strategic input into reform processes</li> <li>• Active industry participation across all divisions</li> <li>• Company secretarial, legal and compliance functions support operational management, monitor regulatory developments and, where necessary, obtain expert legal advice for the effective implementation of compliance initiatives</li> <li>• Compliance risks identified and assessed as part of compliance management processes</li> </ul>
<b>2. Information systems security and cyber risk</b> <b>D</b>	<p style="text-align: center;">↑</p> <p>The increased risk relates to the continued external threats arising from cyberattacks and breaches.</p>	<p>Information systems security risk and cyber risk relate to the unauthorised access to information systems through external or internal attack or unauthorised breach resulting in the unavailability of systems, failure of data integrity and data confidentiality breaches.</p>	<ul style="list-style-type: none"> <li>• Comprehensive information systems identity access management, change and physical access controls</li> <li>• Regular security reviews</li> <li>• Disaster recovery planning</li> <li>• Group information security and data privacy policies</li> <li>• Group ICT Security Committee</li> </ul>
<b>3. Business investment and acquisition risks</b> <b>A B</b>	<p style="text-align: center;">↓</p> <p>The investment and governance process were strengthened during the year.</p>	<p>These risks relate to increased financial exposure relating to major strategic business investments and acquisitions.</p> <p>The risk includes the sensitivity of the assumptions made when capital is allocated and the effective implementation of major investment decisions.</p>	<ul style="list-style-type: none"> <li>• Strategic planning processes</li> <li>• Due diligence processes</li> <li>• Investment mandates</li> <li>• Board oversight</li> <li>• Post-acquisition management processes</li> </ul>

PRINCIPAL RISK	MOVEMENT IN 2019	DESCRIPTION OF RISK	MITIGATION OF RISK
<b>4. Business project risks</b> <b>A D</b>	New	<p>The Group plans to adapt to the evolving regulatory, industry and market environment.</p> <p>These risks refer to issues or occurrences that may potentially interfere with successful completion of projects, including timeliness, cost and quality.</p>	<ul style="list-style-type: none"> <li>• Effective project governance practices, methodologies and reporting</li> <li>• Experienced project management teams</li> <li>• Proactive monitoring and oversight</li> </ul>
<b>5. Economic and business environment risks</b> <b>A</b>	<p style="text-align: center;">→</p> <p>Economic growth in the Middle East and Southern Africa remained low, resulting in increased risk exposure.</p>	<p>These risks relate to the downturn in the general economic and business environments impacting on the affordability of healthcare for funders and self-paying patients.</p> <p>The business environment risks include the potential negative impact on tariffs and fees resulting from the shift of the relative positioning away from healthcare service providers toward funders.</p>	<ul style="list-style-type: none"> <li>• Systems to monitor developments and trends in the economic and business environments and early warning indicators</li> <li>• Proactive monitoring and negotiation by the Group's Funder Relations departments</li> <li>• Focus on quality and continuum of care to reinforce the Group's market position</li> </ul>
<b>6. Competition risks</b> <b>A</b>	<p style="text-align: center;">↑</p> <p>Healthcare providers market continued to grow.</p>	<p>These risks relate to the uncertainty created by the existence of competitors or the emergence of new competitors with their own strategies.</p> <p>The risk includes the outmigration of care, partly driven by further technological developments, and the development of alternative care models.</p>	<ul style="list-style-type: none"> <li>• Proactive monitoring</li> <li>• Strategic planning processes</li> <li>• Quality and value of care processes</li> </ul>
<b>7. Clinical risks</b> <b>F</b>	<p style="text-align: center;">→</p> <p>Clinical processes across all operating divisions remained a key focus area for the Group.</p> <p>Risk exposure remained at a comparable level to the previous year.</p>	<p>These risks relate to all clinical risks associated with the provision of clinical care resulting in undesirable clinical outcomes.</p> <p>Clinical risks at the Group's facilities are managed daily. High-priority clinical risk areas include patient safety culture, adverse obstetric outcomes, medication errors, surgical and procedural adverse events and multidrug resistant organisms.</p> <p>Such risks may also result in damage to Mediclinic's reputation and impact on brand equity. Brand equity refers to the commercial value derived from the consumer perception of the Group's brand names rather than the services provided under those brand names.</p>	<ul style="list-style-type: none"> <li>• Refer to the <b>Clinical Services Report</b> for a detailed analysis of the strategies to manage and monitor clinical risks</li> <li>• A Group-wide clinical risk register implemented per division</li> <li>• Accreditation processes</li> <li>• Clinical governance processes</li> <li>• Monitoring of clinical performance indicators</li> <li>• Focus on quality management processes</li> <li>• Stakeholder engagement and disclosure strategies</li> <li>• Clinical audits</li> </ul>

# RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

PRINCIPAL RISK	MOVEMENT IN 2019	DESCRIPTION OF RISK	MITIGATION OF RISK
<b>8. Disruptive innovation and digitalisation risks</b> <b>D</b>	New	<p>Disruptive innovation and digitalisation risks include the disintermediation and erosion of the Mediclinic business model due to the impact of technological development. It refers to the extent and speed that new technologies (and combinations thereof) change and transform industries and to what extent an organisation is able to exploit these opportunities and also being able to respond and innovate, while managing associated risks.</p>	<ul style="list-style-type: none"> <li>• Strategic planning processes</li> <li>• Proactive monitoring</li> <li>• Systems to monitor developments and trends in the economic and business environments and early warning indicators</li> </ul>
<b>9. Availability, recruitment and retention of skilled resources and medical practitioners</b> <b>G</b>	<p style="text-align: center;">→</p> <p>Vacancies and turnover ratios in respect of skilled resources and medical practitioners are expected to remain at similar levels to the prior year.</p>	<p>The availability and support of admitting medical practitioners, whether independent or employed, are critical to the Group's services.</p> <p>There is a shortage of skilled labour, particularly a shortage of qualified and experienced nursing staff in Southern Africa.</p>	<ul style="list-style-type: none"> <li>• Systems to monitor satisfaction, movement and profiles of medical practitioners</li> <li>• Details on the relationship with medical practitioners provided in the <a href="#">Sustainable Development Report</a></li> <li>• The employment, recruitment and retention strategies explained in the <a href="#">Sustainable Development Report</a></li> <li>• Extensive training and skills development programme and foreign recruitment programme, explained in the <a href="#">Sustainable Development Report</a></li> </ul>
<b>10. Availability and cost of capital risks (Including financing and liquidity risks)</b> <b>B</b>	<p style="text-align: center;">→</p> <p>Interest rates are expected to remain at comparable levels during 2019. Long-term financing arrangements are in place.</p>	<p>These risks relate to the cost, terms and availability of capital to finance strategic expansion opportunities and/or the refinancing or restructuring of existing debt affected by prevailing capital market conditions.</p>	<ul style="list-style-type: none"> <li>• Long-term planning of capital requirements and cash-flow forecasting</li> <li>• Scrutiny of cash-generating capacity within the Group</li> <li>• Proactive and long-term agreements with banks and other funders relating to funding facilities</li> <li>• Systems to monitor compliance with requirements of debt covenants</li> <li>• Further details on capital risk management and the Group's borrowings contained in the <a href="#">annual financial statements</a></li> </ul>
<b>11. Operational and credit risks</b> <b>B C</b>	<p style="text-align: center;">→</p> <p>The operational and credit risks did not change significantly and remained stable.</p>	<p>Operational risk refers to diverse types of operational events with a potential for financial loss, operational interruptions or reputational damage.</p> <p>Credit risk is the risk of loss due to a funder's inability to pay the outstanding balance owing, default by banks and/or other deposit-taking institutions, or the inability to recover outstanding amounts due from patients.</p>	<ul style="list-style-type: none"> <li>• Preservation of a sound internal financial control environment</li> <li>• Effective operational risk management processes</li> <li>• Effective monitoring and oversight of operations</li> <li>• Regulated minimum solvency requirements for funders.</li> <li>• Monitoring of approved funders</li> <li>• Treasury policy</li> </ul>

PRINCIPAL RISK	MOVEMENT IN 2019	DESCRIPTION OF RISK	MITIGATION OF RISK
<p><b>12. Quality and stability of operational services risks</b></p> <p><b>C</b></p>	<p>→</p> <p>The quality and operational services risks did not change significantly and remained stable.</p>	<p>These risks refer to the quality of service and the stability of the operations. It includes:</p> <ul style="list-style-type: none"> <li>incidents of poor service or where operational management fail to respond effectively to complaints;</li> <li>operational interruptions which refer to any disruption of the facility and may include the threat of disrupted electricity or water supply; and</li> <li>fire and allied perils causing damage or business interruption.</li> </ul>	<ul style="list-style-type: none"> <li>Patient satisfaction surveys (both internal and external)</li> <li>Complaints monitoring</li> <li>Training programmes and supervision of service levels</li> <li>Emergency backup electricity generation</li> <li>Emergency and disaster planning</li> <li>Extensive fire-fighting and detection systems, including comprehensive maintenance processes</li> <li>Comprehensive insurance to deal with financial impact of potential disasters</li> </ul>

## Brexit

Mediclinic continues to monitor the developments around Brexit and the potential implications for the Group. The future terms under which the UK and EU will function in a post-Brexit environment remain unclear. The Group does not expect that Brexit will have a material impact on any of its divisions in Switzerland, Southern Africa and the UAE. However, Mediclinic may be indirectly impacted through its 29.9% investment in Spire, whose core operations are located in the UK.

The Board of Spire has reported a possible no-Brexit deal as one of its principal risks and has communicated to the market its position and assessment thereof in its annual report. The areas considered to have the biggest potential impacts on Spire are related to:

- supply-chain risks where more than 80% of the goods (other than blood) that Spire uses to operate its hospitals come into the UK from or via the EU. Its supply chain currently operates on short ordering times and low inventories;
- the impact on employees where Spire reported that less than 10% of its employees are EU citizens; and
- the risk of increased costs which may occur due to EU imports being subject to customs charges and tariffs.

Another indirect impact which may arise from Brexit is the macroeconomic consequences it may have on European (and Swiss) markets. Due to the significant uncertainties relating to the relationship and trading arrangements between the UK and the EU following Brexit, Mediclinic is not able to quantify the potential impacts that could affect its Swiss operations.

# VIABILITY STATEMENT

The assessment of viability is an extension of the risk management and annual financial planning processes which translate into each of the divisional business plans. The business plans reflect the current Group strategies and their associated risks and the Directors' best estimations of their prospects. Fundamental to the assessment of the Group's prospects is the long-term business model of quality service delivery and revenue growth under acceptable risk tolerance.

The annual financial planning process includes a detailed bottom-up approach per division for the budget year (performed by each clinic and hospital) and the extension of the key assumptions to the forecast period. The budgets are subject to review and, if necessary, re-budgeting. The five-year plans, including the strategic Group goals and objectives, are reviewed and approved by the divisional executive committees, the Group Executive Committee and the Board.

The Board has adopted a five-year time frame for the assessment, in line with the Group's business planning period which largely reflects the impact of investments made in the present period. The five-year period extends beyond the maturities of a material portion of the Group's borrowings in each division. Under current operating and market circumstances, as well as the existing levels of debt the assumption is that these borrowings would be

refinanced broadly in line with the terms and conditions of the existing facilities.

The Group successfully refinanced Mediclinic Southern Africa and Mediclinic Middle East's borrowings in August 2018 and September 2018 respectively. In Switzerland, an amendment to the financing agreement was entered into in March 2019, adjusting the covenants to reflect the impact of the recent regulatory changes on the profitability of the business.

The Audit and Risk Committee monitors the Group's robust risk management process and system of internal control, as mandated by the Board (see page 136). The principal risks as detailed on pages 56 - 59 were identified by these systems and, for the purposes of the viability assessment, severe but plausible scenarios reflecting the risks that could impair the viability of the Group were identified for each of the divisions to form the basis for stress testing.

On a divisional level, the potential impact of each scenario and certain scenarios in combination were modelled and assessed on EBITDA or profit after tax (as appropriate), net debt and debt covenants over the five-year forecast period.

The principal risks and related key assumptions underlying each of the divisions' business plans that were stress tested are set out below:

KEY ASSUMPTION STRESS TESTED	PRINCIPAL RISK	DIVISION STRESS TESTED
Reductions in tariffs and fees	<ul style="list-style-type: none"> <li>Economic and business environment</li> <li>Regulatory and compliance risk</li> </ul>	Hirlanden Mediclinic Southern Africa Mediclinic Middle East
Reduction in volumes	<ul style="list-style-type: none"> <li>Competition</li> <li>Economic and business environment</li> <li>Regulatory and compliance risk</li> </ul>	Hirlanden Mediclinic Southern Africa Mediclinic Middle East
Deterioration in insurance mix	<ul style="list-style-type: none"> <li>Regulatory and compliance risk</li> </ul>	Hirlanden
Increases in interest rate	<ul style="list-style-type: none"> <li>Availability and cost of capital</li> </ul>	Hirlanden
Downturn in the macro-economic and business environment	<ul style="list-style-type: none"> <li>Economic and business environment</li> </ul>	Mediclinic Southern Africa Mediclinic Middle East



KEY ASSUMPTION STRESS TESTED	PRINCIPAL RISK	DIVISION STRESS TESTED
Shortage and availability of qualified and experienced healthcare employees	<ul style="list-style-type: none"> <li>Availability, recruitment and retention of skilled resources and medical practitioners</li> </ul>	Mediclinic Southern Africa
Adverse regulatory changes	<ul style="list-style-type: none"> <li>Regulatory and compliance risk</li> </ul>	Hirslanden Mediclinic Southern Africa Mediclinic Middle East
Efficiency improvements and cost savings not fully realised	<ul style="list-style-type: none"> <li>Operational and credit risk</li> </ul>	Hirslanden
Investment in Group initiatives not being successfully implemented	<ul style="list-style-type: none"> <li>Information systems security and availability risk</li> </ul>	Hirslanden
Delays in expansion projects and disruptive impact of EHR rollout into busy established units	<ul style="list-style-type: none"> <li>Information systems security and availability risk, including project delivery risk</li> </ul>	Mediclinic Middle East
Deterioration in accounts receivable collection	<ul style="list-style-type: none"> <li>Operational and credit risk</li> </ul>	Mediclinic Middle East

This analysis showed that the business, in its geographically diverse portfolio, would be able to withstand any individual and certain combinations of the severe but plausible scenarios, *ceteris paribus*, by taking management action with the key mitigating steps being a reduction in discretionary investment, cost management initiatives, drawdown of overdraft facilities and improvement in net working capital days. The Directors therefore have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due, in the ordinary course of business, over the five-year period of their detailed assessment, ending

in 31 March 2024. In making their assessment, the Directors have assumed that there will be no material change in the business and regulatory environments as such assumptions are subject to a level of uncertainty and judgment for which outcomes cannot be projected and foreseen.

Except for the covenant calculations which were based on the existing accounting framework (IAS 17), as this is the bases on which borrowing covenants have been agreed with the Group's lenders, the analysis did consider the adoption of IFRS 16.

# DIVISIONAL REVIEW SWITZERLAND



## CEO'S STATEMENT

"Over the course of the last 18 months, all Swiss hospital operators have been affected by rapidly implemented regulatory changes related to outpatient tariff reductions and outmigration of care. We took clear steps to improve our performance including accelerated cost-saving initiatives with regard to hospital administration, support processes and driving efficiencies. In addition, Hirslanden has sustainably pursued its growth strategy with the acquisition of Clinique des Grangettes, strengthening our market position in the Geneva area. Supporting our Grow2020 strategy was also the strong attraction and retention of independent medical consultants as partners and key resources to the business, which enables Hirslanden to continue to broaden its service offering. Adapting Hirslanden to the changing healthcare regulatory environment remains a priority. Progress continues on delivering the Hirslanden 2020 strategic project. The focus of this project is to standardise, centralise and simplify the existing operating business, delivering future efficiencies and cost savings in hospital administration and support processes. In addition, the project addresses the day case delivery model in Switzerland to capture the growing requirement for day case procedures in an affordable manner which is expected to support the medium-term performance at Hirslanden."

**Daniel Liedtke**

*Chief Executive Officer: Hirslanden*

**18**

**NUMBER OF HOSPITALS**

**2**

**NUMBER OF DAY CASE  
CLINICS**

**1 916**

**NUMBER OF BEDS**

**112**

**NUMBER OF THEATRES**

**+2%**

**REVENUE CHF1 778M**

**(10%)**

**ADJUSTED EBITDA CHF285M**

**+4%**

**INPATIENT ADMISSIONS**

**87.6%**

**PATIENT EXPERIENCE INDEX**

## FINANCIAL REVIEW

# 10 442

## NUMBER OF EMPLOYEES

# 4.01

## EMPLOYMENT ENGAGEMENT

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

# (2.2%)

## AVERAGE REVENUE PER INPATIENT CASE

# 70.4%

## BED OCCUPANCY

As at the end of the reporting period, Hirslanden operated 18 hospitals, two day case clinics and three outpatient clinics with a total of 1 916 inpatient beds and 10 442 employees (8 303 full-time equivalents). It is the largest private acute care hospital group in Switzerland servicing approximately one third of inpatients treated in Swiss private hospitals. Hirslanden accounted for 47% of the Group's revenue (FY18: 47%) and 44% of its adjusted EBITDA (FY18: 48%).

The entire Swiss healthcare environment, both public and private, has been affected by a number of regulatory changes over the last 18 months. The greatest impact to Hirslanden's financial performance resulted from the rapidly implemented TARMED reductions and the outmigration of identified clinical treatments transferring from an inpatient to an outpatient tariff across all cantons. The outmigration of care, which commenced in July 2017, continued to unfold during 2018 and culminated with the Federal list and its more restrictive exclusion criteria being implemented from 1 January 2019. As previously communicated, Hirslanden designed and implemented actions to adapt the business to the new operating environment to mitigate the financial impact of outmigration. These actions helped to moderate the financial impact in the second half of FY19 and, combined with the benefits from the Hirslanden 2020 strategic

project, is expected to support Hirslanden's operating performance over the medium term.

Including the contributions from Klinik Linde (consolidated from 1 July 2017) and Clinique des Grangettes (consolidated from 1 October 2018), Hirslanden revenue increased 2% to CHF1 778m (FY18: CHF1 735m). Inpatient revenue was up 2%. Outpatient revenue, which contributed some 19% to total revenue in the period, was up 7% reflecting the contribution from Clinique des Grangettes and additional cases from the outmigration of certain treatments to an outpatient tariff offset by the TARMED tariff reduction. Inpatient revenue per case was down 2.2% as a result of the less favourable insurance mix (proportion of general insured patients FY19: 48.7% compared to FY18: 47.9%). The average length of stay decreased by 2.4% to 4.5 days while occupancy rates were 70.4% (FY18: 73.3%).

Revenue contribution in FY19 from Klinik Linde and Clinique des Grangettes was CHF127m (FY18: CHF52m). Underlying inpatient admissions at Hirslanden (excluding Klinik Linde and Clinique des Grangettes) were flat on the prior year as the hospitals admitted additional patients to compensate for capacity created by fewer inpatient cases due to the outmigration of care.

With cost savings and efficiency gains, the significant effect of the tariff reductions and less favourable insurance mix resulted in adjusted EBITDA declining 10% to CHF285m (FY18: CHF318m). In line with revised earnings guidance, the FY19 adjusted EBITDA margin was lower at 16.0% (FY18: 18.3%). Given the significant decline in EBITDA margin in the first half of the year to 14.3% (1H18: 17.4%), actions taken moderated the financial impact of the regulatory changes in the second half of the year with the EBITDA margin at 17.6% (2H18: 19.1%).

Adjusted depreciation and amortisation increased by 13% to CHF124m (FY18: CHF110m), reflecting the incorporation of Klinik Linde, Clinique des Grangettes and ongoing fixed asset investments. Adjusted operating profit decreased by 22% to CHF161m (FY18: CHF208m).

Adjusted net finance costs decreased by 11% to CHF51m (FY18: CHF57m). This was mainly as a result of the refinancing, including the redemption of an interest rate swap agreement which was completed in October 2017. An amendment to the financing agreement was entered into in March 2019, adjusting the covenants to reflect the impact of the recent regulatory changes on the profitability of the business. There was no change to the interest margin of the debt facility.

Hirslanden contributed £80m to the Group's adjusted earnings (representing 40%), compared to £106m (representing 48%) in the prior year.

## DIVISIONAL REVIEW SWITZERLAND (CONTINUED)

Hirslanden converted 97% (FY18: 81%) of adjusted EBITDA into cash generated from operations.

In line with the requirements of IFRS, non-financial assets are considered for impairment when impairment indicators are identified at an individual CGU level. In Switzerland, the changes in the market and regulatory environment continued to affect key inputs to the review and gave rise to impairment charges recorded against properties and trade names at the half year of £43m and £55m respectively, with an additional £143m against property equipment and vehicles at the year-end (FY18: impairment charges on property and intangible assets of £84m and £560m respectively). The impairment charges are non-cash and excluded from the adjusted earnings metrics. The remaining trade name will be amortised over its estimated useful life. The impairment calculations remain sensitive to reasonably possible changes in key assumptions, including cash flow projections and long-term growth and discount rates.

### ADAPTING TO THE CURRENT MARKET AND REGULATORY TRENDS

On 1 January 2018, the previously announced reductions to the TAR MED became effective. After mitigating actions, including improved utilisation and increased efficiencies, the annualised impact on adjusted EBITDA was as guided at around CHF25m. No further tariff adjustments are known of.

On 1 January 2019, the Federal Government implemented a national framework for the outmigration of six clinical procedure groups from an inpatient to an outpatient tariff with defined exclusion criteria being applied across all cantons which take account of factors including age and co-morbidities. In FY20, Hirslanden will therefore be impacted by a further nine months from the implementation of the national framework.

However, Hirslanden has been impacted by outmigration since July 2017, when the canton of Lucerne first introduced a more extensive list of 13 clinical procedure groups. Similar measures were implemented in four further cantons (Zürich, Zug, Schaffhausen and Aargau) on 1 January 2018, and in Basel on 1 July 2018. Out of the control of the division, Hirslanden has been further impacted by several insurance companies in Switzerland already applying elements of the framework in some cantons that had not yet officially implemented outmigration.

Hirslanden continues to adapt its business model to address the current trends in inpatient and outpatient activity driven by the recent regulatory changes to the healthcare market, while maintaining excellent clinical performance, and continues to engage with insurers and

regulators in Switzerland, seeking to offer the most appropriate care and services.

The recent tariff reductions as a result of these regulatory changes required Hirslanden to accelerate, in the near-term, the cost-reduction project to drive further operational efficiencies. Having generated CHF9m savings to budget in the first half of the year, a further CHF12m was achieved in the second half. These cost-saving initiatives, focused on supply costs, employee efficiencies and general administration expenses, will continue into FY20.

Hirslanden continues to implement further actions to adapt to the changing Swiss healthcare environment. Through the Hirslanden 2020 strategic project, changes to the service model and cost structure of the division will support the medium-term performance of the division. In FY20, this project is in the final year of peak operating and capital investment spend before savings and efficiency benefits from standardising, centralising and simplifying the business are expected to be realised. To adapt the service model to the outmigration trend, in addition to the two day case clinics already opened with two further to be opened in FY20, optimised day case processes have been established in the majority of remaining Hirslanden hospitals. This will ensure that day case procedures are delivered in a cost-efficient manner and the division benefits from the Group's experience of establishing similar day case and outpatient clinics across Southern Africa and the Middle East. The dedicated Hirslanden outmigration project team is evaluating a number of opportunities to ensure the division is well positioned to benefit from the growing outpatient trend over the coming years.

Supporting the division's Grow2020 strategy, Hirslanden has been successful in retaining and attracting independent consultants as partners to the business. During FY19, more than 250 net additional independent consultants practised at Hirslanden and the division continues to leverage its leading market position and strong reputation to attract highly qualified medical professionals and supplementary insured patients. In addition, further initiatives to improve service differentiation will be implemented where appropriate. In February 2019, the Hirslanden Préférence programme was launched, specifically targeting the semi-private insured patient market.

### INVESTING FOR FUTURE GROWTH

During the year, Hirslanden invested a total of CHF95m in maintenance and expansion capex (FY18: CHF129m), aligning the division's investment plans to the Swiss healthcare regulatory environment. In FY19, Hirslanden invested CHF55m (up 17% on FY18) in expansion capital projects and new equipment and CHF40m (down 51% on FY18) on the replacement of existing equipment and upgrade projects. During the period, the division continued

to invest in the HIT 2020 project to standardise the organisational structure, support processes and underlying ICT and systems across the division. Hirslanden also completed several new outpatient projects including the day case clinic at St. Anna Im Bahnhof, the outpatient clinic at Clinique Bois-Cerf, medical practitioners' offices at Klinik Hirslanden and Stephanshorn, and the new sports medicine centre at Clinique La Colline.

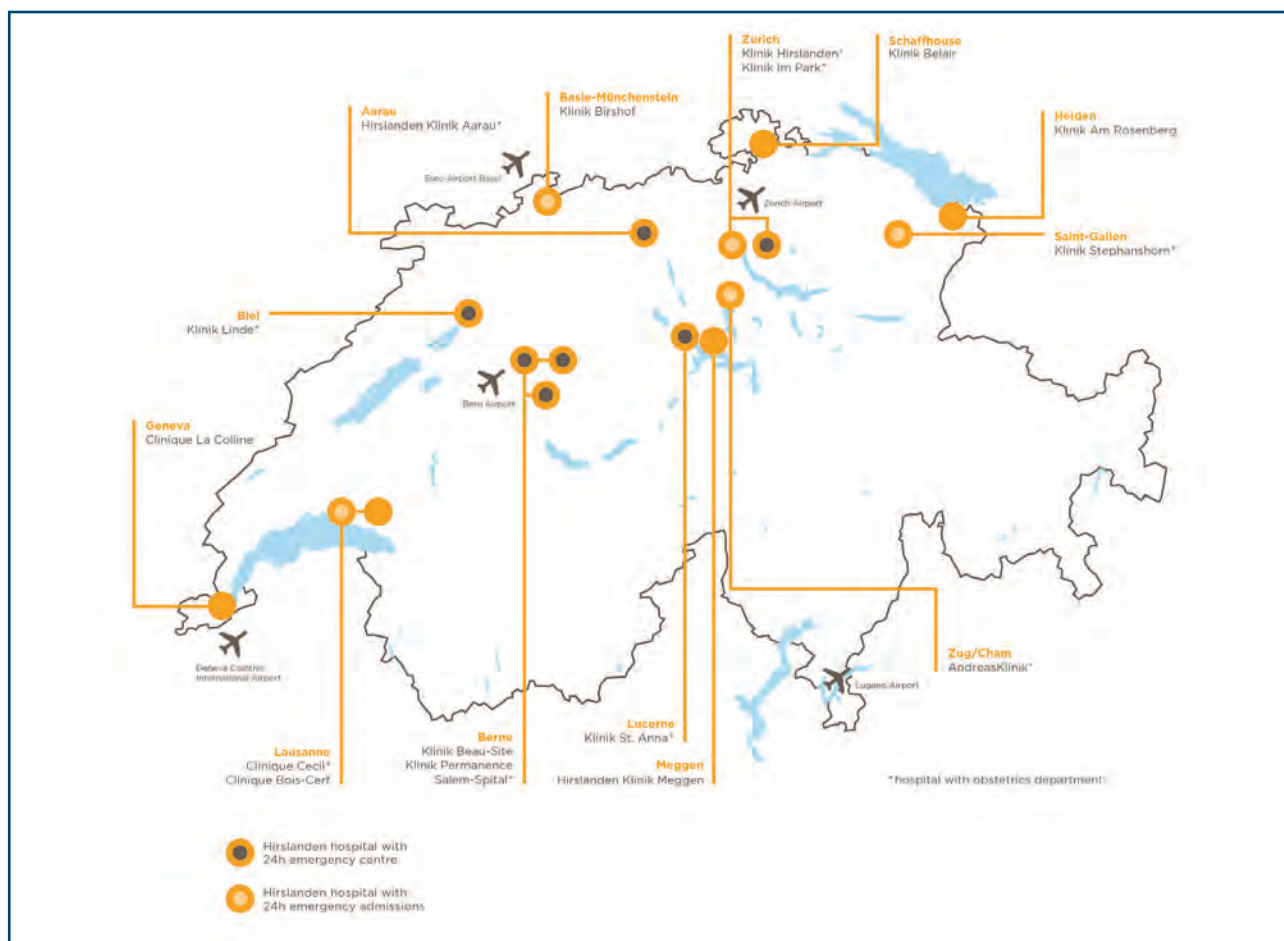
Capital discipline remains a key focus of the Group and there will be an ongoing review of capital allocation and portfolio efficiencies at Hirslanden during this period of regulatory changes, while ensuring clinical standards and the quality of patient care remain appropriate. In FY20, Hirslanden expects to invest CHF37m and CHF55m on expansion and maintenance capex respectively. This includes the ongoing investment in the Hirslanden 2020 strategic project, in addition to new day case clinics opening at St. Gallen and Bois-Cerf.

The combination of the Hirslanden Clinique La Colline and Clinique des Grangettes in Geneva was announced in September 2018 and consolidated from 1 October 2018. The combination, which included a cash consideration of

CHF77m for a 60% controlling interest in the combined entity, strengthens Hirslanden's leading market position in Geneva and will deliver enhanced services for patients in addition to being earnings accretive. The hospital is supported by around 450 affiliated independent medical practitioners and attracts a high proportion of supplementary insured inpatients while providing an extensive outpatient service.

## MARKET OVERVIEW

Switzerland has a reputation for having one of the best quality healthcare systems in the world supported by both public and private providers. Compulsory health insurance operates in Switzerland and the healthcare market is mature and stable with a wealthy ageing population. A gradual change in the insurance mix occurred over time with the proportion of basic insured patients in Switzerland marginally increasing each year. Outpatient activity is growing strongly in Switzerland, driven in part by the outmigration of care regulation implemented nationally since 1 January 2019. Hirslanden continues to engage with insurers and regulators in Switzerland, seeking to offer the most appropriate care and services for this growing market.





# DIVISIONAL REVIEW SWITZERLAND (CONTINUED)

Largely as a result of recent acquisitions, Hirslanden's leading market position strengthened during the year. With its increase in inpatient beds and inpatient admissions, Hirslanden now holds 18.7% and 34.3% of these respective categories in the Swiss private market. In the larger, combined public and private market, Hirslanden now represents 4.4% and 6.9% respectively.

According to the Euro Health Consumer Index 2018, Switzerland is the Gold medallist out of all the healthcare systems in Europe, scoring very high for Accessibility and Outcome (893 of 1000 possible points), overtaking the Netherlands. As it is quoted in the study, "the top position of the Swiss healthcare system is to a great extent a product of an even performance across the sub disciplines, very good medical quality and excellent accessibility".

Hirslanden continues to drive for improved quality and patient experience. As with all other divisions at Mediclinic, the internationally recognised Press Ganey® group is used to measure patient satisfaction. Last year, 91.5% of 33 899 people indicated that they would likely recommend Hirslanden.

Since 2012, Hirslanden has participated in the Initiative on Quality Medicine. The initiative collects and measures performance indicators and clinical outcomes from over 380 hospitals in Switzerland and Germany. This transparent benchmark highlights the clinical quality of Hirslanden with all the division's hospitals scoring above the last recorded benchmark of 74%, the majority excelling with a score of between 85-100%. Refer to the [Clinical Services Report](#) on the Company's website at [www.mediclinic.com](http://www.mediclinic.com) for a more in-depth description.

## OUTLOOK

The current operating environment is challenging with all public and private hospital operators across Switzerland financially impacted by the recent TARMED tariff reductions and outmigration of care. The shift from inpatient to outpatient medical treatment continues with the national framework implemented on 1 January 2019, which states that six clinical procedure groups will only be reimbursed on an outpatient tariff basis. Adapting to this growing outpatient trend and in order to define and strengthen the care regions, Hirslanden strives to have

highly efficient day case clinics for each delivery region. The day case clinics concentrate the volume of outpatient surgeries from the hospitals located in the region. This allows Hirslanden to supplement the service offering of the hospitals with adequate structures in order to ensure cost-effectiveness on the one hand and to be able to have a comprehensive integrated range of services for patients on the other. Hirslanden has recently opened two standalone day case clinics in the regions Zürich and Central Switzerland. In FY20 Hirslanden plans to open further day case clinics across the delivery regions.

In addition to the outpatient strategy, Hirslanden plans to expand and invest across the continuum of care by evaluating joint ventures in the field of primary care and new digital solutions. Combined with the benefits of the Hirslanden 2020 strategic project, these and other initiatives are expected to support Hirslanden's performance over the medium term.

Hirslanden is committed to treating patients with general health insurance in accordance with the national criteria for effectiveness, expediency and cost-effectiveness and thus makes a clear contribution to cantonal health care and affordability of health care in general. At the same time, Hirslanden continues to focus on first-class patient care in the supplementary insurance area to improve service differentiation where appropriate. To make it easy for patients to see what benefits they can expect according to their insurance class, Hirslanden has developed uniform packages that clearly define what benefits patients with basic and supplementary insurance can expect from registration through to being discharged. Hirslanden thus sets standards for basic and supplementary insurance treatment, and offers its services in a uniform, transparent and premium-based manner. However, regardless of the patient's insurance class, Hirslanden ensures the clinical outcome is always the same. In addition to the existing Hirslanden Privé programme for private patients, Hirslanden launched a further programme for semi-privately insured patients in February 2019, Hirslanden Préférence. Given the positive experiences with the existing Hirslanden Privé programme, it is expected that the benefits of the new programme will support the attraction of important semi-privately insured patients.

# DIVISIONAL REVIEW SOUTHERN AFRICA



## CEO'S STATEMENT

"Mediclinic Southern Africa delivered good operational and financial results for the period under review with relatively weak patient volumes. We have continued to make good progress with the rollout of further strategic initiatives to improve the value proposition that we offer to our patients, focusing on patient safety initiatives, improving patient experience and initiatives to improve collaboration with our supporting medical practitioners. We have continued to invest in the maintenance and upgrade of our facilities and will add six new day case clinics to our portfolio in the next two financial years to provide the most appropriate range of care for our patients in the future. We continued to address a number of matters in the wider business environment, specifically the Health Market Inquiry and National Health Insurance developments."

### Koert Pretorius

*Chief Executive Officer: Mediclinic Southern Africa*

52

NUMBER OF HOSPITALS

8

NUMBER OF DAY CASE  
CLINICS

5

NUMBER OF SUB-ACUTE  
HOSPITALS

8 517

NUMBER OF BEDS

296

NUMBER OF THEATRES

+5%

REVENUE R15 960M

+4%

ADJUSTED EBITDA R3 385M

+0.6%

BED DAYS SOLD

82.2%

PATIENT EXPERIENCE INDEX

# DIVISIONAL REVIEW SOUTHERN AFRICA (CONTINUED)

## FINANCIAL REVIEW

**15 804**

**NUMBER OF EMPLOYEES**

**3.94**

**EMPLOYMENT ENGAGEMENT**

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

**+4.3%**

**AVERAGE REVENUE PER BED DAY**

**69.2%**

**BED OCCUPANCY**

In Southern Africa (including South Africa and Namibia), as at the end of the reporting period, Mediclinic operated 52 hospitals, five sub-acute hospitals and eight day case clinics with a total of 8 517 beds and 15 804 employees (19 646 full-time equivalents). Mediclinic Southern Africa is the third largest private healthcare provider in Southern Africa by number of licensed beds. Mediclinic Southern Africa accounted for 30% of the Group's revenue (FY18: 31%) and 38% of its adjusted EBITDA (FY18: 37%).

Revenue increased by 5% to ZAR15 960m (FY18: ZAR15 204m) with a continued weak macroeconomic environment and flat private medical insurance membership. Bed days sold increased by 0.6% and average revenue per bed day increased by 4.3%. The number of admissions remained unchanged. The average length of stay increased by 0.7% while occupancy rates were 69.2% (FY18: 69.7%).

The revenue contribution in FY19 from the majority investment in the Intercare group of four day case clinics, four sub-acute hospitals and one specialist hospital since 1 December 2018 was ZAR60m (FY18: nil). Underlying bed days sold (excluding Intercare) were down 0.1% on the prior year.

Adjusted EBITDA increased by 4% to ZAR3 385m (FY18: ZAR3 245m), resulting in the adjusted EBITDA margin decreasing to 21.2% from 21.3% as lower patient volumes were offset by cost-management and efficiency initiatives.

Depreciation and amortisation increased by 12% to ZAR556m (FY18: ZAR495m), mainly resulting from recent major facility upgrades. Operating profit increased by 3% to ZAR2 829m (FY18: ZAR2 749m).

Net finance costs decreased by 2% to ZAR513m (FY18: ZAR526m), supported by lower interest rates and interest received on cash balances. Mediclinic Southern Africa contributed £72m to the Group's adjusted earnings (representing 36%), compared to £72m (representing 33%) in the comparative period.

The division converted 96% (FY18: 103%) of adjusted EBITDA into cash generated from operations.

## INVESTING TO SUPPORT LONG-TERM GROWTH

Mediclinic Southern Africa invested ZAR506m on expansion capital projects and new equipment at existing hospitals, ZAR107m on acquisitions and ZAR672m on the replacement of existing equipment and upgrade projects. Expansion at existing hospitals included expansion at Mediclinic Potchefstroom, Mediclinic Medforum, Mediclinic Legae, Mediclinic Klein Karoo and the establishment of a new day case clinic at Mediclinic Newcastle. Furthermore, the Welkom Medical Centre and Intercare group were acquired, while Mediclinic Barberton was sold. The total number of licensed beds increased during the year to 8 517 (FY18: 8 131).

In August 2017, Mediclinic Southern Africa announced it had agreed to an investment in Intercare. The Intercare group was founded in 2000 and currently manages 21 multi-disciplinary outpatient clinics (which includes 15 dental centres), as well as four day case clinics, four sub-acute hospitals and the Medfem fertility hospital in Sandton. The investment in Intercare comprises: a minority shareholding in the multi-disciplinary outpatient clinics which was completed in October 2017; and a controlling shareholding in the day case clinics, sub-acute hospitals and Medfem fertility hospital which received Competition Commission approval in August 2018 and was completed in November 2018. Intercare will continue to manage all its facilities under the Intercare brand.

In FY20, Mediclinic Southern Africa expects to invest ZAR562m and ZAR727m on expansion and maintenance capex respectively. Several existing hospital and day case clinic projects are due for completion in FY20 and FY21, which are expected to add some 162 additional operational beds. In line with its commitment to provide quality clinical care, Mediclinic Southern Africa expects to invest in additional resources to deliver further improvements across the division during the year.

The division's day case clinic rollout is premised on co-locating the facilities with the main hospitals to adapt to the outmigration of care trend in Southern Africa where admissions have been impacted by declining day cases. Mediclinic plans to open six day case clinics during FY20 and FY21 at Mediclinic Nelspruit, Mediclinic Stellenbosch, Mediclinic Pietermaritzburg, Mediclinic Cape Gate, Mediclinic Winelands (also in Stellenbosch) and Mediclinic Bloemfontein, which will add an additional 13 theatres to the Southern African operations.

The proposed acquisition of a controlling shareholding in Matlosana Medical Health Services (Pty) Ltd, based in Klerksdorp in the North West Province of South Africa, was prohibited by the Competition Tribunal. Mediclinic has appealed against this decision and it is expected that the case will be heard by the Competition Appeal Court during the second half of the 2019 calendar year.

## CONTINUED FOCUS ON EFFICIENCY AND VALUE

Mediclinic Southern Africa progressed with several improvements to its business processes during the period under review. A particular focus on optimising nurse utilisation without compromising on the quality of care enabled the division to manage nursing cost particularly well during the period under review, especially in light of continued volume pressure.

In addition, through the successful employee engagement strategy, the division further improved its engagement score during the year to 3.94 (2018: 3.85) (the grand mean score based on a 1-5 rating scale).

As part of its commitment to deliver value to patients, the division continued with various initiatives to improve the patient experience, as measured by Press Ganey®. The results this year, which are published online, reported a stable overall mean score of 82.2% (2018: 82.1%).

## REGULATORY UPDATE

The Competition Commission is still continuing with a market inquiry into the private healthcare sector in South Africa to understand both whether there are features of the sector that prevent, distort or restrict competition and how competition in the sector can be promoted. The inquiry published its *Provisional Findings and Recommendations* Report on 5 July 2018. Although the process was set to be finalised during 2018, the Commission extended the timeframe to accommodate further seminars and research. Mediclinic submitted its responses to the provisional report on 15 October 2018 and during April 2019 participated in seminars addressing specific competition topics. An updated timetable advises

that further engagements with the inquiry panel may still take place, with the final report now due for publication on 30 September 2019.

The South African Government continues to explore the introduction of a National Health Insurance system. On 21 June 2018, the National Health Insurance Bill ("NHI Bill") was published for comment by interested stakeholders. Mediclinic submitted comprehensive comments on the NHI Bill. At the same time, there were proposed amendments to the Medical Schemes Act, No. 131 of 1998, which are aimed at amending the functioning of the medical schemes and member benefits. Mediclinic also submitted comments thereon. Mediclinic fully supports the principle of Universal Health Coverage and improving access and affordability of healthcare to all South Africans and will continue to contribute constructively toward achieving these goals. Mediclinic believes that an enhanced healthcare system can be achieved through greater collaboration across the public and private sectors to find common solutions and looks forward to the opportunity to contribute in this regard.

## MARKET OVERVIEW

The South African private medical insurance market remained stable with continued political uncertainty, low economic growth and high unemployment. The solvency ratios of the schemes remain very sound with the average ratio at 32.2% compared to a required level of 25% in South Africa.

The market offers very limited incremental growth opportunities to expand existing hospitals. A select number of opportunities exist to invest across the continuum of care, including the establishment of day case clinics, given the continued outmigration of care trend. The gradual increase in network arrangements with insurers continues and Mediclinic has been successful in maintaining relationships with many insurers through these arrangements, continuing to provide patients across South Africa with an extensive footprint of available Mediclinic facilities. Mediclinic Southern Africa also seeks to provide care to those without insurance. In February 2019, the division launched a transparent, easy-to-use, fixed fee service that is aimed at providing affordable care across an extensive list of diagnostic and surgical procedures.

## OUTLOOK

Mediclinic Southern Africa remains well positioned for future success in the current market and regulatory environment. The private healthcare industry has reached maturity with limited opportunities for material growth in the large multi-disciplinary acute care hospital environment given Mediclinic Southern Africa's extensive footprint.

# DIVISIONAL REVIEW SOUTHERN AFRICA (CONTINUED)



Future growth will focus more on related business opportunities across the continuum of care and on the ability to manage care across different care settings, supported by an enabling digital platform and the use of technology. A full evaluation of an EHR system will be carried out during 2019.

The focus in the coming year will be on further developing Mediclinic Southern Africa's strategy to position itself for future value-based contracting opportunities. The division will continue to focus strategically on the value that it delivers to patients, by continuing to improve the safety and quality of its clinical care, the quality of the patient

experience, and the cost of care. The division will also continue to focus on opportunities to develop an integrated Southern African private healthcare delivery model through collaboration with medical practitioners. At the same time, Mediclinic Southern Africa remains committed to improving its operational efficiency and to attracting, retaining and engaging qualified employees, especially nursing employees and medical practitioners.

Mediclinic Southern Africa is also committed to embed a transformation strategy that encompasses diversity and inclusivity to meet business imperatives, while ensuring legislative compliance.

# DIVISIONAL REVIEW UNITED ARAB EMIRATES



## CEO'S STATEMENT

"The performance this year at Mediclinic Middle East demonstrates that the division has entered a new growth phase. The highlight this year was the opening in September of the 182-bed Mediclinic Parkview Hospital in Dubai, both ahead of schedule and below budget. Our future growth will be underpinned by the performance in the established Dubai business, continued improvement in the Abu Dhabi business, ramp up of new facilities, successful integration of new investments and benefits from expansion and upgrades to existing facilities."

### David Hadley

Chief Executive Officer: Mediclinic Middle East

**7**  
NUMBER OF HOSPITALS

**2**  
NUMBER OF DAY CASE  
CLINICS

**18**  
NUMBER OF OUTPATIENT  
CLINICS

**926**  
NUMBER OF BEDS

**37**  
NUMBER OF THEATRES

**+7%**  
REVENUE AED3 262M  
(FY18: AED3 050M)

**+7%**  
ADJUSTED EBITDA  
AED425M

**+5%**  
NUMBER OF INPATIENT  
ADMISSIONS

**85.6%**  
INPATIENT EXPERIENCE  
INDEX



# DIVISIONAL REVIEW UNITED ARAB EMIRATES (CONTINUED)

## FINANCIAL REVIEW

**6 152**

**NUMBER OF EMPLOYEES**

**4.02**

**EMPLOYMENT ENGAGEMENT**

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

**+2.7%**

**AVERAGE REVENUE PER  
ADMISSION**

**49.8%**

**BED OCCUPANCY**

Mediclinic Middle East, as at the end of the reporting period, operated seven hospitals, two day case clinics and 18 outpatient clinics with a total of 926 beds and 6 152 employees (6 152 full-time equivalents). Mediclinic Middle East is one of the leading private healthcare providers in the UAE with the majority of its operations in Dubai and Abu Dhabi (including Al Ain). Mediclinic Middle East accounted for 23% of the Group's revenue (FY18: 22%) and 18% of its adjusted EBITDA (FY18: 16%).

The Middle East remains a long-term growth market for the provision of high-quality private healthcare services, driven by the expatriate market and ageing local population facing an increased incidence of lifestyle-related medical conditions. The regulatory environment is maturing with an increasing focus on quality and clinical outcomes measures. Mediclinic has confidence in its Middle East growth strategy, which includes the ramp-up of new hospitals; the integration of new investments; and expansion and upgrades to existing facilities.

In FY19, revenue was up 7% to AED3 262m (FY18: AED3 050m after adjusting for the impact of IFRS 15), despite a lack of tariff increases. Inpatient and outpatient volumes were up 5.2% and 2.0% respectively. In Abu Dhabi, Thiqa and Enhanced insurance volumes combined increased during the year by 14% and 10% for inpatients and outpatients respectively, while Basic insurance volumes continued to reduce consistently with expectations.

Mediclinic Parkview Hospital in Dubai was successfully opened in September 2018 and has performed well. Despite the hospital being in the early ramp-up stage, revenue in FY19 was AED88m.

Including the loss associated with the start-up of the Mediclinic Parkview Hospital, adjusted EBITDA increased by 7% to AED425m (FY18: AED397m), with the adjusted EBITDA margin flat at 13.0% (FY18: 13.0% after adjusting for the impact of IFRS 15). Excluding the loss associated with the start-up of Mediclinic Parkview Hospital, adjusted EBITDA increased by 13% to AED447m (FY18: AED398m), with the adjusted EBITDA margin increasing to 14.1%.

Adjusted depreciation and amortisation increased by 15% to AED171m (FY18: AED149m), mainly due to Mediclinic Parkview Hospital and the acquisition of the Majid Al Futtaim clinics.

Net finance costs decreased by 11% to AED31m (FY18: AED34m), supported by the successful refinance in September 2018. The division contributed £46m to the Group's adjusted earnings (representing 23%) compared to £44m (representing 20%) in the prior year.

The division converted 70% (FY18: 74%) of adjusted EBITDA into cash generated from operations. This was impacted by the late receipt from one major insurer and the increase in VAT receivable.

## INVESTING FOR FUTURE SUCCESS

Mediclinic Middle East continually reviews investment and expansion opportunities across the continuum of care to support the future success and strength of the division and build on its market-leading clinical expertise and patient experience. At Mediclinic City Hospital in Dubai, Mediclinic opened its first Comprehensive Cancer Centre, with a second planned for the first half of 2020 in Abu Dhabi at Mediclinic Airport Road Hospital. Mediclinic is the only private hospital operator in the UAE to offer gated radiotherapy services. During the year, Mediclinic performed the first robotic knee surgery in the Middle East and was the first private hospital group in the UAE to become an academic training institution.

Supported by continued business and operational improvements in Abu Dhabi and the ramp-up benefits from investments into new facilities, expansions and upgrades, Mediclinic Middle East is expected to deliver an increase in revenue and gradual improvement in EBITDA margins. However, the current macro environment in the UAE and below-inflation regulated tariff increases in 2018 and 2019 are impeding revenue growth and margin expansion.

In Abu Dhabi, the business is benefiting from continued investment in medical practitioners, services and facilities. While the recruitment of medical practitioners continues to

support the growing business, vacancies have normalised and the focus has shifted to supporting medical practitioners to grow their practices. At Mediclinic Airport Road Hospital, inpatient and outpatient volumes were down 6% and 4% respectively during the year, but the average revenue per patient was up 11% and 10% respectively due to the improvement in the insurance mix. The divestment of non-core assets continued during the year to optimise the portfolio of assets.

In Dubai, the ongoing performance of the existing business will benefit from significant growth at the new 182-bed Mediclinic Parkview Hospital which opened in September 2018 and performed well in the second half of the year. The hospital, the Group's largest greenfield construction project by value, was completed in two and a half years, ahead of schedule, and within the AED680m original budget. Initially opened with 100-beds and supported by 80 medical practitioners, the hospital will ramp up to full capacity over the coming years. The hospital is strategically located to serve the population expansion that has occurred to the south of Dubai and provides comprehensive maternity, Level III neonatal intensive care, 24/7 paediatric specialities, and accident and emergency care.

In FY19, Mediclinic Middle East invested AED376m (up 5% on FY18) on expansion and AED76m (up 145% on FY18) on maintenance capex. Expansion capex in the period largely related to the costs associated with Mediclinic Parkview Hospital and the EHR implementation. The EHR is being systematically rolled out across Mediclinic Middle East during FY19 and FY20, and successfully went live during the year at Mediclinic Parkview Hospital and Mediclinic Ibn Battuta, with a further three clinics going live in Dubai in April 2019. Rollout in Abu Dhabi will begin in June 2019 and it is anticipated that the project will be completed across the division by the end of the 2020 calendar year. The EHR is expected to deliver seamless care and improved service quality for patients, as well as improved administration efficiency for the division. Work continued during the year on the ground floor and mezzanine renovations at Mediclinic Al Noor Hospital, which is expected to be completed by the end of the 2019 calendar year, with continued progress on the plans to address the long-term changes required to enhance the hospital. As part of the division's strategic expansion phase, Mediclinic Airport Road's 100-bed expansion and cancer centre project is progressing as planned and is scheduled to open in the first half of the 2020 calendar year. Plans to construct a small 40-bed hospital in the Western Region of Abu Dhabi are currently under review. In FY20, having completed the Mediclinic Parkview Hospital project, Mediclinic Middle East expects expansion capex to be materially lower at around AED250m, with maintenance capex at around AED66m.

In May 2018, Mediclinic Middle East completed the acquisition of the Dubai-based City Centre clinics Deira and Me'aisem from Majid Al Futtaim, the leading shopping mall, retail and leisure pioneer across the Middle East and North Africa. Under the terms of the agreement, Mediclinic Middle East has acquired City Centre Clinic Deira, a large day case clinic specialising in 18 medical disciplines with one theatre which opened in 2013 and City Centre Clinic Me'aisem, a smaller community outpatient clinic focusing on a smaller number of core disciplines. The clinics serve strategic geographic locations and offer the opportunity to refer higher acuity inpatient cases to existing hospitals. Significant potential also exists to attract additional medical practitioners and to, over time, grow patient volumes and revenues as well as allow Mediclinic the opportunity to partner with Majid Al Futtaim in the future.

In November 2018, Mediclinic announced the acquisition of a minority stake in Bourn Hall International, the holding company for the Bourn Hall Fertility Centre in the UAE, a pioneering fertility centre established in the Middle East in 2010 and currently the only fertility centre in the Middle East to be accredited by the JCI. The acquisition lays the foundation for a partnership focused on a long-term MENA-focused expansion in the field of assisted reproduction. As part of the initial stage, Bourn Hall Fertility Centre has taken over operations of Mediclinic's existing IVF clinic located at Mediclinic Al Ain Hospital and is operating it under the Bourn Hall brand. Bourn Hall will continue to operate and manage its IVF business independently and under its existing brand. The small investment was made from Mediclinic Middle East's available cash and debt and is not expected to have a material impact on the earnings of the division in the short term.

## REGULATORY UPDATE

The division continues to maintain an active dialogue with government authorities on regulatory changes within the UAE healthcare sector. Preparations are ongoing for the implementation of DRGs for inpatient procedures in Dubai which are now expected to be implemented in September 2019. Mediclinic continues to test the systems through a shadow billing process which has been operating since July 2018. The Dubai Health Authority is following a collaborative approach in the design and implementation of the DRGs and, in addition to sharing and discussing the test version of the DRG methodology with the market, it also shared hospital level results and impact studies. Currently, it is expected that the DRGs will have a neutral impact on the division's inpatient revenue, as prescribed by the Dubai Health Authority. Additional qualified medical practitioners have been appointed as case managers to

# DIVISIONAL REVIEW UNITED ARAB EMIRATES (CONTINUED)

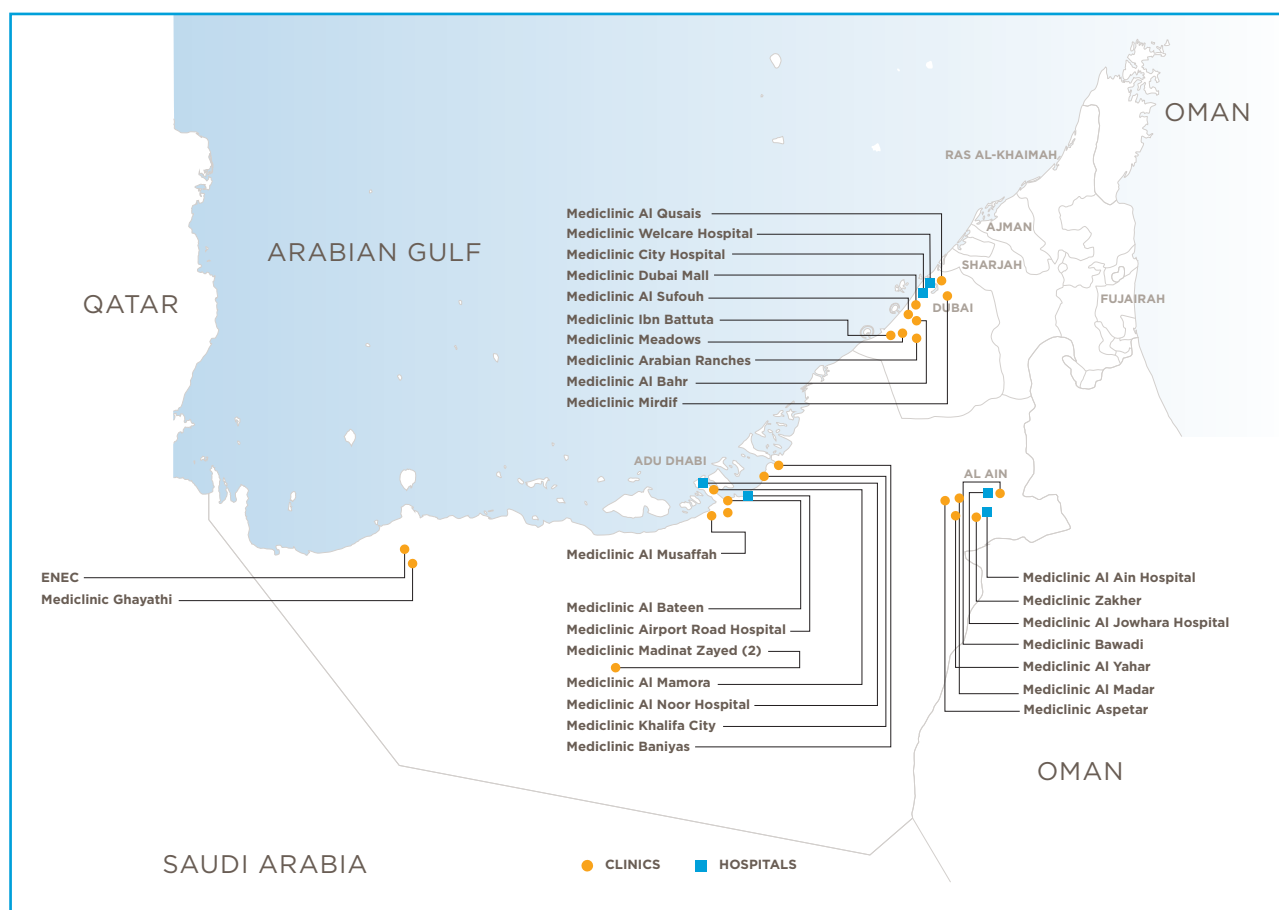
ensure an effective change-over. Training is being carried out in the division's Abu Dhabi facilities where DRGs have been in operation since 2011.

The Abu Dhabi Department of Health, through industry engagement, has recently introduced the concept of Centres of Excellence to improve the quality of care in the Emirate. Mediclinic Middle East was able to demonstrate its readiness for the initiative through its successful programmes already established in Dubai which include the Comprehensive Cancer Centre and Comprehensive Stroke and Neuroscience Centre at Mediclinic City Hospital. Two key areas of focus for Mediclinic Middle East in the Abu Dhabi Emirate will be the establishment of a Comprehensive Cancer Centre and paediatric Centre of Excellence at Mediclinic Airport Road Hospital. The Abu Dhabi Department of Health is also preparing for the implementation of the next phase of the Jawda initiative, being the introduction of a hospital star-rating system based on an extensive list of quality and experience measures with the first reports anticipated to be published in the second half of the 2019 calendar year.

## MARKET OVERVIEW

The Middle East remains a long-term growth market for the provision of high-quality private healthcare services, driven by the expatriate market and ageing local population facing an increased incidence of lifestyle-related medical conditions. The regulatory environment is maturing with an increasing focus on quality and clinical outcome measures. Mediclinic has confidence in its Middle East growth strategy which includes the opening of new hospitals, integrating new investments and expansion and upgrades to existing facilities.

Within the region's healthcare market, government authorities remain heavily involved in the private sector and continue to introduce controls in order to reduce levels of over-servicing and utilisation, which are still prevalent in some areas of the market and to focus on quality performance and outcome measures. The senior management of Mediclinic Middle East continues to forge ever deeper relationships with the authorities to ensure Mediclinic remains an integral part of the healthcare delivery system in the region.



## OUTLOOK

In 2018, the UAE witnessed sluggish growth with gross domestic product increasing by 1.7% with a marginal improvement expected in 2019 and 2020. This is premised on a stable oil price, increased government expenditure likely as Expo 2020 draws closer, non-oil revenue increasing from new forms of direct and indirect taxation and a predicted rise in foreign trade. Economically, there is still opportunity for greater diversification away from hydrocarbons in Abu Dhabi than in Dubai, which in turn can create new opportunities for the private healthcare industry. Mediclinic's strategy to reduce reliance on the low-tariff insurance sector in Abu Dhabi has proved successful and will continue to be rolled out. Despite a lack

of tariff increases in 2018 and 2019, reflecting the current macro environment, Mediclinic will, through its annual negotiations, seek to justify inflation-related increases in 2020.

With the operational integration following the Al Noor combination now complete, the focus is on supporting medical practitioners to grow their patient volumes, bring newly opened facilities up to capacity, ensuring timely delivery of projects under construction and effectively integrate new investments into the division. Mediclinic Middle East is well positioned, financially and operationally, to consider further investment opportunities across the continuum of care.



# SUSTAINABLE DEVELOPMENT OVERVIEW

**“SEIZING OPPORTUNITIES SHOULD BE DONE IN A SUSTAINABLE AND RESPONSIBLE MANNER TO ENSURE THAT COMPANIES, AS GOOD CORPORATE CITIZENS, ARE IN THE LONG TERM ABLE TO MAINTAIN A POSITIVE IMPACT NOT ONLY ON THEIR CLIENTS, BUT ALSO ON THE INDUSTRY, ON THE PLANET, AND ON THEIR EMPLOYEES, PARTNERS AND SURROUNDING COMMUNITIES.”**

**Dr Ronnie van der Merwe**  
*Chief Executive Officer*

## INTRODUCTION

The rapidly changing healthcare environment offers an abundance of opportunities for companies that are poised and ready to adapt to evolving regulatory requirements and unique client needs. Seizing such opportunities should, however, be done in a sustainable and responsible manner to ensure that companies, as a good corporate citizens, are in the long term able to maintain a positive impact not only on their clients, but also on the industry, on the planet, and on their employees, partners and surrounding communities.

Guided by its purpose of enhancing the quality of life, Mediclinic is refining its strategic goals to address current industry challenges and ensure sustainability through best use of its exceptional knowledge base and world-class infrastructure. During the year, the Group remained committed to creating value for all stakeholders by following a holistic approach that, in the context of our purpose, balances financial returns with our ethical responsibility toward its clients, its employees and the planet.

## STAKEHOLDER ENGAGEMENT

Mediclinic recognises its accountability to its stakeholders and is committed to effective and regular engagement with them, and to publicly report on its sustainability performance. Mediclinic's key stakeholders are those groups who have a material impact on, or are materially impacted by, Mediclinic and its operations, including:

patients, medical practitioners, employees and trade unions, suppliers, healthcare funders, government and authorities, industry associations, investors, the community and the media. The Group's key stakeholders, methods of engagement, topics discussed or concerns raised are outlined in the [2019 Sustainable Development Report](#), available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com). The Board's engagement with stakeholders is also reported on in the [Corporate Governance Statement](#) on page 114.

Effective communication with stakeholders is fundamental in maintaining Mediclinic's corporate reputation as a trusted and respected provider of healthcare services and positioning itself as a leading international private healthcare group. Mediclinic's commitment to its stakeholders to conduct its business in a responsible and sustainable way, and to respond to stakeholder needs, is entrenched in the Group's values and supported by the Group's Ethics Code. A wide variety of communication vehicles are used to engage with stakeholders, which serve as an impact assessment to assess stakeholders' needs and to effectively respond thereto. Stakeholders' legitimate expectations have been taken into account in setting the Group's key sustainability priorities, as reported on in the [2019 Sustainable Development Report](#). The Group continually looks for ways to improve its use of online channels to communicate with its stakeholders through the corporate website and webcasting.



This report provides an overview of the Group's sustainability initiatives, with specific reference to our material sustainability issues. For more information, please refer to the detailed [2019 Sustainable Development Report](#) and the [GRI Standards Disclosure Index](#), available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com).

## AWARDS AND ACCOLADES SUMMARY FOR THE REPORTING PERIOD

### Group



#### A constituent of FTSE4Good\*

an index that recognises the performance of companies demonstrating strong environmental, social and governance (“ESG”) practices.

\* FTSE Russell (the trading name of FTSE International Ltd and Frank Russell Company) confirms that Mediclinic has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong ESG practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.



#### A constituent of FTSE/JSE Responsible Investment Index

an index that recognises such companies listed on the JSE Ltd that meet the required FTSE Russell ESG rating.

#### Achieved Global B List status from the Climate Disclosure Project (“CDP”)

for water conservation and climate change actions.

### Hirslanden

**Ranked second in the healthcare sector** among more than 500 enterprises in Switzerland and Liechtenstein by Best Recruiters, an independent recruitment study.

#### 17 out of its 18 hospitals are registered as CO<sub>2</sub>-reduced businesses

by the Energy Agency of the Swiss Private Sector on behalf of the Swiss Federal Office of Energy, and were awarded with CO<sub>2</sub> & kWh-reduced certificates.

Hirslanden Klinik Stephanshorn certified by the Network of Corporate Health Management with the quality label **“Friendly Work Space”**, based on the recommendations of **Health Promotion Switzerland**.



# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## AWARDS AND ACCOLADES SUMMARY FOR THE REPORTING PERIOD (CONTINUED)

### Mediclinic Southern Africa

#### Brand Finance®

Mediclinic Southern Africa brand **ranked 14th in the Top 20 Brand South Africa rankings for 2018**, being the top South African healthcare provider for five years in succession according to Brand Finance and Brand Africa.

Mediclinic Midstream received the **Khanyisa Service Excellence Award in the category: Private Acute Care Hospitals** from the Gauteng Department of Health.



#### **Aliné Hall (Clinical Quality Specialist: Mother and Child) was recognised by The Forum for Professional Nurse Leaders**

in the category of individuals who have excelled in their individual endeavours and contributed to nursing leadership.



#### **Dr Melanie Stander (Emergency Medicine Manager) received the Dr Cristina Costin International Emergency Medicine Award**

by the American Academy of Emergency Medicine, an award which honours a female emergency physician who has made a significant and sustained impact on the development of emergency medicine in her country.

**Three hospitals included in Discovery Health's Top 20 Private Hospitals in South Africa 2018, based on the results of patient surveys.**

### Mediclinic Middle East

Mediclinic City Hospital was named the **winner of the Healthcare Innovation Award by Dubai Healthcare City Authority**, acknowledging the hospitals work in Robotic Knee Surgery which saw two patients undergo partial and total knee replacements using a robotic system for the first time in the Middle East.

Mediclinic Middle East was awarded **Superbrand status by the UAE Superbrands Council for 2019**, in addition to **awards received in 2015, 2016 and 2018**.

## MATERIALITY ASSESSMENT

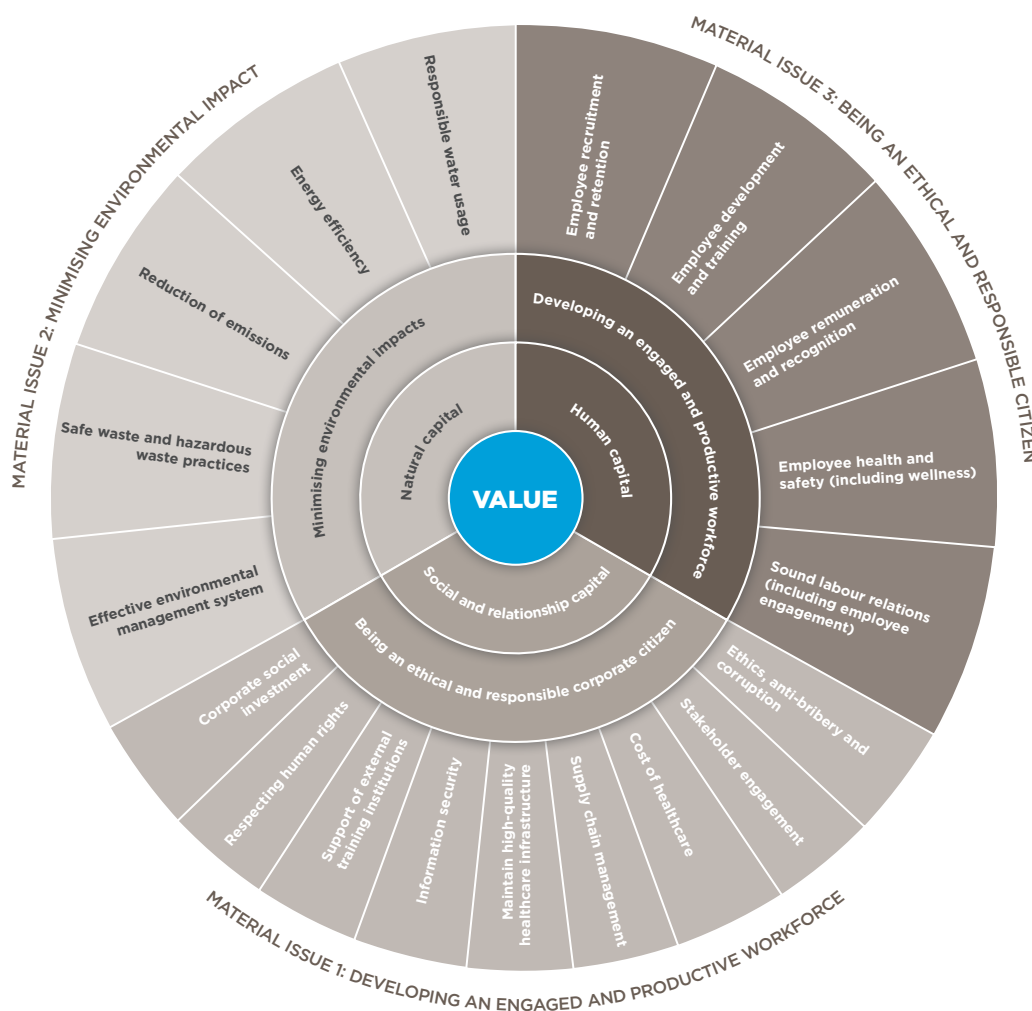
Mediclinic has various economic, social and environmental responsibilities, including creating employment opportunities; training and developing employees; using of natural resources responsibly; investing in local communities; and promoting black economic empowerment in South Africa.

In terms of the Group Sustainable Development Policy, the Clinical Performance and Sustainability Committee annually reviews the Group’s material sustainability issues. This is done to ensure that management initiatives are directed at those sustainable development issues that are most significant to the business, and which directly affect the Group’s ability to create value for its key stakeholders.

The Clinical Performance and Sustainability Committee’s assessment identified the following three material issues, as illustrated in **Figure 1**, which constitute the focus of this report:

- developing an engaged and productive workforce;
- minimising environmental impact; and
- being an ethical and responsible corporate citizen.

**FIGURE 1: MATERIALITY ASSESSMENT MATRIX**



Mediclinic’s shareholders, patients and employees are key to its sustainability. Relationships with these stakeholders inform how the Group manages strategy, performance and risks. The link between the Group’s three material sustainability issues and the Group’s strategy is indicated in this report. The Group’s strategic priorities in the year under review, which are further detailed in the **Our strategy, goals and progress** section on page 18, are:

- putting *Patients First*;
- improving Group and operational efficiencies;
- pursuing attractive growth opportunities; and
- leveraging the Group’s international scale; while
- continuing to invest in employees, information and communications technology and analytics.

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## MATERIAL ISSUE 1: DEVELOPING AN ENGAGED AND PRODUCTIVE WORKFORCE

### HIGHLIGHTS

- Embedding of world-class workforce optimisation initiatives and the integration of these principles in the relevant business processes in accordance with the agreed workforce plan
- Continued investment in training and skills development to maintain and improve quality service delivery
- Entrenching the employee engagement survey and embedding follow up actions across the Group
- Continued people management development for line managers
- Ongoing implementation of a standardised human resources ICT system

### WHY THIS IS IMPORTANT TO THE BUSINESS

Employee engagement is a vital aspect that is essential to the overall success of the business. It is also fundamental to employee retention and for creating a dynamic working environment. The attraction of suitably qualified healthcare professionals is essential in delivering the Group's *Patients First* strategy. The Group aims to provide a working environment with a supporting culture where employees can thrive and be emotionally committed to Mediclinic's goals. These initiatives include engagement, corporate health and wellness, continuous development, mentoring and coaching. It requires a long-term focus and genuine transformation of practices to be successful. These initiatives will be continued and expanded to create a diverse and inclusive environment that enables the optimal performance of employees.

Workforce optimisation has been a key focus for the year, especially in the clinical environment. Continued focus on workforce planning and forecasting will ensure that the goal of operational efficiency is achieved as required in order to deliver on the *Patients First* strategy.

### LINK TO STRATEGY

- Invest in employees
- Improve safe, quality clinical care
- Improve patient experience
- Improve efficiency

### KEY STAKEHOLDERS

- Employees and trade unions
- Medical practitioners
- Patients

### KEY PERFORMANCE INDICATORS

CONTROLLABLE EMPLOYEE TURNOVER RATE*			EMPLOYEE ENGAGEMENT (GRAND MEAN SCORE - MAXIMUM SCORE OF 5)			TRAINING SPEND AS APPROXIMATE PERCENTAGE OF PAYROLL		
Switzerland	<b>6.9%</b> (2018: 8.7%)	↓	Group	<b>3.98</b> (2018: 3.88)	↑	Switzerland	<b>4.6%</b> (2018: 4.6%)	→
Southern Africa	<b>7.6%</b> (2018: 7.2%)	↑	Switzerland	<b>4.01</b> (2018: 3.93)	↑	Southern Africa	<b>3.7%</b> (2018: 3.2%)	↑
UAE	<b>6.7%</b> (2018: 10.3%)	↓	Southern Africa	<b>3.94</b> (2018: 3.85)	↑	UAE	<b>0.1%</b> (2018: 0.2%)	↓
* Refer to page 84 for more information on the increase in the turnover rate.			UAE	<b>4.02</b> (2018: 3.86)	↑			

## RISKS TO THE BUSINESS

- Inability to recruit healthcare practitioners to meet business demand
- Poor clinical outcomes and services
- Medical malpractice liability
- Reputational damage
- Delayed new nursing qualifications framework, causing a gap in the education pipeline in Southern Africa
- Ageing nursing workforce with decreasing entrants to profession
- Employee engagement and wellness
- Fraud and ethics failures

## MITIGATION OF RISKS

- Extensive training and skills development programmes
- Governance of suitable selection processes with a focus on skills assessments, employment references and verification of credentials

- Targeted sourcing and recruitment initiatives, with a strong focus on agile sourcing techniques to ensure that the best fit candidate talent is channelled to appropriate vacancies, supported by a seamless hiring process
- A proactive international recruitment programme supplementing anticipated medium-term skills gaps
- Tailored retention strategies, supporting the retention of priority audiences within each business unit
- Succession planning and/or career management initiatives within scarce skills disciplines, to ensure the proactive development of high-performing employees with the potential to fulfil supervisory and leadership roles
- Monitoring of medical practitioner satisfaction through continuous dialogue
- Deployment of integrated talent strategies in support of core business areas
- Monitoring of employee engagement and satisfaction through a standardised process and structured, systematic action planning

# OUR PEOPLE - MEDICLINIC MIDDLE EAST

The Mediclinic Middle East Employee Wellness Programme offers comprehensive health and wellness services tailored to individual and organisational needs, taking into account the specific challenges in the current economic and social environment.

The programme, which was launched in January 2018, is aimed at encouraging a culture of physical, mental, social and financial wellness, the benefits of which will also ultimately filter through to the quality of service provided to patients and their families. A comprehensive wellness strategy will improve credibility as a leading healthcare organisation when dealing with regulators and insurers and simultaneously set an example for the industry, which is currently nascent in terms of corporate wellness.

In June 2017, an initial workgroup consisting of representatives across various functions and business units was tasked with investigating and recommending a wellness solution for employees based on the vision of senior leadership.



*One of the wellness education sessions featured a healthy cooking demonstration.*

## **OFFERING EMPLOYEES ACCESS TO COMPREHENSIVE EMPLOYEE WELLNESS SERVICES IS A NATURAL PROGRESSION OF EMPLOYMENT BENEFITS, ESPECIALLY GIVEN THE LEADING ROLE MEDICLINIC PLAYS IN INTERNATIONAL HEALTHCARE. THE BENEFITS OF SUCH A PROGRAMME IS SURE TO ULTIMATELY FILTER THROUGH TO THE QUALITY OF SERVICE OFFERED TO PATIENTS AND THEIR FAMILIES.**

The workgroup evolved into a Wellness Committee which considered design principles relevant to the region, as well as international best practice, such as:

### ***Sustainability***

Wellness is not an isolated state, but rather the result of a habit of healthy living. Programmes should be aimed at continuous reinforcement to ensure sustainable change in behaviour for the long term.

### ***Individuality***

Wellness initiatives should be tailored to the needs of employees. As such, the employees own the initiatives and clearly understand the benefits; they are also given the opportunity to provide input.

### ***Participation***

Great care must be taken to ensure that employees do not feel forced to participate. Mandatory programmes may increase the stress levels of employees, which will be contrary to the intended objective.

### ***Leadership commitment and support***

The senior leadership should clearly communicate their vision and strategy for the promotion of health; they should actively support the initiatives and continuously support and, where possible, participate in health education.

### ***A health culture***

Business decisions that affect everyday activities should be made in alignment with wellness goals to reinforce the division's commitment to creating a health-conscious culture.

## OWNING WELLNESS

With research in hand, the Wellness Committee proposed a tailored wellness programme for Mediclinic Middle East employees. The following benefits are offered under the programme:

- **discounted health packages** for all employees;
- **special offers, including fitness and leisure packages;**
- a **dedicated wellness room at the corporate office** equipped with games, wellness equipment and relaxation areas;
- **monthly wellness education sessions** covering topics such as managing stress, mindfulness, healthy food preparation, yoga and financial management;
- **employee sporting events**, such as soccer, cricket, volleyball and basketball;
- **corporate funding sponsorships** for individuals or teams participating in an external, accredited sporting event if certain criteria are met; and
- **participation in fitness and health challenges.**

Wellness surveys will be conducted annually. The feedback will be used to improve benefits and to ensure that activities align with the programme's vision of offering employee-friendly benefits that can be adopted and owned by the workforce.

## SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

### POLICY, APPROACH AND PERFORMANCE

Mediclinic's human capital is strongly supported by policies and best practice guidelines and is governed to ensure compliance to achieve global best practice and to minimise possible risks as mentioned above.

The human resources strategy focuses on harmonising and embedding enhanced human resources processes and practices throughout the Group. This is achieved by standardising processes where possible, sharing best practice and integrating systems. In this way, the human resources functions is positioned as an enabling partner that can deliver visible, credible and value-adding services to the business.

### Employee recruitment and retention

All divisions are experiencing challenges regarding the global shortage of healthcare professionals specifically to specialist nurses and clinicians. Proactive strategies and action plans are continuously deployed to address the shortages within each of the divisions to ensure a consistent supply of applicants to fill critical vacancies. These strategies are regularly reviewed to ensure alignment with organisational requirements and industry challenges. This is supported by a highly tailored focus on employer

branding to position each division as the preferred employer in the relevant geographies where the Group operates. The Group constantly and actively monitors industry and external talent pool trends. This allows it to proactively amend its strategy to mitigate the risks in the competitive healthcare labour market.

To address the challenges of attracting and retaining scarce skills, specific strategies are formulated to support the needs of the areas that are under pressure due to a limited talent supply in their local market. These strategies will be entrenched and further refined to align to the current priorities emerging from the existing workforce plan. This includes a continued focus on the training of healthcare professionals in relevant divisions, revised on-boarding programmes as well as pro-active talent pool management. Special emphasis is also placed on building sustainable and positive relationships with the candidates with critical talent. Other additional initiatives include continuous targeted internships, on the job training, student placements, career planning and development.

The alignment of recruitment and selection processes across divisions remains a key focus. This includes exploring the benefits of standardisation of generic elements and the sharing of best practices. Planning also commenced for the implementation of an international

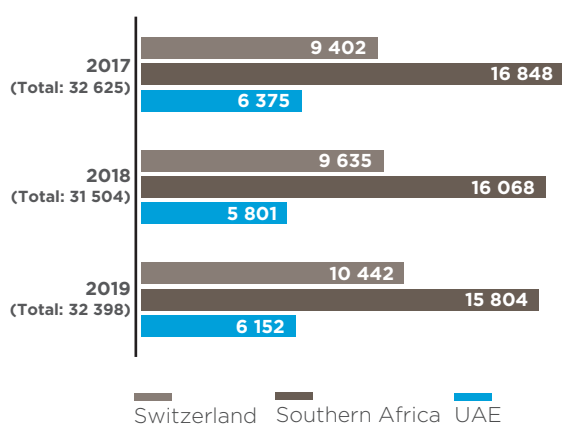


# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

enterprise resource planning (“ERP”) system, supporting the recruitment and employer branding process during the course of 2019 and 2020. This supports the move to an integrated and digitalised human resources landscape, with an emphasis on data analytics to inform key human capital decisions. This will provide the Group with tools to identify of international and local trends and mitigate potential risks proactively. The *Your Voice* employee engagement survey results are scrutinised for generic themes and used to address themes that affect the retention of the workforce.

The Group’s workforce composition is provided in **Figure 2**. Controllable Employee Turnover rate is provided on page 80, indicating a decrease in Switzerland and Mediclinic Middle East, but a slight increase in Mediclinic Southern Africa. Although not a significant increase, the reasons for employee turnover are monitored in a rigorous manner and themes are proactively addressed to minimise the loss of employees. With the ever-increasing shortage of skilled employees, we are experiencing increased competition in the market place. As a result, emphasis is placed on retention and effective utilisation of available skills. The Group has various measures in place with the aim to be regarded as an employer of choice: regular engagement; offering attractive working conditions (e.g. flexible employment contracts for part-time employees in Switzerland); career development; a consistent performance management system; and fair remuneration practices. Information on the divisions’ turnover rate by age group and gender; new appointments versus employment terminations; and return to work after maternity leave are provided in the [Sustainable Development Report](#), available on the Company’s website.

**FIGURE 2: WORKFORCE COMPOSITION**



**Notes**

- <sup>1</sup> Mediclinic International plc has one employee based in the United Kingdom.
- <sup>2</sup> The increase in Hirslanden employees from 2018 to 2019 was influenced by the acquisition of Clinique des Grangettes, effective October 2018.
- <sup>3</sup> The increase in Mediclinic Middle East employees from 2018 to 2019 was largely attributable to overall business growth.

## Training and skills development

The Group continues to invest considerably in training and skills development to maintain employee engagement and improve the quality of service delivery. The Group’s commitment to providing quality care for its patients can only be ensured if its employees have suitable, evolving skillset. This is achieved through many learning initiatives provided by the Group each year.

## Performance management

A consistent performance management system is applied throughout the Group, which enables it to identify and manage the training needs of individual employees, and to discuss career development. Performance tracking discussions take place on a continuous basis throughout the Group. The Group is committed to optimising the quality of these discussions where expectations regarding performance and development are shared and personal development plans are compiled accordingly. These discussions also provide the opportunity to translate the organisational strategic goals into individual employee objectives, activities and deliverables.

## Succession planning, career management, diversity and inclusion

Succession planning and related leadership development remains vital to the organisation. The talent pipeline to Group and divisional key positions is reviewed on an annual basis and strengthened through a well-structured process under the guidance of the Nomination Committee and divisional Talent Review Committees. Successors are supported with tailored development plans and progress is monitored to ensure the readiness of the pipeline through proactive development.

An internationally standardised process is followed with local adaptation to support divisional challenges. There is a continued focus on the sharing of best practices to the benefit of all divisions. This process will be enabled during 2019 and 2020 when an international talent management system is implemented as part of the deployment of the international human resources ERP. This will equip the relevant committees and line managers with better tools to identify and develop talent toward key roles. The additional functionality will also give employees greater access to career opportunities and enable them to indicate their aspiration to these.

The diversity of the workforce and related internal talent pools remains a key consideration. A diversity and inclusion strategy was agreed upon that are currently being deployed to guide the Group toward the achievement of the stipulated goals. This includes testing the workforce perceptions and exploring these through various initiatives that can be considered to ensure a sustainable and optimal

workforce reaping the benefits from a truly diverse and inclusive organisation. Progress in this regard is actively monitored on a regular basis by the Group and divisional executive teams and reported annually to the Nomination Committee, which monitors progress holistically.

## Employee remuneration, recognition and benefits

The Group remunerates employees in a manner that supports the achievement of the Group's vision and strategic objectives, while attracting and retaining scarce skills and rewarding high levels of performance. This is achieved through establishing remuneration practices that are fair, reasonable and market-related while at the same time maintaining an appropriate balance between employee and shareholder interests. To encourage a performance-driven organisation, the Group rewards employees for achieving strategic objectives as well as performance targets. Benefits to employees may include participation in a retirement fund and a medical aid scheme. The Group further covers the liability insurance for medical employee and other employees where liability insurance is required. Managers who are eligible to receive variable remuneration receive short-term incentives and senior management receive a combination of short and long-term incentives. The Group's management remuneration structures consist of a fixed as well as a variable component.

Employee benefits and the value they add to the overall employment proposition are key factors in attracting and retaining proficient employees. Details of benefits offered to permanent employees per division are included in the [2019 Sustainable Development Report](#).

## Employee health and safety

The Group recognises the role it has to play toward employee wellness. It believes in promoting employee health and reducing absenteeism. The Group is committed to supporting the overall well-being of employees and recognises the importance of employee wellness in the workplace and building a more caring culture for its employees by applying sound wellness practices.

Health and safety policies and procedures are in place across the Group to ensure a safe working environment for the Group's employees, patients and visitors. The health

and safety of the Group's employees are critical and contribute to the sustainability of quality care to patients. The programmes and procedures differ within the various business units to mitigate health and safety risks.

## Labour relations

The Group believes in building sound long-term relations with its employees and employee representatives, which supports its goal of being the employer of choice in the healthcare industry. This is measured by the *Your Voice* employee engagement survey and continuous assessment of the Group's employment conditions.

The Group respects and complies with the labour legislation in the countries in which it operates and ensures that the internal policies and procedures are evaluated regularly to accommodate continual amendments to relevant legislation. The employee relations policies of the divisions, which deal with matters relating to misconduct, incapacity of employees and the disciplinary and grievance procedures, are communicated to new employees as part of their on-boarding process. These policies are also available to all employees to ensure that they are aware of the avenues to put forward grievances, should they have the need to.

Details of trade union membership throughout the Group is provided in the [2019 Sustainable Development Report](#).

## Employee engagement

Since 2015, Mediclinic, in partnership with Gallup®, have annually administered the *Your Voice* employee engagement survey across all divisions to measure the levels of employee engagement, identify gaps at a departmental level and support line managers in developing action plans to address engagement concerns.

In the last survey, the Group achieved an 82% (2017: 77%) participation rate and 45% (2017: 40%) of employees showed high levels of engagement, as illustrated on page 80. The 2019 *Your Voice* survey identified principal strengths and opportunities in terms of the employee engagement levels of Mediclinic. Mediclinic Southern Africa performs well on the basic engagement needs of employees while Hirslanden and Mediclinic Middle East perform well on the Management Support and Teamwork levels of the Gallup® engagement hierarchy respectively.

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## MATERIAL ISSUE 2: MINIMISING ENVIRONMENTAL IMPACT\*

\* This section does not include data pertaining to Clinique des Grangettes in Hirslanden.

### HIGHLIGHTS

- Geothermal probes more than 250m below ground produce cooling and heat energy via heat pumps at Hirslanden. As a result, Hirslanden Klinik Belair and Hirslanden AndreasKlinik facilities used up to 90% less gas than the previous year and thus emitted considerably less carbon dioxide.
- Total consumption and intensity per bed day sold for energy decreased at Hirslanden.
- Total consumption and intensity per bed day sold for energy and water decreased in Mediclinic Southern Africa, with Mediclinic Middle East consumption remaining stable.
- Waste diverted from landfill increased by 23% because of uncontaminated food waste being recovered as a nutrient or for composting by some Mediclinic Southern Africa hospitals.

### KEY PERFORMANCE INDICATORS

Unless indicated to the contrary, all environmental data reported is per calendar year. This is to ensure the accuracy of the data reported and to align the reporting to the annual submission of reports to the CDP.

TOTAL CO <sub>2</sub> EMISSIONS (KG/BED DAY)			ENERGY CONSUMPTION (GJ/BED DAY) (PER CALENDAR YEAR)			WATER USAGE (kℓ/BED DAY) (PER CALENDAR YEAR)		
Switzerland	<b>11.7kg</b> (CDP 2018: 12kg)	↓	Switzerland	<b>0.450GJ</b> (2017: 0.458GJ/bed day)	↓	Switzerland	<b>0.680kℓ</b> (2017: 0.649kℓ)	↑
Southern Africa	<b>106kg</b> (CDP 2017: 112kg)	↓	Southern Africa	<b>0.325GJ</b> (2017: 0.327GJ/bed day)	↓	Southern Africa	<b>0.555kℓ</b> (2017: 0.594kℓ)	↓
UAE**	<b>376kg</b> (CDP 2018: 220kg)	↑	UAE**	<b>1.278GJ</b> (2017: 1.202GJ/bed day)	↑	UAE**	<b>1.640kℓ</b> (2017: 1.523kℓ)	↑

### WASTE RECYCLED (PER CALENDAR YEAR)

Switzerland	<b>284 tonnes</b> (2017: 586 tonnes)	↓
Southern Africa	<b>1 229 tonnes</b> (2017: 1 202 tonnes)	↑
UAE**	<b>208 tonnes</b> (2017: 194 tonnes)	↑

\*\* The intensity measures of CO<sub>2</sub> emissions, water usage and energy consumption per bed day are not appropriate for the UAE, and not comparable with that of Southern Africa and Switzerland, as the total emissions, water usage and energy consumption include only seven hospitals, two day case clinics and 18 outpatient. The extreme weather conditions in the UAE also negatively affects its energy and water consumption, which is being managed through various initiatives. Mediclinic Middle East has begun working toward a comprehensive energy and water use reduction plan for the year ahead to decrease overall consumption.

## WHY THIS IS IMPORTANT TO THE BUSINESS

Without natural resources, Mediclinic would not be able to provide a service to its patients. The Group remains committed to reducing its impact on the environment and is constantly investigating opportunities to this end. Using resources responsibly can also be a source of strategic advantage for the Group, allowing it to manage and contain its operating costs and ensure ongoing access to water and energy supplies.

The Group's main environmental impacts are the utilisation of resources, predominantly water and energy, electricity consumption, and the disposal of healthcare risk waste and healthcare general waste. During the year, water conservation and waste disposal were top priorities as per revised GRI Standards.

Regulatory changes, environmental constraints and climate change, including rising costs; reduced access to facilities; interruptions in service; and incidents of extreme weather events due to climate change, could greatly affect operations. Additionally, climate change can lead to water shortages (especially in Southern Africa and the UAE) and weather-induced pandemics and disease outbreaks which could cause high mortality rates.

During the period under review, there were no incidents of material non-compliance with any environmental legislation, regulations, accepted standards or codes applicable to the Group, with no significant fines imposed.

## LINK TO STRATEGY

- Improve efficiencies

## KEY STAKEHOLDERS

- Patients
- Employees and medical practitioners
- Suppliers
- Governments and authorities
- Community

## RISKS TO THE BUSINESS

- Business interruptions due to water shortages
- Business interruption due to electricity supply
- Increased operational costs due to cost of electricity, water and healthcare risk waste
- Reputational damage
- Impact of Carbon Tax and Climate Change legislation

## RISK MITIGATION

At Group level, the Board mandated both the Audit and Risk Committee and the Clinical Performance and Sustainability Committee to monitor the risk management process and systems of internal control of the Group, and to identify any opportunities for minimising environmental impact that may occur due to climate change. The objective of Group risk management is to establish an integrated and effective risk management framework within which important risks are identified, quantified, prioritised and managed to achieve an optimal risk/reward profile. The ERM Policy defines the risk management objectives, risk appetite and tolerance, methodology, process and responsibilities of the various risk management role players in the Group and is subject to annual review. The Clinical Performance and Sustainability Committee has the role of evaluating whether any risks or climate-related difficulties provide opportunities for minimising environmental impact within the Group. At asset or operational level, the Group has an Environmental Policy to identify aspects of business that could have a significant impact on the environment. All business divisions within the Group are required to implement environmental management systems such as the ISO 14001 standard and have it certified by an internationally recognised body.

# OUR PLANET – HIRSLANDEN

**AT THE HIRSLANDEN ANDREASKLINIK, A GEOTHERMAL HEAT PUMP CONTRIBUTES TO TEMPERATURE CONTROL BY PRODUCING HEAT AND COLD IN AN ENERGY-EFFICIENT, SUSTAINABLE AND ECONOMICAL MANNER. THE HEAT PUMP HAS BEEN SUPPLYING CO<sub>2</sub>-FREE ENERGY FOR MORE THAN A YEAR.**



## SUSTAINABLE GROUND WORK FINDINGS AFTER ONE YEAR

- **90% less natural gas burned** in 2018, compared to 2017
- **Heating costs for natural gas decreased by CHF80 000** in 2018, compared to 2017
- **141mWh energy consumed in natural gas** in 2018, compared to 1 098mWh in 2017
- **Consumption of fossil energy for heating per full-time employee decreased to 675kWh/FTE** (full-time equivalent) at Hirslanden Andreasklinik, compared to the Hirslanden general average of 4 300kWh/FTE

*The new heat pump is delivered via crane in April 2017.*

Within the peaceful surroundings of Cham, the unmistakable architecture of Andreasklinik is easy to locate. The hospital is well known for its obstetrics and gynaecology expertise. But it is below this modern facility that its latest accomplishment provides an unseen but significant contribution to daily operations.

The installation of a heat pump at Andreasklinik in July 2017 has resulted in significantly reduced costs and energy consumption within only a year, with further room for optimisation. As part of the installation, 16 geothermal probes (also known as borehole heat exchangers) were installed at a depth of 250m, using approximately 17km of pipeline.

The heat pump has both hot and cold functionality, to a large extent replacing the existing gas heating and ensuring significantly lower CO<sub>2</sub> emissions. The saving in natural gas consumption is due to the fact that the heat pump is able to single-handedly meet the bulk of the energy requirements; cooling energy is simultaneously generated and used to cool the MRI machines, even in winter.

The new system replaced an existing chiller from 1995 and a corresponding re-cooler located on the roof. A gas heating system is still available to supplement the heat pump at peak times.

### **How does a heat pump work?**

In principle, a heat pump works in the same way as a refrigerator, but inversely. While a refrigerator extracts heat from its interior and emits it to the outside, a heat pump extracts heat from the outside and emits it to the facility as heating energy.

In the case of Hirslanden Andreasklinik, soil is used as an environmental heat source. Heat from the geothermal probes feed an evaporator and is then transferred to the heat pump. As the refrigerant in the heat pump has a low boiling point, the soil temperature is sufficient to quickly cause it to reach a vaporous state. In the compressor, the steam is compressed and thus heated. In the condenser, the hot steam finally transfers its heat to the water circuit of the heating system.

The installed system offers both heating and cooling functionality. When cold is produced, heat is generated and *vice versa*.

In the cooling operation, the waste heat is transferred to the heating system whenever possible. In heat pump operation, the heat source from the geothermal probes is used. If no heat is required in cooling operation, the waste heat can be returned to the soil. This allows the geothermal probe field to regenerate or heat up again and ensures that the soil does not cool down completely and can be used sustainably to generate heat when needed.

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## POLICY, APPROACH AND PERFORMANCE

### Effective environmental management system

The Group Environmental Policy, available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com), aims to minimise Mediclinic's environmental impacts and guides the identification and management of all risks and opportunities relating to water use and recycling, energy use and conservation, emissions and climate change, and waste management and recycling. Mediclinic is committed to ensuring that its environmental management systems and practices are aligned with international best practices to safeguard its reputation and provide assurance regarding the environmental quality, safety and reliability of its processes and services.

Hirslanden has committed itself to comply with the Swiss legislation concerning the environment, defines programmes to continuously improve environmental management and actively promotes its employees' environmental awareness. Furthermore, Hirslanden formulates targets to prevent environmental pollution and minimise the company's effect on the environment. Suppliers and service providers are encouraged to implement environmental programmes to further restrict negative impact on the environment.

Mediclinic Southern Africa is committed to ensuring that its environmental management systems and practices are aligned with international best practices to safeguard its reputation and provide assurance about the environmental quality, safety and reliability of Mediclinic's processes and services. The ISO 14001:2015 Environmental Management System encourages good management practices that limit the impact of industry on the environment and ensure legal compliance. The purpose of the system is to conserve resources, use them effectively and minimise waste. Categories managed in the environmental aspect register are the utilisation of resources and waste management, which include electricity, water, gases, paper, healthcare risk waste, hazardous waste and normal waste. Currently, 44 of Mediclinic's 52 hospitals are ISO 14001 certified by an external assurance provider (British Standards Institute), as accredited by the UK Accreditation Services. All the Group's hospitals are ISO 14001 trained, follow the same environmental management practices and are subject to annual internal audits. Adhering to the system procedures and processes is expected to reduce the likelihood and magnitude of the risk. Mediclinic Southern Africa has transitioned from ISO 14001:2004 to the 2015 revision of the standard.

Mediclinic Middle East is acutely aware of its commitment to environmental sustainability and responsibilities. It undertakes significant efforts to minimise the effects of its operations on the environment and new projects have been designed to incorporate the latest environmental technology. Mediclinic Middle East is committed to complying with UAE legislation and regulations concerning the environment and issues related to climate change. It promotes employee awareness on environmental sustainability, waste reduction and energy saving. Furthermore, the division has formulated key performance indicators ("KPIs") for environmental sustainability and has included the development of environmental initiatives as part of its strategic objectives.

### Reduction of carbon emissions

The CDP is a global initiative measuring companies around the world, their reporting on greenhouse gas emissions and climate change strategies. It is regarded as a global leader in capturing and analysing data that record the business response to climate change, including management of risks and opportunities, absolute emissions levels, performance over time and governance. Participation and disclosure of the results are voluntary. The project was launched in South Africa in 2007 in partnership with the National Business Initiative, in which JSE-listed companies are measured. Mediclinic has participated in the project since 2008, initially only in respect of Mediclinic Southern Africa. Limited information on Mediclinic Middle East has also been included since 2010, although it still remains an initiative focusing mainly on Mediclinic Southern Africa's data. Mediclinic's CDP reports can be obtained on the CDP website at [www.cdp.net](http://www.cdp.net), with the most recent reports also available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com).

Financial optimisation calculations are implemented: Rising electricity costs have been an incentive to reduce electricity consumption and resultant carbon emissions through investments in energy efficient equipment and alternative renewable energy sources.

With the assistance of external consultants, the divisions measure their carbon footprint using the Greenhouse Gas Protocol. These measures include in varying degrees:

- **Direct emissions (scope 1 emissions)**, Mediclinic Southern Africa-owned or -controlled equipment (stationary fuels); air-conditioning, refrigeration gas refills; anaesthetic and other gas consumption; ER24 emergency response vehicles; and fleet and pool vehicles (mobile fuels).
- **Indirect emissions from the consumption of purchased electricity (scope 2 emissions)**.



# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

- **Indirect emissions in the supply chain (scope 3 emissions)**, Mediclinic's business travel activities, its employee commuting, upstream and downstream third-party distribution, the consumption of office paper, electricity transmission and distribution losses and waste are also included; and
- **Non-Kyoto Protocol greenhouse gas emissions** such as Freon, which is used in air-conditioning and refrigerant equipment. With the assistance of external consultants, these emissions data were converted into a carbon dioxide equivalent ("CO<sub>2</sub>e") using recognised calculation methods, emission factors and stating assumptions made, where relevant.

The Group's main environmental impacts are the utilisation of resources and waste which have a direct effect on carbon emissions. Items listed in the aspect register relating to regulatory compliance, water, electricity, healthcare risk waste, hazardous waste, organic food waste, waste to landfill paper usage, and gases not only could have a significant impact on the environment, but also informs strategy on climate change related risks and opportunities.

The carbon emissions per division, reported per calendar year, are reported in the [Sustainable Development Report](#) as summarised in **Figures 3-5**.

**FIGURE 3: TOTAL CARBON EMISSIONS (HIRSLANDEN) (PER CALENDAR YEAR)**

	2014	2015	2016	2017	2018
Scope 1: Direct emissions (tonnes)	7 163	6 743	7 349	6 317	<b>6 376</b>
Scope 2: Indirect emissions from purchased electricity (tonnes)	419	389	389	837	<b>415</b>
Scope 3: Indirect emissions from supply chain, business travel and waste removal (tonnes)	102	102	84	n/a*	<b>n/a*</b>
<b>TOTAL CO<sub>2</sub>e (tonnes)</b>	<b>7 684</b>	<b>7 234</b>	<b>7 822</b>	<b>7 154</b>	<b>6 791</b>
<b>CO<sub>2</sub>e/bed day (kg)</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>11.7</b>
<b>Intensity</b>	↓	↓	↓	↓	↓

**FIGURE 4: TOTAL CARBON EMISSIONS (MEDICLINIC SOUTHERN AFRICA)**

ACTIVITY	2013/14 FINANCIAL YEAR (CDP 2014)	2014/15 FINANCIAL YEAR (CDP 2015)	2015/16 FINANCIAL YEAR (CDP 2016)	2016 CALENDAR YEAR (CDP 2017)	2017 CALENDAR YEAR	2018 CALENDAR YEAR
Scope 1: Direct emissions (tonnes)	21 869	22 999	23 841	24 687	24 193	<b>22 422</b>
Scope 2: Indirect emissions from purchased electricity (tonnes)	151 156	154 035	159 571	156 781	149 109	<b>143 338</b>
Scope 3: Indirect emissions from supply chain, business travel and waste removal (tonnes)	35 062	33 382	36 037	49 488	47 270	<b>43 063</b>
Non-Kyoto Protocol emissions (tonnes)	6 952	6 419	3 966	5 236	2 841	<b>5 236</b>
<b>TOTAL CO<sub>2</sub>e (tonnes)</b>	<b>215 039</b>	<b>216 834</b>	<b>223 415</b>	<b>236 192</b>	<b>223 413</b>	<b>214 059</b>
<b>CO<sub>2</sub>e/full-time employee</b>	<b>13.567</b>	<b>13.326</b> ↓	<b>13.273</b> ↓	<b>14.026</b> ↑	<b>13.680</b> ↓	<b>13.279</b> ↓
<b>CO<sub>2</sub>e/square meterage</b>	<b>0.335</b>	<b>0.320</b> ↓	<b>0.313</b> ↓	<b>0.299</b> ↓	<b>0.274</b> ↓	<b>0.254</b> ↓
<b>CO<sub>2</sub>e/bed day (kg)</b>	<b>115</b>	<b>111</b> ↓	<b>111</b> -	<b>117</b> ↑	<b>112</b> ↓	<b>106</b> ↓

**FIGURE 5: TOTAL CARBON EMISSIONS (MEDICLINIC MIDDLE EAST)**

	2015/2016 FINANCIAL YEAR CDP 2016	2016/2017 FINANCIAL YEAR CDP 2017*	2018 CALENDAR YEAR CDP 2018**
Scope 1: Direct emissions (tonnes)	1 731	5 594	<b>4 191</b>
Scope 2: Indirect emissions from purchased electricity (tonnes)	12 148	19 892	<b>38 371</b>
Scope 3: Indirect emissions from supply chain, business travel and waste removal (tonnes)	3 464	4 722	<b>7 656</b>
Non-Kyoto Protocol emissions (tonnes)	621	3 476	<b>3 561</b>
<b>TOTAL CO<sub>2</sub>e (tonnes)</b>	<b>17 964</b>	<b>33 684</b>	<b>53 779</b>
<b>CO<sub>2</sub>e/bed day (kg)*</b>	<b>226</b>	<b>220</b>	<b>376</b>
<b>Intensity</b>	-	↓	↑

\* Since CDP 2017, the Mediclinic Middle East figures include the Al Noor business, whereas in previous years it only included the Dubai business. These figures are therefore not directly comparable with those of previous years.

\*\* Mediclinic Middle East figures are now based on calendar year 2018 rather than financial year. Data for 2018 includes acquisitions and the new Mediclinic Parkview Hospital, as well as additional data which was previously not collected such as air conditioning, additional business travel and third party vehicle consumption. The figures are therefore not directly comparable with those of previous years.

## Energy efficiency

Electricity is the main contributor to the Group's carbon footprint. All of its divisions are taking steps to reduce their electricity consumption intensity through the adoption of ISO 14001:2015 environmental management standards. This will lead to improved operational efficiency of technical installations, the introduction of various new energy-efficient and renewable technologies and changes in employee behaviour regarding energy use.

The direct and indirect energy consumption per division, for the periods as specified therein, is reported in the [2019 Sustainable Development Report](#).

## Responsible water use

Access to fresh water is essential for all life on earth and a human right recognised by the United Nations, yet this precious resource is increasingly under pressure. The total volume of water withdrawn from water utilities throughout the Group, for the periods as specified therein, is reported in the [2019 Sustainable Development Report](#).

In Switzerland, there are no significant water shortages. Hirslanden's water usage is supplied by the public water utilities and all waste water is treated directly by the local municipalities and monitored locally by the group's hospitals. Various measures are in place to monitor and reduce water consumption throughout the division, such as the installation of water-flow limiters at water taps, the replacement of kitchen dishwashers and the insertion of water-saving valves in the toilets.

During the reporting period, the Western Cape region had its worst drought on recorded history. This resulted in increased levels of water restrictions, water tariffs and the threat of severe disruptions to water supply that culminated in the proposition of "Day Zero", when municipal water supplies would be cut off and a quota system implemented with reference to strategic businesses and residences. This constitutes a substantive impact due to the financial cost to mitigate against the risk. The primary response was to establish a Water Resilience Committee to govern the water usage affairs of the 11 hospitals located in the Western Cape region. Through this committee, Mediclinic engaged with policy makers and initiated various water augmentation initiatives and strategies at the hospitals, as elucidated on below.

The division's hospitals have installed dedicated water meters with pulse monitoring capabilities, which meters are linked to the SCADA monitoring systems. These systems allow for the continuous monitoring of the water consumption of the hospitals.

The three verification methods implemented to ensure the accuracy and reliability of the electricity consumption, equally apply to water data.

Through the ISO 14001:2015 Environmental Management System, water consumption of the hospitals is measured and verified. The total water consumption decreased by 77 355kl from 1 185 271kl in 2017 to 1 107 916kl in 2018 (6.53%). The drive in changing human behaviour via the

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

ISO 14001:2015 Environmental Management System and the recent drought in the Western Cape was the biggest contributor to the reduction in water consumption.

The water consumption intensity is calculated in litres per bed day sold. The water consumption intensity decreased from 0.594kl/per bed day sold in 2017 to 0.555kl/per bed day sold in 2018; this is a reduction of 0.039kl/per bed day sold (6.57%).

Bulk water storage facilities have been installed at hospitals and boreholes were sunk for strategic sustainability. Planned maintenance procedures have been implemented for the measurement and control of water quality. We have instituted initiatives to reduce water consumption, which include employee awareness training and monitoring of uncontrolled leakages. Furthermore, we have installed efficient technologies such as water-saving instrument washers, water-saving washing machines for laundry, and water-saving autoclaves. Certain hospitals also facilitate the recycling of autoclave water.

Mediclinic Middle East utilises various measures to minimise water consumption, such as reclaiming water from steam sterilisers and all air-handling units for redistribution to gardens and other non-clinical areas; monitoring of hot water consumption to reduce energy on hot water tanks, installing of control sensors on taps in hospital wards and reducing the pressure of water points. Water consumption is monitored at each unit and action taken to further reduce consumption where required. Total water consumption per bed day has increased by 7.68% in the past year.

## Safe waste and hazardous waste management

Stringent protocols are followed to ensure that refuse removal within the Group complies with all legislation, regulations and by-legislation. The Group regards the handling of waste in an environmentally sound, legal and safe manner as its ethical, moral and professional duty. During the reporting period, there were no incidents at the Group's facilities or offices leading to significant spills.

## MATERIAL ISSUE 3: BEING AN ETHICAL AND RESPONSIBLE CORPORATE CITIZEN

### HIGHLIGHTS

- Anonymous independent ethics lines at all divisions
- A three-year compliance monitoring programme was developed to enhance the existing compliance culture
- Hirslanden supports Mercy Ships, an international charity which operates the largest non-governmental hospital ship in the world
- Contributed R5m to the South African Department of Health's Public Health Enhancement Fund
- Mediclinic Southern Africa performed over 120 *pro bono* procedures on public patients as part of the second year of collaboration with provincial health structures

### KEY PERFORMANCE INDICATORS

CALLS TO ETHICS LINES*			INVESTMENT IN CAPITAL PROJECTS AND NEW EQUIPMENT (DIVISIONS)			INVESTMENT IN REPLACEMENT OF EQUIPMENT AND PROPERTY UPGRADES (DIVISIONS)		
Switzerland	<b>25**</b> (2018: 21)	↑	Switzerland	<b>CHF55m</b> (2018: CHF47m)	↑	Switzerland	<b>CHF40m</b> (2018: CHF82m)	↓
Southern Africa	<b>110</b> (2018: 97)	↑	Southern Africa	<b>R506m</b> (2018: R423m)	↑	Southern Africa	<b>R672m</b> (2018: R634m)	↑
UAE	<b>19</b> (2018: 10)	↑	UAE	<b>AED376m</b> (2018: AED358m)	↑	UAE	<b>AED76m</b> (2018: AED31m)	↑

\* Fifteen high-priority cases were reported to the Group's ethics lines during the year, five have been investigated and closed, while 10 are still under investigation.

\*\* This figure does not include reference to Clinique des Grangettes.

EXPENDITURE ON REPAIRS AND MAINTENANCE (DIVISIONS)			CONTRIBUTION TO CSI			TRANSFORMATION (SOUTH AFRICA)		
Switzerland	<b>CHF41m</b> (2018: CHF40m)	↑	Switzerland	<b>CHF2.1m</b> (2018: CHF2.3m)	↓	Percentage black employees	<b>72.8%</b> (2018: 72.1%)	↑
Southern Africa	<b>R262m</b> (2018: R219m)	↑	Southern Africa	<b>R27.7m</b> (2018: R29.3m)	↓	Percentage black management employees	<b>29.0%</b> (2018: 29.4%)	↓
UAE	<b>AED33m</b> (2018: AED42m)	↓	UAE	<b>AED1.4m</b> (2018: AED1.0m)	↑			

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## WHY THIS IS IMPORTANT TO THE BUSINESS

Governance and corporate social responsibility (“**CSR**”) are integral to Mediclinic’s approach to running a sustainable, long-term business. In line with the Group’s vision of being preferred locally and respected internationally, it:

- enforces good corporate governance standards throughout the organisation;
- acts as a responsible corporate citizen;
- builds constructive relationships with its local stakeholders; and
- acts as a valued member of the community in the regions where it operates.

The Group has entrenched a range of policies, processes and standards to support the Group’s governance and corporate social investment (“**CSI**”) programmes and provide a framework of the standards of business conduct and ethics that are required of all divisions, Directors and employees within the Group. These include the Ethics Code, the ERM Policy, the Fraud Risk Management Policy, the Regulatory Compliance Policy and the Anti-bribery Policy.

Adherence to these policies is monitored through the various risk management and assurance initiatives implemented throughout the Group. Non-adherence to these policies is immediately highlighted as a corrective action and addressed accordingly. The Group risk management department regularly monitors the status of these corrective actions.

These policies are intended to create a culture within the Group where ethical values are displayed on a day-to-day basis. It encourages employees to act transparently and be vigilant for any suspicious or unethical behaviour. These policies provide clear guidelines and frameworks to assist in achieving set objectives, for example, compliance with applicable legislation and regulations. The policies are communicated to all relevant employees and where necessary training is provided. The enhanced training and awareness of Group policies are planned for the year ahead.

## LINK TO STRATEGY

Although not directly linked to any particular Group strategic priority, governance and CSR are regarded as key enablers and the basis from which the Group conducts its business.

## KEY STAKEHOLDERS

- Suppliers
- Healthcare funders
- Governments and authorities
- Community

## RISKS TO THE BUSINESS

- Fines, prosecution or reputational damage
- Inability to continue business due to legal and regulatory non-compliance or changes in the regulatory environment
- Financial and reputational damage caused by poor governance, unethical practices and inadequate risk management
- Reputational damage at local community level due to inadequate community involvement

## MITIGATION OF RISKS

- Visible ethical leadership
- Regular fraud and ethics feedback to management, the Board and relevant Board committees
- Ethics lines available to all employees and external parties, with reported incidents monitored and investigated
- Established Group Risk Management and Compliance department and Internal Audit function
- Compliance risks assessed as part of risk management process, with regular internal self-assessments, with necessary advice and support by the various company secretarial and legal departments within the Group
- Group Compliance and Data Protection Manager appointed to implement compliance framework and monitor compliance maturity
- Monitoring of CSI initiatives by senior management, with feedback to the Clinical Performance and Sustainability Committee

# OUR PURPOSE – MEDICLINIC SOUTHERN AFRICA

**THROUGH A NUMBER OF  
PLANNED COLLABORATIONS  
BETWEEN MEDICLINIC SOUTHERN  
AFRICA AND PROVINCIAL  
HEALTH STRUCTURES, THE  
DIVISION HAS BEEN ABLE TO  
PLAY AN IMPORTANT ROLE  
IN DEVELOPING WORKABLE  
SOLUTIONS TO SOME OF THE  
CHALLENGES FACING THE SOUTH  
AFRICAN HEALTHCARE SECTOR.**

To ensure a viable future for healthcare in South Africa, it is imperative for all healthcare players to engage with one another – private and public alike. Through its involvement in public private initiatives, Mediclinic Southern Africa now has the opportunity to add value beyond its traditional patient base and values the opportunity to draw alongside provincial health structures to seek practical means to support and strengthen the work already being done in the public sector. The aim of these partnerships is to help broaden access to quality healthcare while alleviating the heavy burden of long public surgery waiting lists.

To date, Mediclinic has partnered with the provincial health structures in several provinces, including the Western Cape, Limpopo, Free State, KwaZulu-Natal and Gauteng. Initially surgeries included cataracts, ear, nose and throat and urology procedures, but in the prior year the success of the association has allowed for expansion to include cleft palate, knee surgery, as well as unique procedures such as deep brain stimulation.

Over the past 24 months, Mediclinic has facilitated free surgical procedures for more than 200 public-sector patients. The Mediclinic surgical facilities, nursing employees and expertise from Mediclinic-associated medical practitioners are provided free of charge in collaboration with the local public-sector hospitals.

Dr Nomafrench Mbombo, Head: Department of Health Western Cape, explains the importance of these types of



## COLLABORATING TO MAKE A DIFFERENCE

*In 2018, surgeries offered as part of Public Private Initiatives have expanded to include knee surgery for athletes at Mediclinic Milnerton.*

surgeries: “With an increasing acute load due to trauma, providing elective surgeries has in recent years become increasingly sought after. Trauma cases demand prioritisation, thus pushing back elective surgery. Also within the context of diminishing resources, this is a welcome chance to catch up some of the elective surgeries and improve the quality of life of our patients.”

“We’ve been trying to get help for eight years. Medical aids did not want to help us because they said the surgery is cosmetic. For my daughter the cleft palate surgery is life-changing. It’s not cosmetic for us,” said her father. “The *pro bono* surgeries we are performing are about more than just repairing external features – they are about changing lives,” says Dr Sharan Naidoo, a maxillofacial and oral surgeon at the same hospital. “I am passionate about giving opportunities to these families where they have had to wait for surgery for their children. There is huge pressure on state facilities and our partnership will allow a measure of relief for their waiting lists.”

“In Limpopo province we find it difficult to attract specialist doctors,” says Dr Ntodeni Ndzwamoto, acting Deputy Director-General for Tertiary Health Services and Academic Development at the Limpopo Department of Health. “This means patients can wait years to receive treatment. We appreciate the effort Mediclinic has made to reach out into the community. They supply the expertise and consumable materials required to really give these patients a better quality of life.”



# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## POLICY, APPROACH AND PERFORMANCE

### Ethics, anti-bribery and anti-corruption

The Group's commitment to ethical standards is set out in the Group's values, and is supported by the Group's Ethics Code as well as its Anti-bribery Policy, available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com). The Ethics Code provides a framework for the standards of business conduct and ethics that are required of all business divisions, Directors and employees. The Ethics Code is available to all employee and is included in new employee inductions.

The Group adopts zero-tolerance to unethical business conduct, including bribery, fraud and corruption.

Any employee or external stakeholder is able to report any wrongdoing throughout the Group in confidence to the ethics lines. All reports are dealt with in a non-discriminatory manner and any person making use of the independent ethics lines has the option to remain anonymous. No form of retaliation against an employee or other person making a report in good faith shall not be tolerated. A dedicated ethics contact person per division is available to deal with matters pertaining to the Ethics Code. The number of calls received through the Group's ethics lines is indicated on page 93. All complaints are investigated in accordance with the Ethics Code. Over the years, the majority of calls were of a grievance nature. Only in exceptional cases has information been received that has led to the discovery of unethical, corrupt or fraudulent behaviour.

The Group's Anti-bribery Policy governs the granting and acceptance of gifts, hospitality and entertainment, which will only be approved if it is acceptable business practice, there is a proper business case and no potential to adversely affect Mediclinic's reputation. This policy prohibits the direct sponsorship of supplier and/or third party events, ensuring that all such sponsorships are administered and overseen by the relevant division.

The Group's Fraud Risk Management Policy facilitates the development of controls for the prevention of fraud and corruption. Feedback on ethics and fraud is provided to the Audit and Risk Committee at every meeting, with regular feedback to the Clinical Performance and Sustainability Committee.

Further details regarding the Group's management of these matters are included in the report on **Risk management, principal risks and uncertainties** on page 55 and the **Audit and Risk Committee Report** on page 136.

A summary of the Group's approach to clinical ethical issues, are set out in the **Clinical services overview** on page 41.

During the period under review, there were no incidents of material non-compliance with the Ethics Code, Anti-bribery Policy or any legislation, regulations, accepted standards or codes applicable to the Group concerning antitrust matters or matters relating to corruption and bribery, with no significant fines being paid in this regard.

### Cost of healthcare

The Group contributes in various ways to a sustainable healthcare system by, *inter alia*, focusing on efficiency and cost-effectiveness, conducting tariff negotiations in a fair and transparent manner, expanding facilities based on need, and actively participating in healthcare reform.

The Group is focused on streamlining and centralising its procurement processes to improve efficiency and cost-effectiveness. During the reporting period, good progress was made on a range of international procurement initiatives including:

- refining the classification and matching of products used across all its divisions to compare prices and drive procurement strategies;
- procurement spend management and development of KPIs to measure procurement value;
- concluding global contracts with key multi-national suppliers to reduce prices and efficiencies related to surgical products and implants;
- Hirslanden entering into a collaboration agreement with Sana Kliniken AG to increase buying power;
- better prices through pooling of capital equipment purchases across the three divisions;
- direct importing and distribution of more cost-effective surgical and consumable products; and
- adopting a total cost of ownership approach when concluding transactions to include operational costs.

### Supply chain management

In order to deliver its services, Mediclinic is dependent on a large and diverse range of suppliers who form an integral part of the Group's ability to provide quality hospital care. Mediclinic believes in building long-term relationships with suitable suppliers and establishing a relationship of mutual trust and respect. Regular meetings are held with suppliers to ensure continuity of service. The Group relies on its suppliers to deliver products and services of the highest quality in line with Mediclinic's standards. Various other criteria play an important role in selecting suppliers, such as: compliance with applicable international and local quality standards, price, compliance with appropriate

specifications suited to the Group's markets, stability of the organisation and the relevant equipment brand, good-quality and cost-effective solutions, support network, technical advice and training philosophy.

The availability of products and services is imperative to enable the Group to deliver quality care to its patients, and therefore an important criterion in its supplier selection process although not always the case, this often leads to local suppliers being preferred, which adds to better and faster service delivery and knowledge of local legislation and regulations, particularly with regard to pharmaceutical products.

## Maintain high-quality healthcare infrastructure

To ensure a safe and user-friendly environment for both its patients and employees, the Group strives to provide high-quality healthcare facilities and technology, focusing on capital investments, maintenance of facilities and optimal use of facilities. As a result, the Group continuously invests in capital projects and new equipment to expand and refurbish its facilities and the replacement of existing equipment, as well as on the repair and maintenance of existing property and equipment. Refer to the key performance indicators on page 93 and to the **Chief Executive Officer's Review**, the **Divisional Reviews** and **Our strategy, goals and progress** included in the remainder of the **2019 Annual Report**.

Hospitals are high-risk environments in which complex treatment processes are executed using sophisticated equipment and techniques. The process of external accreditation ensures that international standards are adhered to in all aspects of hospital operations. For more details on accreditation, please refer to the **2019 Clinical Services Report**, available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com).

## Information and cybersecurity

Information and cybersecurity are paramount in enabling Mediclinic to conduct its business in a safe and secure manner. The need is even greater because Mediclinic is in the healthcare industry, where ensuring data privacy is an imperative.

Mediclinic and its divisions operate by way of an interconnected international network, with localised data networks in each of the jurisdictions. The extensive ICT landscape and associated information assets, the continuously increasing threat to data security, and the

vast landscape of data protection legislation and regulations, creates a dynamic and complex environment.

To this end, the Group has established an information security and cybersecurity programme. Some of the key objectives of the programme are:

- to implement effective measures and controls;
- increase end-user education and threat awareness levels; and
- provide ongoing assurance toward reduced risk levels and increased compliance.

The programme is executed at a divisional level. Each division has well-established ICT structures and is governed from a central point through the Group Information Security Committee, represented by dedicated divisional Information Security Officers. This Group Information Security Committee annually reviews the security programme to stay vigilant against cyber attacks thereby reducing the inherent risks associated with information security and cybersecurity.

Several international standards are subscribed to in order to shape, maintain and continuously enhance the Group's security programme, including those contained in Control Objectives for Information Technology ("CoBIT"), ISO27001/27002/27799 security standards, Centre for Internet Security and National Institute of Standards and Technology control frameworks. Information security and cybersecurity policies are reviewed annually to ensure alignment with legislative requirements in the different jurisdictions where the Company operates. In addition, various mechanisms are used to ensure that information security and cybersecurity remains relevant, such as management self-assessments, independent security reviews, internal and external audits and management oversight processes.

Overall ICT risk profiles, reviews, outcomes, actions and remediation plans are maintained and tracked through a central risk management system. Risk management of ICT and information security forms part of the Group's ERM process and regular assessments ensure that risks associated with information security and cybersecurity are appropriately highlighted, positioned and prioritised within the Group.

The Group's information and cybersecurity programme is supported by both the Board and the Group Executive Committee and is overseen by the Group's ICT Management Committee, which comprises the Group CIO and divisional CIOs.

# SUSTAINABLE DEVELOPMENT OVERVIEW (CONTINUED)

## Privacy and Data Protection

Mediclinic is committed to conducting its business in accordance with all applicable data protection legislation as may apply from time to time in the various divisions as well as other jurisdictions that apply to Group companies. Maintaining and respecting the privacy of employees, Directors, patients, affiliated medical practitioners, suppliers and stakeholders remains priorities. Mediclinic has reaffirmed its commitment to protecting the personal data of its stakeholders by embarking on a group-wide data privacy project to align and ensure compliance with relevant data protection legislation, as may be applicable in the various countries of operation, including the EU's GDPR. The Group Privacy and Data Protection Policy has been aligned to the GDPR standards and various initiatives have commenced to ensure that core components maintain their compliance status as it was at 25 May 2018, which is the date the GDPR came into effect. During the project rollout to the rest of the Group, compliance to applicable data protection legislation is ensured through customisation of the standardised project plan.

Information security policies and controls are in place throughout the Group regulating, *inter alia*, the processing, use and protection of own, personal and third-party information. Personal data flow across country borders are dealt with through formal arrangements in line with country-specific legislation. There were no material data breaches reported during the year under review.

The Group has appointed Data Protection Managers in each of its divisions as well as at its Corporate Office to ensure compliance to the Group Privacy and Data Protection Policy and successful integration of data privacy into all its operations.

## Support of external training institutions

The Group is committed to educational development in all three divisions and provides financial and other necessary support toward advancing healthcare education.

## Respecting human rights

The Group is committed to conducting its business in a manner that respects and promotes the human rights and dignity of people and avoids involvement in human rights abuses throughout its operations and relationships. This commitment is entrenched in the Group's Ethics Code, which is further supported by the Group's commitment to:

- avoid and not contribute to any indirect adverse human rights impacts that are directly linked to the Group's operations or services by its suppliers or other business relations;
- respect patients' rights, including but not limited to privacy, confidentiality, dignity, no discrimination, full information on health status and treatment, a second opinion, access to medical records, self-determination and participation, refusal of treatment and the right to complain;
- value diversity and equal opportunities for all in the workplace; and
- not tolerate any form of unfair discrimination, such as relating to access to employment, career development, training or working conditions, based on gender, age, religion, nationality, race/ethnic origin, language, HIV/Aids status, family status, disability, sexual orientation or other form of differentiation.

## Modern slavery and human trafficking

The **Mediclinic Modern Slavery and Human Trafficking Statement**, which is available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com), sets out the steps Mediclinic has taken to prevent any form of modern slavery and human trafficking, which includes any direct form of forced labour or child labour in its business, or indirectly through its supply chain. During the year, Mediclinic has developed additional steps to strengthen its position in monitoring slavery and human trafficking activities, to ensure that these practices are not taking place in its supply chains.

## Diversity

The Group values diversity and provides equal opportunities in the workplace, a matter which has received significant focus by the Nomination Committee during the year. The diversity representation (by race, gender and age) of the Group's most senior governing bodies, as well as direct reports to members of those governing bodies, are provided in the **Corporate Governance Statement** on page 114 and the **Nomination Committee Report** on page 154. Please also refer to the **2019 Sustainable Development Report** for more information.

### **Broad-based black economic empowerment (South Africa)**

Mediclinic Southern Africa's commitment to transformation within the South African context has culminated in a comprehensive review of its transformation strategy. Mediclinic has embarked on a transformation journey which is to embed a transformation strategy encompassing diversity and inclusivity to meet business imperatives while ensuring that legislative compliance is maintained. Mediclinic Southern Africa believes that Broad-Based Black Economic Empowerment is not simply aimed at redressing the wrongs of the past, but a pragmatic growth strategy that aims to realise the country's full economic potential.

Mediclinic Southern Africa's five-year (2018–2022) employment equity plan was approved by the Department of Labour in November 2018. The summarised employment equity report is included in the [2019 Sustainable Development Report](#).

The number of black employees increased year-on-year from 72.1% to 72.8% of total employees; and black management representation increased from 11.0% in 2006 to 29.0% in 2019, with a slight decrease between 2018 and 2019 (2018: 29.4%), based on Mediclinic Southern Africa's financial reporting period although the decrease in percentage does not imply a decrease in heads as far as black managers are concerned.

### **Emiratization (UAE)**

Due to the expatriate nature of the population in the UAE the workforce of Mediclinic Middle East includes staff from multiple nationalities and cultures and therefore the current focus is more on gender diversity, especially at managerial level. The UAE Government is driving a program called Emiratization to promote the employment of UAE nationals in the private sector. Mediclinic Middle East has specific Emiratization strategies aimed at the employment of UAE nationals with specific targets set for business units at division level.

### **Corporate social investment**

The Group contributes to the well-being of the communities within which it operates by investing in continuing initiatives that address socio-economic problems or risks. It has established itself as an integral member of these communities, enriching the lives of many communities throughout Switzerland, Southern Africa and the UAE.

The Group's CSI activities are structured around the improvement of healthcare through training and education, sponsorships, donations, employee volunteerism, public private initiatives and joint ventures. Many of the Group's initiatives relate to providing training and to the financial support of training. Due to the socio-economic conditions in Southern Africa, the majority of the Group's CSI contributions are by Mediclinic Southern Africa.

# NON-FINANCIAL INFORMATION STATEMENT

The table below sets out where stakeholders can find information in the **Strategic Report** that relates to non-financial matters detailed under Section 414CB of the UK Companies Act 2006 (the “**Act**”). Further details on all these matters can be found in the **2019 Sustainable Development Report**, as well as policy documents, available on the Company’s website at [www.mediclinic.com](http://www.mediclinic.com).

NON-FINANCIAL MATTER	THE RELEVANT POLICIES	WHERE TO READ MORE IN THIS REPORT ABOUT OUR IMPACT	PAGE REFERENCE
Business model	n/a	<ul style="list-style-type: none"> <li>• Business model</li> <li>• Our strategy, goals and progress</li> </ul>	16 18
Principal risks	ERM Policy	Risk management, principal risks and uncertainties	55
Environmental matters	<ul style="list-style-type: none"> <li>• Group Sustainable Development Policy</li> <li>• Group Environmental Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Our strategy, goals and progress</li> <li>• Sustainable development overview - Material issue 2: Minimising environmental impact</li> </ul>	18 86
Employees	<ul style="list-style-type: none"> <li>• Ethics Code</li> <li>• Health and safety policies and procedures</li> <li>• Employee relations policies</li> <li>• Board Diversity Policy</li> <li>• Diversity and Inclusion Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman’s Statement</li> <li>• Business model</li> <li>• Our strategy, goals and progress</li> <li>• Sustainable development overview - Material issue 1: Developing an engaged and productive workforce</li> <li>• Corporate Governance Statement – employees</li> <li>• Corporate Governance Statement – slavery and human trafficking</li> </ul>	12 16 18 80 131 128
Social matters	Purpose	<ul style="list-style-type: none"> <li>• Business model</li> <li>• Our strategy, goals and progress</li> <li>• Throughout the Sustainable development overview</li> </ul>	16 18 From 76
Respect for human rights	<ul style="list-style-type: none"> <li>• Modern Slavery and Human Trafficking Statement</li> <li>• Diversity and Inclusion Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable development overview</li> </ul>	76

NON-FINANCIAL MATTER	THE RELEVANT POLICIES	WHERE TO READ MORE IN THIS REPORT ABOUT OUR IMPACT	PAGE REFERENCE
Anti-corruption and anti-bribery matters	<ul style="list-style-type: none"> <li>• Code of Ethics</li> <li>• ERM Policy</li> <li>• Fraud Risk Management Policy*</li> <li>• Regulatory Compliance Policy</li> <li>• Anti-bribery Policy*</li> <li>• Group Privacy and Data Protection Policy</li> </ul> <p>* This policy includes anti-corruption matters.</p>	<ul style="list-style-type: none"> <li>• Our strategy, goals and progress</li> <li>• Sustainable development overview – Material issue 3: Being an ethical and responsible citizen</li> </ul>	<p>18</p> <p>93</p>
Non-financial KPIs	n/a	<ul style="list-style-type: none"> <li>• Company culture</li> <li>• Clinical services overview</li> <li>• Sustainable development overview</li> </ul>	<p>7</p> <p>41</p> <p>76</p>





# GOVERNANCE AND REMUNERATION

## CHAIRMAN'S INTRODUCTION

The Board and management team of Mediclinic are committed to maintaining strict principles of corporate governance and the highest standards of integrity and ethics which are embedded in the Company's corporate culture and values. Mediclinic's corporate governance structures support effective strategy delivery and are focused on building and maintaining a sustainable business. It also supports the Company's commitment to responsible corporate citizenship in every country and community in which it operates.

In the Corporate Governance Statement that follows, feedback is given on the governance framework, as well as on meetings, principal activities, composition and diversity of the Board and on measures taken to ensure the Board's accountability to wider stakeholders. Every Director demonstrated commitment to Mediclinic throughout the year through their meeting attendance and the high quality of their contributions at those meetings. The Nomination Committee and the Board continued to demonstrate their commitment to succession planning during the year and targeted diverse pools of talent from which to recruit the right individuals. This was demonstrated with the appointment of Dr Ronnie van der Merwe as CEO successor to Mr Danie Meintjes from 1 June 2018 and the appointment of Dr Anja Oswald as an independent non-executive Director in July 2018. Further, the continued involvement of Mr Meintjes as a non-executive Director from 1 August 2018 has reinforced the Board's view that his move from executive to non-executive Director continues to be in the best interests of the Group, its shareholders and other stakeholders in view of the wealth of knowledge and experience he has gained over his 30 years at Mediclinic.

The above changes represent key steps in a phased succession plan, further demonstrated by the planned retirement of Mr Desmond Smith as Senior Independent Director ("SID") and Chairperson of the Audit and Risk Committee at the conclusion of the Company's AGM on 24 July 2019 and the nomination of Mr Alan Grieve as

his successor in both roles from this date. Succession will continue to be a key priority for the Nomination Committee and for the Board, including non-executive Directors.

The key elements of the Company's governance structures include:

- managing the business in a sustainable manner;
- ensuring good clinical outcomes and quality healthcare;
- upholding strict principles of corporate governance, integrity and ethics;
- maintaining effective risk management and internal controls;
- engaging with stakeholders; and
- offering employees competitive remuneration packages based on the principles of fairness and affordability.

Further details are included in this **Annual Report**, as well as in the **Clinical Services Report** and the **Sustainable Development Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.

I remain confident that the Board, supported by an effective management team and governance structure, is well placed to continue to drive long-term value for stakeholders and maintain Mediclinic's leading position in the international healthcare market.

As mentioned in the report that follows, the Financial Reporting Council ("FRC") published the 2018 UK Corporate Governance Code ("**2018 Corporate Governance Code**") in July 2018 which will apply to Mediclinic in respect of the 2019/2020 financial year. The Board has reviewed the new requirements and welcomes its focus on the themes of corporate and Board culture, stakeholder engagement and sustainability.



**Dr Edwin Hertzog**  
Non-executive Chairman

# BOARD OF DIRECTORS

The committee memberships of the Directors provided herein are as at Wednesday, 22 May 2019 (the “**Last Practicable Date**”).



**DR EDWIN HERTZOG**

**Non-executive Chairman**

**Nationality: South African**



**DR RONNIE VAN DER MERWE**

**Chief Executive Officer**

**Nationality: South African**



**MR JURGENS MYBURGH**

**Chief Financial Officer**

**Nationality: South African**



**MR DESMOND SMITH**

**Senior Independent Director**

**Nationality: South African**

## 1 DR EDWIN HERTZOG

**Committee memberships: Clinical Performance and Sustainability Committee, Investment Committee (Chairperson), Nomination Committee (Chairperson)**

Dr Edwin Hertzog was appointed as the non-executive Chairman of the Company on 15 February 2016. Prior to the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016, he served as a Director of Mediclinic International Ltd from 1983 and as the Chairman from 1992. As a specialist anaesthetist, he was commissioned by the then Rembrandt group (now Remgro) in 1983 to undertake a feasibility study on the establishment of a private hospital group. Three years later, in 1986, Mediclinic International Ltd (then Medi-Clinic Corporation Ltd) was listed on the JSE Ltd (then Johannesburg Stock Exchange). He was appointed as the first Managing Director of Mediclinic International Ltd upon its establishment in 1983. He served as executive Chairman of Mediclinic from 1992 until August 2012 when he retired from his executive role but remained on the Board as non-executive Chairman. He also serves as the non-executive deputy Chairman of Remgro and is a past Chairman of the Council of Stellenbosch University.

*Qualifications: Dr Hertzog holds an MBChB (Stellenbosch University); the FCA (SA) (Fellowship of the College of Anaesthetists of South Africa); and a PhD in Philosophy honoris causa (Stellenbosch University).*

*\* Dr Hertzog's non-executive directorship of Remgro, as reported above, constitutes his other significant commitments for the purposes of Provision B.3.1 of the Corporate Governance Code.*

## 2 DR RONNIE VAN DER MERWE

**Committee memberships: Clinical Performance and Sustainability Committee, Investment Committee**

Dr Ronnie van der Merwe is a specialist anaesthetist who worked in the medical insurance industry before joining the Company in 1999 as Clinical Manager. He established the Advanced Analytics, Clinical Information, Clinical Services and Health Information Management functions at Mediclinic, and subsequently served as the Group's Chief Clinical Officer. He was appointed as an executive Director of Mediclinic International Ltd in 2010 up to the acquisition of Al Noor Hospitals Group plc. He was appointed as an executive Director and CEO of Mediclinic, with effect from 1 June 2018 and has also served on Spire's Board of Directors as a non-executive Director from 24 May 2018.

*Qualifications: Dr Van der Merwe holds an MBChB (Stellenbosch University); a DA (SA) (College of Anaesthetists of South Africa); the FCA (SA) (Fellowship of the College of Anaesthetists of South Africa); and completed the AMP (Harvard Business School).*

## 3 MR JURGENS MYBURGH

**Committee membership: Investment Committee**

Mr Jurgens Myburgh was appointed as an executive Director and Chief Financial Officer ("CFO") of the Company on 1 August 2016. Prior to joining Mediclinic, he served as CFO at Datatec Ltd, an international ICT group, and before that, as Executive Vice President of Investment Banking at The Standard Bank of South Africa Ltd.

*Qualifications: Mr Myburgh holds a BComm Hons in Accounting (University of Johannesburg) and is a qualified Chartered Accountant registered with the South African Institute of Chartered Accountants.*

## 4 MR DESMOND SMITH

**Committee memberships: Audit and Risk Committee (Chairperson), Nomination Committee**

Mr Desmond Smith was appointed as an independent non-executive Director of the Company on 15 February 2016 upon the successful combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd. Prior to the combination, he served as an independent non-executive Director of Mediclinic International Ltd from 2008 and as the lead independent director from 2010. He currently holds the position of Chairman at the Reinsurance Group of America (South Africa) ("RGA"). He was the CEO of the Sanlam Group ("Sanlam") from 1993-1997 and of RGA from 1999-2005. He was also Chairman of Sanlam from 2009-2017. During his career, he has served on various boards and was president of both the Actuarial Society of South Africa (1996) and the International Actuarial Association (2012).

*Qualifications: Mr Smith holds a BSc (Stellenbosch University); has completed the International Senior Management Programme (Harvard Business School); and is a fellow of the Actuarial Society of South Africa.*

## BOARD OF DIRECTORS (CONTINUED)



**DR MUHADDITHA AL HASHIMI**

**Independent Non-executive Director**

**Nationality: Emirati**



**MR JANNIE DURAND**

**Non-executive Director**

**Nationality: South African**



**MR ALAN GRIEVE**

**Independent Non-executive Director**

**Nationality: British and Swiss**



**DR FELICITY HARVEY CBE**

**Independent Non-executive Director**

**Nationality: British**



## 5 DR MUHADDITHA AL HASHIMI

### Committee membership: Clinical Performance and Sustainability Committee

Dr Muhadditha Al Hashimi was appointed as an independent non-executive Director of the Company on 1 November 2017. She is also a member of the Board of Trustees and the Audit and Compliance Committee of the University of Sharjah, a member of the Board of Trustees of the UAE Nursing and Midwifery Council and the UAE Genetics Diseases Association. She is currently the Chairperson of Sharjah Private Education Authority, UAE. Prior to her current position, Dr Al Hashimi was the Campus Director of Higher Colleges of Technology Sharjah Women's and Men's Colleges in the UAE. In addition, Dr Al Hashimi held the position of Executive Dean of the Faculty of Health Sciences, Higher Colleges of Technology; Acting Deputy Vice-Chancellor of Academic Affairs at the Higher Colleges of Technology; CEO of the Mohammed Bin Rashid Al Maktoum Academic Medical Centre in Dubai; CEO of Dubai Healthcare City; and the Director of Education of the Harvard Medical School Dubai Centre.

*Qualifications: Dr Al Hashimi holds a BS in Medical Technology (University of Minnesota); an MSc in Clinical Laboratory Services (University of Minnesota); and a DrPH in Public Health (University of Texas).*

## 6 MR JANNIE DURAND

### Committee memberships: Investment Committee, Nomination Committee

Mr Jannie Durand\* was appointed as a non-executive Director of the Company on 15 February 2016. Prior to the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016, he served as a non-executive Director of Mediclinic International Ltd from 2012. He joined the Rembrandt group in 1996 and in 2012 was appointed as the CEO of Remgro Ltd, which holds a 44.56% interest in the Company. In his current role, with more than 20 years' experience in the investment industry, he acts as a non-executive Director of various companies, including Distell Group Ltd, RCL Foods Ltd and RMI Holdings Ltd.

*Qualifications: Mr Durand holds a BAcc Hons in Accountancy (Stellenbosch University); an MPhil in Management Studies (Oxford University); and is a qualified Chartered Accountant registered with the South African Institute of Chartered Accountants.*

\* *Mr Pieter Uys, the Head of Strategic Investment at Remgro Ltd, is appointed as the alternate to Mr Durand, effective 7 April 2016. Prior to joining Remgro Ltd, Mr Uys was a founding member and ultimately became the CEO of the Vodacom Group.*

*Qualifications: Mr Uys holds an MEng in Electronic Engineering (Stellenbosch University) and an executive MBA (Stellenbosch University).*

## 7 MR ALAN GRIEVE

### Committee memberships: Audit and Risk Committee, Investment Committee

Mr Alan Grieve was appointed as an independent non-executive Director of the Company on 15 February 2016 and will succeed Mr Desmond Smith as Senior Independent Director at the end of the AGM on 24 July 2019. Prior to the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016, he served as an independent non-executive Director of Mediclinic International Ltd from 2012 and as a Director of Mediclinic Switzerland AG (now Hirslanden AG) from 2008–2012. He served as CFO of Reinet Investments Manager S.A. and Reinet Fund Manager S.A. from 2008–2011 and CEO from 2012 until he retired in 2014. He remains on the boards of both companies as a non-executive Director. He served as Company Secretary of Richemont, the Swiss luxury goods group, from 1998–2004 and as Director of Corporate Affairs from 2004–2014. Prior to joining Richemont's predecessor companies in 1986, he worked with the international auditing firms now known as PricewaterhouseCoopers and EY.

*Qualifications: Mr Grieve holds a BA Hons Business Administration (Heriot-Watt University) and is a member of the Institute of Chartered Accountants of Scotland.*

## 8 DR FELICITY HARVEY CBE

### Committee memberships: Clinical Performance and Sustainability Committee (Chairperson), Nomination Committee

Dr Felicity Harvey was appointed as an independent non-executive Director of the Company on 3 October 2017. She serves as a Visiting Professor at the Institute of Global Health Innovation at Imperial College London; is a non-executive Director of Guy's and St Thomas' NHS Foundation Trust in London; a Trustee of Royal Trinity Hospice in London; and Chair of the World Health Organization Independent Oversight & Advisory Committee for Health Emergencies. Previously, she served as Director-General of Public and International Health at the UK Department of Health; Director of the UK Prime Minister's Delivery Unit, then HM Treasury's Performance and Reform Unit; Head of the Medicines, Pharmacy and Industry Group at the Department of Health; Director of Prison Health at Her Majesty's Prison Service; Head of Quality Management at NHS Executive; and private Secretary to the Chief Medical Officer of the Department of Health for England. Dr Harvey was appointed CBE in 2008.

*Qualifications: Dr Harvey holds an MB BS (St. Bartholomew's Medical College, University of London); a PgDip in Clinical Microbiology (The Royal London Hospital College, University of London); an MBA (Henley Management College); and is an honorary fellow of the Royal College of Physicians and a fellow of the Faculty of Public Health.*



## BOARD OF DIRECTORS (CONTINUED)



**MR SEAMUS KEATING**

**Independent Non-executive Director**

**Nationality: Irish**



**MR DANIE MEINTJES**

**Non-executive Director**

**Nationality: South African**



**DR ANJA OSWALD**

**Independent Non-executive Director**

**Nationality: Swiss**



**MR TREVOR PETERSEN**

**Independent Non-executive Director**

**Nationality: South African**

## 9 MR SEAMUS KEATING

**Committee memberships: Audit and Risk Committee, Clinical Performance and Sustainability Committee, Remuneration Committee**

Mr Seamus Keating was appointed as an independent non-executive Director of the Company (then Al Noor Hospitals Group plc) on 5 June 2013 and continues to serve as a Director of the Company following the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016. He has over 20 years' experience in the global technology sector in finance and operational roles, and was a main board Director of Logica plc from 2002–2012. He was CFO of Logica plc from 2002–2010 when he became CEO and head of its Benelux operations. Prior to his role at Logica plc, he worked for the Olivetti Group in senior finance roles in the UK and Italy. He served as non-executive Director and Chairman of the audit committee of Mouchel plc from November 2010–2012. He is currently Chairman of First Derivatives plc, a non-executive Director of BGL Group Ltd and a non-executive Director of Mi-pay Group plc.

*Qualifications: Mr Keating is a fellow of the UK Chartered Institute of Management Accountants.*

## 10 MR DANIE MEINTJES

**Committee membership: Investment Committee**

Mr Danie Meintjes served as the CEO of Mediclinic from 2010 up to his retirement on 1 June 2018, remaining on the Board as an executive Director until 31 July 2018. He currently serves as a non-executive Director, effective 1 August 2018, and as the designated non-executive Director for workforce engagement, effective 1 April 2019. He was appointed as an executive Director and CEO of the Company on 15 February 2016. Prior to the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016, he served as the CEO of Mediclinic International Ltd from 2010. He has served in various management positions in the Remgro group before joining Mediclinic in 1985 as the Hospital Manager of Mediclinic Sandton. He was appointed as a member of Mediclinic's Executive Committee in 1995 and as a Director in 1996. He was seconded to serve as a senior executive of the Group's operations in Dubai in 2006 and appointed as the CEO of Mediclinic Middle East in 2007. Mr Meintjes serves as a non-executive Director of Capitec Bank Holdings Limited and Capitec Bank Limited. He served as a non-executive Director of Spire Healthcare Group plc from 2015, a position from which he retired on 24 May 2018.

*Qualifications: Mr Meintjes holds a BPL Hons in Industrial Psychology (University of the Free State) and completed the AMP (Harvard Business School).*

## 11 DR ANJA OSWALD

**Committee memberships: Nomination Committee, Remuneration Committee**

Dr Anja Oswald was appointed as an independent non-executive Director of the Company on 25 July 2018. She is the CEO of the Klinik Sonnenhalde, a well-established private clinic for psychiatry and psychotherapy with inpatients, day-care clinics and outpatients in Riehen, Switzerland, and is President of the Association of Private Hospitals in Basel. She is also a board member of *Integrierte Psychiatrie Winterthur* in Canton Zürich and of the Alliance for a Free Health Care System in Switzerland. Prior to this, she was Head of Medical and Pharmaceutical Services and Deputy Medical Officer in the Department of Health of the Cantonal Government in Basel and a member of various cantonal, regional and national committees. Dr Oswald was also CEO of a start-up company in the healthcare sector and worked several years as a Medical Doctor in different hospitals.

*Qualifications: Dr Oswald holds an MD PhD specialising in Orthopaedic Surgery and Traumatology, as well as in Sports Medicine (University of Basel) and an executive MBA (University of Rochester-Berne). She passed the Board School at the International Centre of Corporate Governance of the University of St. Gallen.*

## 12 MR TREVOR PETERSEN

**Committee memberships: Audit and Risk Committee, Remuneration Committee (Chairperson)**

Mr Trevor Petersen was appointed as an independent non-executive Director of the Company on 15 February 2016. Prior to the combination of the businesses of the Company (then Al Noor Hospitals Group plc) and Mediclinic International Ltd in 2016, he served as an independent non-executive Director of Mediclinic International Ltd from 2012. In 1996, he resigned as a Lecturer from the University of Cape Town to take up a partnership in the merged firm of PricewaterhouseCoopers Inc. He served as a partner of the national firm from 1997–2009 and as the partner-in-charge of Cape Town and as Chairman of the Western Cape region. He is an independent non-executive Director on the board of Media24 (Pty) Ltd (a subsidiary of Naspers Ltd) and is currently the managing trustee of the Woodside Village Trust. He has served professional membership associations such as the South African Institute of Chartered Accountants and was elected the Chairman of the National Body in 2006–2007.

*Qualifications: Mr Petersen holds a BComm Hons in Accountancy (University of Cape Town) and is a qualified Chartered Accountant registered with the South African Institute of Chartered Accountants.*

# GROUP EXECUTIVE COMMITTEE

The CEO, Dr Ronnie van der Merwe, is supported by an experienced and capable executive management team, with extensive industry experience and organisational knowledge. The continued growth of Mediclinic is testament to the strong management team and its ability to successfully execute the Group's strategy.

The biographies of Dr Van der Merwe (CEO) and Mr Myburgh (CFO) are provided on page 105 of this [Annual Report](#).



**MR GERT HATTINGH**

**Chief Corporate Services Officer**

**Nationality: South African**



**DR DIRK LE ROUX**

**Chief Information Officer**

**Nationality: South African**



**MR MAGNUS OETIKER**

**Chief Human Resources and Corporate Development Officer**

**Nationality: Swiss**



**DR RENÉ TOUA**

**Chief Clinical Officer**

**Nationality: South African**

## 1 MR GERT HATTINGH

Mr Gert Hattingh joined Mediclinic in 1991 as Group Accountant. He served in various management positions across the Group and was appointed as Company Secretary in 2000 and Group Services Executive in 2011. Subsequent to the acquisition of Al Noor Hospitals Group plc in February 2016, he holds the position of Chief Corporate Services Officer.

*Qualifications: Mr Hattingh holds BAcc Hons (Stellenbosch University); completed the AMP (Harvard Business School); and is a qualified Chartered Accountant registered with the South African Institute of Chartered Accountants.*

## 2 DR DIRK LE ROUX

Dr Dirk Le Roux joined Mediclinic in August 2014 as the Group ICT Executive. Prior to joining Mediclinic, he served in various managerial roles, including as Managing Director of ThinkWorx Consulting, CIO at Media24, General Manager of IT Strategy and Risk at Absa Bank Ltd, as well as the Head of IT at the Development Bank of Southern Africa.

*Qualifications: Dr Le Roux holds a DComm in Informatics (University of Pretoria); an MBA cum laude (Potchefstroom University for Christian Higher Education); a PgDip in Data Metrics (University of South Africa); and BEng in Civil Engineering (University of Pretoria).*

## 3 MR MAGNUS OETIKER

Mr Magnus Oetiker worked for Hirslanden in various management positions from 2000–2016. He served on this division's executive committee from 2008 in various roles, while also taking responsibility for human resource management. During his last two years at Hirslanden, he acted as Chief Strategy Officer. In 2016, he joined a family-owned company in Switzerland with interests in healthcare and catering as CEO. In February 2018, he was appointed Chief Human Resources Officer of Mediclinic.

*Qualifications: Mr Oetiker holds a BSc in Business Administration (Zürich University of Applied Sciences) and an Executive MBA (University of Zürich).*

## 4 DR RENÉ TOUA

Dr René Toua is a medical practitioner with extensive experience in private and public healthcare. She started her career in primary healthcare, established a geriatric private primary care practice and working in emergency medicine, including at an academic trauma unit, for several years. She joined Mediclinic in 2006 and held the positions of Regional Clinical Manager, and Clinical Data and Information Manager for Mediclinic Southern Africa. Subsequently, she served as the Group General Manager: Clinical Performance. She sits on the executive committee and board of trustees for Remedi, the in-house medical aid scheme, and is the chairperson of the Medical Advisory Committee. She was appointed Chief Clinical Officer with effect from 1 July 2018.

*Qualifications: Dr Toua holds an MBChB (Stellenbosch University); an MPhil in Emergency Medicine (Patient Safety and Clinical Decision Making) (University of Cape Town); and a PgDip in Project Management (Stellenbosch University Business School).*

## GROUP EXECUTIVE COMMITTEE (CONTINUED)



**MR DANIEL LIEDTKE**

**Chief Executive Officer: Hirslanden**

**Nationality: Swiss**



**MR KOERT PRETORIUS**

**Chief Executive Officer:  
Mediclinic Southern Africa**

**Nationality: South African**



**MR DAVID HADLEY**

**Chief Executive Officer: Mediclinic Middle East**

**Nationality: British**

## 5 MR DANIEL LIEDTKE

Mr Daniel Liedtke joined the Hirslanden Klinik St. Anna in Lucerne in 2001. He held various clinical and managerial positions at Hirslanden prior to his appointments as Hospital Manager of Klinik Hirslanden in 2008 and as Chief Operating Officer of the Hirslanden Group in 2015. In 2019 he was appointed as Chief Executive Officer of Hirslanden the Hirslanden Private Hospital Group.

*Qualifications: Mr Liedtke holds a Doctor of Business Administration (Charles Sturt University); a Master of Health Administration (FHS St. Gallen); a D.O. in Osteopathic Medicine (GDK); a BSc in Physiotherapy (Swiss Confederation); and a Certificate in Car Electronics (Federal certificate).*

## 6 MR KOERT PRETORIUS

Mr Koert Pretorius joined Mediclinic in 1998 as the Regional Manager of the central region of Mediclinic's operations in Southern Africa and in 2003 took on the role of Chief Operating Officer of the Mediclinic Group. He was appointed CEO of Mediclinic Southern Africa in 2008 and served as an Executive Director of Mediclinic International Ltd from 2006 up to acquisition of Al Noor Hospitals Group plc.

*Qualifications: Mr Pretorius holds a BCompt in Accounting Science (University of the Free State) and an MBL (University of South Africa).*

## 7 MR DAVID HADLEY

Mr David Hadley joined Mediclinic in 1993 and filled various administrative roles in human resources, finance, operations and hospital management before being seconded to Dubai in 2007 to oversee the opening of Mediclinic City Hospital. He was appointed as Chief Executive Officer: Mediclinic Middle East in 2009 and has served on the Group Executive Committee since 2011.

*Qualifications: Mr Hadley holds a BComm (University of South Africa) and an MBA with distinction (University of Liverpool).*



# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

The Board of Directors is accountable to the Company's shareholders for ensuring the sound management and long-term success of the Group. This can only be achieved if the Board is supported by appropriate governance processes to ensure that the Group is managed responsibly and with integrity, fairness, transparency and accountability. The Board is committed to maintaining the highest standards of corporate governance, integrity and ethics. This Corporate Governance Statement describes the key elements of Mediclinic's corporate governance framework.

To ensure consistency in adherence to corporate governance practices, a Group corporate governance manual, dealing with Board practices and Group policies, provides guidance to the company secretaries, boards and management of the Company and its three divisions.

## COMPLIANCE WITH UK CORPORATE GOVERNANCE CODE AND LISTINGS RULES

The current UK Corporate Governance Code ("**2016 Corporate Governance Code**") was published by the FRC in April 2016 and is available on its website at [www.frc.org.uk](http://www.frc.org.uk). The 2016 Corporate Governance Code contains a series of broad principles and specific provisions which embody good practice in relation to five key areas: leadership, effectiveness, accountability, remuneration and relations with shareholders. This Corporate Governance Statement, together with the **Directors' Remuneration Report** and the various Board committee reports included in this **Annual Report**, describes the Board's application of and compliance with the 2016 Corporate Governance Code.

During the year under review and up to the date of this report, the Company complied with all the provisions of the 2016 Corporate Governance Code, other than the exceptions noted below:

- *Provision B.2.1 (regarding the Nomination Committee leading the process for Board appointments and making recommendations to the Board)*

The Nomination Committee recommends appointments to the Board and further details of the committee and the appointment process can be found on page 154. In accordance with the Company's relationship agreement with its principal shareholder, Remgro Ltd ("**Remgro**"), further details of which are provided on page 131 (the "**Relationship Agreement**"), Remgro is entitled to appoint up to a maximum of three Directors to the Board. Mr Jannie Durand was appointed by Remgro on

15 February 2016 and represents Remgro on the Board of Directors. His appointment was therefore not led by the Nomination Committee. With the exception of this appointment, made in accordance with the terms of the Relationship Agreement, the Nomination Committee leads the process for Board appointments and makes recommendations to the Board. No new Board appointments were made in terms of the Relationship Agreement during the year under review.

- *Provision B.2.4 (an explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive Director)*

Neither an external search consultancy nor open advertising were used in the appointment of Dr Anja Oswald in July 2018. She was selected as the preferred candidate for the role of independent non-executive Director of the Company from a number of candidates identified based on a search-and-interview process through the Company's extensive network in Switzerland. Dr Oswald, with her expertise in the Swiss healthcare system, political landscape and regulatory environment, in addition to her experience in surgical medicine, general management and the development of business strategies, is proving to be a valuable addition to the Board. Through a structured and balanced process, Dr Oswald's proposed appointment was considered by the Nomination Committee and recommended to the Board.

- *Provision E.1.1 (regarding the attendance by the SID of sufficient meetings with a range of major shareholders)*

The Company has not met the requirement that the "SID should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders". This provision supports the main principle requiring dialogue with shareholders based on a mutual understanding of objectives and that the chairman should ensure that all Directors are made aware of major shareholders' issues and concerns, with which the Company complies. The Board believes that appropriate mechanisms are in place to engage with shareholders, without the need for the SID to attend meetings with major shareholders. The SID is, however, available to attend such meetings if requested. During the year, the Chairman met with two of Mediclinic's top shareholders (excluding Remgro) and the SID attended one of these meetings in London. Although the SID and the non-executive Directors have the opportunity to attend results presentations and other events hosted by the Company, the principal engagement with the capital

markets lies mainly with the CEO, CFO and the Head of Investor Relations, who provide regular feedback to the Board on investor relations matters, including, *inter alia*, an overview of meetings held with investors through the extensive global investor relations programme scheduled during the year. In April 2018, the Group conducted a detailed perception study with 88 participants using QuantiFire, a third-party independent service provider. The results were shared with the Board and a summary of the details have been set out on page 126, along with more information on the Company's shareholder engagement.

During the year, the Board and its committees considered the FRC's consultation on proposed revisions to the UK Corporate Governance Code and the subsequent publication of the 2018 Corporate Governance Code. The amended Code applies to the Company from 1 April 2019 and as at the date of this report, the Board has reviewed the 2018 Corporate Governance Code and its implications, and initiated activities to ensure compliance. The Board will continue the implementation thereof during the coming year, with a view to taking the steps required to ensure that the Company's corporate governance framework remains robust and effective, and reflects good governance practice.

In addition to complying with applicable corporate governance requirements in the UK, in accordance with its primary listing on the LSE, the Board is also satisfied that the Company meets all the relevant requirements of the JSE Listings Requirements and the NSX Listings Requirements arising from its secondary listings on the JSE in South Africa and the NSX securities exchange in Namibia.

## BOARD STRUCTURE AND ROLES

The Board has full and effective control of the Company and all material resolutions are approved by the Board. The Board has adopted a robust corporate governance

framework, as summarised in **Figure 1**, which assists the Board in the exercise of its responsibilities, namely providing strategic direction to the Company in order to create long-term shareholder value. A Board Charter sets out the key responsibilities of the Chairman, SID, non-executive Directors, executive Directors, the CEO and the Company Secretary, and outlines the roles of the various Board committees.

## Board committees

In order to operate efficiently and provide the appropriate level of attention and consideration to relevant matters, the Board has delegated authority to five committees to carry out certain tasks on its behalf, while reserving the authority to approve certain key matters, as documented in the Group's authority levels and reserved matters. The latter is reviewed annually by the Board. The key responsibilities of the Board committees, namely the Audit and Risk Committee, Clinical Performance and Sustainability Committee, Investment Committee, Nomination Committee and Remuneration Committee are summarised in **Figure 1**. The terms of reference of each Board committee, which are reviewed annually by the relevant committee and approved by the Board, are available on the Company's website at [www.mediclinic.com](http://www.mediclinic.com). Reports on the role, composition and activities of these committees are included in this **Annual Report**.

## Separation of Chairman and CEO roles

There is a distinct division of responsibilities between the Chairman and the CEO, as summarised in **Figure 1**. The separation of authority, which is set out in writing and agreed by the Board in a policy on the segregation of the roles of the Chairman and the CEO, enhances independent oversight of executive management by the Board and ensures that no one individual on the Board has unfettered powers or authority.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**FIGURE 1: CORPORATE GOVERNANCE FRAMEWORK**



**NON-EXECUTIVE CHAIRMAN**

Dr Edwin Hertzog

**Key responsibilities**

- Leads the Board
- Ensures the effective performance of the Board
- Works closely with the CEO to ensure the implementation of Board-approved actions
- Ensures effective communications with shareholders

*The Chairman's other significant commitments are indicated in his biography on page 104.*



**SENIOR INDEPENDENT DIRECTOR<sup>2, 3</sup>**

Mr Desmond Smith

**Key responsibilities**

- A sounding board for the Chairman
- Acts, if necessary, as a focal point and intermediary for other Directors
- Available to shareholders should they have concerns if contact outside the normal channels is required
- Leads the annual appraisal of the Chairman's performance and the independence of non-executive Directors

**BOARD<sup>1, 2, 3</sup>**

**Membership**

One non-executive Chairman, two additional non-executive Directors, seven independent non-executive Directors and two executive Directors

**Key responsibilities**

- Responsible for the effective oversight of the Company
- Agrees the strategic direction of the Group and the nature and extent of the principal risks it is willing to take
- Establishes the Group's governance structure, corporate reporting, risk management and internal control
- Sets appropriate corporate culture and ensures it is embedded across the Group
- Accountable to shareholders for the long-term success of the Group and delivering value to shareholders
- Delegates authority to Board committees to carry out certain tasks on its behalf

*The biographies of the Board members are set out on page 104.*

**EXECUTIVE DIRECTORS**



**CHIEF FINANCIAL OFFICER**

Mr Jurgens Myburgh

**Key responsibilities – CEO & CFO**

- Contribute detailed insight into the operations of the business, enabling the Board to determine feasibility and practicality of proposed strategies, goals and direction
- Make and implement operational decisions



**CHIEF EXECUTIVE OFFICER**

Dr Ronnie van der Merwe<sup>1</sup>

**Key responsibilities**

- Leads and oversees the executive management team
- Manages the business of the Group
- Progresses, develops and oversees the implementation of Board-approved actions, and the strategic direction of the Group and its commercial objectives
- Ensures appropriate culture and governance are embedded across the Group

## NON-EXECUTIVE DIRECTORS

Dr Muhadditha Al Hashimi, Mr Jannie Durand, Mr Alan Grieve,<sup>2</sup> Dr Felicity Harvey, Mr Seamus Keating, Mr Danie Meintjes,<sup>1</sup> Dr Anja Oswald, Mr Trevor Petersen, Mr Desmond Smith<sup>3</sup>

### Key responsibilities

- Support the development of the Group's strategy
- Scrutinise management's performance
- Provide constructive challenge, drawing on their skills, experience and judgment
- Satisfy themselves on the integrity of the Group's financial reporting and on the effectiveness of its internal controls and risk management systems
- Determine the remuneration of executive Directors
- Approve the appointment or removal of Directors and review succession planning

## AUDIT AND RISK COMMITTEE<sup>2, 3</sup>

### Membership

Four independent non-executive directors

### Key responsibilities

- Reviews and monitors the integrity of the Group's financial reporting
- Reviews and monitors the Group's relationship with the external auditor and the effectiveness of the external audit
- Reviews the effectiveness of the Group's Internal Audit function
- Reviews and monitors the effectiveness of the Group's internal control systems and risk management processes

## CLINICAL PERFORMANCE AND SUSTAINABILITY COMMITTEE

### Membership

Three independent non-executive Directors, one non-executive Director and one executive Director

### Key responsibilities

- Monitors clinical performance throughout the Group
- Promotes culture of excellence in patient safety, quality of care and patient experience, together with Mediclinic's values, ethical standards and behaviours
- Monitors the sustainable development performance of the Group
- Ensures the Group is a good and responsible corporate citizen

## COMPANY SECRETARY

Link Company Matters Ltd

### Key responsibilities

- Acts as Secretary to the Board and its committees
- Provides advice and guidance to the Board collectively, and Directors individually, with regard to their duties, responsibilities and powers
- Ensures the effective administration of proceedings and matters related to the Board, the Company and its shareholders
- A point of contact for shareholders on corporate governance matters

## GROUP EXECUTIVE COMMITTEE

### Membership

CEO, CFO, Chief Corporate Services Officer, Chief Clinical Officer, CIO, Chief Human Resources Officer and the three divisional CEOs

### Key responsibilities

- Responsible for the executive management of the Group's businesses
- Considers investment opportunities, operational matters and other aspects of strategic importance to the Group and makes recommendations to the Board
- Performs any other functions delegated to management by the Board

## INVESTMENT COMMITTEE

### Membership

One independent non-executive Director, three non-executive Directors and two executive Directors

### Key responsibilities

- Reviews and approves proposed investments and capital expenditures within its authority levels
- Reviews and makes recommendations to the Board regarding proposed investments and capital expenditures that exceed its own authority level
- Monitors performance of approved investments

## NOMINATION COMMITTEE

### Membership

Three independent non-executive Directors and two non-executive Directors

### Key responsibilities

- Reviews the structure, size, and composition of the Board
- Identifies and recommends potential candidates to be appointed as Directors or members of Board committees, as the need arises
- Reviews succession planning and diversity within the Board, the Group Executive Committee and their direct reports

## REMUNERATION COMMITTEE

### Membership

Three independent non-executive Directors

### Key responsibilities

- Makes recommendations to the Board on the Company's policy on executive remuneration
- Establishes the parameters and governance of the Remuneration Policy
- Determines the remuneration and benefits package for individual executive Directors and other members of executive management
- Provides guidance on general remuneration policies across the Group

### Notes

<sup>1</sup> Dr Van der Merwe succeeded Mr Meintjes as CEO with effect from 1 June 2018. Mr Meintjes continued to serve as an executive Director until 31 July 2018 and as a non-executive Director with effect from 1 August 2018.

<sup>2</sup> Mr Alan Grieve will succeed Mr Desmond Smith as SID and Chairperson of the Audit and Risk Committee with effect from the conclusion of the AGM on 24 July 2019.

<sup>3</sup> Mr Smith will retire from the Board and the Board committees upon the conclusion of the AGM on 24 July 2019.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## BOARD MEETINGS

### Meeting attendance

The names of all the Directors who served during the reporting period are set out in **Table 1** below, together with their attendance of Board meetings held during the period under review. Their biographies are provided on page 104. Attendance of Investment Committee meetings held during the year under review is set out in **Table 2**. Attendance of other committee meetings is set out in the respective committee reports. Each Director's attendance of Board and Board committee meetings is considered part of the formal annual review of their performance. When a Director is unable to attend a Board or Board committee meeting, they communicate their comments and observations on the matters to be considered in advance of the meeting via the Chairman, the SID or relevant Board committee's Chairperson for raising, as appropriate, during the meeting.

**TABLE 1: BOARD MEETING ATTENDANCE**

NAME <sup>1</sup>	DESIGNATION	DATE OF APPOINTMENT	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>2</sup>
<b>Directors as at 31 March 2019</b>			
Dr Edwin Hertzog <sup>3</sup>	Non-executive Chairman	15/02/2016	6/7
Dr Ronnie van der Merwe <sup>4</sup>	Chief Executive Officer	01/06/2018	6/6
Mr Jurgens Myburgh	Chief Financial Officer	01/08/2016	7/7
Mr Desmond Smith	Senior Independent Director	15/02/2016	7/7
Dr Muhadditha Al Hashimi	Independent Non-executive Director	01/11/2017	7/7
Mr Jannie Durand	Non-executive Director	15/02/2016	7/7
Mr Alan Grieve <sup>5</sup>	Independent Non-executive Director	15/02/2016	6/7
Dr Felicity Harvey	Independent Non-executive Director	03/10/2017	7/7
Mr Danie Meintjes	Non-executive Director	15/02/2016	7/7
Mr Seamus Keating	Independent Non-executive Director	05/06/2013	7/7
Dr Anja Oswald <sup>6</sup>	Independent Non-executive Director	25/07/2018	5/5
Mr Trevor Petersen	Independent Non-executive Director	15/02/2016	7/7
<b>Directors who served on the Board until 25 July 2018</b>			
Prof Dr Robert Leu	Independent Non-executive Director	15/02/2016	2/2
Ms Nandi Mandela	Independent Non-executive Director	15/02/2016	2/2

**TABLE 2: INVESTMENT COMMITTEE MEETING ATTENDANCE**

NAME <sup>1</sup>	DESIGNATION	DATE OF APPOINTMENT (as committee member)	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>7</sup>
Dr Edwin Hertzog <sup>3</sup> (Committee Chairperson)	Non-executive Chairman	19/02/2016	1/2
Dr Ronnie van der Merwe	Chief Executive Officer	25/07/2018	1/1
Mr Jurgens Myburgh	Chief Financial Officer	01/08/2016	2/2
Mr Jannie Durand	Non-executive Director	19/02/2016	2/2
Mr Alan Grieve	Independent Non-executive Director	19/02/2016	2/2
Mr Danie Meintjes	Non-executive Director	19/02/2016	2/2

**Notes**

<sup>1</sup> The composition of the Board and its committees is shown as at 31 March 2019.

<sup>2</sup> The attendance reflects the number of scheduled Board meetings held during the financial year. Between the Company's financial year-end and the Last Practicable Date, the Board held one scheduled meeting and all members who were eligible to attend did so.

<sup>3</sup> Dr Hertzog was unable to attend one scheduled Board meeting and one scheduled Investment Committee meeting for unexpected personal reasons.

<sup>4</sup> Dr Van der Merwe was appointed as CEO of the Company on 1 June 2018 and attended all subsequent scheduled Board meetings.

<sup>5</sup> Mr Grieve was unable to attend one scheduled Board meeting owing to a prior commitment which could not be changed.

<sup>6</sup> Dr Oswald was appointed as independent non-executive Director of the Company on 25 July 2018 and attended all subsequent scheduled Board meetings.

<sup>7</sup> The attendance reflects the number of scheduled meetings of the Investment Committee held during the financial year. The Investment Committee held three additional *ad hoc* meetings during the financial year to deal with urgent matters, which were attended by all or a majority of members. Between the Company's financial year-end and the Last Practicable Date, the Investment Committee met once and all members were present.

**PRINCIPAL BOARD ACTIVITIES**

**Table 3** outlines a number of specific areas that the Board focused on during the year under review. The Board's annual agenda plan is designed to ensure that sufficient time is allocated to address all necessary matters. The agendas are adjusted throughout the course of the year to prioritise relevant issues and ensure focused consideration of strategic priorities. Sufficient time is provided for the Chairman to meet privately with the SID and non-executive Directors to discuss any concerns arising.

**TABLE 3: 2018 BOARD FOCUS AREAS**

STRATEGIC GOALS	PRINCIPAL RISKS AND UNCERTAINTIES CATEGORIES
As described in <b>Our strategy, goals and progress</b> on page 18.	As described in <b>Risk management, principal risks and uncertainties</b> on page 55.
<ul style="list-style-type: none"> <li>① Putting <i>Patients First</i></li> <li>② Improving Group and operational efficiencies</li> <li>③ Continuing to grow</li> <li>④ Continuing to address the business environment</li> </ul>	<ul style="list-style-type: none"> <li>① Strategic and business environment</li> <li>② Financial and reporting</li> <li>③ Operational</li> <li>④ Information technology</li> <li>⑤ Compliance</li> <li>⑥ Clinical</li> <li>⑦ People</li> </ul>



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**TABLE 4: PRINCIPAL BOARD ACTIVITIES**

	STRATEGIC GOALS	PRINCIPAL RISKS
<b>STRATEGY AND BUSINESS PLANS</b>		
<ul style="list-style-type: none"> <li>Monitored progress against the Group's overall strategic objectives and goals, including the long-term business plan and annual budget for each division and the Group as a whole</li> <li>Oversaw and approved the development of a refocused corporate strategy for the financial year commencing in April 2019, including the purpose of the Group, strategic goals and enablers to allow the Group to deliver on its purpose, vision and mission</li> </ul> <p>Refer to <b>Our strategy, goals and progress</b> on page 18.</p>	<p>① ② ③ ④</p> <p>① ② ③ ④</p>	<p>① ②</p> <p>① ② ③ ④ ⑤ ⑥ ⑦</p>
<ul style="list-style-type: none"> <li>Considered requests for approval of investments and business development transactions of a size that require Board approval, such as the combination of Hirslanden Clinique la Colline and Clinique des Grangettes (Switzerland)</li> </ul> <p>Refer to the <b>Divisional Reviews</b> from page 62.</p>	<p>② ③</p>	<p>① ② ③ ⑥ ⑦</p>
<b>OPERATIONAL PERFORMANCE</b>		
<ul style="list-style-type: none"> <li>Discussed regular reports from the CEO on the operating performance of the Group's divisions and central functions</li> <li>Received in-depth reviews of each division from the divisional CEOs</li> <li>Discussed initiatives being undertaken to counter declines in tariffs and volumes and to drive greater cost efficiencies</li> </ul> <p>Refer to the <b>Chief Executive Officer's Review</b> on page 24 and the <b>Divisional Reviews</b> from page 62.</p>	<p>① ② ③ ④</p>	<p>② ③ ④ ⑤ ⑥ ⑦</p>
<b>CLINICAL PERFORMANCE</b>		
<ul style="list-style-type: none"> <li>Discussed regular reports from the Chief Clinical Officer and the Clinical Performance and the Sustainability Committee on matters such as clinical indicators for patient safety, clinical effectiveness and clinical cost efficiency, accreditation of medical practitioners and facilities, implementation of clinical information systems and clinical governance matters across the Group</li> </ul> <p>Refer to the <b>Clinical services overview</b> on page 41.</p>	<p>① ② ④</p>	<p>⑤ ⑥ ⑦</p>
<b>FINANCIAL PERFORMANCE, REPORTING, TAX STRATEGY AND DIVIDEND POLICY</b>		
<ul style="list-style-type: none"> <li>Discussed regular reports from the CFO on the actual and forecast financial performance of each division and the Group, as a whole</li> <li>Reviewed and approved the half-year and full-year trading updates via a mandated sub-committee, the interim financial report, the annual report and the corresponding results announcement and investor presentations, with support from the Management Disclosure Committee, as appropriate</li> <li>Reviewed and adopted an updated Group tax strategy</li> <li>Considered and approved decisions regarding the interim and final dividends paid and proposed in FY19, taking account of the Company's Dividend Policy and previous dividends paid</li> </ul> <p>Refer to the <b>Financial Review</b> on page 29.</p>	<p>② ③</p>	<p>① ②</p>
<b>RISK MANAGEMENT AND INTERNAL CONTROLS</b>		
<ul style="list-style-type: none"> <li>Reviewed bi-annual feedback provided by the Group Risk Manager on the Group's risk appetite, risk management framework, internal control systems and statutory and regulatory compliance</li> <li>Reviewed the going concern and long-term viability statements, based on the principal risks and uncertainties of the Group</li> </ul>	<p>② ③</p>	<p>① ② ③ ④ ⑤ ⑥ ⑦</p>

	STRATEGIC GOALS	PRINCIPAL RISKS
<b>RISK MANAGEMENT AND INTERNAL CONTROLS (continued)</b>		
<ul style="list-style-type: none"> <li>Conducted a robust assessment of the Group's principal risks and uncertainties and mitigating actions</li> <li>Conducted a robust assessment of the effectiveness of the Group's internal control systems and risk management processes</li> <li>Oversaw the successful establishment of an in-house Internal Audit function</li> </ul> <p>Refer to the report on <b>Risk management, principal risks and uncertainties</b> on page 55 and the <b>Audit and Risk Committee Report</b> on page 136.</p>	(2) (3)	(1) (2) (3) (4) (5) (6) (7)
<b>INFORMATION AND COMMUNICATIONS TECHNOLOGY</b>		
<ul style="list-style-type: none"> <li>Considered regular reports from the CIO</li> <li>Received updates on the Group's ICT infrastructure, strategy, risks, potential impact, existing controls and mitigants, and proposed enhancements</li> <li>Closely monitored progress on the implementation of IT projects and the adoption of new technology across the Group's divisions aimed at adapting the Group to the evolving global healthcare environment</li> </ul>	(2) (3)	(3) (4)
<b>CORPORATE GOVERNANCE</b>		
<ul style="list-style-type: none"> <li>Considered the implications of the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 on the Company's corporate governance framework</li> <li>Agreed the Company's approach to workforce and stakeholder engagement and approved the appointment of Mr Meintjes as designated non-executive Director for workforce engagement</li> <li>Considered the feedback from the Hampton-Alexander Report and enhanced existing policies and succession planning arrangements to improve the diversity of the Board, the Group Executive Committee and their direct reports</li> <li>Reviewed and approved the Company's updated Modern Slavery and Human Trafficking Statement</li> <li>Considered feedback from: (a) the Audit and Risk Committee in respect of non-audit services disclosures; (b) the Nomination Committee in relation to diversity, succession planning and the appointment of new non-executive Directors; and (c) the Remuneration Committee in relation to executive remuneration</li> <li>Reviewed and approved all Group policies and procedures, including those in relation to:             <ul style="list-style-type: none"> <li>- the Board Charter and committees' terms of reference</li> <li>- authority levels and matters reserved for the Board</li> <li>- business conduct and ethics</li> <li>- anti-bribery</li> <li>- sustainable development and environment</li> <li>- Board diversity</li> <li>- treasury strategy</li> <li>- tax strategy</li> </ul> </li> </ul>	(1) (2) (3)	(1) (3) (5)
<b>SUSTAINABILITY</b>		
<ul style="list-style-type: none"> <li>Considered the feedback from the Clinical Performance and Sustainability Committee on sustainability matters</li> <li>Monitored the broad-based black economic empowerment initiatives undertaken by the Group in South Africa</li> </ul> <p>Refer to the <b>Clinical Performance and Sustainability Committee Report</b> on page 150.</p>	(2) (3) (4)	(1) (2) (3) (6) (7)

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

	STRATEGIC GOALS	PRINCIPAL RISKS
<b>LEADERSHIP</b>		
<ul style="list-style-type: none"> <li>Considered the recommendations of the Nomination Committee regarding the composition of the Board and its committees and potential candidates to fill the vacancies identified and approved the appointment of a third female independent non-executive Director to broaden the diversity and refresh the Board's composition</li> <li>Reviewed the outcomes and agreed actions after the internally facilitated evaluation of the composition, structure and functioning of the Board and its committees</li> </ul> <p>Refer to the <b>Nomination Committee Report</b> on page 154 and the section regarding the Board evaluation on page 155.</p>	① ② ③ ④	① ② ③ ④ ⑤ ⑥ ⑦
<b>STAKEHOLDER ENGAGEMENT</b>		
<ul style="list-style-type: none"> <li>Took an active interest in how the Company engaged with its key stakeholders who are vital to building a successful and sustainable business</li> </ul> <p>Refer to the <b>Stakeholder interest and board engagement</b> section further below.</p>		

## BOARD COMPOSITION AND DIVERSITY

The delivery of the Company's long-term strategy depends on attracting and retaining the right skills across the Group, starting with the Board, as well as the executive management team, and their direct reports. Biographies of the Company's current Directors who were in office during the year and up to the date of signing the financial statements, can be found on page 104.

As at 31 March 2019 and as at the date of this **Annual Report**, the Board comprised the non-executive Chairman, two non-executive Directors, seven independent non-executive Directors, and two executive Directors from wide-ranging backgrounds and with varying industry and professional experience. The Company complies with the 2016 Corporate Governance Code recommendation that at least half the Board should be independent.

When determining whether a non-executive Director is independent, the Board considers each individual against the 2016 Corporate Governance Code and also considers how they conduct themselves in Board meetings, including how they exercise judgement and independent thinking. Taking those factors into account, the Board believes that the Directors who are classified as independent non-executive Directors continue to demonstrate their independence as set out in the **Assessment of independence of non-executive Directors** on page 157.

Mr Alan Grieve will succeed Mr Desmond Smith as both as SID and Chairperson of the Audit and Risk Committee with effect from the conclusion of the AGM on 24 July 2019. The Board believes that Messrs Smith and Grieve are independent in character, skill and judgement and that both

continue to provide challenge within Board meetings and to drive productive discussions.

The Company's Chairman, Dr Hertzog, is not considered to be an independent Director given his involvement as Chief Executive of Mediclinic International Ltd until his appointment as Chairman in 1992 and his position as non-executive Deputy Chairman of Remgro Ltd, the principal shareholder of the Company. Nonetheless, given his in-depth industry knowledge and experience, the Board considers it in the best interests of the Company that he serves as Chairman.

Mr Meintjes does not meet the criteria to be considered an independent non-executive Director. The Board considered his proposed appointment as a non-executive Director and, after careful deliberation, concluded his appointment is in the best interests of the Group, its shareholders and other stakeholders, taking into account the knowledge and experience of the industry and the business that Mr Meintjes has gained over 30 years in different capacities across the business, and the overall composition of the Board.

Appointments to the Board are recommended and led by the Nomination Committee and further details of the committee and the appointment process can be found on page 155. In accordance with the Company's Relationship Agreement with its principal shareholder, Remgro (further details of which are provided on page 131), Remgro is entitled to appoint up to a maximum of three Directors to the Board. Mr Durand was appointed to the Board in accordance with the terms of the Relationship Agreement on 15 February 2016 and represents Remgro on the Board of Directors. No new Board appointments were made in terms of the Relationship Agreement during the year under review.

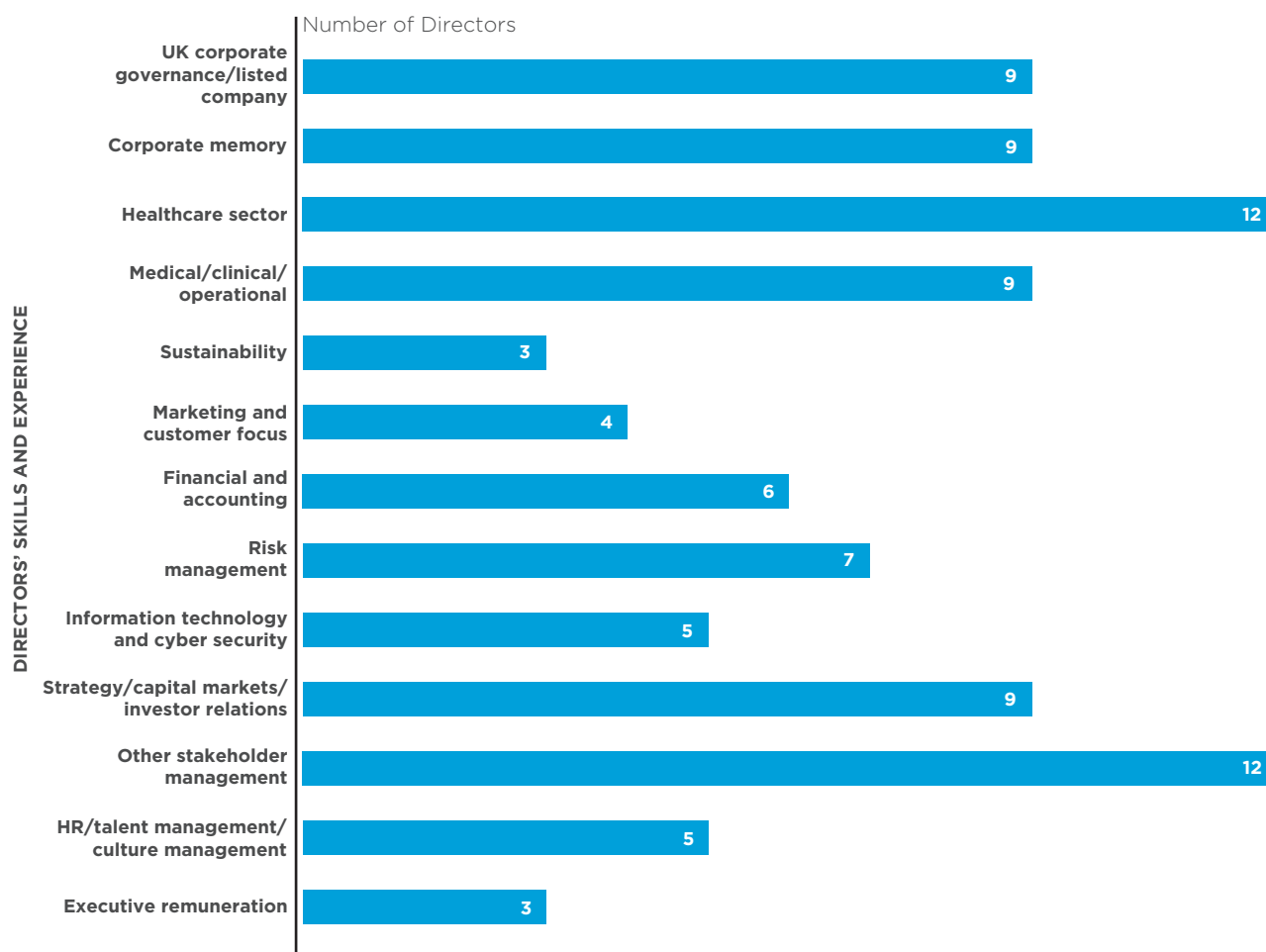
Mediclinic recognises the importance and benefits of having a diverse Board and believes that diversity at Board level is an essential element in maintaining a competitive advantage. The Board considers that diversity is not limited to gender and that a diverse Board will also include and make good use of differences in the skills, geographic and industry experience, background, race, social background, cognitive and personal strengths and other characteristics of Directors.

The Board seeks to construct an effective, robust, well-balanced and complementary Board, the capability of which is appropriate to the nature, complexity and strategic demands of the business. The Board and the Nomination Committee actively consider the structure, size and composition of the Board and its committees when contemplating new appointments and succession planning for the year ahead, as described on page 155 of the Nomination Committee Report. A range of diversity factors are taken into account in determining the optimal composition of the Board and its committees, together with the need to balance their composition and refresh this progressively over time.

The Company's non-executive Directors come from a wide range of industries, backgrounds and geographic locations and have appropriate experience of organisations with international reach. The skills and expertise of the Board have been extended and reinforced through the appointment of Dr Oswald during the year. The Nomination Committee continues to consider and develop succession plans for the Board and its committees. Accordingly, when considering Board appointments and internal promotions at senior level, the Company will continue to take account of relevant voluntary guidelines in fulfilling their role regarding diversity, while seeking to ensure that each post is offered strictly on merit to the best available candidate.

The Board's Diversity Policy statement is set out on page 156. For details of the diversity of the Board, the Group Executive Committee and the executive committees of each division (including a breakdown of race for Southern Africa, in line with local requirements), see the section on **Employees** on page 131. **Figure 2** provides an overview of the Board's composition and diversity in terms of gender and experience.

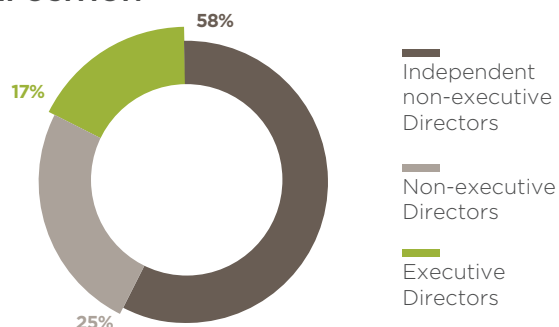
**FIGURE 2: BOARD COMPOSITION AND DIVERSITY**



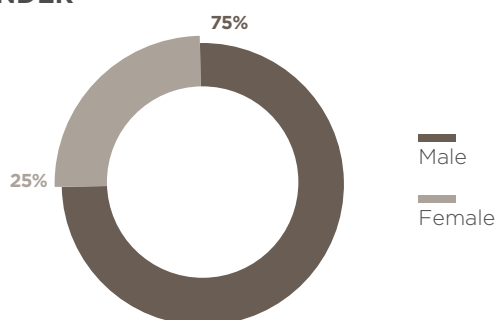
# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**FIGURE 2: BOARD COMPOSITION AND DIVERSITY (CONTINUED)**

## COMPOSITION



## GENDER



## EVALUATION OF THE BOARD, COMMITTEES AND CHAIRMAN

During the year under review, the Board conducted an internally facilitated evaluation to review performance and effectiveness of the Board as a whole, the Board committees and the Chairman. The evaluation process was conducted by way of questionnaires and discussions with the Chairman of the Board and each committee. The results of the evaluation of the Board committees were considered by the relevant committee prior to their presentation, together with all other evaluations, for discussion at the Board meeting held in March 2019.

All Board members were invited to complete a set of online surveys addressing the performance of the Board, the Chairman and the committees. The anonymity of the respondents was ensured throughout the process in order to promote a frank exchange of views.

The conclusions of this year's evaluation were discussed at the Board meeting held in March 2019 and the actions agreed upon for 2019 have been summarised below:

- To review the introduction of return on invested capital ("ROIC") as a performance measure for forthcoming long-term incentives.
- To improve the implementation of technology and associated change management across the divisions continuously.
- To implement and oversee the Company's corporate strategy.
- To oversee succession planning within all divisions continuously.
- To establish a meaningful and practical structure for updating the Board on issues concerning the workforce and wider stakeholders.

The non-executive Directors, led by the SID, discussed the performance evaluation of the Chairman, having obtained the views of the executive Directors. The results were discussed privately between the Chairman and the SID after the March 2019 meeting.

The Company will conduct an externally facilitated performance evaluation every three years and internal self-evaluations in the intervening years. The Board conducted an externally facilitated evaluation in the 2018 financial year and therefore does not anticipate doing so again until 2021, but is committed to ensuring that the internally facilitated review in 2020 will highlight progress against the above actions, as well as identify further areas for improvement.

The Board is satisfied with the progress made in respect of the key priorities identified by the externally facilitated evaluation conducted in 2018.

## STAKEHOLDER INTEREST AND BOARD ENGAGEMENT

Mediclinic recognises its accountability to its stakeholders. Effective communication with stakeholders, not just at Board level but across the whole Group, is fundamental in maintaining Mediclinic's corporate reputation as a trusted and respected provider of healthcare services and positioning itself as a leading international private healthcare group. The Group's key stakeholders, methods of engagement, topics discussed and/or concerns raised are outlined further in the [Sustainable Development Report](https://investor.mediclinic.com/results-centre/results-and-reports), available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>. The Board is reviewing existing engagement mechanisms to ensure they are effective.

**TABLE 5: BOARD ENGAGEMENT**

STAKEHOLDERS	IMPORTANCE	BOARD ENGAGEMENT
Patients	Patients are at the heart of Mediclinic's core purpose, strategy and objectives. The long-term success of the Group is built on its ability to understand and serve patients' needs.	<ul style="list-style-type: none"> <li>• Regularly reviews clinical performance indicators and their evolution over time</li> <li>• Reviews patient experience index and implementation of resulting action plans</li> </ul>
Shareholders	<p>Shareholder support and engagement are critical to the delivery of the long-term strategy and to the sustainability of the business.</p> <p>Mediclinic's ownership structure allows management and the Board to adopt a long-term approach to value creation, consistent with the nature of the business.</p>	<ul style="list-style-type: none"> <li>• Considers investors' views and feedback, including detailed feedback obtained through an investor perception study</li> <li>• Seeks to increase the amount and quality of engagement with shareholders through the executive Directors to develop the Board's understanding of investors' views</li> <li>• Consults regarding key developments</li> </ul>
People	Mediclinic's ability to provide comprehensive, high-quality healthcare and be regarded as the most respected and trusted provider of healthcare services depends on attracting and retaining suitably qualified healthcare professionals and other employees.	<ul style="list-style-type: none"> <li>• Reviews annual employee engagement surveys and implementation of resulting action plans</li> <li>• Monitors remuneration arrangements across the Group</li> <li>• Regular communications through management briefings and internal announcements</li> </ul>
Regulators	Mediclinic can only operate with the approval of its regulators who have a legitimate interest in how the Group runs its business and treats its patients.	<ul style="list-style-type: none"> <li>• Encourages a constructive dialogue with the Group's regulators</li> <li>• Monitors clinical, regulatory and legal compliance through regular management reports</li> </ul>
Healthcare funders	<p>Government and private sector funders of healthcare services are critical to Mediclinic's success.</p> <p>Mediclinic aims to demonstrate to funders that it provides high-quality, effective and efficient services.</p>	<ul style="list-style-type: none"> <li>• Regularly reviews the clinical performance indicators across the Group</li> <li>• Encourages the development and publication of clinical performance information</li> <li>• Encourages a constructive dialogue with the Group's healthcare funders</li> </ul>
Suppliers	To deliver its services, Mediclinic depends on a large and diverse range of suppliers.	<ul style="list-style-type: none"> <li>• Reviews and approves the Company's arrangements regarding modern slavery</li> <li>• Reviews and approves payment practices and performance reporting in the UK</li> </ul>



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## SHAREHOLDER ENGAGEMENT

Responsibility for shareholder relations rests with the Chairman, CEO, CFO, SID and Head of Investor Relations. Collectively – but mainly through the CEO, CFO and Head of Investor Relations (as referred to on page 114) – they ensure that there is effective, regular and transparent communication with shareholders on matters such as operational and financial performance, regulatory changes, governance and strategy. In addition, they are responsible for ensuring that the Board understands the views of shareholders on matters such as governance and strategy. The Board is supported by the Company’s corporate brokers with whom it is in constant dialogue. The Management Disclosure Committee assists the Board to ensure the timely and accurate disclosure of all information that is required to be disclosed to meet the legal and regulatory obligations, as well as the requirements arising from its listing on the LSE.

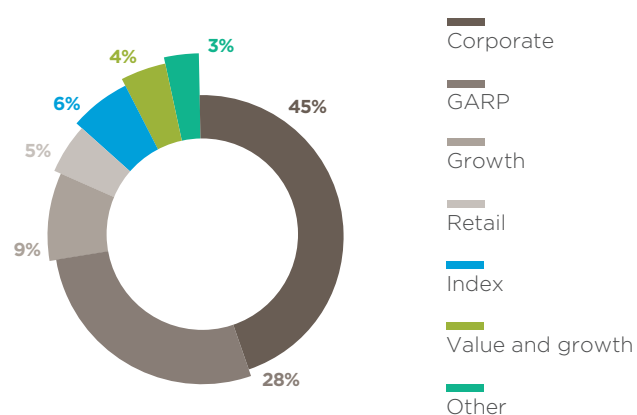
During the year, the investor relations programme included regular communication with the capital markets including investor meetings, attendance at investor conferences, roadshows, presentations, site visits and *ad hoc* events with investors, sell-side analysts and sales teams. Members of the Board and Group Executive Committee met with more than 150 institutions and participated in some 20 roadshows, investor conferences and *ad hoc* capital market events across the UK, South Africa and North America. A breakdown of the fund manager style and geographic holdings as at year-end are provided in **Figure 3** and **4** respectively.

In June 2018, the Group hosted a Capital Markets Day and site visit for investors and analysts in Switzerland. Several Group Executive Committee members presented at the event, including the CEO and CFO, and all presentations were available to view on the investor relations section of Mediclinic’s website via a live webcast. Additionally, the Group hosted an investor and analyst site visit to Mediclinic Middle East in December 2018.

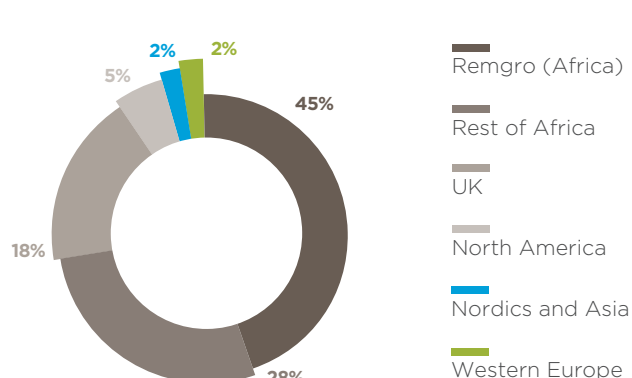
The Group receives regular feedback from investors through QuantiFire, a third-party service provider that collects feedback and confidence measures from investors on behalf of the Board and presents these results on a quarterly basis. In addition, the Group conducted a detailed perception study in April 2018, the results of which were shared with the Board. The perception study gathered feedback from 75 institutions and included 11 of Mediclinic’s top 15 active shareholders representing 61% of the shares in issue at that time, excluding Remgro. The results revealed some concern from investors about regulation and margin pressures in Switzerland and a growing optimism in growth opportunities in the Middle East, along with confidence levels in the Company’s 3–5 year outlook. Successful execution in the Middle East and maintaining margins in Switzerland were identified by investors as the main priorities for the Company, as well as disciplined capital allocation, the need to set and meet guidance, and to generate returns on invested capital.

Shareholders can access details of the Group’s results and other news releases through the LSE’s Regulatory News Service and the JSE Stock Exchange News Service. In

**FIGURE 3: STYLE OF FUND MANAGER BREAKDOWN**



**FIGURE 4: GEOGRAPHIC HOLDINGS**



In addition, the Group publishes the announcements on the investor relations section of its website at <https://investor.mediclinic.com/>. Shareholders and other interested parties can subscribe to email news updates by registering via the website.

The Group continuously investigates ways to improve its use of online channels to communicate with stakeholders through the Group website and webcasting. During the year, the Group launched a new corporate website that ensures information is easier to access and offers an enhanced user experience.

## ACCOUNTABILITY

### Internal controls and risk management

The Group has comprehensive risk management and internal control systems in place. These systems are designed to identify and appropriately mitigate the principal risks of the business and ensure the accuracy and reliability of the Group's financial reporting, while facilitating the delivery and sustainability of the Group's financial, operational and strategic objectives.

The Board is responsible for reviewing and confirming the effectiveness of the Group's risk management and internal controls, including material controls (i.e. financial, operational and compliance controls). Although the responsibility of evaluating the Group's risk management procedures, assessing the effectiveness of internal controls and monitoring reporting integrity has been delegated to the Audit and Risk Committee, the Board, maintains a strong and regular oversight of the outcome of the Audit and Risk Committee's work.

Key features of the Group's internal control systems include:

- clearly defined delegations of authority and lines of accountability;
- policies and procedures governing financial resource management, financial reporting, key projects and ICT security;
- periodic checks conducted by the Internal Audit function;
- annual representation letters from the divisional CEOs regarding key risks and associated mitigating actions per division; and
- review of the disclosures by the Group, the Board and the Audit and Risk Committee within the annual, interim and other price-sensitive reports, as relevant, to ensure compliance.

The Group's governance structure for risk management is illustrated in **Figure 5** below.

**FIGURE 5: RISK MANAGEMENT GOVERNANCE STRUCTURE**



A review of the Group's risk management approach and internal control systems is further discussed in the **Strategic Report** on page 9. For detail on the management and mitigation of each principal risk, see page 56. The Group's **Viability statement** can be found on page 60. Please refer to page 136 for more information on the role of the Audit and Risk Committee.

### Ethics and compliance

Conducting business in an honest, fair and legal manner is one of Mediclinic's fundamental guiding principles and is actively endorsed by the Board and management, ensuring that the highest ethical standards are maintained in all dealings with stakeholders. The Group's commitment to ethical standards is set out in the Group's values and is supported by the Company's Ethics Code which is available on the website at <https://www.mediclinic.com/en/governance/business-conduct-ethics.html>. The Ethics Code provides a framework of the standards of business conduct and ethics that are required of all divisions, Directors and employees in order to promote and enforce ethical business practices and standards across the Group. The Ethics Code is available to all employees and communicated to new employees as part of the on-boarding process.

Compliance with relevant legislation, regulations and accepted standards/codes is integral to the Group's risk management process and is monitored in accordance with the Group's Regulatory Compliance Policy.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Slavery and human trafficking

The Board has considered and approved the Company's updated **Modern Slavery and Human Trafficking Statement** for the year under review, as required in terms of the Modern Slavery Act 2015. The updated statement reflects the steps taken by the Group to enhance its internal processes and due diligence of suppliers to prevent slavery and human trafficking and demonstrate its commitment to this objective. The statement is available on the Company's website at <https://www.mediclinic.com/en/modern-slavery-statement.html>.

## Fraud and corruption

The Group adopts zero-tolerance to unethical business conduct, in particular fraud and corruption, which is addressed in the Ethics Code and the Group's Anti-bribery Policy. Refer to the **Audit and Risk Committee Report** on page 136 for more information.

## Competition legislation

The Group supports and adheres to the relevant competition and anti-trust legislation applicable in the various countries in which it operates. The legislation is complex and the Group has issued guidelines, which are reviewed and updated at least annually, to its employees on compliance with competition legislation within their relevant jurisdiction.

The South African Competition Commission is continuing its market inquiry into the private healthcare sector in South Africa. Mediclinic is participating in the inquiry, with the assistance of competition legislation experts and legal advisors who support Mediclinic through the process, as referred to in the **Divisional Review** of Mediclinic Southern Africa on page 67.

No legal action for anti-competitive, anti-trust or similar conduct was instituted against the Group during the year under review.

## ICT governance

Mediclinic has an extensive ICT environment that acts as an enabler of business strategies and operations. The core business information systems cover clinical processes, revenue cycle management and patient administration. The SAP enterprise resource planning back-office systems support, *inter alia*, the Finance, Accounting, Human Resources Management and Procurement functions. An enterprise data warehouse enables advanced analytics and supports decision-making by providing sourcing and enriching the required data sets. An extensive office automation environment exists which enables both on-premise and remote working, as well as collaboration and communication within and across divisions, while an

international network enables data flows, inter-operability and communication across the entire Group. Major planned ICT-related projects include various SAP projects, an EHR system and a further phase of the international human resources management system.

ICT governance is done in the context of the Group's overall enterprise governance, in general, and in the context of the Group's risk management structures and processes, specifically. Central to ICT governance is the Group's ICT Steering Committee and various ICT architecture sub-committees across the divisions. The Group ICT Committee is a sub-committee of the Group Executive Committee, and membership consists of the Group CIO, divisional CIOs, Group ICT architects and key functions such as risk management, finance and the enterprise project management office. This committee focuses on collaboration, standardisation and synergies across the various ICT entities by way of:

- digitalisation of Mediclinic's business model and services;
- performance and cost of ICT departments across the divisions;
- establishing ICT reference architectures and standards;
- setting information security-related policies and standards;
- developing and reviewing ICT risk profiles; and
- providing assurance regarding information and cybersecurity, data protection and privacy, as well as access control, change management and disaster recovery.

The Group ICT Committee is supported by the Group's Information Security Architecture Committee, consisting of the Group's Information Security Officers. The proceedings of this committee are informed by information security best practices sourced from Gartner, ISACA, CoBIT 5, ITIL, ISO27001 and the South African King IV™ Report on Corporate Governance.

The Group's risk management system is used to capture and track all ICT risks, audit findings, actions and responsibilities.

To ensure business continuity, Mediclinic employs a wide range of technology capabilities to safeguard its ICT installation, users and connections to other external ICT systems.

Information security and data protection policies and controls are in place throughout the Group regulating, *inter alia*, the processing, use and protection of own, personal and third-party information. This is further entrenched through continuing user training, security awareness programmes and certification courses in information security. The flow of personal data across country borders

is managed in accordance with country-specific legislation. There were no material information security or data privacy incidents during the year under review.

## DIRECTORS

### Appointment, removal and tenure

The rules relating to the appointment and removal of Directors are set out in the Company's Articles of Association, as adopted on 20 July 2016 ("**Articles**").

Non-executive Directors are appointed for a term of three years, subject to earlier termination, including provision for early termination by either the Company or the non-executive Director on three months' notice. All non-executive Directors serve on the basis of letters of appointment, which are available for inspection at the Company's registered office and at the AGM. The letters of appointment set out the time commitment expected of non-executive Directors who, on appointment, undertake that they will have sufficient time to meet their responsibilities.

### Induction and training

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and ongoing development of all Directors.

Upon appointment, all Directors are provided with training in respect of their legal, regulatory and governance responsibilities and obligations in accordance with the UK regulatory regime. The induction includes face-to-face meetings with the Group Executive Committee and operational site visits to orientate and familiarise the new Directors with the healthcare industry as well as Mediclinic's business, strategy and commercial objectives and key risks.

Dr Oswald was appointed during the year under review and is undertaking a comprehensive Board induction programme tailored to her individual requirements.

The training needs of the Directors are periodically discussed at Board meetings and briefings are arranged on issues relating to corporate governance and other areas of importance.

The Board is kept informed of legal, regulatory and governance matters. Additional training is available on request, where appropriate, so that Directors can update their skills and knowledge as applicable. During the year, the Board received refresher training on conflicts of interest and training on the new corporate governance requirements introduced by the 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018.

### Independent professional advice

All Directors may seek independent professional advice in connection with their roles as Directors. All Directors have access to the advice and services of the Company Secretary at the expense of the Company.

### Election/re-election

In accordance with the Company's Articles, a Director appointed by the Board must stand for election at the first annual general meeting subsequent to such appointment, and other Directors must retire by rotation and seek re-election by shareholders every three years. However, the 2016 Corporate Governance Code requires that all Directors of FTSE 350 companies should stand for re-election annually. Accordingly, Dr Oswald (appointed on 25 July 2018) will stand for election at the AGM and all other Directors will stand for re-election.

Taking into account the result of the Board evaluation carried out during the year and following recommendations from the Nomination Committee, the Board considers that all the current Directors continue to be effective, are committed to their roles and have sufficient time available to perform their duties. The Board therefore recommends the re-election of all Directors (other than Mr Smith) and the election of Dr Oswald. Biographies of the Directors can be found on page 104.

Remgro, through wholly owned subsidiaries, holds 44.56% of the issued ordinary shares of the Company and is therefore regarded as a controlling shareholder of the Company for the purposes of the listings rules issued by the Financial Conduct Authority ("**Listings Rules**"). The Listings Rules require that independent non-executive Directors of a company with a controlling shareholder must be elected by a majority of votes cast by independent shareholders, in addition to a majority of votes cast by all shareholders in such company. The resolutions proposed at the AGM for the election of the independent non-executive Directors of the Company will therefore be taken on a poll and the votes cast by independent shareholders and all shareholders will be calculated separately. Such resolutions will be passed only if a majority of votes cast by independent shareholders are in favour thereof, in addition to a majority of votes cast by all shareholders are in favour thereof.

### Powers of Directors

The general powers of the Directors are contained within relevant UK legislation and the Company's Articles. The Directors are entitled to exercise all powers of the Company, subject to any limitations imposed by the Articles or applicable legislation.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Indemnification of Directors

The Company has entered into a deed of indemnity with each Director who served during the year under identical terms. The deeds indemnify the Directors in accordance with the applicable laws of England against liability incurred as a Director or employee of the Group. In addition, the Company has provided Directors and officers with indemnity insurance and insurance in connection with their duties and responsibilities.

## Directors' conflicts of interest

In accordance with the Act and the Company's Articles, the Board may authorise any matter that otherwise may involve any Director breaching his/her duty to avoid conflicts of interest. The Board has adopted a procedure to address this requirement, which includes the Directors completing detailed conflicts of interest questionnaires upon appointment and annual confirmation of these detailed declarations. The matters disclosed in the questionnaires are reviewed by the Board as part of the Director's appointment and annually thereafter and, if considered appropriate, authorised in accordance with the Act and the Articles. Directors are also required to disclose any new conflicts of interest and additional external appointments as soon as they arise, for prior approval by the Board.

## Compensation for loss of office

There are no agreements in place with any Director or employee that provide for compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information on Directors' service agreements and their notice periods can be found in the

**Directors' Remuneration Report** on page 159.

## Remuneration

The Board has established a Remuneration Committee to assist with discharging its responsibility in relation to Board and executive remuneration. A report on the activities of the committee, including its composition and key responsibilities, is included on page 122.

## Directors' interests

The Directors' shareholding and share interests in the issued shares of the Company are provided in the

**Directors' Remuneration Report** on page 159.

## OTHER DISCLOSURES

### Articles of Association

The Company's Articles may be amended by way of a special resolution of the shareholders.

The Articles are available in the governance section of the Company's website at <https://www.mediclinic.com/en/governance/corporate-governance.html>.

### Significant agreements

The following agreements are considered significant in terms of their potential impact on the business of the Group as a whole, and that could alter or terminate on the change of control of the Company:

- The Relationship Agreement with Remgro was entered into on 14 October 2015 with an effective date of 15 February 2016. This agreement does not include a change of control provision but does terminate if:
  - (i) the Company's ordinary shares cease to be listed and admitted to trading on the LSE's main market for listed securities; or
  - (ii) Remgro, taken together, ceases to hold the minimum interest of 10% in the Company.
- The following facilities and finance agreements are regarded as significant and contain change of control provisions:
  - Swiss senior secured borrowings expiring in September 2024 with three uncommitted extension options and bearing interest at Swiss franc London Interbank Offered Rate ("**LIBOR**") plus a margin of 1.25% up to a maximum of Swiss franc LIBOR plus a margin of 1.65% depending on the loan-to-value:
    - CHF1.5bn amortising senior secured term loan facility;
    - CHF0.254bn senior secured capex facility; and
    - CHF0.1bn senior secured revolving facility.
  - South African senior secured borrowings totalling R6.2bn, bearing interest at Johannesburg Interbank Average Rate ("**JIBAR**") plus a margin of 1.48% to 1.59%, expiring in September 2022 with uncommitted extension options.
  - South African unsecured preference share funding totalling R1.8bn, bearing interest at 72% of JIBAR plus a margin of 1.65%, expiring in September 2022 with uncommitted extension options.
  - UAE amortising senior secured borrowings of US\$250m bearing interest at USD LIBOR plus a margin of 1.85%, expiring in August 2023.



## Principal shareholder and relationship agreement

In accordance with Listings Rule 9.8.4(14), the Company has set out below a statement describing the Relationship Agreement. Remgro held 44.56% of the issued ordinary share capital of the Company, as at 22 May 2019.

Under the Relationship Agreement, Remgro undertakes to comply with the following independence provisions, as required under the Listings Rules:

- Transactions and arrangements between the Company and Remgro (and/or its associates) are, and will be, at arm's length and on normal commercial terms.
- Neither Remgro nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listings Rules.
- Neither Remgro nor any of its associates will propose, or procure the proposal of, a shareholder resolution that is intended or appears to be intended to circumvent the proper application of the Listings Rules.

The Company has complied with the above independence provisions and, insofar as it is aware, Remgro complied with the independence provisions and the procurement obligation set out in the Relationship Agreement from the effective date of the agreement. In accordance with the terms of the Relationship Agreement, for every 10% of the issued ordinary share capital of the Company (or an interest which carries 10% or more of the aggregate voting rights in the Company from time to time) held, Remgro is entitled to appoint one Director to the Board, up to a maximum of three Directors, provided that the right to appoint a third Director is subject to the requirement that the Board will, following such appointment, comprise a majority of independent non-executive Directors.

If Remgro's shareholding reduces to below 10% of the Company's share capital (or 10% of the aggregate voting rights in the Company), the rights and obligations of Remgro in terms of the Relationship Agreement shall terminate. The ordinary shares owned by Remgro rank *pari passu* with the other ordinary shares in all respects.

## Related-party transactions

Details of all related-party transactions are contained in note 35 of the **consolidated financial statements** on page 269.

## Political donations

Political donations are generally prohibited in terms of the Company's Ethics Code and Anti-bribery Policy, unless pre-approved by the executive committee of the division and reported to the Group Executive Committee. It is not the policy of the Company to make political donations as

contemplated in the Act and during the year, the Group, made no such payments. However, as a result of broad definitions used in the Act, normal business activities of the Company, which might not be considered political donations or expenditure in the usual sense, may possibly be construed as political expenditure or as a donation to a political party or other political organisation and fall within the restrictions of the Act. This could include sponsorships, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Board has therefore resolved to propose a resolution for shareholder consideration at the AGM, as in previous years and in line with best practice, to authorise the Company to make political payments up to an aggregate amount of £100 000.

As is customary in Switzerland, Hirslanden maintains a proper and constructive dialogue with political decision-makers and stakeholders, to represent the division's perspective and support informed decision-making that contributes to improving patient outcomes and the long-term sustainability of the business. Under the Swiss political system, citizens are active in political bodies at federal, cantonal and municipal levels in addition to their regular occupations. Parliamentarians are not professional politicians in this system and the parties do not receive state support. Therefore, in line with common and official practice in Switzerland, Hirslanden assists in supporting the country's political system by making third-party contributions to a number of political parties, institutions and associations involved in campaigns which are of interest to the business. Payments of this kind made by Hirslanden in the 2019 financial year totalled CHF4 500 (2018: CHF30 000). These contributions are not considered political payments as contemplated in Part 14 of the Act, as they are not made to the political parties within the scope of the Act.

## Employees

The employees' trust and respect are vital to Mediclinic's success. Listening and responding to employee needs through effective communication and sound relations are important components in being regarded as an employer of choice among existing and prospective employees, and vital to maintaining an engaged and loyal workforce. Employee engagement is conducted through various methods, including leadership video conferences, periodic employee surveys, performance reviews, employee magazines and employee wellness and recognition programmes. Further details of the Group's employee engagement are included in the **Sustainable Development Report**, available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

At the end of March 2019, the Company announced the appointment of Mr Meintjes as designated non-executive Director for engagement with the Group's workforce with effect from 1 April 2019. As the former CEO and with his prior experience as Divisional HR Executive, Mr Meintjes was closely involved with the Company's approach to engaging with, investing in and rewarding the Group's employees. With his wealth of knowledge and experience gained in different capacities over 30 years at Mediclinic, the Board considers him to be extremely well positioned to engage effectively with employees.

Details of how the Group engaged with key stakeholders, including employees, can be found on page 124.

Continuous training and development of the Group's employees ensure employee retention, particularly of scarce skills which are most critical, and proper succession planning. Further details of the Group's training initiatives can be found in the **Sustainable development overview** on page 76 and the **Sustainable Development Report**, available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.

The distribution of the Group's employees per division is included on page 6, with only one employee (Head of Investor Relations) based in the UK. A breakdown by gender, age and, in respect of Southern Africa only, race in Board and senior management roles as at year-end is illustrated in **Table 6**.

The Group values diversity and provides equal opportunities in its workplace and does not tolerate any form of unfair discrimination, such as access to employment, career development, training or working conditions, based on gender, religion, nationality, race, language, HIV/Aids status, sexual orientation or other form of differentiation. Adequate procedures are in place for applicants with disabilities to receive training to perform safely and effectively; there are also development opportunities to ensure they reach their full potential. Where an individual becomes disabled during the course of employment, Mediclinic will seek to provide, wherever possible, continued employment on normal terms and conditions. Adjustments will be made to the environment and duties or suitable new roles within the Company will be secured, with additional training where necessary.

**TABLE 6: RACE, GENDER AND AGE REPRESENTATION ON GOVERNANCE BODIES<sup>1</sup>**

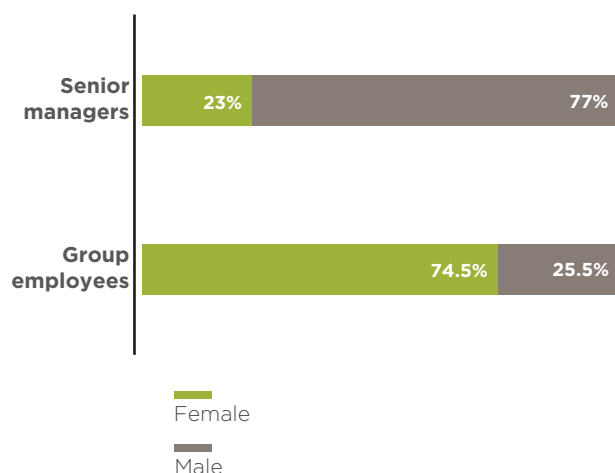
	TOTAL MEMBERS <sup>2</sup>	RACE (only in respect of Southern Africa)				GENDER				AGE (YEARS) AS AT 31/03/2019			
		Black		White		Male		Female		30-50		> 50	
		Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Mediclinic Board	12	2 Board members of colour (17%) <sup>3</sup>				9	75%	3	25%	2	17%	10	83%
Group Executive Committee <sup>1</sup>	9	n/a	n/a	n/a	n/a	8	89%	1	11%	2	22%	7	78%
Hirslanden Executive Committee <sup>1</sup>	4	n/a	n/a	n/a	n/a	4	100%	-	-	2	50%	2	50%
Mediclinic Southern Africa Executive Committee <sup>1</sup>	9	2	22%	7	78%	8	89%	1	11%	3	33%	6	67%
Mediclinic Middle East Executive Committee <sup>1</sup>	9	n/a	n/a	n/a	n/a	7	78%	2	22%	5	56%	4	44%

**Notes**

<sup>1</sup> The race, gender and age distribution of the direct reports to the executive committees of the Company and the divisions are included in the **Sustainable Development Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.

<sup>2</sup> Total membership is shown as at the Last Practicable Date.

<sup>3</sup> Consistent with the Parker Report, the term "persons of colour" is used to identify individuals with evident heritage from African, Asian, Middle Eastern and South American regions.

**TABLE 7: GENDER REPRESENTATION - GROUP EMPLOYEES AND SENIOR MANAGERS<sup>1</sup>****Note**

<sup>1</sup> Senior managers are employees who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and directors of undertakings included in the Group consolidation (excluding the executive Directors of the Company).

**Going concern status**

The Group's **consolidated financial statements**, as set out on pages 182 – 278 and approved by the Board on 22 May 2019, were prepared on a going concern basis. The Directors considered the Company's financial position, availability of funding, the principal risks and uncertainties, as well as the viability assessment, and accordingly considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements, further details of which are included in the **Audit and Risk Committee Report** on page 136 and the **Viability statement** on page 60.

**Events after the reporting period**

No events which may have a material effect on the Group occurred between the financial year-end and Last Practicable Date.

**Overseas branches**

The Company, having secondary listings on the JSE in South Africa and the NSX in Namibia, has established an overseas branch in South Africa.

**Requirements of the Listings Rules**

Information required to be disclosed in terms of Listings Rule 9.8.4R, as applicable, is referenced below:

DETAIL	LOCATION IN ANNUAL REPORT
Long-term incentive schemes	Page 170
Confirmations regarding entering into a relationship agreement with a controlling shareholder and compliance with independence provisions	Refer to <b>Principal shareholder and relationship agreement</b> on page 131
Agreements with a controlling shareholder	None other than the relationship agreement referred to on page 131
Provision of services by a controlling shareholder	None other than the services provided by Remgro described in note 35 of the <b>consolidated financial statements</b> on page 269
Interest capitalised	See notes 2.16 and 25 to the <b>consolidated financial statements</b> on pages 205 and page 250 respectively
Waiver of emoluments by a Director	
Waiver of future emoluments by a Director	
Non-pre-emptive issues of equity for cash	
Non-pre-emptive issues of equity for cash by any unlisted major subsidiary	
Parent company participation in a placing by a listed subsidiary	
Shareholder waiver of dividends	
Shareholder waiver of future dividends	

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## DIRECTORS' REPORT

The information set out in this Corporate Governance Statement, together with the following disclosures included in this **Annual Report** and incorporated by reference, constitute the Directors' Report of the Company for the year ended 31 March 2019, as contemplated in the Act, and was duly approved by the Board on 22 May 2019:

- **Strategic Report** – refer to page 9
- **Statement of Directors' Responsibilities** – refer to page 179
- **Shareholder information** – refer to page 296

The **Strategic Report** sets out those matters required to be disclosed in the Directors' Report which are considered to be of strategic importance:

- Strategy and future developments – refer to page 20
- Financial risk management objectives and policies – refer to page 211
- Research and development activities – refer to various activities discussed in the **Strategic Report** on page 9; the standardised employee engagement initiatives on page 85; and clinical research activities referred to

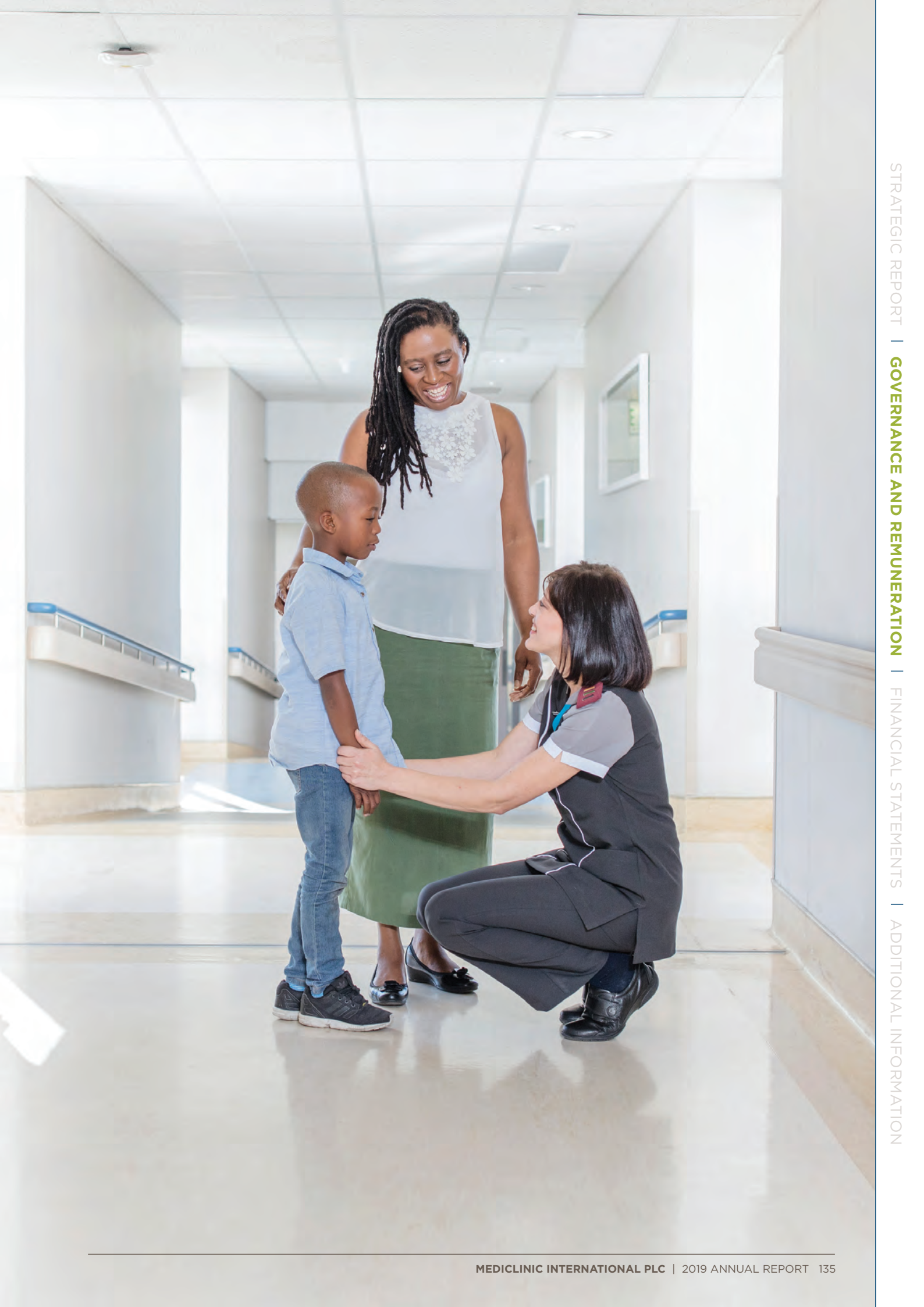
on page 54, with further details available in the **Clinical Services Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>

- Greenhouse gas emissions – refer to page 86, with further details available in the **Sustainable Development Report**, available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>
- Corporate social responsibility and corporate social investment – refer to page 93, with further details available in the **Sustainable Development Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>

For and on behalf of the Board.



**Dr Edwin Hertzog**  
*Non-executive Chairman*  
22 May 2019



# AUDIT AND RISK COMMITTEE REPORT



**Mr Desmond Smith**  
Chairperson of the Audit and Risk Committee

As Chairperson of the Audit and Risk Committee, I am pleased to present this report for the financial year ended 31 March 2019 which provides insight into how the Audit and Risk Committee discharged its responsibilities during the reporting period and the significant matters it considered in doing so, together with the priorities anticipated for the next financial year.

## COMMITTEE COMPOSITION AND MEETINGS

The Audit and Risk Committee is comprised solely of independent non-executive Directors, whose names and

attendance records are set out in **Table 1** below. Detailed information on each member's experience, skills and qualifications can be found on page 104. The Board regards each member as possessing recent and relevant financial experience and the appropriate level of independence, enabling them to provide oversight and challenge, and obtain a full explanation from management, the Internal Audit function or the external auditor on any matter considered necessary. The Board is also satisfied that the Audit and Risk Committee as a whole has the required sector-specific competence, knowledge and experience to exercise its duties in an effective, informed and responsible manner.

**TABLE 1: COMMITTEE COMPOSITION AND MEETING ATTENDANCE**

NAME <sup>1</sup>	QUALIFICATIONS	APPOINTMENT DATE	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>2</sup>
Mr Desmond Smith (Committee Chairperson)	BSc, FASSA	15/02/2016	4/4
Mr Alan Grieve <sup>3</sup>	BA Hons, CA	15/02/2016	3/4
Mr Seamus Keating	FCMA	05/06/2013	4/4
Mr Trevor Petersen	BComm Hons, CA(SA)	15/02/2016	4/4

### Notes

<sup>1</sup> The composition is shown as at 31 March 2019. There were no changes to the composition during the year.

<sup>2</sup> The attendance reflects the number of scheduled meetings held during the financial year. One additional *ad hoc* meeting was held during the financial year and one meeting has been scheduled between the Company's financial year-end and the Last Practicable Date; both these meetings were attended by all members.

<sup>3</sup> Mr Grieve was unable to attend one scheduled meeting owing to a prior commitment which could not be changed.



As announced on 15 November 2018, Mr Desmond Smith will retire as a Director of the Company at the conclusion of the Company's AGM scheduled for 24 July 2019 and will not seek re-election. Mr Smith will also step down from all Board committees at that time. Mr Alan Grieve, who has been a member of the Audit and Risk Committee since February 2016, will succeed Mr Smith as Chairperson of the Audit and Risk Committee (and as SID), effective from the date of Mr Smith's resignation.

The Audit and Risk Committee normally holds four meetings during the financial year, with one of these meetings being dedicated primarily to an extensive review of risk-related matters.

Dr Ronnie van der Merwe (CEO), Mr Jurgens Myburgh (CFO) and Mr Gert Hattingh (Chief Corporate Services Officer) attend all meetings. Other attendees differ from time to time and may include Dr Edwin Hertzog (Board Chairman), Mr Pieter Uys (alternate to Mr Jannie Durand), Dr Dirk Le Roux (Chief Information Officer), Mr Glenn Ho (Group General Manager: Internal Audit), Mr Martin Rossouw (Group General Manager: Risk Services) and other relevant management members, as and when their specialist knowledge is required. Representatives from the external auditor are invited to attend all meetings.

From 1 January 2018 to 30 May 2018, as part of the handover arrangements for Dr Van der Merwe succeeding Mr Danie Meintjes as CEO, both Mr Meintjes and Dr Van der Merwe were invited to attend meetings as CEO and CEO Designate respectively. In addition, following Mr Ho's appointment as Group General Manager: Internal Audit on 1 July 2018, as part of the transition arrangements, the Company's former internal auditor (Remgro Internal Audit) continued to attend meetings as necessary for the remainder of the 2019 financial year.

Each scheduled meeting takes place prior to a Board meeting, at which the Chairperson of the Audit and Risk Committee provides a report of the Audit and Risk Committee's activities. The Audit and Risk Committee met privately without management present after each scheduled meeting. In addition, it meets separately with the external auditor, the Internal Audit function and senior management to allow any issues of concern to be raised by, or with, each party.

## KEY AREAS OF ACTIVITY

During the financial year under review and between the financial year-end and the Last Practicable Date, the Committee continued to provide oversight and challenge in relation to the following matters within the Group:

- Financial reporting
- Internal control systems, risk management processes and related assurance activities

- Internal audit
- External audit
- Ethical conduct, governance and compliance

The following sections of this report explain the work that it has undertaken under each of those headings and the resultant outcomes. The Audit and Risk Committee's terms of reference are available in the governance section of the Company's website at [www.mediclinic.com](http://www.mediclinic.com) and are summarised on page 117 of the **Corporate Governance Statement**.

## Financial reporting

The Audit and Risk Committee's principal responsibility in this area is to review and challenge management's approach to significant judgments and ensure the integrity of the Group's financial reporting, including annual and interim reports and financial statements and announcements regarding the Company's financial performance. The key financial reporting activities undertaken are set out below.

### April 2018

- Considered the impairment assessment at Hirslanden

### May 2018

- Considered the external auditor's 2018 year-end audit report and opinion
- Considered the financial performance of the Group and each division, including debt covenants
- Considered and satisfied itself with the approach adopted for significant accounting policies, key accounting items, areas of significant judgments, and material assumptions and estimates
- Reviewed and confirmed the going concern status, the long-term viability assessment and the supporting stress testing analysis, and recommended them for approval by the Board
- Considered the final dividend proposal and recommended it to the Board for approval by the shareholders
- Reviewed the key tax considerations across the Group, together with the disclosures made in the 2018 Annual Report
- Considered the use of adjusted measures by the Group and ensured their appropriateness (including the items of income or cost included or excluded from their calculation)
- Considered and approved the Audit and Risk Committee Report for inclusion in the 2018 Annual Report
- Considered the 2018 Annual Report and financial statements, including the confirmation of fair,



# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

balanced and understandable reporting and recommended these for approval by the Board

- Considered the preliminary results announcement and recommended these for approval by the Board
- Considered the 2018 notice of annual general meeting and recommended it for approval by the Board
- Reviewed the key tax considerations across the Group

## November 2018

- Considered the external auditor's interim review findings
- Considered the financial performance of the Group and each division, including debt covenants
- Considered and satisfied itself with the approach adopted for significant accounting policies, key accounting items, areas of significant judgment and any material assumptions or estimates
- Reviewed and confirmed the going concern status and recommended its adoption for approval by the Board
- Considered the interim dividend and recommended it for approval by the Board
- Considered the use of adjusted measures by the Group and ensured their appropriateness (including the items of income or cost included or excluded from their calculation)
- Considered the interim financial statements and results announcement, including the confirmation of fair and balanced reporting
- Reviewed the key tax considerations across the Group and the Group tax strategy, and recommended the latter for approval by the Board

## March 2019

- Considered the external auditor's pre-year-end report on accounting, auditing and control matters
- Considered the significant accounting policies, including the implementation of IFRS 9 and IFRS 15 and the corresponding transition disclosures and the impact assessment of IFRS 16
- Considered the preliminary going concern and long-term viability assessment, together with the supporting stress testing analysis
- Reviewed the key tax considerations across the Group
- Conducted an annual review of the Finance function
- Considered the actions taken by management in response to governance and reporting good practice

## May 2019

- Considered the external auditor's 2019 year-end audit report and opinion
- Considered the financial performance of the Group and each division, including debt covenants
- Reviewed the key tax considerations across the Group, together with the disclosures made in the **2019 Annual Report**
- Considered and satisfied itself with the approach adopted for significant accounting policies, key accounting items, areas of significant judgments (including impairment assessments), and any material assumptions or estimates
- Reviewed and confirmed the going concern status, the long-term viability assessment and the supporting stress testing analysis, and recommended them for approval by the Board
- Considered the final dividend proposal and recommended it to the Board for approval by the shareholders
- Considered the use of adjusted measures by the Group and ensured their appropriateness (including the items of income or cost included or excluded from their calculation)
- Considered and approved the Audit and Risk Committee Report for inclusion in the **2019 Annual Report**
- Considered the **2019 Annual Report** and financial statements, including the confirmation of fair, balanced and understandable reporting, and recommended these for approval by the Board
- Considered the preliminary results announcement and recommended these for approval by the Board
- Considered the notice of AGM and recommended it for approval by the Board

The Audit and Risk Committee, together with management and the external auditor, paid particular attention to the following matters:

- The financial performance of the Group's divisions and the Group as a whole, in the context of the agreed budget for the year and guidance provided to investors, together with the key drivers of the Group's performance.
- The significant accounting policies and practices adopted by the Group, including the new accounting and reporting requirements introduced by IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, and their impact on

the Group's financial statements for the financial year ended 31 March 2019.

- Key accounting items and areas of significant judgment, together with any material assumptions and estimates adopted by management.
- Areas of discussion where there was discussion with the external auditor and the existence of any errors, adjusted or unadjusted, resulting from the audit.
- The clarity of disclosures and compliance with relevant accounting standards and financial and governance reporting requirements, including the reporting recommendations published by the FRC during the financial year.
- Outstanding tax matters, any tax risks and the assurances received from the Company's tax advisors as part of the year-end audit, together with progress on country-by-country tax reporting and transfer pricing

documentation. The Audit and Risk Committee also reviewed and recommended the Group tax strategy to the Board for approval. The strategy is published on Mediclinic's website at <https://www.mediclinic.com/en/governance/risk-management.html> and a summary is available on page 38 of this **Annual Report**.

- The processes followed to ensure the integrity of the information provided in the annual and interim reports and assurance that the **2019 Annual Report** presents a fair, balanced and understandable assessment of the Group's position and prospects.

### Significant financial reporting matters

**Table 2** below sets out the principal areas of judgment in relation to the 2019 interim and annual financial statements, which the Audit and Risk Committee discussed with management and the external auditor.

**TABLE 2: SIGNIFICANT ISSUES CONSIDERED AND STEPS TAKEN**

SIGNIFICANT ISSUES CONSIDERED	STEPS TAKEN BY THE AUDIT AND RISK COMMITTEE
<p>Goodwill and non-financial assets (CGU level) impairment reviews</p> <p><i>(see notes 6 and 7 to the consolidated financial statements)</i></p>	<p>The Audit and Risk Committee reviewed:</p> <ul style="list-style-type: none"> <li>• the impairment assessment of the carrying amount of the Middle East goodwill;</li> <li>• the impairment assessment of the carrying amount of Hirslanden's brand names; and</li> <li>• the assessment as to whether an indication existed that non-financial assets at an individual CGU level might be impaired, and the subsequent impairment test of the Swiss CGUs including property valuations and the goodwill arising from the acquisition of Clinique des Grangettes.</li> </ul> <p>It reviewed the key assumptions to the impairment review performed, which included the cash flows derived from the annual financial planning process, long-term growth rates and the discount rates. Long-term growth rates for periods not covered by the forecast periods were challenged to ensure they were appropriate in the countries relevant to the divisions.</p> <p>Based on its challenge of the key assumptions and associated sensitivities, the Audit and Risk Committee concluded that the carrying value of the Middle East goodwill was appropriately supported by the recoverable amount calculated.</p> <p>It concurred with the impairment charges that arose in the Swiss division because of the disappointing performance and changes in the market and regulatory environment that affected key inputs to the calculation of the recoverable amount.</p> <p>It considered the sensitivities to changes in assumptions and the related disclosures required by IAS 36 <i>Impairment of Assets</i>.</p> <p>The Audit and Risk Committee discussed the external auditor's feedback and considered its conclusion regarding the impairment charge recorded.</p> <p>Considering all of the above, management responses and the external auditor's views, the Audit and Risk Committee was satisfied that the assumptions used were reasonable and that the impairment charges, together with related disclosures, were appropriately presented.</p>

# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

SIGNIFICANT ISSUES CONSIDERED	STEPS TAKEN BY THE AUDIT AND RISK COMMITTEE
<p>Impairment review of equity investment in Spire</p> <p><i>(see note 8 to the consolidated financial statements)</i></p>	<p>The Audit and Risk Committee reviewed the impairment tests of the equity investment in Spire.</p> <p>It reviewed the key assumptions, which included the forecast cash flows, long-term growth rates and the discount rate. These were based on valuation work by two global investment banks.</p> <p>It noted that a significant impairment had arisen at 30 September 2018 because of revised guidance issued by Spire.</p> <p>The Audit and Risk Committee further considered the updated full-year financial results, further announcements and guidance issued by Spire and Mediclinic's independent view about Spire's future trading prospects, as well as the sensitivities to changes in assumptions and the related disclosures required by IAS 36 <i>Impairment of Assets</i>.</p> <p>Based on its challenge of the key assumptions and associated sensitivities, the Audit and Risk Committee concurred with the impairment charge taken at 30 September 2018 and that no further impairment charge or reversal of impairment charge was required at 31 March 2019.</p>
<p>Purchase price allocation of the Clinique des Grangettes acquisition and related put option liability</p>	<p>The Audit and Risk Committee reviewed and was satisfied with the purchase price allocation performed in respect of the Clinique des Grangettes acquisition including the recognition of a put option liability. It noted that EY had performed an independent valuation of the intangible assets and the Committee was satisfied that a rigorous process was followed.</p> <p>The Audit and Risk Committee was presented with management's considerations and feedback from the external auditor on procedures performed.</p> <p>It was satisfied that a rigorous process was followed in identifying and considering the alternative intangible asset categories and that the significant intangible asset was reasonably valued, applying appropriate judgment.</p>
<p>Adoption of IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenue from Contracts with Customers</i></p>	<p>The Audit and Risk Committee reviewed the first-time adoption of IFRS 9 and IFRS 15 and the related disclosures in the Group's annual financial statements.</p> <p>It considered the appropriateness and disclosure of the classification and measurement of financial instruments and the quantification of the impairment provision of trade receivables under the expected loss model as required by IFRS 9.</p> <p>It also considered the disclosure of revenue including an assessment of the agent versus principal criteria in relation to medical practitioners.</p>
<p>Swiss pension fund liabilities</p> <p><i>(see note 18 to the consolidated financial statements)</i></p>	<p>The Audit and Risk Committee reviewed the main valuation assumptions such as discount rates, mortality and inflation rate applied in the valuation of the pension fund plan assets and obligations.</p> <p>The principal valuation assumptions prepared by external actuaries and adopted by management were considered in the light of prevailing economic indicators.</p>

SIGNIFICANT ISSUES CONSIDERED	STEPS TAKEN BY THE AUDIT AND RISK COMMITTEE
<p>Classification and presentation of exceptional items</p>	<p>The Group uses non-IFRS measures in evaluating performance and as a method to provide clear and consistent reporting. Judgment is required in determining whether an item is exceptional. For the financial year ended 31 March 2019, the exceptional items (after taking related tax and deferred tax into account) amounted to £349m (£413m before tax) of which £194m (£241m before tax) related to impairment charges.</p> <p>Refer to the <b>Financial Review</b> on page 32 for details of the exceptional items. Exceptional items were evaluated based on their nature to assess whether their classification and presentation was in line with the Group's policy and guidance from the FRC.</p> <p>The Audit and Risk Committee reviewed management's application of the policy for consistency with previous accounting periods. It also assessed whether the disclosures within the Financial Review and the interim and preliminary results announcements provided sufficient detail to understand the nature of these items.</p> <p>It was satisfied that the amounts classified as exceptional items were reasonable in all material respects and the related disclosure of these items in the Financial Review and results announcements was appropriate.</p> <p>The Audit and Risk Committee was satisfied that all adjusted measures were appropriately labelled and reconciled to the equivalent statutory measures and it found the related disclosures to be clear and transparent.</p>
<p>Impact assessment of IFRS 16 <i>Leases</i> <i>(see note 2.26 to the consolidated financial statements)</i></p>	<p>Key matters reviewed by the Audit and Risk Committee included the detailed impact assessment of IFRS 16, such as the quantification of lease liabilities, right-of-use assets and the impact on the Group's 2020 income statement.</p> <p>The quantification and consideration of the impact on the Group's financial statements for the 2020 financial year, together with the associated disclosures and the approach taken in the IFRS 16 transition project, were considered and accepted as appropriate.</p>
<p>Going concern and viability statement <i>(see pages 60-61 in this <a href="#">Annual Report</a>)</i></p>	<p>The Audit and Risk Committee monitors the Group's robust risk management process and system of internal control via a mandate from the Board (see page 117). The principal risks as detailed on pages 56 - 59 were identified by these systems and, for the purposes of the viability assessment, severe but plausible scenarios reflecting the risks that could impair the viability of the Group were identified for each of the divisions to form the basis for stress testing.</p> <p>This analysis showed that the business, in its geographically diverse portfolio, would be able to withstand any individual and certain combinations of the severe but plausible scenarios by taking management action, <i>ceteris paribus</i>, with the key mitigating steps being a reduction in discretionary investment, cost management initiatives, drawdown of overdraft facilities and improvement in net working capital days. The Audit and Risk Committee therefore has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their detailed assessment, ending in 31 March 2024.</p> <p>Having considered the principal risks and the viability assessment, the Audit and Risk Committee also considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.</p>

# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

## FAIR, BALANCED AND UNDERSTANDABLE REPORTING

Throughout the year, the Audit and Risk Committee (and in certain instances, the Board) reviewed the Group's external financial reports and other announcements relating to its financial performance to ensure that these presented a fair, balanced and understandable assessment of the Company's position and prospects. The Audit and Risk Committee also reviewed the use of adjusted measures by the Group and ensured that these were appropriate for aiding users of the Group's financial statements to better understand its performance year on year (including items included or excluded from calculation).

At the request of the Board, the Audit and Risk Committee reviewed a full draft of this [Annual Report](#), together with a summary of management's approach to the preparation of the narrative sections and the annual financial statements. It considered whether there was consistency between the key messages in this [Annual Report](#) and the Group's position, performance and strategy, and between the narrative sections and the annual financial statements. The Audit and Risk Committee also considered whether all key events reported to the Board and its committees during the year, both good and bad, were adequately reflected. Feedback from the Audit and Risk Committee on areas that would benefit from further clarity was incorporated into this [Annual Report](#) ahead of final approval.

Following its review, the Audit and Risk Committee advised the Board that, in its opinion, this [Annual Report](#), taken as a whole, was fair, balanced and understandable and representative of the financial year under review, and that it provided the information necessary for stakeholders to assess the Group's position, performance, business model and strategy.

## INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT PROCESSES

The Group upholds an effective control environment, including a comprehensive system of internal controls which is designed to ensure the accuracy and reliability of the Group's financial reporting, that risks are mitigated and that the Group's objectives are attained. The key features of the system include appropriate and well-defined delegations of authority, clear lines of accountability, policies and procedures covering financial planning and reporting, and monitoring mechanisms. Management is responsible for establishing and maintaining adequate internal controls, while the Board, via the Audit and Risk Committee, is responsible for ensuring the efficacy of these controls and that appropriate actions are taken to correct deficiencies when they are identified.

During the year, the internal control environment was enhanced by establishing an in-house Internal Audit function, which works closely with the Group Risk Management function (refer to section below on Internal Audit). The Group's compliance process forms an integral component of the Group's risk management and internal controls programme. The Compliance Officer is supported by company secretaries at Group and divisional levels, as well as by internal legal advisors who are responsible for providing guidance in respect of compliance with applicable legislation and regulations.

## Effectiveness of risk management process and system of internal control

The Board retains overall responsibility for determining the risk appetite of the Group, overseeing the risk management processes and internal controls implemented throughout the Group, reviewing their effectiveness and reporting on the outcome of their review in the annual report. Details of the Group's principal risks and uncertainties and risk management processes and of the key features of the Group's internal control systems are set out on pages 56 - 59 and page 127 respectively of this [Annual Report](#).

The Board has delegated responsibility for monitoring and reviewing the effectiveness of the Group's risk management processes and internal controls to the Audit and Risk Committee. This covers all material controls including financial, operational and compliance controls and risk management systems. In discharging the responsibilities delegated by the Board, the Audit and Risk Committee is supported by the internal audit and management reports.

Internal assurance is provided through self-assessments, supported by various peer reviews and self-assessment control processes. Further assurance is provided through the delivery of the internal audit plan, which is developed by the Internal Audit function with input from management. Recommendations arising from internal audits are communicated to the relevant business areas and their implementation is tracked by the function. The Audit and Risk Committee receives regular reports on progress against the internal audit plan and corrective actions taken by management in response to internal audit findings. In addition, where appropriate, the Group seeks external assurance from independent external experts. The internal control environment is also evaluated during the annual external audit. The results of all these assurance processes are monitored by the Group's Risk Management function and reported to the management team of each division and the Group.

The Audit and Risk Committee also receives reports from management on a range of issues focused primarily on the

key risks identified in the ERM dashboard, as well as fraud and ethics matters (including any instances of whistleblowing). It also receives reports and considers the activities of the internal and external auditors. The Audit and Risk Committee provides regular updates to the Board on these matters.

The Audit and Risk Committee conducted a robust review of the principal risks and uncertainties faced by the Group and of the efficacy of the risk management processes and system of internal controls in place within the Group for the year under review and up to the Last Practicable Date, in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC. The key activities undertaken by the Audit and Risk Committee in respect of its work in this area are set out below.

#### April 2018

- Considered progress on implementation of data privacy project (including GDPR)

#### May 2018

- Considered the report on internal control systems and risk management processes included in the 2018 Annual Report and recommended it for approval by the Board
- Considered and approved the amended ERM Policy
- Considered and confirmed that there were no material changes to the principal risks and uncertainties identified at the March 2018 meeting and recommended these for approval by the Board
- Considered management's reports on: progress regarding the implementation of the Group-wide data privacy project (including GDPR); key IT projects; and fraud and ethics matters (including any instances of whistleblowing)

#### September 2018

- Considered management's reports on the ERM dashboard and status report, including changes to key risks across the Group, risk ratings and progress against risk management plans
- Considered and approved the Group Information Security Management Policy and conducted an in-depth review of IT-related risks, including the governance and status of key IT projects
- Conducted other in-depth reviews covering: corporate and tax structures across the Group; the Group-wide data privacy protection

project (including GDPR); and clinical risk management processes

- Considered management's reports on the status of regulatory compliance across the Group; and fraud and ethics matters (including any instances of whistleblowing)

#### November 2018

- Considered the principal risks and uncertainties and recommended these for approval by the Board
- Considered the combined assurance processes established for IT projects aimed at adapting the Group to the evolving global healthcare environment
- Considered the outcome of the Group's 2018 cyber governance health check; the cyber incident response plan and steps being taken to enhance the Group's cyber protection arrangements. The Committee recommended the cyber incident response plan to the Board for approval
- Considered and noted the Group Tax Policy compiled by management
- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)

#### March 2019

- Conducted a robust assessment of the Group's risk management processes and internal control systems, principal risks and uncertainties and mitigating actions, including: the ERM framework, ERM Policy and risk appetite statement; top risks; other topical risk areas; and the ERM plan for the 2020 financial year. The Committee took into consideration the control matters reported in the in auditors pre-year-end report
- Considered the preliminary going concern and long-term viability assessment, together with the supporting stress testing analysis
- Considered the Fraud Risk Management Policy and management's report on fraud and ethics matters (including any instances of whistleblowing)
- Considered the Treasury Policy and procedures
- Group Information Security Management Policy
- Cyber incident response plan
- Data Privacy and Data Protection Policy
- Considered the Group's key insurance policies
- Considered the Group Regulatory Compliance Policy and management's report on assurances obtained in respect of compliance matters and the programme for the 2020 financial year



# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

## May 2019

- Considered the report on internal control systems and risk management processes included in this **Annual Report**, taking into account the control matters notes in the external auditor's report and recommended it for approval by the Board
- Considered the report on principal risks and uncertainties and mitigating actions included in this **Annual Report** and recommended these for approval by the Board
- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)
- Considered management's report on cybersecurity risks and monitoring

The key areas examined by the Audit and Risk Committee during the year included:

- the ERM Policy, framework and processes, including the Group's risk appetite and action plans designed to mitigate risks in line with the Group's risk appetite statement;
- further strengthening of the combined assurance model by integrating the reports received on financial, operational, clinical and compliance internal control systems and risk management processes, together with the corresponding key performance indicators and sources of internal and external assurances;
- the governance arrangements and progress on implementation of IT projects aimed at adapting the Group to the evolving global healthcare environment, such as HIT2020 in Hirslanden and the Intersystems EHR in Mediclinic Middle East;
- progress on the implementation of a comprehensive data privacy project across the Group (including GDPR);
- key ICT risks including cybersecurity, project delivery, information protection, architecture and quality of IT systems, and application control and change risks and steps taken by management to mitigate these risks; and
- the control findings raised by the external auditor.

The review confirmed that there were no significant failings or weaknesses and that processes were in place to ensure that the necessary actions were taken, where areas for improvement were identified, and that these outcomes were monitored. The Board, via the Audit and Risk Committee is therefore satisfied that the Group has an internal control and risk management environment that is effective in ensuring the consistent achievement of key control objectives and appropriately mitigating the significant risks faced by the Group.

## INTERNAL AUDIT

As stated in the 2018 Annual Report, the Audit and Risk Committee approved the appointment of a Group General Manager: Internal Audit with effect from 1 July 2018 in order to establish an in-house Internal Audit function. As part of the arrangements designed to ensure a gradual and smooth transition of responsibilities from Remgro Internal Audit to the new in-house function, Remgro Internal Audit continued to provide internal audit services to the Group until May 2019.

The key topics relating to internal audit considered by the Audit and Risk Committee during the year are set out below.

### May 2018

- Considered the internal audit report for the 2018 financial year, including annual review of the effectiveness of the Group's internal controls and risk management processes
- Considered the updated internal audit plan for the 2019 financial year
- Privately consulted with the internal auditor, without management
- Privately consulted with management, without the internal auditor

### September 2018

- Considered an update on internal audit
- Discussed employment and resourcing arrangements

### November 2018

- Considered the internal audit report and findings, including progress on the internal audit plan for the 2019 financial year
- Considered plans to increase internal staffing

### March 2019

- Reviewed the internal audit report, internal audit mandate and Internal Audit function
- Privately consulted with the internal auditor, without management
- Privately consulted with management, without the internal auditor

### May 2019

- Considered the internal audit report, including the annual review of the effectiveness of the Group's internal controls and risk management processes
- Privately consulted with the internal auditor, without management
- Privately consulted with management, without the internal auditor

The Internal Audit function, which reports functionally to the Audit and Risk Committee and administratively to the Chief Corporate Services Officer, is responsible for undertaking risk-based reviews across the Group, examining the internal controls and management of risks relating to the financial, operational and clinical performance, IT and compliance activities of the Group. Its responsibilities also include conducting an annual documented review of the effectiveness for the Board of the system of internal controls and risk management. The Audit and Risk Committee receives regular reports on the activities and key findings of the function and the status of management's implementation of recommendations.

During the year, the Internal Audit function completed and reported to the Audit and Risk Committee on audits and reviews across the Group, which focused particularly on the human resources and payroll cycle. A cycle of clinical audits was also implemented to provide assurance on agreed clinical risk areas. In addition, internal audits were performed at a high-level on certain business projects aimed at adapting the Group to the evolving global healthcare environment. The Audit and Risk Committee provided feedback on the findings and recommendations made and also considered the Internal Audit function's annual written assessment of the effectiveness of the Group's internal controls and risk management processes. Following discussion with the function and management, the Audit and Risk Committee confirmed to the Board that it is satisfied with the effectiveness and efficiency of the function, reliability of financial reporting and compliance with applicable legislation and regulations.

One of the principal duties of the Audit and Risk Committee is to review and approve the internal audit plan. The plan is set on a three-year rolling basis and the focus areas are determined and updated in line with:

- the internal audit mandate;
- the Group's ERM dashboard;
- strategic and operational initiatives aimed at growing and preserving value;
- the results of previous internal audits and reviews of the effectiveness of internal controls and risk management systems;
- significant changes in the business, operations, ICT programmes, systems and controls;
- requests from management and the Audit and Risk Committee;
- new developments in organisational governance; and
- emerging risks and trends.

The internal audit plan approved by the Audit and Risk Committee for the 2020 financial year will focus on risks linked to business and IT projects aimed at adapting the Group to the evolving global healthcare environment,

cyber and security risks, medical technology risks, clinical audits, data privacy audits and procurement audits, as well as a range of financial controls.

A key aspect of the Audit and Risk Committee's work during the year was to ensure the adequate staffing and resourcing of the in-house Internal Audit function to allow for a smooth transition away from Remgro Internal Audit. A high-level assessment of the function conducted in March 2019 recognised that it had been in operation for less than nine months, with most of the internal audit employees joining Mediclinic during February 2019. The Audit and Risk Committee was satisfied with the effectiveness, independence, resourcing and standing of the Internal Audit function within the Group and the progress made in establishing the function.

## EXTERNAL AUDIT

The Audit and Risk Committee, on behalf of the Board, is responsible for the relationship with the external auditor. PricewaterhouseCoopers LLP was appointed as the Company's external auditor in February 2016, as approved by the Company's shareholders in December 2015. The lead audit engagement partner is Mr Giles Hannam who was appointed in February 2016. The external auditor is invited to all Audit and Risk Committee meetings and receives copies of all relevant papers and meeting minutes.

The key topics considered by the Audit and Risk Committee during the year in relation to the external audit are set out below.

### May 2018

- Considered the external auditor's year-end audit report and opinion
- Evaluated the external auditor's performance, focusing on its independence and the objectivity and effectiveness of the external audit process
- Considered and recommended the external auditor's re-appointment
- Considered the non-audit services expenditure for the 2018 financial year
- Considered and approved the non-audit services thresholds for the 2019 financial year
- Privately consulted with the external auditor, without management
- Privately consulted with management, without the external auditor

### September 2018

- Considered relevant statutory, regulatory and good practice developments
- Privately consulted with only the Audit and Risk Committee members present

# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

## November 2018

- Considered the external auditor's interim review report
- Considered and approved the external audit plan for the 2019 financial year, including the proposed materiality threshold, the scope of the audit, the significant audit risks and fees and the corresponding engagement letter
- Considered the non-audit services expenditure for the 2019 financial year to date
- Considered and approved the revised non-audit services thresholds for the 2019 financial year
- Privately consulted with the external auditor, without management
- Privately consulted with management, without the external auditor

## March 2019

- Considered the external auditor's pre-year-end report on accounting, auditing and control matters
- Considered and approved the 2019 financial year audit fees
- Considered and approved the policy on the external auditor's independence and non-audit services
- Considered the non-audit services expenditure for the 2019 financial year to date
- Considered and approved the non-audit services thresholds for the 2020 financial year
- Privately consulted with the external auditor, without management
- Privately consulted with management, without the external auditor

## May 2019

- Considered the external auditor's year-end audit report and opinion
- Evaluated the external auditor's performance, focusing on its independence and the objectivity and effectiveness of the external audit process
- Considered and recommended the external auditor's re-appointment
- Reviewed the non-audit services expenditure for the 2019 financial year
- Privately consulted with the external auditor, without management
- Privately consulted with management, without the external auditor

## Effectiveness and independence

An important element of the Audit and Risk Committee's role is to examine the effectiveness of the audit process and monitor the independence of the external auditor. It is committed to ensuring that the Group receives a high-quality and effective statutory audit.

Prior to the start of the statutory audit work in respect of the current reporting period, the Audit and Risk Committee discussed the strategy and scope of the audit with PricewaterhouseCoopers LLP and management. At the March 2019 meeting, PricewaterhouseCoopers LLP presented the Audit and Risk Committee with a pre-year-end report on accounting, auditing and control matters, allowing it to monitor and discuss progress against the external audit plan. Private meetings held after Audit and Risk Committee meetings with the external auditor without management present, and with management without the external auditor present, encouraged open and transparent feedback from both parties.

As the 2019 financial year external audit neared finalisation, all members of the Audit and Risk Committee, management and those who regularly provide input or have regular contact with the external auditor were asked to evaluate its performance, with a strong focus on its independence and objectivity. The evaluation was performed by way of a questionnaire, which focused on four key performance areas: (1) the robustness of the audit process; (2) the quality of delivery; (3) the quality of reporting; and (4) quality of people and service. The feedback from the questionnaire and the meetings with the external auditor and management held during the year was considered and discussed by the Audit and Risk Committee at the meeting held in May 2019 and any opportunities for improvement were brought to the attention of the external auditor. The Audit and Risk Committee was satisfied with the overall feedback on PricewaterhouseCoopers LLP and concluded that the external audit process was effective and that expectations set when awarding the external audit to PricewaterhouseCoopers LLP in 2018 had largely been met.

In assessing the independence of the external auditor, the Audit and Risk Committee adopts a two-fold approach. Firstly, it considers the information and assurances provided by the external auditor under the FRC's Revised Ethical Standard for Auditors. PricewaterhouseCoopers LLP confirmed that there were no significant facts and matters that may reasonably be thought to bear on its independence or on the objectivity of the lead partner and

the audit team. The quality review partner, who reviews the judgments of the audit team, rotates every seven years and the lead partner and key audit partners at each division rotate every five years. The lead partner and quality review partner were appointed in February 2016 and are therefore not due for rotation until after 2020 and 2022 respectively. The key audit partners for Switzerland, Southern Africa and the Middle East were appointed in 2018, 2017 and 2019 respectively, with rotation due after 2023, 2022 and 2024. Secondly, the Audit and Risk Committee developed and monitors the Non-audit Services Policy and associated fees discussed below, which are designed to safeguard the independence of the external auditor. Based on this approach and the Audit and Risk Committee's findings, it was satisfied that PricewaterhouseCoopers LLP continues to be independent and free from any conflicting interest with the Group.

## Non-audit services and fees

The Audit and Risk Committee believes that it may be appropriate in certain circumstances for the Company to engage its external auditor to provide non-audit services. A policy governing the provision of such services is in place to ensure non-audit services provided by the external auditor do not impair, and are not perceived to impair, its independence or objectivity. The policy was last reviewed and approved by the Audit and Risk Committee in March 2019.

The policy makes it clear that only certain types of services are permitted to be carried out by the external auditor. Since 1 April 2017, the policy has excluded the provision of tax services by the external auditor (previously provided by PricewaterhouseCoopers LLP). Deloitte LLP was appointed to provide tax advice to the Company and Mediclinic Southern Africa and KPMG was appointed to provide tax advice to Hirslanden and Mediclinic Middle East. In order to help maintain the independence and objectivity of the external auditor, the policy further requires that a different partner be appointed to lead any non-audit services.

At the beginning of each financial year, the Audit and Risk Committee determines the pre-approved monetary thresholds for each category of non-audit services that may be provided by the external auditor. The nature of the non-audit services, the individual fee levels for each category and the aggregate fee relative to the external

audit fee are taken into account in determining these thresholds. Any individual assignment with a fee exceeding £50 000 requires the Audit and Risk Committee's prior approval.

The fees paid to PricewaterhouseCoopers LLP in respect of non-audit services amounted to approximately £550 000 or 23% of the statutory audit fees. Approximately £248 000 of the non-audit services fees were in respect of reviews conducted in relation to the financial statements for the six months ended 30 September 2018. Therefore, excluding the interim reviews, non-audit service fees as a percentage of statutory audit fees amounted to 13%.

Refer to note 23 to the **consolidated financial statements** on page 253 for more information for the fees paid audit and non-audit services during the year.

## Re-appointment

The Audit and Risk Committee concluded that the services provided by the external auditor were of a high quality; that the external audit process in respect of the 2019 financial statements was effective; and that the auditor remains objective and independent. Accordingly, the Audit and Risk Committee recommended to the Board that the re-appointment of PricewaterhouseCoopers LLP as the Company's external auditor be proposed to shareholders at the Company's AGM on 24 July 2019.

As a result of the UK's implementation of the European Union's mandatory audit firm rotation requirements, and in accordance with the Audit and Risk 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 external auditor for a period exceeding 20 years. PricewaterhouseCoopers LLP was first appointed as the Company's auditor with effect from February 2016, as approved by the Company's shareholders in December 2015. It is intended that the external audit will be put out to tender no later than for the financial year commencing 1 April 2023, which is 10 years after the Company's initial listing. The Audit and Risk Committee complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

## ETHICAL CONDUCT, GOVERNANCE AND COMPLIANCE

The Group is focused on conducting its business in an honest, fair and ethical manner – a principle endorsed by the Board and management. The Audit and Risk Committee oversees the Group's processes for handling breaches of the Group's Ethics Code and Anti-bribery Policy. The key topics considered by the Audit and Risk Committee during the year in relation to ethical conduct, governance and compliance are set out below.

### May 2018

- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)
- Considered the Regulatory Compliance Policy
- Considered the non-audit services expenditure for the 2018 financial year
- Considered and approved the non-audit services thresholds for the 2019 financial year
- Reviewed the key tax considerations across the Group
- Considered relevant statutory, regulatory and good practice developments

### September 2018

- Considered management's reports on the status of regulatory compliance across the Group and fraud and ethics matters (including any instances of whistleblowing)
- Considered relevant statutory, regulatory and good practice developments

### November 2018

- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)
- Considered the key tax considerations across the Group and the Group tax strategy and recommended the Group tax strategy for approval by the Board
- Considered and noted the Group Tax Policy established by management
- Considered and approved the revised non-audit services thresholds for the 2019 financial year

### March 2019

- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)
- Conducted an annual review of: the Audit and Risk Committee's Terms of Reference; the Internal Audit Mandate; policy in respect of the independence and the provision of non-audit services by the external auditor; ERM Policy; Fraud Risk Management Policy; Treasury Policy and procedures; and Group Regulatory Compliance Policy

- Considered management's report on assurances obtained in respect of compliance matters
- Considered the non-audit services expenditure for the 2019 financial year to date
- Considered and approved the non-audit services thresholds for the 2020 financial year
- Reviewed the key tax considerations across the Group
- Considered relevant statutory, regulatory and good practice developments

### May 2019

- Considered management's report on fraud and ethics matters (including any instances of whistleblowing)
- Reviewed the key tax considerations across the Group
- Considered relevant statutory, regulatory and good practice developments

During the year, the Audit and Risk Committee received regular feedback from the Group General Manager: Risk Management on all material cases and incidents reported on the ethics lines, on how these were managed and their overall effectiveness. Further details on the ethics lines are provided on page 93 of the **Sustainable development overview**. The Fraud Risk Management Policy adopted in the 2018 financial year has facilitated the development of further controls for the prevention of fraud and corruption.

The Audit and Risk Committee is responsible for ensuring Group-wide compliance with relevant legislation and regulations. During 2018, Mr Dirk Lubbe was appointed Group General Manager: Compliance and Data Protection to maintain the standardised risk-based compliance monitoring programme, which was strengthened in the 2018 financial year under the guidance of an external compliance consultant. The programme tracks the Group's compliance with key legislation across all the jurisdictions in which it operates. The Audit and Risk Committee received regular updates on progress regarding the development of the compliance programme; examined the implications of forthcoming legislation and management's plans to address the new requirements; and monitored progress on their implementation, particularly in relation to the EU's GDPR, new data protection legislation in Switzerland and South Africa, and new value-added tax legislation in the UAE.

The Clinical Performance and Sustainability Committee is also responsible for assessing the Group's ethics and compliance. Further details on the Company's policies in respect of business conduct and ethics, anti-corruption and anti-bribery matters are provided on page 96 of the **Sustainable development overview**. Details of the Clinical

Performance and Sustainability Committee are provided on page 117 of the **Corporate Governance Statement**.

## COMMITTEE EVALUATION

The Audit and Risk Committee's performance was reviewed within the framework of the annual internal Board evaluation, which is discussed on page 124 of the **Corporate Governance Statement**. The evaluation focused on the Audit and Risk Committee's composition and time management, processes and support, the work undertaken

during the financial year and any priorities for improving its performance in the coming year. It reviewed and discussed the outcomes of the evaluation and certain actions were agreed for implementation, designed to further develop or mature some of the Group's risk management and reporting. The results were reported to the Board at the March 2019 meeting. The Audit and Risk Committee will monitor progress on the agreed actions and resultant outcomes, and these will be incorporated into the following year's performance evaluation.

## PROGRESS ON KEY PRIORITIES FOR THE COMMITTEE FOR THE 2019 FINANCIAL YEAR

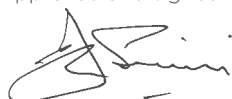
PRIORITIES	STATUS
<ul style="list-style-type: none"> <li>Monitor establishment of in-house Internal Audit function</li> <li>Monitor progress against the internal audit plan for the 2019 financial year</li> </ul>	Refer to the <b>internal audit</b> section on page 144 of this <b>Audit and Risk Committee Report</b>
<ul style="list-style-type: none"> <li>Monitor progress against the overall ERM plan for the 2019 financial year</li> <li>Mature the integration of reporting to the Audit and Risk Committee on financial, operational and compliance internal controls and risk management systems</li> <li>Monitor the performance of recently implemented IT projects aimed at adapting the Group to the evolving global healthcare environment</li> </ul>	Refer to the <b>internal control systems and risk management processes</b> section on page 142 of this <b>Audit and Risk Committee Report</b>
<ul style="list-style-type: none"> <li>Monitor the implementation of new IFRS standards</li> </ul>	Refer to the <b>financial reporting</b> section on page 137 of this <b>Audit and Risk Committee Report</b>
<ul style="list-style-type: none"> <li>Appoint a permanent compliance officer and monitor the entrenchment of compliance management</li> </ul>	Refer to the <b>ethical conduct, governance and compliance</b> section on page 148 of this <b>Audit and Risk Committee Report</b>

## KEY PRIORITIES FOR THE COMMITTEE IN THE 2020 FINANCIAL YEAR

For the coming financial year, the Audit and Risk Committee will, among other matters, focus on:

- further developing the Group's clinical risk management and reporting processes;
- continuous monitoring of the development of the in-house Internal Audit function and progress against the internal audit plan for the 2020 financial year;
- monitoring progress against the ERM plan for the 2020 financial year;
- maturing the integration of reporting to the Audit and Risk Committee on financial, operational and compliance internal controls and risk management systems;
- maturing the monitoring and reporting of projects aimed at adapting the Group to the evolving global healthcare environment and cybersecurity risks;
- monitoring the implementation of new IFRS standards;
- overseeing the selection and transition of the new lead external audit partner who will lead the audit from the 2021 financial year;
- further enhancing the Group's monitoring of potential, long-term regulatory developments; and
- monitoring progress against the regulatory compliance plan for the 2020 financial year.

Approved and signed on behalf of the Audit and Risk Committee.



**Mr Desmond Smith**

*Chairperson of the Audit and Risk Committee*

22 May 2019



# CLINICAL PERFORMANCE AND SUSTAINABILITY COMMITTEE REPORT



**Dr Felicity Harvey**  
*Chairperson of the Clinical Performance  
and Sustainability Committee*

As Chairperson of the Clinical Performance and Sustainability Committee, it is my pleasure to report on its activities for the financial year ended 31 March 2019.

This report provides an overview of the key focus areas considered during the year together with the priorities for next financial year. The responsibilities and functions of the Clinical Performance and Sustainability Committee are governed by formal terms of reference available in the governance section of the Company's website at [www.mediclinic.com](http://www.mediclinic.com) and summarised on page 117 of the **Corporate Governance Statement**. These are approved by the Board and subject to regular review, at least annually.

## COMMITTEE COMPOSITION AND MEETING ATTENDANCE

The composition of the Clinical Performance and Sustainability Committee and meeting attendance during the period under review are set out in **Table 1**.

Changes to the composition during the year are listed below:

- Dr Ronnie van der Merwe succeeded Mr Danie Meintjes as the CEO on 1 June 2018 and as a member of the Clinical Performance and Sustainability Committee on 25 July 2018.
- Mr Seamus Keating was appointed as a member of the Clinical Performance and Sustainability Committee with effect from 25 July 2018.

The Chief Clinical Officer, Chief Corporate Services Officer (who is responsible for the Group's sustainable development management) and General Manager for Clinical Performance are invited on a permanent basis to attend and speak at all meetings. As part of the Ward-to-Board accountability framework detailed below, each of the divisional Chief Clinical Officers are invited to all meetings, as well as the divisional CEOs (as required). Other relevant members of management are invited to attend meetings, as required.

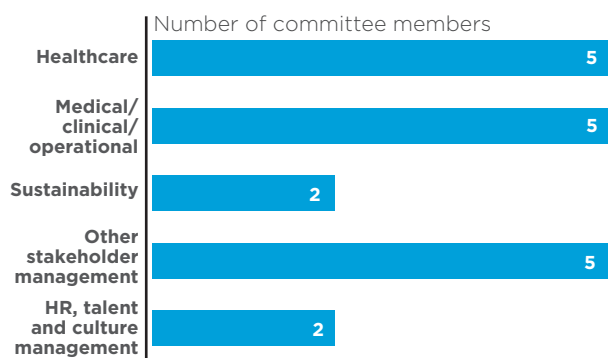
**TABLE 1: COMMITTEE COMPOSITION AND MEETING ATTENDANCE**

NAME <sup>1</sup>	DESIGNATION	APPOINTMENT DATE	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>2</sup>
Dr Felicity Harvey <sup>3</sup> (Committee Chairperson)	Independent Non-executive Director	03/10/2017	4/4
Dr Muhadditha Al Hashimi <sup>3</sup>	Independent Non-executive Director	01/04/2018	3/4
Dr Edwin Hertzog <sup>4</sup>	Non-executive Director	15/02/2016	3/4
Mr Seamus Keating <sup>5</sup>	Independent Non-executive Director	25/07/2018	3/3
Dr Ronnie van der Merwe <sup>6</sup>	Chief Executive Officer	25/07/2018	3/3

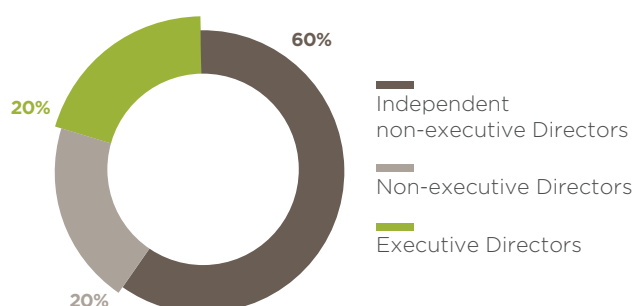
**Notes**

- <sup>1</sup> The composition of the Clinical Performance and Sustainability Committee is shown as at 31 March 2019.
- <sup>2</sup> The attendance reflects the number of scheduled meetings held during the financial year. One meeting was held between the Company's financial year-end and the Last Practicable Date, which was attended by all members.
- <sup>3</sup> Dr Hertzog stood down as Chairperson of the Clinical Performance and Sustainability Committee on 1 April 2018 and was succeeded by Dr Harvey. Dr Hertzog was unable to attend one scheduled Committee meeting for unexpected personal reasons.
- <sup>4</sup> Dr Al Hashimi was unable to attend the first meeting following her appointment to the Committee due to a previous commitment which could not be changed.
- <sup>5</sup> Mr Keating was appointed as a member with effect from 25 July 2018.
- <sup>6</sup> Dr Van der Merwe was appointed as CEO of the Company on 1 June 2018 and a member of the Clinical Performance and Sustainability Committee with effect from 25 July 2018.

**FIGURE 1: COMMITTEE MEMBERS' SKILLS AND EXPERIENCE**



**FIGURE 2: COMMITTEE COMPOSITION**



**KEY AREAS OF ACTIVITY**

The Clinical Performance and Sustainability Committee has increased the frequency of its meetings from 4-5 meetings annually for the financial year commencing 1 April 2019, to facilitate discussions on the 3-5 year clinical strategy of the Group. In the year under review, the Clinical Performance and Sustainability Committee met four times and the main focus areas are set out below.

**Clinical performance**

In relation to clinical performance functions, the Clinical Performance and Sustainability Committee is responsible for promoting a culture of excellence in patient safety, quality of care and patient experience. During the year, it focused, *inter alia*, on:

**Governance**

The implementation of the Ward-to-Board accountability framework is designed to support and enhance the *Patients First* strategic objective by aligning the interests of patients and care providers and by building a culture of performance reporting and accountability. This approach also ensures that the information flows up and down the organisation more effectively and facilitates Group-wide alignment and collaboration. The framework has been successfully implemented in Mediclinic Southern Africa and Mediclinic Middle East and is in the process of being rolled out in Hirslanden. This includes establishing a Clinical Performance Committee for each division and replicating this appropriately at hospital level. The divisional committees will also include local independent clinical

# CLINICAL PERFORMANCE AND SUSTAINABILITY COMMITTEE REPORT (CONTINUED)

expert members to provide a different perspective and avoid 'group think'. The Ward-to-Board accountability framework will drive improved quality and more effective outcomes for patients, thereby creating satisfaction and value for the Company and its stakeholders.

## Clinical performance management system

Another important area of focus has been the Group's clinical management model, which is based on a clinical performance framework consisting of four components: patient safety, clinical effectiveness, clinical cost efficiency and value-based care. A composite performance indicator dashboard has been implemented to evaluate the performance of the divisions, including their individual hospitals against internal and external benchmarks. This will enable the management team and the Clinical Performance and Sustainability Committee to analyse trends and prioritise the corresponding clinical performance improvements.

The Clinical Performance and Sustainability Committee continued its focus on:

- monitoring the clinical performance of the Group;
- evaluating patient safety, IPC and quality improvement performance;
- evaluating compliance with the Company's patient safety and quality clinical care standards, policies and procedures and regulation and accreditation standards at divisional level;
- reviewing clinical effectiveness and cost efficiencies; and
- reviewing and approving the annual **Clinical services overview** in the annual report and the **Clinical Services Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.

## Sustainable development

In relation to its sustainability functions, the Clinical Performance and Sustainability Committee is responsible for ensuring that the Group remains a good and responsible corporate citizen. During the year, it focused, *inter alia*, on:

- reviewing and further aligning the Group's policies to the Group's commitment to governance and reporting of its sustainable development performance, including the Group Sustainable Development Policy, the Group Environmental Policy and its Ethics Code, thereby strengthening the Group's position on non-discrimination, and respect for patient rights and human rights. These are available on the Company's website at [https://www.mediclinic.com/en/governance/sustainable\\_development.html](https://www.mediclinic.com/en/governance/sustainable_development.html);

- monitoring the sustainable development performance of the Group with specific regard to stakeholder engagement (which includes the outcomes from the patient experience index and employee engagement index), health and public safety, broad-based black economic empowerment in Southern Africa, labour relations and working conditions, the Company's **Modern Slavery and Human Trafficking Statement** as required in terms of the Modern Slavery Act 2015 (available on the Company's website at <https://www.mediclinic.com/en/modern-slavery-statement.html>), training and skills development of employees, management of the Group's environmental impacts, fraud and ethics, compliance (which includes the governance of advertising and compliance with consumer protection legislation) and corporate social investment;
- considering and noting the paper by the Business and Human Rights Resource Centre in respect of Modern Slavery Act statements published by the FTSE 100, and new initiatives being implemented to strengthen the Group's procurement practices and risk management;
- monitoring the results of the Company's participation in various sustainability indices and assessments, notably the Company's inclusion in the FTSE4Good Index as well as the FTSE/JSE Responsible Investment Index, which recognises companies with strong environmental, social and governance practices;
- confirming the key sustainability priorities, as recommended by management and reported on page 79 and in the **Sustainable Development Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>; and
- reviewing and approving the annual **Sustainable development overview** included in the **Annual Report** and the **Sustainable Development Report** published on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>.

As referred to on page 153, certain South African subsidiaries of the Company are required to appoint a Social and Ethics Committee in terms of the South African Companies Act, No. 71 of 2008, as amended ("**SA Companies Act**"), unless such companies are subsidiaries of another company that has a Social and Ethics Committee, which performs the functions required by this regulation on its behalf. The Clinical Performance and Sustainability Committee therefore performs the statutory functions required of a social and ethics committee in terms of the SA Companies Act.

## COMPLIANCE

The Clinical Performance and Sustainability Committee considered the compliance universe and the risk and control self-assessment process for the Group, as well as new legislation and regulations.

## ASSURANCE

The Clinical Performance and Sustainability Committee considered the need for external assurance of the Company's non-financial reporting, particularly in relation to the Company's sustainable development performance. It is satisfied that the current level of combined assurance provides the necessary independent assurance over the quality and reliability of the information presented in relation to the Group's clinical performance and sustainable development. The Clinical Performance and Sustainability Committee will continue to monitor whether additional forms of assurance are required in future.

## COMMITTEE EVALUATION

The Clinical Performance and Sustainability Committee's performance was internally evaluated by its members by way of a self-evaluation questionnaire, the results of which were considered by both the Clinical Performance and Sustainability Committee and the Board. Following feedback received from the self-evaluation, the Clinical Performance and Sustainability Committee agreed that meetings regarding substantial matters would be held in person, wherever possible. No other significant issues that required improvement were identified. The Clinical Performance and Sustainability Committee and the Board concluded that the committee operated effectively during the year and that its members are suitably skilled and experienced.

## ANNUAL GENERAL MEETING

In terms of the SA Companies Act, a social and ethics committee must, through one of its members, report to the

shareholders at the company's annual general meeting on the matters within its mandate. As the Clinical Performance and Sustainability Committee is performing the role and function of a Social and Ethics Committee in terms of the SA Companies Act, it will fulfil this function by referring shareholders at the Company's AGM on 24 July 2019, to this report, which should be read in conjunction with the **Sustainable Development Report** available on the Company's website at <https://investor.mediclinic.com/results-centre/results-and-reports>. Any specific questions for the Clinical Performance and Sustainability Committee may be sent to the Company Secretary prior to the AGM.

## PRIORITIES FOR THE COMMITTEE FOR THE 2020 FINANCIAL YEAR

For the coming financial year, the Clinical Performance and Sustainability Committee will, among other matters, focus on:

- the continued implementation of the Ward-to-Board accountability framework across the divisions;
- reviewing the clinical performance indicators and identifying trends;
- the implementation of advanced technology for improved clinical information and performance; and
- continued monitoring of the Company's sustainable development.

Signed on behalf of the Clinical Performance and Sustainability Committee.



**Dr Felicity Harvey**

*Chairperson of the Clinical Performance and Sustainability Committee*  
22 May 2019

# NOMINATION COMMITTEE REPORT



**Dr Edwin Hertzog**  
*Chairperson of the Nomination Committee*

As Chairperson of the Nomination Committee, it is my pleasure to report on the Nomination Committee's activities for the financial year ended 31 March 2019.

The report provides an overview of the key focus areas considered during the year, together with the priorities for the 2020 financial year. The Nomination Committee is governed by formal terms of reference, which it reviews annually. The terms of reference are available in the governance section of the Company's website at <https://www.mediclinic.com/en/governance/corporate-governance/board-committees.html> and summarised on page 117 of the **Corporate Governance Statement**.

## COMMITTEE COMPOSITION AND MEETING ATTENDANCE

The current composition of the Nomination Committee meets the requirements of the 2016 UK Corporate Governance Code, with the majority of members being independent non-executive Directors. The Chairman of the Board is the Chairperson of the Nomination Committee, but does not chair the meeting when it is dealing with the matter of succession to the chairmanship. Biographies of members are included on page 104. Composition and meeting attendance during the period under review are set out in **Table 1** alongside.

Attendees of the Nomination Committee meetings may, from time to time and upon invitation, include the CEO, the Group Chief Human Resources Officer and the Group General Manager: Talent Management.

**TABLE 1: COMMITTEE COMPOSITION AND MEETING ATTENDANCE**

NAME <sup>1</sup>	DESIGNATION	APPOINTMENT DATE	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>2</sup>
Dr Edwin Hertzog (Committee Chairperson)	Non-executive Director	15/02/2016	2/2
Mr Desmond Smith	Senior Independent Director	15/02/2016	2/2
Mr Jannie Durand	Non-executive Director	15/02/2016	2/2
Dr Felicity Harvey <sup>3</sup>	Independent Non-executive Director	25/07/2018	2/2
Dr Anja Oswald <sup>3</sup>	Independent Non-executive Director	25/07/2018	2/2

**Notes**

<sup>1</sup> The composition of the Nomination Committee is shown as at 31 March 2019. The Committee Chairperson, Dr Hertzog, is the Chairman of the Board.

<sup>2</sup> The attendance reflects the number of scheduled meetings held during the financial year. One additional *ad hoc* meeting was held during the financial year to deal with urgent matters and was attended by all members. One *ad hoc* meeting was held between the Company's financial year-end and the Last Practicable Date and was attended by all members.

<sup>3</sup> Drs Harvey and Oswald were appointed to the Nomination Committee with effect from 25 July 2018.

**KEY AREAS OF ACTIVITY****Succession planning**

The Nomination Committee conducted a detailed review of the succession plans for the Board, the Group Executive Committee and members of the divisional executive committees, taking into account the Board Diversity Policy mentioned below, the outcome of the annual Board evaluation and a detailed skills matrix.

**Board and committee composition**

Following the announcement made by the Company on 20 February 2018 regarding Prof Robert Leu's planned retirement, the Nomination Committee identified potential candidates through a rigorous selection process against an agreed set of criteria. During the financial year, the Board approved the Nomination Committee's recommendations and appointed Dr Oswald as an independent non-executive Director.

The Board also approved the Nomination Committee's recommendation to appoint Mr Danie Meintjes as a non-executive Director following his retirement as an executive Director of the Company. The Nomination Committee considered that Mr Meintjes' continued involvement in the Group was in the best interests of the Company, its shareholders and other stakeholders in view

of the wealth of knowledge and experience he has gained during his tenure of more than 30 years at Mediclinic.

As announced on 15 November 2018, Mr Desmond Smith will retire as a Director of the Company at the conclusion of the Company's AGM scheduled for 24 July 2019 and will not seek re-election. Mr Smith will also step down from all Board committees at that time. Mr Alan Grieve, who has been a member of the Audit and Risk Committee since February 2016, will succeed Mr Smith both as SID and Chairperson of the Audit and Risk Committee, effective from the date of Mr Smith's resignation. A search has also commenced for an independent non-executive Director with a strong financial background and recent and relevant financial experience to be appointed to the Board. MWM Consulting has been appointed to commence with an extensive selection process to shortlist suitably qualified candidates.

During the reporting period, the Nomination Committee conducted its annual review of the structure, size, diversity and composition of the Board and its committees. As part of this process, it considered a detailed skills matrix for the Board and the outcome of the Board evaluation. The areas reviewed included the Board members' experience, independence, tenure, geographical knowledge, and knowledge of the Company as whole.



# NOMINATION COMMITTEE REPORT (CONTINUED)

## Diversity

During the year, the Nomination Committee reviewed the Board Diversity Policy, which applies to the Board and the Group Executive Committee (the direct reports to the executive Directors). It also received feedback from the divisions regarding progress against their diversity and inclusion goals and plans for continued improvement during the 2020 financial year.

### Diversity Policy

The Board believes that diversity is not limited to gender and that a diverse Board membership will include and benefit from different skills; geographical, educational and professional backgrounds; industry experience; age; race; gender; social and ethnic backgrounds; cognitive and personal strengths; and other characteristics. These factors will be considered in determining the optimum composition of the Board and, when possible, be balanced

appropriately. When recruiting new Directors, consideration will also be given to ensuring that the size of the Board does not grow unnecessarily and that all appointments are made on justifiable merit. In fulfilling its role in terms of diversity, the Nomination Committee will continue to consider relevant prescribed guidelines and the performance of peer companies.

The Board supports the principles of boardroom diversity in general and takes boardroom skills diversity seriously. It actively considers these matters regularly at Board and committee meetings. The Board believes that maintaining an appropriate balance of skills, knowledge, experience and backgrounds is imperative for the long-term success of the Group and allows the Board to perform its role effectively.

The Board Diversity Policy has four objectives to support the Board's commitment to diversity. These objectives and progress against these are set out below in **Table 2**.

**TABLE 2: PROGRESS AGAINST OBJECTIVES**

OBJECTIVE	PROGRESS
The Board will not impose quotas regarding diversity, although it will remain committed to achieving a diverse Board and executive management including aspects such as age, gender, education and professional background.	<p>During the year, the Board appointed one female independent non-executive Director, Dr Oswald. The new Director offers a diverse background and experience of the Swiss healthcare industry and political landscape.</p> <p>The Board is also pleased to report on the appointment of Dr René Toua as Chief Clinical Officer from 1 July 2018, as the first female member of the Group Executive Committee.</p> <p>The CEO and divisional CEOs annually share their diversity goals and report on progress to the Nomination Committee. The divisions have been focused on increasing diversity below Board level by encouraging and strengthening the talent pipeline within the divisions through short- and long-term succession planning. Where the Company has been unable to promote within, it has identified the desired criteria for external candidates. Both of these activities have been embedded to support the executive committee, with general diversity featuring as one of its key priorities.</p> <p>The Board recognises the importance of having a diverse Board and leadership team. The Board and the executive management remain committed to achieving diversity and will continue to recommend appointments based on the skills, experience, independence and knowledge required by the Board and the executive management.</p>
The Nomination Committee will annually consider and make recommendations, if applicable, to the Board on its diversity objectives.	The Nomination Committee reviewed the Board Diversity Policy and was satisfied that the objectives remained relevant. The Nomination Committee remains committed to progressing the objectives for the 2020 financial year. A Group diversity and inclusion strategy framework was approved during 2019 to help develop a diverse pipeline of talent to executive management positions. Progress against these objectives will be reviewed at least annually.

OBJECTIVE	PROGRESS
<p>In reviewing the composition of the Board and executive management, the Nomination Committee will also consider diversity, in addition to considering the balance of skills, experience, independence and knowledge.</p>	<p>The Nomination Committee reviewed the composition of the Board and its committees, specifically the balance of skills, experience, independence, knowledge and diversity. The Board appointed a new Director with a diverse background and experience as detailed above. The Nomination Committee reviewed the progress made in each division and reported it to the Board. Each division's talent pipeline strategy was reviewed in detail, including their diversity focus, progress made in that regard during the year, and plans for continued improvement during the 2020 financial year.</p> <p>As at the date of this report, the Company complied with the recommendation included in the Parker Report, namely to have at least one Director of colour by 2021. Good progress has been made in increasing female representation on the Board, in line with the target of 33% by 2020, as recommended in the report issued by the Hampton-Alexander Review in November 2017 on improving the gender balance in FTSE leadership ("<b>Hampton-Alexander Report</b>"). As at the date of the report the Board had two Directors of colour (as defined in the Parker Report) and 25% female representation.</p> <p>The Group's workforce has in excess of 73.6% female representation overall. The Board and executive management remain committed to creating a diverse and inclusive workplace.</p>
<p>In identifying suitable candidates for appointment to the Board, the Nomination Committee will assess candidates on merit against objective criteria and with due regard to the benefits of a diverse Board.</p>	<p>The new non-executive Director was identified from a diverse list of candidates and was assessed and selected on merit, against an agreed set of criteria, reflecting the role in question and the capabilities required for a particular appointment, while taking into account the benefits of a diverse Board. The Nomination Committee considered each of the candidates' significant commitments, other directorships, skills, experience, knowledge, gender, race, geographical location, and other diversity considerations.</p>

## Assessment of independence of non-executive directors

The Board annually reviews any potential conflicts of interest and identified conflicts are, if appropriate, authorised. The Nomination Committee and the Board are satisfied that the commitments of the Chairman and other non-executive Directors, as shown in their biographies on page 104, do not conflict with their duties and commitments as Directors of the Company. As noted earlier, the Nomination Committee reviewed the composition of the Board and its committees, including specifically the independence of the non-executive directors. While the Chairman, Mr Durand and Mr Meintjes are considered to be non-independent, the Board is satisfied that the seven independent non-executive Directors are free from any relationship that could affect their judgment and continue to demonstrate their independence by how they conduct themselves in Board meetings, including how they exercise judgment and independent thinking.

## CORPORATE GOVERNANCE CODE DEVELOPMENTS

The Nomination Committee reviewed and considered the amendments contained in the 2018 Corporate Governance Code in preparation for its implementation in the 2020 financial year, insofar as these related to:

- establishing the preferred method for gathering the views of the workforce;
- considering length of service of Directors when reviewing the composition of the Board;
- accompanying papers to the resolutions to elect or re-elect each Director at the annual general meeting, outlining specific reasons why their contribution is and continues to be important for the Company's long-term success;
- reporting on how the Company has engaged with its workforce, suppliers and other stakeholders and how the interests of stakeholders have influenced the Board's decision-making pursuant to Section 172 of the UK Companies Act 2006;
- the proposed changes to the independence criteria and tenure for Directors and for the Chairman of the Company;
- using merit and objective criteria when considering appointments and succession plans;

# NOMINATION COMMITTEE REPORT (CONTINUED)

- the recommendation for the Chairman not to remain in the post beyond nine years from the date of the first appointment to the Board;
- the continued emphasis on the promotion of diversity expanding beyond gender to include social and ethnic backgrounds and cognitive and personal strengths, through the design of appointment and succession planning practices; and
- the expansion of the Nomination Committee's remit to include the oversight of development of a diverse pipeline for succession planning for the Board and executive management and the resultant reporting obligations for the Nomination Committee.

In line with the provisions of the 2018 Corporate Governance Code, the Company has appointed Mr Meintjes, with effect from 1 April 2019, as the designated non-executive Director responsible for engaging with the Company's workforce. The Board believes that Mr Meintjes is suitable for the role due to the wealth of knowledge and experience he has gained during his tenure of more than 30 years at Mediclinic.

## COMMITTEE EVALUATION

The performance of the Nomination Committee was internally evaluated by its members by way of a self-evaluation questionnaire, the results of which were considered by the Nomination Committee and the Board. No significant issues requiring improvement were identified and the Nomination Committee and the Board concluded that it operated effectively during the year.

## EVALUATION OF THE COMPOSITION, STRUCTURE AND FUNCTIONING OF THE BOARD

The composition, structure and functioning of the Board was evaluated internally during the year by way of a self-evaluation questionnaire. The questionnaire focused on Board composition and expertise; the Board's role in setting strategy; its understanding of risks facing the Group; succession planning; and the effectiveness of Board committees.

The Board regards the evaluation process as an important way to monitor progress. Further details on the Board effectiveness evaluation is included in the **Corporate Governance Statement** on page 124.

When considering the election or re-election of Directors, the Nomination Committee considers the outcome of the Board evaluation process, as well as other factors such as the individual Director's knowledge, skills and experience; the independent judgment they add to Board deliberations; and other commitments. In view of Mr Desmond Smith's intention to retire after the AGM, the Nomination Committee launched a search for an independent non-executive director with a strong financial background and recent and relevant financial experience, to ensure the Board's current level of expertise in that area is maintained.

In accordance with the 2016 Corporate Governance Code, all Directors of FTSE 350 companies should stand for re-election annually. Accordingly, Dr Oswald (who was appointed on 25 July 2018) will stand for election at the AGM and all other Directors (other than Mr Smith) will stand for re-election. Biographies of the Directors can be found on page 104.

The terms and conditions of appointment of the non-executive Directors, which include their expected time commitment, are available for inspection at the Company's registered office and at the AGM.

## PRIORITIES FOR THE COMMITTEE FOR THE 2020 FINANCIAL YEAR

For the coming financial year, the Nomination Committee will, among other matters, focus on:

- the continued development of succession plans and the talent pipeline;
- the continuous review of the composition of the Board and its committees in respect of skills, diversity, tenure and commitments;
- the development of the Company's diversity strategy; and
- monitoring and implementing, where appropriate, the 2018 Corporate Governance Code requirements.

Signed on behalf of the Nomination Committee.



**Dr Edwin Hertzog**

*Chairperson of the Nomination Committee*

22 May 2019

# DIRECTORS' REMUNERATION REPORT



**Mr Trevor D Petersen**  
*Chairperson of the Remuneration Committee*

## LETTER FROM THE CHAIRPERSON

As Chairperson of the Remuneration Committee, it is my pleasure to present the Directors' Remuneration Report for the year ended 2019.

The Board believes that maintaining the highest standards of corporate governance is essential to protecting shareholder value and central to this is aligning Directors' remuneration with the strategy of the business. The Company therefore continues to review its strategy in line with the evolving healthcare landscape in which it operates to ensure that the Group's variable pay schemes remain linked with its long-term success.

At the annual general meeting on 25 July 2017, the Directors' Remuneration Policy was put to a binding shareholder vote and was approved by 95.9% of the votes cast. The Remuneration Committee intends to commence a thorough review of this policy in the forthcoming year, taking into consideration investors' feedback. A revised Directors' Remuneration Policy will be submitted for shareholder approval at the 2020 annual general meeting.

## REPORT STRUCTURE

As there are no proposed changes to the Directors' Remuneration Policy this year, the full policy has not been included in this report. However, as part of our commitment to provide clarity on executive Director remuneration, a **Remuneration at a Glance** section is

included on page 162, which summarises key policy features together with how it will be implemented in the 2020 financial year, as well as the pay outcomes for the 2019 financial year.

The **Annual Remuneration Report** on page 166 provides a detailed explanation of the remuneration paid to Directors during the 2019 financial year and will be submitted for an advisory shareholder vote at the 2019 AGM.

## CHIEF EXECUTIVE OFFICER SUCCESSION

As stated in the 2018 Annual Report and financial statements, Dr Ronnie van der Merwe succeeded Mr Danie Meintjes as CEO on 1 June 2018. Details of Dr Van der Merwe's remuneration are set out within the **Annual Remuneration Report**.

Mr Meintjes retired as an executive Director on 31 July 2018 and was appointed as a non-executive Director on 1 August 2018. This appointment is considered to be in the long-term interest of Mediclinic and its stakeholders in view of his wealth of knowledge and experience gained from working for the Group, in different capacities, for over 30 years.

In determining Mr Meintjes' remuneration arrangements on retirement, the Remuneration Committee considered both UK investors' expectations and South African labour market requirements. In line with Section 430(2B) of the

# DIRECTORS' REMUNERATION REPORT (CONTINUED)

Act, a notice was published on the Company's website on 14 August 2018 disclosing the treatment of Mr Meintjes' remuneration arrangements, the details of which can be found on page 171 of the Annual Remuneration Report.

## PERFORMANCE AND REWARD

As set out earlier in the **Annual Report**, the Group faced a challenging market and regulatory environment in all three of the operating divisions, particularly in Switzerland through the introduction of TARMED and the outmigration of certain medical treatments from an inpatient to an outpatient tariff, which was reflected in the Group's overall financial performance. This translated to an increase in Group revenue of 2% to £2 932m (2018: £2 876m), and a decrease in adjusted EBITDA of 4% to £493m (2018: £515m).

From a patient safety and clinical effectiveness perspective, the Group delivered strong performance with the majority of indicators showing improvement. Much of this progress can be attributed to a strong collaborative effort between the clinical services teams of the respective divisions and the corporate centre.

The executive Directors' short-term incentive ("**STI**") was calculated on a Group-achieved EBITDA measure defined as Group-adjusted EBITDA performance, calculated at budgeted exchange rates and further adjusted to remove the impact of employee bonus accruals and to amend for other specific items subject to approval by the Remuneration Committee. This is combined with detailed operating metrics measured at divisional level, which comprise financial and operational objectives, including clinical performance measurement. The bonus framework operates such that the non-achievement of subset performance indicators (i.e. those measured at a divisional level) give rise to a reduction in the bonus that is payable.

Based on performance delivered in the year, the overall bonus for executive Directors was 16.5% of maximum (further details can be found on page 169), which is reflective of the Company's stringent approach to target setting and its commitment to aligning pay with performance. Following the end of the year, the Remuneration Committee considered the pay-outs in the context of the underlying financial performance of the Group (including the shareholder experience) and determined that the pay-out levels were appropriate as they reflected the progress made by the Group in a very challenging environment.

Long-term incentive awards granted in 2016, which were based on relative total shareholder return and adjusted EPS metrics lapsed based on below threshold performance levels measured over the three-year period ending 31 March 2019. While this outcome was disappointing, the Remuneration Committee approved the lapsing of the awards as it reflected the overall financial performance of the Group which has been materially impacted by significant regulatory changes in Switzerland and the UAE during the three-year period.

## PROPOSED IMPLEMENTATION OF THE DIRECTORS' REMUNERATION POLICY IN THE 2020 FINANCIAL YEAR

Given that the Remuneration Committee intends to undertake a thorough review of the Directors' Remuneration Policy over the course of the coming year, the Remuneration Committee only intends to make minor changes to the implementation of the Directors' Remuneration Policy during the 2020 financial year to ensure it is aligned with the Group's recent performance and strategic priorities and reflects feedback received from shareholders. These changes are set out below.

- **Short-term incentive:** The 2020 Group STI will continue to be based on Group-achieved EBITDA performance and subset performance indicators for the divisions, which include financial and operational objectives. To further support the Group's clinical focus, additional emphasis has been placed on improving clinical performance by introducing and/or enhancing non-financial performance measures, which include clinical performance, patient experience, employee engagement and patient safety measures. Incentive opportunities will remain in line with last year.
- **Long-term incentive - performance metrics of total shareholder return ("**TSR**"):** Given that the Company is now a constituent of the FTSE 250, the Remuneration Committee is changing the comparator group against which TSR will be measured under the long-term incentive plan ("**LTIP**"), to a based index comprising constituents of the FTSE 250 (previously the FTSE 100). The peer group will exclude financial services and extraction companies given their exposure to different market influences. TSR will continue to have a weighting of 40% of the overall award.

- Long-term incentive – performance metrics of earnings per share:** The remainder of the award will continue to be based on adjusted EPS and accounts for 60% of the overall award. In light of the Group's internal business plan over the coming three years and taking into account the market's performance expectations, the Remuneration Committee has set the target range at 4% p.a. (threshold performance) to 11% p.a. (maximum performance) growth.
- Long-term incentive – underpin:** In light of investor feedback, the Remuneration Committee has introduced a discretionary override if a ROIC underpin is not met. This allows the Remuneration Committee to review the formulaic level of vesting delivered under the adjusted EPS and relative TSR performance conditions based on ROIC performance of the Company over the period.
- Long-term incentive – award levels:** The Remuneration Committee reviewed the long-term incentive award levels given the decline in the share price in 2018 and in the context of investor expectations. Given the increased external focus on the affordability of healthcare delivery, resulting in changing care delivery models and greater regulatory intervention, the Remuneration Committee's view is that the current share price is reflective of an industry re-rating. In this context, the Remuneration Committee felt it appropriate to maintain the same award levels as for 2019 financial year which will also serve to further align the interests of the executive management with those of investors.

Further details on implementation of the Directors' Remuneration Policy for the 2020 financial year can be found on page 162-165.

## Base compensation

In line with South African employment practices, the Remuneration Committee reviewed the base compensation for the Company's executive Directors, Dr Van der Merwe and Mr Jurgens Myburgh, for the coming year and approved a South African rand salary increase of 5.6% for the portion paid in South African rand. No changes were made to the Board fee (which is set in pound sterling) from 1 April 2019.

Using a constant currency exchange rate of £1: R17.22 to eliminate the effect of fluctuating exchange rates, the increases in base compensation for Dr Van der Merwe and Mr Myburgh equate to 4.9% and 4.7% respectively, compared to the average increase of 5.0% for all Mediclinic Southern Africa and Mediclinic Group Services employees.

## CORPORATE GOVERNANCE

The Remuneration Committee remained informed of the evolving views of shareholders on pay and, in particular, the new principles and provisions regarding Directors' remuneration introduced by the 2018 Corporate Governance Code. The Remuneration Committee is already focused on ensuring that its approach to pay is fair and that pay in the wider workforce is continually considered and reflected in its deliberations. It is regularly updated on wider workforce pay and makes its decisions relating to the remuneration of senior executives and key management within the context of the reward practices applied across each of the divisions.

During the 2020 financial year, as part of the review of the Directors' Remuneration Policy, the Remuneration Committee will continue to review Mediclinic's compliance with the remuneration aspects of the 2018 Corporate Governance Code and make amendments where necessary. We will continue to monitor any further statutory or corporate governance developments regarding Directors' remuneration.

## SHAREHOLDER ENGAGEMENT

The Chairman of the Board and executive Directors of the Company have engaged with shareholders throughout the period to provide regular updates on the progress and performance of the Company. In addition, the Remuneration Committee conducted a separate consultation with shareholders on the treatment of Mr Meintjes' remuneration arrangements, upon his retirement as CEO.

I trust the information presented in this report enables stakeholders to understand how the Directors' Remuneration Policy has been implemented over the reporting period, how it will be implemented in the coming financial year and the rationale behind the Remuneration Committee's decision-making. We remain committed to open and transparent dialogue with investors and welcome any feedback or comments.



**Mr Trevor D Petersen**

*Chairperson of the Remuneration Committee*  
22 May 2019



# ANNUAL REPORT ON REMUNERATION

## REMUNERATION AT A GLANCE

The following section provides an overview of the Directors' Remuneration Policy and how it will be implemented in the 2020 financial year, as well as an overview of remuneration outcomes for the current reporting period. A summary of the Directors' Remuneration Policy (as approved by shareholders at the 2017 annual general meeting) is available on the Company's website at <http://annualreport2018.mediclinic.com/governance-and-remuneration/remuneration-report/> or, alternatively, a summary can be found on pages 136-140 of the 2018 Annual Report and financial statements.

### EXECUTIVE DIRECTORS' REMUNERATION POLICY AND PROPOSED IMPLEMENTATION IN THE 2020 FINANCIAL YEAR

**TABLE 1: OVERVIEW OF EXECUTIVE DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN THE 2020 FINANCIAL YEAR**

ELEMENT OF PAY	PURPOSE AND LINK TO STRATEGY	TERMS	CEO	CFO												
Base compensation	<ul style="list-style-type: none"> <li>To attract, retain and motivate talented individuals who are critical to the Group's success</li> </ul>	With effect from 1 April 2019	£562 695 <sup>1</sup> (see further details below)	£414 785 <sup>1</sup> (see further details below)												
Annual Short-Term Incentive	<ul style="list-style-type: none"> <li>To encourage and reward delivery of the Group's annual financial and operational objectives</li> <li>To align with shareholder interest</li> </ul>	Maximum opportunity (% of base compensation)	150%	133%												
		Performance conditions	Group achieved EBITDA performance and other financial and strategic objectives of the three divisions.  Targets are not published in advance as they are commercially sensitive, however, details will be provided at the end of the financial year.													
		Deferral portion	50% compulsory deferral for two years													
Long-Term Incentive Plan	<ul style="list-style-type: none"> <li>To balance performance pay between achieving financial performance objectives and delivering sustainable stock market out-performance</li> <li>To encourage share ownership and align with shareholders' interests</li> </ul>	Maximum opportunity (% of base compensation)	200%	150%												
		Performance conditions	<table border="1"> <thead> <tr> <th>MEASURE</th> <th>WEIGHTING</th> <th>THRESHOLD</th> <th>MAXIMUM</th> </tr> </thead> <tbody> <tr> <td>Adjusted EPS growth</td> <td>60%</td> <td>4% p.a.</td> <td>11% p.a.</td> </tr> <tr> <td>Relative TSR*</td> <td>40%</td> <td>Median</td> <td>Upper quartile</td> </tr> </tbody> </table> <p>* Measured against the FTSE 250, excluding financial services and extraction companies</p> <p>Awards are also subject to an underpin<sup>3</sup> which allows the Remuneration Committee to review the formulaic out-turn in the context of ROIC performance delivered over the performance period.</p>		MEASURE	WEIGHTING	THRESHOLD	MAXIMUM	Adjusted EPS growth	60%	4% p.a.	11% p.a.	Relative TSR*	40%	Median	Upper quartile
		MEASURE	WEIGHTING	THRESHOLD	MAXIMUM											
Adjusted EPS growth	60%	4% p.a.	11% p.a.													
Relative TSR*	40%	Median	Upper quartile													
Performance/deferral period	Performance is measured over three years, following which awards are subject to a two-year deferral period.															

ELEMENT OF PAY	PURPOSE AND LINK TO STRATEGY	TERMS	CEO	CFO
Pension/retirement benefits	<ul style="list-style-type: none"> <li>To help recruit and retain high-performing executive Directors</li> <li>To provide employees with long-term savings via pension provisions</li> </ul>	Contribution (% of salary)	9.0% of salary, in line with the pension contribution levels provided across Mediclinic Southern Africa and Mediclinic Group Services.	
Benefits	To provide a market-competitive level of benefits to ensure executive Directors' well-being		Private medical insurance, life insurance of 5x annual base salary, as personally selected.	Private medical insurance, life insurance of 7x annual base salary, as personally selected.
Share ownership guidelines	Alignment of executive Directors' interests with those of shareholders	Requirement as a % of base compensation	225%	200%

#### Notes

<sup>1</sup> Annualised remuneration payable in South African rand translated into pound sterling at a rate of £1: R18.01 at 31 March 2019.

<sup>2</sup> Remuneration payable in South African rand was translated into pound sterling at a rate of £1: R18.01 at 31 March 2019.

<sup>3</sup> For LTIP awards to vest, the Remuneration Committee must be satisfied that the Company's ROIC performance is appropriate. The Remuneration Committee will consider outcomes where ROIC performance is not considered acceptable.

## Base compensation

Base compensation levels were reviewed in accordance with the Directors' Remuneration Policy, taking into account Company and individual performance, wider workforce comparisons and market benchmarks of South African pay levels and LSE-listed companies of similar size and international footprint. The executive Directors' base compensation consists of a portion paid in South African rand and a portion, equal to that of the Board fee, paid in pound sterling.

The Remuneration Committee noted that, as at the end of the 2019 financial year, the consumer price index in South

Africa was 4.5%, while average salary increases in South Africa across industries ranged 5.0-7.0%. In this context, the Remuneration Committee approved a South African rand salary increase for Dr Van der Merwe and Mr Myburgh of 5.6%. No changes were made to the Board fee (which is set in pound sterling) from 1 April 2019.

Using a constant currency exchange rate of £1: R17.22 to eliminate the effect of fluctuating exchange rates, the increases in base compensation for Dr Van der Merwe and Mr Myburgh equate to 4.9% and 4.7% respectively, compared to the average increase of 5.0% for all Mediclinic Southern Africa and Mediclinic Group Services employees.

**TABLE 2: EXECUTIVE DIRECTORS' BASE COMPENSATION LEVELS**

EXECUTIVE DIRECTOR	SALARY FROM 1 APRIL 2018 R'000	SALARY FROM 1 APRIL 2019 R'000	SALARY FROM 1 APRIL 2019 £'000 <sup>2</sup>	BOARD FEE FROM 1 APRIL 2019 £'000	BASE COMPENSATION FROM 1 APRIL 2019 £'000 <sup>2</sup>
Dr Ronnie van der Merwe	8 526 <sup>1</sup>	9 000	500	63	563
Mr Jurgens Myburgh	6 000	6 336	352	63	415

#### Notes

<sup>1</sup> Dr Van der Merwe was appointed as an executive Director on 1 June 2018, however for comparison his salary from 1 April 2018 has been annualised.

<sup>2</sup> South African rand remuneration was translated into pound sterling at a rate of £1: R18.01 at 31 March 2019 and £1: R17.22 at 31 March 2018.

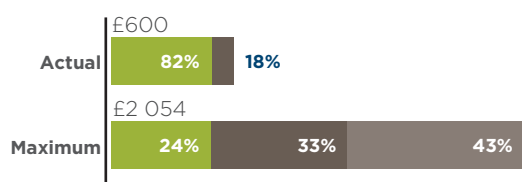
# REMUNERATION AT A GLANCE (CONTINUED)

## Illustration of executive Directors' remuneration outcomes in the 2019 financial year

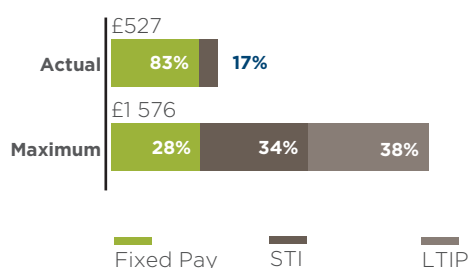
Figure 1 shows the maximum policy levels of remuneration and actual remuneration of the executive Directors for the 2019 financial year (based on the executive Directors' salaries as at 1 April 2018).

### FIGURE 1: EXECUTIVE DIRECTORS' MAXIMUM POLICY LEVELS OF REMUNERATION AND ACTUAL REMUNERATION FOR THE 2019 FINANCIAL YEAR (£'000)

**Dr Ronnie van der Merwe, Chief Executive Officer**



**Mr Jurgens Myburgh, Chief Financial Officer**



#### Note

<sup>1</sup> Dr Van der Merwe was appointed as an executive Director on 1 June 2018 and his remuneration in Figure 1 covers the period from appointment date to the end of the reporting period.

## Executive Directors' service agreements and policy on payment for loss of office

A summary of the Company's policy on payments for loss of office is set out below for shareholders' reference.

The Remuneration Committee seeks to ensure that contractual terms of the executive Directors' service agreements reflect best practice. It is the Company's policy that all executive Directors have rolling contracts that can be terminated by the employee in line with his service agreement. Executive Directors' service agreements are terminable on six months' notice. Consistent with the 2016 Corporate Governance Code, all Directors are subject to re-election by shareholders at each annual general meeting.

In circumstances of termination on notice, the Remuneration Committee will determine an equitable

compensation package, on a case-by-case basis. It may require notice to be worked or to make payment *in lieu* of notice or to place the Director on garden leave for the notice period. Such a decision is made to protect the interests of the Company and its stakeholders. In case of payment *in lieu* of notice or garden leave, the salary, benefits and pension contributions will be paid for the period of notice served on garden leave or paid *in lieu* of notice. If the Remuneration Committee deems it would be in shareholders' interests, payments will be made in phased instalments. In the case of payment *in lieu* of notice, payments will be subject to be offset against earnings elsewhere.

An STI payment may be made in respect of the period of the incentive year worked by the Director. There is no provision for an amount *in lieu* of bonus to be payable for any part of the notice period not worked. The bonus payment will be scaled back *pro rata* for the period of the incentive year worked by the Director and would remain payable at the normal payment date.

Awards held under the deferred STI and LTIP arrangements are subject to the rules containing discretionary provisions setting out the treatment of awards where a participant leaves and is designated as a good leaver. In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Remuneration Committee, subject to the performance conditions attached to the relevant awards. The awards may be scaled back *pro rata* for the period of the vesting period worked by the Director.

In addition to the above payments, the Remuneration Committee may make any other payments determined by a court of law in respect of the termination of a Director's contract or may pay any statutory entitlements or any sums to settle or compromise claims in connection with a termination (including, at the discretion of the Remuneration Committee, reimbursement for legal advice and provision of outplacement services) as necessary.

In the event of a change of control, all unvested awards under the deferred STI and LTIP arrangements will vest, to the extent that any performance conditions attached to the relevant awards have been achieved. The awards will, where the Remuneration Committee dictates, be scaled back *pro rata* for the period of the performance period worked by the Director.

Executive Directors may, on nomination from Mediclinic, take on outside appointments, however, all fees will be retained by the Company.

### Directors' recruitment and promotions

A summary of the Company's policy on Directors recruitment and promotions is set out below for shareholders' reference.

The policy on the recruitment or promotion of an executive Director takes into account the need to attract, retain and motivate the best person for each position, while ensuring close alignment between the interests of shareholders and management:

- If a new executive Director is appointed, the Remuneration Committee will seek to align the remuneration package with the Remuneration Policy approved by shareholders.
- New executive Directors will participate in the STI plan and LTIP subject to the same limits as set out in the Remuneration Policy.
- Depending on the timing of the appointment, the Remuneration Committee may deem it appropriate to set different STI performance conditions to that of the current executive Directors for the first performance year of appointment.
- An LTIP award can be made following an appointment (assuming the Company is not in a closed period).
- Flexibility will be retained to set base compensation at the level necessary to facilitate hiring candidates of appropriate calibre in external markets and make awards or payments in respect of deferred remuneration

arrangements forfeited on leaving a previous employer. In terms of remuneration to compensate for forfeited awards, the Remuneration Committee will look to replicate the arrangements being forfeited as closely as possible and, in doing so, will take account of relevant factors including: the nature of the deferred remuneration, performance conditions and the time over which they would have vested or been paid. The face and/or expected values of the award(s) offered will not materially exceed the value ascribed to the award(s) foregone.

- For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms or be adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

For the appointment of a new Chairman or non-executive Director, the fee arrangement will be set in accordance with the approved Remuneration Policy at that time.

### NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY AND PROPOSED IMPLEMENTATION IN THE 2020 FINANCIAL YEAR

Following a review of the fee levels within the Company against the UK market, no changes are proposed for the 2020 financial year.

**TABLE 3: NON-EXECUTIVE DIRECTORS' FEES IN THE 2020 FINANCIAL YEAR**

BASE FEES	FEE FROM 1 APRIL 2018	FEE FROM 1 APRIL 2019	% INCREASE
Chairman	£280 000	£280 000	0%
Base Board fee	£63 000	£63 000	0%
<b>COMMITTEE CHAIRPERSON/SENIOR INDEPENDENT DIRECTOR FEES</b>			
Audit and Risk Committee Chairperson	£16 000	£16 000	0%
Remuneration Committee Chairperson	£16 000	£16 000	0%
Clinical Performance and Sustainability Committee Chairperson	£10 000	£10 000	0%
Investment Committee Chairperson	£10 000	£10 000	0%
Senior Independent Director	£25 000	£25 000	0%
<b>COMMITTEE MEMBER FEES</b>			
Audit and Risk Committee	£10 000	£10 000	0%
Clinical Performance and Sustainability Committee	£7 000	£7 000	0%
Investment Committee	£7 000	£7 000	0%
Nomination Committee	£7 000	£7 000	0%
Remuneration Committee	£10 000	£10 000	0%

# ANNUAL REMUNERATION REPORT

## DIRECTORS' REMUNERATION

This section sets out the single figure tables showing the remuneration for the executive and non-executive Directors for the 2019 financial year. Further information on these figures is set out in the subsequent sections.

**TABLE 4: SINGLE TOTAL FIGURES OF DIRECTORS' REMUNERATION (AUDITED)**

		SALARY AND FEES £'000	BENEFITS £'000	ANNUAL BONUS/ STI £'000	LTIP £'000	PENSION £'000	TOTAL REMUNE- RATION £'000
<b>EXECUTIVE DIRECTORS<sup>1</sup></b>							
Dr Ronnie van der Merwe <sup>2</sup>	2018/2019	447	7	110	0	36	600
Mr Danie Meintjes <sup>3</sup>	2018/2019	212	3	46	0	15	276
	2017/2018	560	10	511	0	45	1126
Mr Jurgens Myburgh	2018/2019	396	14	87	0	30	527
	2017/2018	373	10	304	0	28	715
			<b>FEES £'000</b>		<b>BENEFITS £'000</b>		<b>TOTAL REMUNERATION £'000</b>
<b>NON-EXECUTIVE CHAIRMAN</b>							
Dr Edwin Hertzog	2018/2019		280		8		288
	2017/2018		250		8		258
<b>NON-EXECUTIVE DIRECTORS</b>							
Mr Desmond Smith	2018/2019		111		6		117
	2017/2018		100		6		106
Dr Muhadditha Al Hashimi <sup>5</sup>	2018/2019		70		3		73
	2017/2018		25		1		26
Mr Jannie Durand <sup>4</sup>	2018/2019		78		4		81
	2017/2018		66		2		68
Mr Alan Grieve	2018/2019		80		1		81
	2017/2018		77		1		78
Dr Felicity Harvey <sup>5</sup>	2018/2019		78		0		78
	2017/2018		33		0		33
Mr Seamus Keating	2018/2019		90		0		90
	2017/2018		87		0		87
Prof Dr Robert Leu <sup>6</sup>	2018/2019		28		3		31
	2017/2018		77		4		81
Ms Nandi Mandela <sup>6</sup>	2018/2019		22		5		27
	2017/2018		66		7		73
Mr Danie Meintjes <sup>3</sup>	2018/2019		47		1		48
Dr Anja Oswald <sup>7</sup>	2018/2019		55		1		56
Mr Trevor Petersen	2018/2019		91		7		98
	2017/2018		85		6		91
<b>Total</b>	<b>2018/2019</b>		<b>1 030</b>		<b>40</b>		<b>1 068</b>
<b>Total</b>	<b>2017/2018</b>		<b>866</b>		<b>35</b>		<b>901</b>

### Notes

- <sup>1</sup> South African rand remuneration was translated into pound sterling at a rate of £1: R18.01 at 31 March 2019 and £1: R17.221 at 31 March 2018.
- <sup>2</sup> Dr Van der Merwe was appointed as an executive Director on 1 June 2018 and his remuneration for 2018/2019 covers the period from appointment date to the end of the reporting period.
- <sup>3</sup> Mr Meintjes retired as an executive Director of the Company on 31 July 2018, therefore his remuneration for 2018/2019 in the executive Director section of the table covers the period from the start of the reporting period to his date of retirement. Subsequently, Mr Meintjes was appointed as a non-executive Director on 1 August 2019, therefore his remuneration for 2018/2019 in the non-executive Director section of the table covers the period from 1 August 2018 to the end of the reporting period.
- <sup>4</sup> Mr Durand's fees are paid to Remgro and include services rendered by Mr Durand or his alternate, Mr Pieter Uys.
- <sup>5</sup> Dr Harvey joined the Board on 3 October 2017 and Dr Al Hashimi joined the Board on 1 November 2017. Their remuneration for 2017/2018 covers the period from appointment date to the end of the reporting period.
- <sup>6</sup> Prof Dr Leu and Ms Mandela retired from the Board on 25 July 2018 and their remuneration for 2018/2019 covers the period from the start of the reporting period to the date of their retirement.
- <sup>7</sup> Dr Oswald joined the Board on 25 July 2018 and her remuneration for 2018/2019 covers the period from appointment date to the end of the reporting period.

## BASE COMPENSATION (AUDITED)

Base salaries and Board fees are reviewed annually in March, with any changes effective in April.

The executive Directors' base compensation consists of a portion paid in South African rand and a portion, equal to that of the Board fee, paid in pounds sterling. The following base compensation was paid during the reporting period:

**TABLE 5: BASE COMPENSATION FOR THE 2019 FINANCIAL YEAR**

EXECUTIVE DIRECTOR	BOARD FEE (£)	BASE SALARY (R)	TOTAL BASE COMPEN- SATION (£) <sup>1</sup>
Dr Ronnie van der Merwe <sup>2</sup>	52 500	7 105 000	446 981
Mr Danie Meintjes <sup>3</sup>	27 322	3 319 105	211 604
Mr Jurgens Myburgh	63 000	6 000 000	396 130

### Notes

<sup>1</sup> Figures converted to pound sterling at a rate of £1: R18,01 at 31 March 2019.

<sup>2</sup> Dr Van der Merwe's remuneration covers the period from appointment date, 1 June 2019, to the end of the reporting period.

<sup>3</sup> Mr Meintjes' remuneration covers the period from the start of the reporting period to 31 July 2018, when he retired as an executive Director of the Company.

## BENEFITS AND PENSION (AUDITED)

The benefits of Dr Van der Merwe, Mr Meintjes and Mr Myburgh include private medical insurance, life insurance and reimbursements for reasonable business-related expenses (e.g. travel, accommodation and subsistence). In some instances, the associated tax was borne by the Company.

The executive Directors participated in the Mediclinic Southern Africa-defined contribution fund and received a company pension contribution equal to 9.0% of their salary in line with the Directors' Remuneration Policy and the rate allocated to all Mediclinic Southern Africa and Mediclinic Group Services employees. No element of any executive Director's remuneration other than base salary is pensionable.

None of the executive Directors have rights to a defined benefit pension. Details of executive Directors' pension-related entitlements in the event of loss of office are set out on page 164.

Non-executive Directors were reimbursed for reasonable business-related expenses (e.g. travel, accommodation and subsistence) and, in some instances, the associated tax was borne by the Company. They receive no pension contribution or other benefits and do not participate in short-term or long-term<sup>1</sup> reward schemes.

<sup>1</sup> LTIP awards granted to Mr Meintjes relate to the period served as an executive Director. Outstanding LTIP awards, in accordance with the plan rules and South African employment practices, will continue on the same terms, reflecting Mr Meintjes' continued service to the Company. Mr Meintjes will not receive further awards in his role as non-executive Director (detail set out on page 171).



# ANNUAL REMUNERATION REPORT (CONTINUED)

## SHORT-TERM INCENTIVE (AUDITED)

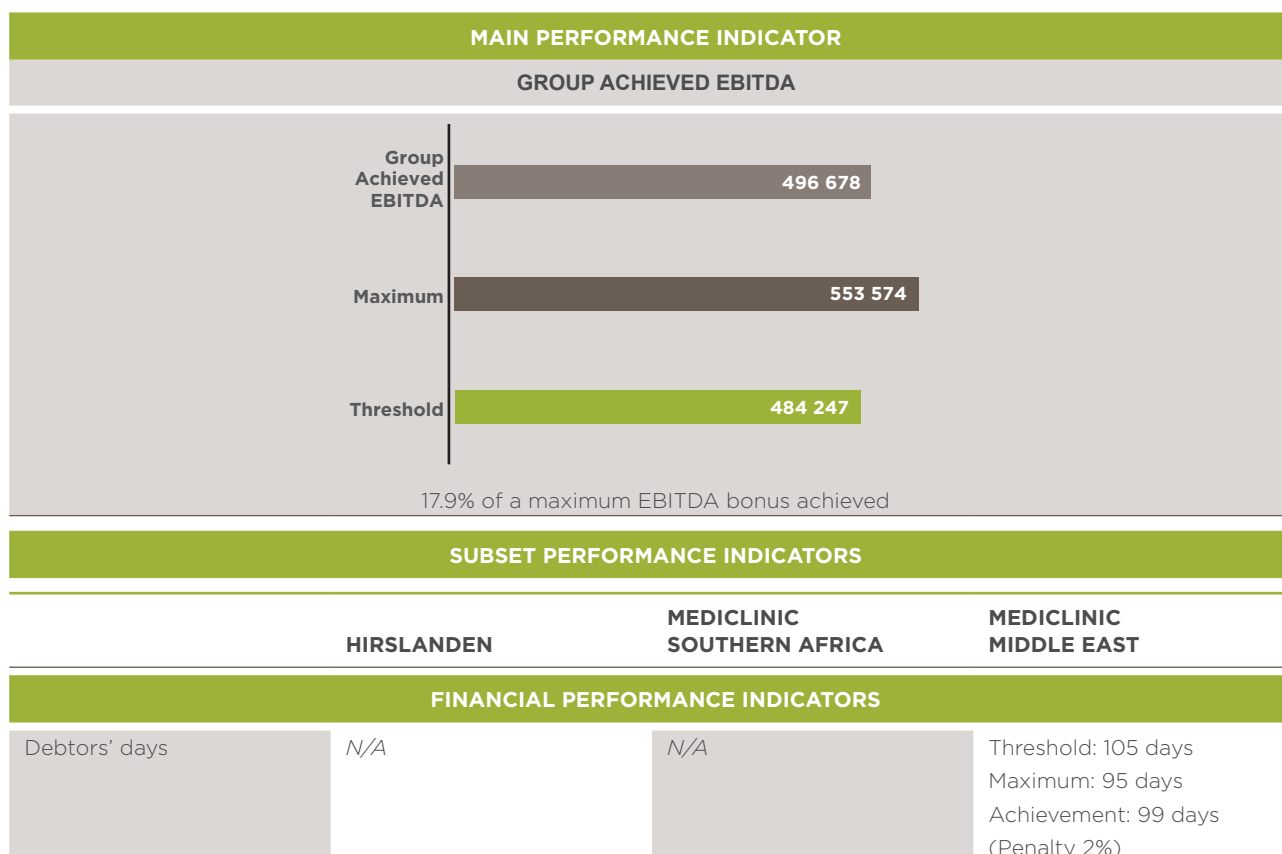
Achieved bonuses were determined based on the Group achieved EBITDA performance and subset performance indicators for each of the three divisions, which comprise financial and operational objectives, including measures of clinical performance.

Group achieved EBITDA for the purposes of the executive Directors' STI comprises Group-adjusted EBITDA calculated based on budgeted foreign exchange rates (£5.1m) excluding the impact of STI bonus accruals for the Group's key management and employees (£6.8m) and subject to further amendment by approval of the Remuneration Committee (-£8.4m). In 2019, these further amendments included adjustments for factors not incorporated into the budget at the start of the year, including the acquisition of Clinique des Grangettes in Hirslanden.

The Group EBITDA target is based on the sum of Corporate and each division's approved budgeted adjusted EBITDA. The Group's actual adjusted EBITDA performance sets the initial bonus outcome percentage. The non-achievement of subset performance indicators then gives rise to a reduction in the initial bonus outcome percentage. The subset performance indicators are weighted relative to each division's respective contribution to the Group's adjusted EBITDA.

The performance indicators, targets and performance against the targets are set out in **Figure 2** below.

**FIGURE 2: SUMMARY OF THE PERFORMANCE CONDITIONS AND ACHIEVEMENT AGAINST TARGETS**



### OPERATIONAL, CLINICAL AND PATIENT QUALITY PERFORMANCE INDICATORS

Clinical care quality indicator	Achievement: Partial achievement against clinical safe surgery, national society for quality assurance readmission index and quality initiative benchmark indicators (Penalty 5%)	Achievement: Partial achievement against never events, hand hygiene compliance and aggregated antimicrobial index value indicators (10% Penalty)	Achievement: Partial achievement against never events, surgical site infections, injectable administration error and patient identification error indicators (3% Penalty)
Employee engagement	N/A	Achievement: Full achievement based on employee responses to "My team has effectively followed through on actions we agreed on during our action planning session"	Achievement: Null achievement based on employee engagement response (Penalty 5%)
Personal performance	Personal objective scoreboard indicators		
Patient satisfaction	N/A	Achievement: Full achievement based on overall mean Patient Experience Indicator score	Achievement: Partial achievement based on overall mean Patient Experience Indicator score (Penalty 3%)
Employment equity	N/A	Achievement: Full achievement based on appointment to open positions.	N/A
<b>Penalty</b>	<b>5.0%</b>	<b>10.0%</b>	<b>13.0%</b>
Weighting of Division	45.3%	37.7%	17.0%
Weighted Penalty	(2.3%)	(3.8%)	(2.2%)
Total Subset Penalty	(8.3%) of a 17.9% achieved EBITDA Bonus equates to a (1.5%) total bonus deduction		

### GROUP ACHIEVEMENT (ACHIEVED EBITDA BONUS LESS SUBSET OUTCOME): 16.5%

#### Note

The foreign exchange rate used for budget purposes was £1: R17.25; £1: CHF1.30 and £1: AED5.10.

The STI achieved was 16.5% of the maximum bonus. The amounts awarded to the executive Directors are set out below:

**TABLE 6: STI AWARDS FOR THE 2019 FINANCIAL YEAR**

EXECUTIVE DIRECTOR	ACTUAL BONUS (£) <sup>1</sup>	ACTUAL BONUS AS A % OF ANNUAL BASE COMPENSATION	MAXIMUM BONUS OPPORTUNITY AS A % OF ANNUAL BASE COMPENSATION
Mr Danie Meintjes	46 288 <sup>2</sup>	24.7%	150%
Dr Ronnie van der Merwe	110 308 <sup>2</sup>	24.7%	150%
Mr Jurgens Myburgh	86 896	21.9%	133%

#### Note

<sup>1</sup> Figures converted to pound sterling at a rate of £1: R18.01 at 31 March 2019.

<sup>2</sup> Dr Van der Merwe's actual bonus from appointment date 1 June 2019 to the end of the reporting period.

The STI bonus payable for the 2019 financial year will be paid in cash. 50% of the award will be deferred in shares for a period of two years. Deferred shares will be settled in cash, subject to continued employment. This deferral is not subject to any further conditions.

# ANNUAL REMUNERATION REPORT (CONTINUED)

## LTIP AWARDS VESTED TO EXECUTIVE DIRECTORS (AUDITED)

In August 2016, an LTIP award equal to 150% of base compensation was granted to Mr Myburgh, based on adjusted EPS growth and relative TSR performance versus the FTSE 100 over the three financial years to 31 March 2019. In view of the actual performance compared to the threshold targets, set out in **Table 7** below, no LTIP awards vested to Mr Myburgh during the 2019 financial period.

**TABLE 7: LTIP PERFORMANCE TARGETS AND ACTUAL PERFORMANCE**

PERFORMANCE CONDITION	WEIGHTING	THRESHOLD TARGET (25% VESTING)	MAXIMUM TARGET (100% VESTING)	ACTUAL PERFORMANCE	VESTING (% OF MAXIMUM)
Adjusted EPS growth	60%	5% per annum compounded	12% per annum compounded	(10.3%) per annum	0%
TSR ranked relative to constituents of the FTSE 100 Index	40%	Median of peers (50th percentile)	Upper quartile of peers (75th percentile)	Below median	0%

No awards were due to vest to Dr Van der Merwe during the 2019 financial period.

## LTIP AWARDS GRANTED TO EXECUTIVE DIRECTORS (AUDITED)

### 2018 LTIP

**Tables 8 and 9** below set out the LTIP awards granted to the executive Directors in June 2018, together the corresponding performance conditions.

**TABLE 8: 2018 LTIP AWARDS GRANTED TO EXECUTIVE DIRECTORS**

EXECUTIVE DIRECTOR	DATE OF GRANT	NATURE OF AWARD	NUMBER OF SHARES <sup>1</sup>	FACE VALUE £'000	FACE VALUE AS A % OF ANNUAL BASE COMPENSATION	END OF PERFORMANCE PERIOD	PERFORMANCE CONDITIONS
Mr Danie Meintjes	15 June 2018	Conditional Share Awards	209 998	£1 171 453	200%	31 March 2021	See <b>Table 9</b> below
Dr Ronnie van der Merwe	15 June 2018	Conditional Share Awards	200 128	£1 116 394	200%	31 March 2021	See <b>Table 9</b> below
Mr Jurgens Myburgh	15 June 2018	Conditional Share Awards	110 646	£617 228	150%	31 March 2021	See <b>Table 9</b> below

**Note**

<sup>1</sup> Number of shares granted based on the five-day average middle market quotation prior to grant of an LSE share (£5.58).

**TABLE 9: 2018 LTIP PERFORMANCE CONDITIONS**

PERFORMANCE CONDITION	WEIGHTING	THRESHOLD TARGET (25% VESTING)	MAXIMUM TARGET (100% VESTING)
Adjusted EPS growth	60%	5% per annum compounded	12% per annum compounded
TSR ranked relative to constituents of the FTSE 100 Index	40%	Median of peers (50th percentile)	Upper quartile of peers (75th percentile)

The awards are subject to clawback and malus provisions.

Awards are denominated in shares with vesting dependent on the achievement of performance conditions over a three-year period. Awards are subject to a two-year deferral period after vesting, meaning they are settled only at the end of a five-year period from the date of grant. After this time, the value of the awards will be calculated by alignment to share price movement but settled in cash given the difficulty in settling awards in shares for executive Directors who are South African residents. Where a Director has not yet met the share ownership guidelines, these funds must be used to purchase shares in the Company.

## TREATMENT OF REMUNERATION ARRANGEMENTS FOR MR MEINTJES UPON RETIREMENT

Mr Meintjes retired as an executive Director on 31 July 2018 and became a non-executive Director with effect from 1 August 2018. In determining Mr Meintjes' remuneration arrangements upon retirement, the Remuneration Committee considered both UK investors' expectations and South African labour market requirements, given that South Africa was Mr Meintjes' country of residence and employment.

In accordance with his Service Agreement and the shareholder-approved Directors' Remuneration Policy, with respect to his remuneration arrangements up to and after retirement, Mr Meintjes:

- received his normal base compensation, pension and benefits up to 31 July 2018;
- received a payment in respect of accrued, but not taken, leave of R319 105;
- remained eligible to receive a STI award in June 2019 in respect of the period of the 2019 financial year when he served as an executive Director, to be pro-rated accordingly (details of payments under the STI in respect of 2019 financial year can be found on page 169); and

- was granted an LTIP award in June 2018, in line with the normal grant cycle. The award was structured as a conditional award over 209 998 ordinary shares in the Company and will be subject to performance, vesting and deferral conditions in line with other participants (as set out on page 170).

## Treatment of incentive awards outstanding on retirement

- With respect to outstanding deferred STI awards, these will continue to vest on the normal vesting date, subject to the normal deferral period of two years:
  - 2017 award: 27 187 ordinary shares due to vest on 1 June 2019.
  - 2018 award: 45 811 ordinary shares due to vest on 15 June 2020.
- With respect to outstanding LTIP awards, in accordance with the plan rules, awards will continue on the same terms, reflecting Mr Meintjes' continued services to the Company. Awards will therefore continue and vest, subject to performance achieved over the original performance period, at the normal time. Awards remain subject to a service condition and may therefore be pro-rated if Mr Meintjes were to step down from the Board.
  - 2016 award: As set out above, the 2016 LTIP performance targets were not met, therefore the 2016 LTIP lapsed in full.
  - 2017 award: 129 626 ordinary shares due to vest on 1 June 2020, subject to performance to 31 March 2020. Awards are subject to a further two-year deferral period and therefore will not be released until 1 June 2022.
  - 2018 award: 209 998 ordinary shares due to vest on 15 June 2021, subject to performance to 31 March 2020. Awards are subject to a further two-year deferral period and therefore will not be released until 15 June 2023.

The Remuneration Committee has not exercised any discretion in allowing Mr Meintjes' outstanding deferred STI and LTIP share awards to continue on the same terms.

# ANNUAL REMUNERATION REPORT (CONTINUED)

## DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

**Table 10** sets out the Directors' shareholdings, including shareholdings by persons connected to them, and share interests. There were no changes in the Directors' shareholdings between the financial year end and the Last Practicable Date. Full details of the Directors' shareholdings and share allocations are given in the Company's Register of Directors' Interests, which is open for inspection at the Company's registered office during business hours.

The executive Directors are required to build and maintain a minimum shareholding in Mediclinic, linked to their base compensation. Shares are valued for these purposes at the year-end price, which was £3.05 per share as at 31 March 2019.

**TABLE 10: DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS**

EXECUTIVE DIRECTOR	SHARE-HOLDING GUIDELINES AS A % OF ANNUAL BASE COMPENSATION	SHARES HELD AS AT 31 MARCH 2018	SHARES HELD AS AT 31 MARCH 2019	% OF ANNUAL BASE COMPENSATION	OUT-STANDING UNVESTED LTIP AWARDS WITH PERFORMANCE CONDITIONS <sup>1</sup>	DEFERRED STI SHARES <sup>1</sup>	SHARE-HOLDING REQUIREMENT MET
Dr Ronnie van der Merwe	225%	40 630	40 630	23% <sup>2</sup>	227 026	0	No
Mr Jurgens Myburgh	200%	60 000	80 000	61%	175 909	38 051	No
Mr Danie Meintjes	225%	173 323	142 063 <sup>3</sup>	205%	339 624	72 998	No

### Notes

<sup>1</sup> Awards will be settled in cash and therefore are not taken into consideration as part of determining whether shareholding requirements have been met.

<sup>2</sup> Percentage of annualised base compensation.

<sup>3</sup> Shareholdings as at date of retirement on 31 July 2018.

Dr Van der Merwe and Mr Myburgh will use any cash-settled awards paid to them under the LTIP to purchase shares in the Company until they meet their shareholding guideline.

The shareholding in Mediclinic by non-executive Directors, including shareholdings by persons connected to them, is shown below. There are no requirements for non-executive Directors to hold shares, nor for any former Director to hold shares once they have left the Company.

**TABLE 11: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS**

NON-EXECUTIVE DIRECTOR	AS AT 31 MARCH 2018	AS AT 31 MARCH 2019
Dr Edwin Hertzog	394 276	394 276
Mr Desmond Smith	-	-
Dr Muhadditha Al Hashimi	-	-
Mr Jannie Durand	-	-
Mr Alan Grieve	7 500	7 500
Dr Felicity Harvey	-	-
Mr Seamus Keating	-	-
Prof Dr Robert Leu <sup>2</sup>	-	-
Ms Nandi Mandela <sup>2</sup>	-	-
Mr D Meintjes	173 323	142 063
Dr Anja Oswald	-	-
Mr Trevor Petersen	-	-
Mr Pieter Uys <sup>1</sup>	417	417

### Notes

<sup>1</sup> Mr Uys is the alternate to Mr Durand.

<sup>2</sup> Prof Dr Leu and Ms Mandela served as non-executive Directors of the Company until 25 July 2018.

## SHARE DILUTION LIMITS

The Company remains committed to protecting shareholders' interests and ensuring that the dilution of shares remains within a reasonable limit. In line with the Investment Association guidelines the Company limits equity-based awards under its employee share plans to 10% of the Company's issued share capital over a 10-year calendar period and equity-based awards under executive share plans to 5% of issued share capital over the same period.

## SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

The commencement dates of the executive Directors' service agreements are:

**TABLE 12: EXECUTIVE DIRECTORS SERVICE CONTRACT COMMENCEMENT DATES**

EXECUTIVE DIRECTOR	COMMENCEMENT DATE OF SERVICE AGREEMENT
Mr Jurgens Myburgh	1 August 2016
Dr Ronnie van der Merwe	1 June 2018 (joined Mediclinic on 1 July 1999)

Further details of the executive Directors' service agreements are provided on page 164.

Non-executive Directors do not have service agreements but instead have letters of appointment setting out the terms under which they provide their services to the Company. The dates of their original appointment are shown in **Table 13**. Non-executive Directors are normally appointed for an initial period of three years that, subject to review, may be subsequently extended for further such terms. Non-executive Directors' appointments are terminable by three months' notice on either side. In accordance with the 2016 Corporate Governance Code, all Directors are subject to annual election or re-election by shareholders at the Company's annual general meeting.

**TABLE 13: NON-EXECUTIVE DIRECTORS' APPOINTMENT DATE AND EXPIRY OF CURRENT TERM**

NON-EXECUTIVE DIRECTOR	DATE OF APPOINTMENT	EXPIRY OF CURRENT TERM
Dr Edwin Hertzog	15 February 2016	14 February 2022
Mr Desmond Smith	15 February 2016	24 July 2019
Dr Muhadditha Al Hashimi	1 November 2017	30 October 2020
Mr Jannie Durand	15 February 2016	14 February 2022
Mr Alan Grieve	15 February 2016	14 February 2022
Dr Felicity Harvey	3 October 2017	2 October 2020
Mr Seamus Keating	5 June 2013	4 June 2022
Mr Danie Meintjes	1 August 2018	31 July 2021
Dr Anja Oswald	25 July 2018	24 July 2021
Mr Trevor Petersen	15 February 2016	14 February 2022

The service agreements and letters of appointment are available for inspection during normal business hours at the Company's registered office and at the upcoming AGM.



# ANNUAL REMUNERATION REPORT (CONTINUED)

## CHANGE IN REMUNERATION LEVELS

**Table 14** shows how the percentage change in the CEO's salary, benefits and bonus in the reporting period compared with the percentage change in the average of each of those components of pay for Mediclinic Southern Africa in local currency. The Remuneration Committee selected employees in South Africa as the most appropriate comparator since they are subject to the same inflationary conditions.

**TABLE 14: COMPARATIVE PERCENTAGE CHANGE IN REMUNERATION CEO AND EMPLOYEES**

% CHANGE IN CEO SALARY, BENEFITS AND BONUS	% CHANGE
CEO <sup>1</sup>	
Base compensation	5.6
Benefits	10.2
Bonus <sup>2</sup>	(73.2)
All employees	
Salary	5.0
Benefits	10.0
Bonus	(27.5)

**Note**

<sup>1</sup> **Table 14** shows the percentage change between the CEO's annualised local salary for the 2018 financial year, paid in South African rand and his local salary, benefits and bonus for the 2019 financial year, paid in South African rand.

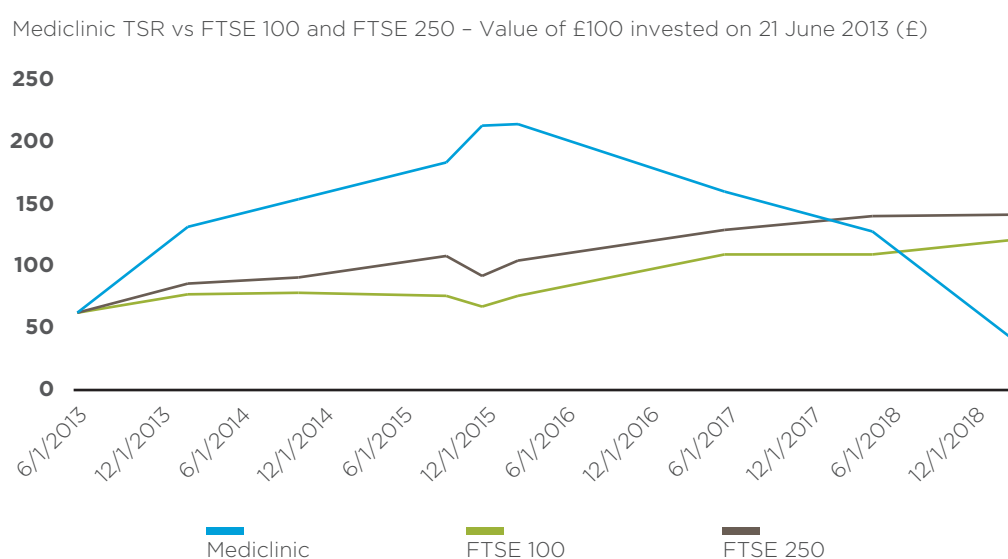
<sup>2</sup> Percentage change of actual bonus as a percentage of annualised base compensation for Mr Meintjes over this tenure as CEO.

## PERFORMANCE AND PAY PERFORMANCE

**Figure 3** shows the value at 31 March 2019 of £100 invested in the Company upon inception on 21 June 2013, compared with the value of £100 invested in the FTSE 100 Index and FTSE 250 Index on the same date. The intervening points are the financial year-ends prior to the date of the combination with Al Noor Hospitals Group plc on 15 February 2016 and the financial year-ends since.

The FTSE 100 and FTSE 250 were used as comparators as the Company has been a member of each of these indices.

**FIGURE 3: MEDICLINIC TOTAL SHAREHOLDER RETURN COMPARED TO FTSE250**



**Table 15** shows the total CEO remuneration over the period since inception. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total STI award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year.

**TABLE 15: TOTAL CEO REMUNERATION**

TOTAL CEO REMUNERATION											
	YEAR ENDED 31 DECEMBER					YEAR ENDED 31 MARCH					
	2012	2013	2014	2014	2015	1 Jan- 15 Feb 2016	15 Feb - 31 March 2016	2017	2018	1 Apr- 31 May 2018 <sup>1</sup>	1 Jun 2018- 31 March 2019 <sup>2</sup>
Chief Executive Officer	Dr Kassem Alom			Mr Ronald Lavater		Mr Danie Meintjes				Dr Ronnie van der Merwe	
Total remuneration £'000	326	361	290	170	702	2 165	79	1 029	1 126	138	600
STI out-turn (% of maximum)	n/a	n/a	n/a	11.8%	20.0%	n/a	79.7%	55.9%	61.4%	16.5%	16.5%
Deferred STI portion	n/a	n/a	n/a	100.0%	n/a	n/a	n/a	50.0%	50.0%	n/a	n/a
LTIP vesting (% of maximum)	n/a	n/a	n/a	65.4%	69.9%	n/a	0.0%	0.0%	0.0%	0.0%	0.0%

**Notes**

<sup>1</sup> Mr Meintjes retired as CEO on 31 May 2018, therefore his remuneration for 2018/2019 covers the period from the start of the reporting period to his date of retirement as CEO. Subsequently, Mr Meintjes was appointed as an executive Director on 1 June 2019.

<sup>2</sup> Dr Van der Merwe was appointed as a Director on 1 June 2018 and his remuneration for 2018/2019 covers the period from appointment date to the end of the reporting period.

**RELATIVE IMPORTANCE OF SPEND ON PAY**

**Table 16** compares the spend on employee costs for the reporting period to the spend in the previous reporting period, as disclosed in last year's Directors' Remuneration Report on page 154 of the 2018 annual report, and returns to shareholders over the same period:

**TABLE 16: COMPARISONS SPEND ON EMPLOYEE COSTS**

	2018/2019 £'000	2017/2018 £'000	CHANGE %
Employee costs <sup>1</sup>	1 233 000	1 293 000	(4.6%)
Dividends paid	59 000	58 000	1.7%

**Note**

<sup>1</sup> Figures converted to pound sterling at a rate of £1: R18.01, £1: AED4.82 and £1: CHF1.30 at 31 March 2019.

# ANNUAL REMUNERATION REPORT (CONTINUED)

## SHAREHOLDER VOTING ON REMUNERATION MATTERS

The Directors' Remuneration Report for the 2018 financial year was approved by shareholders at the Company's 2018 annual general meeting with 93.5% of votes cast in its favour. The current Directors' Remuneration Policy was approved at the Company's 2017 annual general meeting with 95.9% votes cast in its favour.

**TABLE 17: SHAREHOLDER VOTING ON REMUNERATION MATTERS**

	FOR	%	AGAINST	%	WITHHELD	TOTAL SHARES VOTED	% OF ISSUED SHARES VOTED
Directors' Remuneration Report (2017/2018)	584 591 036	93.5%	40 339 642	6.5%	909 418	624 930 678	84.8%
Remuneration Policy (2016/2017)	614 711 926	95.9%	25 915 697	4.1%	2 718 474	643 346 097	87.3%

## REMUNERATION COMMITTEE COMPOSITION AND MEETINGS

The Remuneration Committee is governed by formal terms of reference available in the governance section of the Company's website at [www.mediclinic.com](http://www.mediclinic.com) and summarised on page 117 of the **Corporate Governance Statement**.

The current composition of the Remuneration Committee meets the requirements of the 2016 Corporate Governance Code, with at least three members being independent non-executive Directors. Biographies of members are included on page 104. The Remuneration Committee composition and meeting attendance during the period under review are set out in **Table 18** alongside.

Mr Petersen (Remuneration Committee Chairperson), Mr Keating, Prof Dr Leu and Dr Oswald held office during the year. Following Prof Dr Leu's retirement from the Board and the Remuneration Committee, Dr Oswald was appointed to the Board and replaced Prof Dr Leu as a member of the Remuneration Committee on 25 July 2018.

Mr Meintjes, Mr Durand and/or his alternate Mr Uys attend meetings by invitation but are not voting members. Other attendees, by invitation only, include the CEO, the Chief Human Resources Officer, the Group Executive: Reward and representatives from Deloitte LLP, all of whom provide material assistance to the Remuneration Committee. None of the aforementioned attend as a right, nor do they attend when their own remuneration is being discussed.

None of the Remuneration Committee members are involved with the Company at an operational level, nor do they have any personal financial interest in the matters considered at meetings. The Remuneration Committee recommends the compensation of the Chairman of the Board, but the Chairman of the Board, in consultation with the executive Directors, determines non-executive Director fees.

**TABLE 18: COMMITTEE COMPOSITION AND MEETING ATTENDANCE**

COMMITTEE MEMBER <sup>1</sup>	DESIGNATION	APPOINTMENT DATE	NUMBER OF SCHEDULED MEETINGS ATTENDED <sup>2</sup>
Mr Trevor Petersen (Committee Chairperson)	Independent non-executive Director	15/02/2016	4/4
Mr Seamus Keating <sup>3</sup>	Independent non-executive Director	17/03/2017	3/4
Dr Anja Oswald <sup>4</sup>	Independent non-executive Director	25/07/2018	3/3

**Notes**

<sup>1</sup> The composition of the Remuneration Committee is shown as at 31 March 2019.

<sup>2</sup> The attendance reflects the number of scheduled meetings held during the financial year. Two additional *ad hoc* meetings were held during the financial year to deal with urgent matters and all of the members made themselves available at short notice for these meetings. One Remuneration Committee meeting was held between the Company's financial year-end and the Last Practicable Date, which was attended by all Remuneration Committee members.

<sup>3</sup> Mr Keating was unable to attend one Remuneration Committee meeting due to another commitment which could not be changed. Mr Keating provided comments on the items being discussed to the Remuneration Committee Chairperson ahead of this meeting.

<sup>4</sup> Prof Dr Robert Leu retired as a non-executive Director of the Company and the Remuneration Committee on 25 July 2018. Upon his retirement, Dr Oswald was appointed as a member and attended all subsequent meetings.

Including routine monitoring and approval activities, the material issues discussed by the Remuneration Committee during the financial year under review and between the financial year-end and the Last Practicable Date are summarised below:

**TABLE 19: MATERIAL ISSUES DISCUSSED BY THE REMUNERATION COMMITTEE**

AREA	DISCUSSIONS
Awards	<ul style="list-style-type: none"> <li>Reviewed and approved the STI targets and subset performance indicators for the 2020 financial year</li> <li>Reviewed and approved the final STI payment for the 2019 financial year</li> <li>Reviewed and approved new allocations and performance criteria for the LTIP</li> <li>Reviewed and approved division-specific junior management bonus scheme payments</li> </ul>
Remuneration of the outgoing CEO	<ul style="list-style-type: none"> <li>Reviewed and approved remuneration arrangements for Mr Meintjes' outstanding share-based awards</li> </ul>
Remuneration levels	<ul style="list-style-type: none"> <li>Reviewed and approved salary increases for executive Directors and the Group Executive Committee</li> <li>Reviewed and approved overall salary increases of all employee groups of each division</li> <li>Reviewed and approved the fee of the Chairman of the Board</li> <li>Reviewed and approved the remuneration methodology for the appointment of expatriate Executive Committee members</li> </ul>
Regulatory and governance review	<ul style="list-style-type: none"> <li>Reviewed regulatory and corporate governance developments and reviewed and recommended to the Board for approval the ensuing changes to its terms of reference</li> <li>Reviewed and confirmed the independence and objectivity of its remuneration consultant, Deloitte LLP</li> </ul>

The Remuneration Committee Chairperson presents a summary of material matters to the Board and meeting minutes are circulated to all Directors. The Remuneration Committee reports to shareholders annually in this report and the Chairperson attends the annual general meeting to address any questions that arise.

# ANNUAL REMUNERATION REPORT (CONTINUED)

## ADVISOR TO THE COMMITTEE

During the year, the Remuneration Committee and the Company retained an independent external advisor to assist with various aspects of the Company's remuneration as set out in **Table 20** below.

**TABLE 20: ADVISORS TO THE REMUNERATION COMMITTEE**

ADVISOR	APPOINTED/ SELECTED BY	SERVICES PROVIDED	FEES PAID BY THE COMPANY FOR THESE SERVICES PROVIDED IN THE REPORTING PERIOD	OTHER SERVICES PROVIDED TO THE COMPANY IN THE REPORTING PERIOD
Deloitte LLP <i>Founding member of the Remuneration Consultants Group and adheres to the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK</i>	Appointed by the Remuneration Committee following a robust selection process and reviewed annually by the Remuneration Committee	General advice on remuneration matters  Advice on UK market practice and UK shareholder perspectives	£99 000 based on time charges for work completed	Personal tax advice for non-UK resident Directors

The Remuneration Committee reviewed the independence and objectivity of Deloitte LLP, taking into consideration its experience and management's feedback, together with the assurances provided by Deloitte LLP that it has effective internal processes to ensure it is able to provide remuneration consultancy services that meet these two critical requirements. Following this review, the Remuneration Committee is satisfied that Deloitte LLP has maintained independence and objectivity and has no conflicts of interest with the Company that may impact on such.

This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee, in accordance with the 2016 Corporate Governance Code, the Listings Rules, the Act and the Large- and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013.

Signed on behalf of the Remuneration Committee.



**Mr Trevor D Petersen**

*Chairperson of the Remuneration Committee*

22 May 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report, including the financial statements, in accordance with applicable legislation and regulation.

The Act requires the Directors to prepare financial statements for each financial year. The Directors prepared the Group and Company financial statements in accordance with IFRS, as adopted by the EU. The Directors should only approve the financial statements if they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the reporting period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply these consistently;
- state whether applicable IFRS, as adopted by the EU, have been followed for the Group and Company financial statements respectively, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group and Company and enable them to ensure that the financial statements and the **Directors' Remuneration Report** comply with the Act and, in respect of the Group's consolidated financial statements, Article 4 of the International Accounting Standards Regulation.

The Directors are responsible for the maintenance and integrity of the financial and associated corporate information published on the Company's website at [www.mediclinic.com](http://www.mediclinic.com). Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## DIRECTORS' CONFIRMATIONS

The Directors consider that this **Annual Report**, which contains the annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position, performance, business model and strategy of the Group and Company.

Each of the Directors, whose names and functions are listed on page 104 of this **Annual Report**, confirm that to the best of their knowledge:

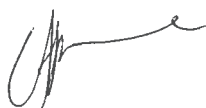
- the Group and Company financial statements, which were prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, cash flows and results of the Group and the Company; and
- the **Directors' Report** on page 130 includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

## DISCLOSURE OF INFORMATION TO EXTERNAL AUDITOR

In the case of each Director in office on the approval date of the Directors' Report, they confirm that:

- in so far as the Directors are aware, there is no relevant audit information of which the Group and Company auditor is unaware; and
- they have taken all reasonable steps as a Director to ascertain any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

For and on behalf of the Board.



**Dr Ronnie van der Merwe**  
Chief Executive Officer  
22 May 2019



**Mr Jurgens Myburgh**  
Chief Financial Officer  
22 May 2019





MEDICLINIC PARKVIEW HOSPITAL مستشفى بارك فيفو

# FINANCIAL STATEMENTS

## CONTENTS

### GROUP FINANCIAL STATEMENTS

- 182** Independent auditors' report
- 191** Consolidated statement of financial position
- 192** Consolidated income statement
- 193** Consolidated statement of other comprehensive income
- 194** Consolidated statement of changes in equity
- 196** Consolidated statement of cash flows
- 197** Notes to the consolidated financial statements
- 271** Annexure - Investments in subsidiaries, associates and joint ventures

### COMPANY FINANCIAL STATEMENTS

- 280** Independent auditors' report
- 287** Company statement of financial position
- 288** Company statement of changes in equity
- 289** Company statement of cash flows
- 290** Notes to the Company financial statements

### GENERAL INFORMATION

These financial statements are consolidated financial statements for Mediclinic International plc (the "**Company**") and its subsidiaries, associates and joint ventures (the "**Group**"). A list of subsidiaries, associates and joint ventures is included from pages 271-278.

Mediclinic International plc (the "**Company**") is a public limited company, listed on the London Stock Exchange and is incorporated and domiciled in England and Wales. The Company has secondary listings on the JSE Ltd and the Namibian Stock Exchange ("**NSX**"). A wholly-owned subsidiary, Hirslanden AG issued bonds listed on the SIX.

#### Registered address:

6<sup>th</sup> Floor  
65 Gresham Street  
London  
EC2V 7NQ  
United Kingdom

The core purpose of the Group is to enhance the quality of life.

The financial statements were authorised for issue by the Directors on 22 May 2019. No authority was given to anyone to amend the financial statements after the date of issue.

All press releases, financial reports and other information are available on our website: [www.mediclinic.com](http://www.mediclinic.com).

# GROUP FINANCIAL STATEMENTS

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MEDICLINIC INTERNATIONAL PLC

### REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

#### Our opinion

In our opinion, Mediclinic International plc's Group financial statements (the "**financial statements**"):

- give a true and fair view of the state of the Group's affairs at 31 March 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated statement of financial position at 31 March 2019; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which include the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 23 to the consolidated financial statements, we have provided no non-audit services to the Group in the period from 1 April 2018 to 31 March 2019.

#### Our audit approach

##### Overview



- Overall Group materiality: £14 million (2018: £15 million) based on approximately 5% of adjusted profit before tax.
- Our Group audit included full scope audits at three reporting units. We performed centralised procedures on the equity accounted results of Spire Healthcare Group plc ("**Spire**") based on its audited financial statements at 31 December 2018. We have also audited selected financial statement line items of the parent company to support the Group audit.
- Taken together, the reporting units where we conducted audit procedures, together with work performed at the Group level, accounted for 93% of consolidated revenue, 84% of consolidated loss before tax and 83% of consolidated adjusted profit before tax.
- Impairment of intangible assets, goodwill and non-financial assets
- Impairment of the Group's associate investment in Spire
- Purchase price allocation for the acquisition of Grangettes Healthcare SA ("**Les Grangettes**")
- Finance transformation



### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to healthcare reforms and introduction of new regulations in the Group's markets (see page 55 of the Annual Report) and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the UK Listing Rules, the Johannesburg Stock Exchange Limited Listings Requirements and applicable anti-bribery legislation in each of the Group's markets. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and we determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, accounting for large or unusual transactions outside the normal course of business and management bias in key accounting estimates. The Group audit team shared this risk assessment with the component auditors in the Group audit instructions so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group audit team included:

- Discussions with management, Internal Audit and the Audit and Risk Committee including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of Internal Audit reports;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of whistleblower claims including matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in relation to the Group's accounting estimates;
- Identifying and testing journal entries based on our risk assessment; and
- Review of related work performed by component auditors, including the risk related to management override of controls, the risk of fraud in revenue recognition and the risk associated with finance transformation.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. In addition, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the audit team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## KEY AUDIT MATTER

## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS

### 1. IMPAIRMENT OF INTANGIBLE ASSETS, GOODWILL AND NON-FINANCIAL ASSETS

(refer to **Audit and Risk Committee Report** on page 136 and notes 6 and 7 in the **Group financial statements**)

The Group has £1 587 million (2018: £1 406 million) of intangible assets. This balance consists mainly of goodwill relating to the Mediclinic Middle East operations of £1 340 million (2018: £1 245 million) and goodwill relating to the recently acquired Les Grangettes of £99 million.

The Group is required to perform annual impairment tests on goodwill. These impairment tests are generally undertaken at the operating division level being the level at which management monitors goodwill for impairment. The Group also performed impairment assessments of individual CGUs which form part of these operating divisions. Particular focus was directed at the Swiss and Middle East operating divisions. Goodwill is generally assessed for impairment at the operating division level on the basis that the rationale for the transactions giving rise to goodwill is to realise synergies across the entire operating division and not just within the acquired business. The one exception is the current year acquisition of Les Grangettes whose goodwill is assessed for impairment at the CGU level given the existence of a significant non-controlling interest. Other assets subject to impairment assessment at the CGU level primarily comprise land and buildings.

In the current year, an impairment loss of £55 million was recorded to impair the remaining carrying value of the Hirslanden and Linde brand names and £186 million was recorded to partially impair property and equipment within five Swiss CGUs.

The impairment losses recorded in the current year are material to the financial statements. The recoverable amounts determined in impairment assessments are contingent on future cash flows and there is a risk if these cash flows do not meet the Group's expectations, or if significant judgements related to discount rates or growth rates change, that further impairment losses will be required.

Deploying our valuation experts, we obtained management's impairment calculations and tested the reasonableness of key assumptions, including cash flow forecasts and the selection of growth rates and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry benchmarks and economic forecasts. We substantively tested the integrity of supporting calculations and we corroborated certain information with third party sources. We challenged management on its use of a seven year period for the short-term cash flow projections at the Middle East operations by assessing management's rationale related to the development phase of new hospital and expansion projects by reference to supporting evidence and historical experience.

We agreed the underlying cash flows to approved budgets and we assessed growth rates and discount rates by comparison to third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were evaluated in the context of current trading performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and understanding the reasons for the growth profiles used.

We performed independent sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available headroom or the level of impairment required.

We evaluated management's judgement regarding the levels at which goodwill arising from the Swiss and Middle East acquisitions are monitored for impairment review purposes. In particular, we evaluated management's judgement regarding the determination of the respective CGUs in the Swiss operating division, focusing on the commercial rationale for combining certain clinical facilities into supply regions while other facilities are allocated to stand-alone CGUs. As part of this evaluation, we met with commercial management at Hirslanden to understand how these facilities are run operationally and the level of integration between facilities in different regions of Switzerland.

We compared management's impairment models to externally available data including analyst valuations. We prepared independent valuations based on alternative valuation assumptions as part of assessing the reasonableness of the approach and outputs determined by management.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
<p><b>1. IMPAIRMENT OF INTANGIBLE ASSETS, GOODWILL AND NON-FINANCIAL ASSETS (continued)</b></p> <p>We focused on the impairment assessments of goodwill, intangible assets and non-financial assets as the impairment reviews carried out by the Group contain a number of significant judgements, including the level at which goodwill is monitored for impairment and the determination of CGUs within each operating division, and estimates, including cash flow projections, growth rates and discount rates. Changes in these assumptions might lead to a significant change in the recoverable values of the related assets and therefore to the impairment losses recognised.</p>	<p>Based on our work performed, we concurred with management that impairment charges are required in the current year for the Swiss operations and that no impairment losses were required for the goodwill related to the Middle East operations at 31 March 2019. We have found the judgements and estimates made by management in determining the impairment charges for Hirslanden to be materially reasonable in the context of the Group financial statements taken as a whole and the related disclosures to be appropriate. Given that there is reduced headroom for the Middle East based on management's assessment, we believe that the disclosure of specific risk disclosures to highlight the sensitivity of the Middle East impairment judgement to reasonably possible changes to the assumptions to be appropriate.</p>
<p><b>2. IMPAIRMENT OF THE GROUP'S ASSOCIATE INVESTMENT IN SPIRE</b></p> <p>(refer to <b>Audit and Risk Committee Report</b> on page 136 and note 8 in the <b>Group financial statements</b>)</p> <p>At 31 March 2019, the carrying value of the Group's associate investment in Spire exceeded the listed market value of the investment, which could indicate a possible impairment. The Group assessed the recoverable amount of the investment based on a value-in-use calculation and concluded that an impairment loss of £164 million was required.</p> <p>We focused on this area because of the significance of the impairment loss recorded in the current year and the judgement and estimation involved in the impairment assessment undertaken by management. The recoverable value of the associate is contingent on future cash flows and there is a risk that the investment will be impaired further if these cash flows do not meet expectations.</p>	<p>We reviewed the share price performance of Spire over the period alongside its reported financial results. We met with the Group's nominated director on the Spire board to understand whether any indicators of impairment exist based on the underlying performance of the business and to understand Spire's recent performance trends and we reviewed the latest available financial reports published by Spire. We obtained and reviewed analyst reports to understand third party expectations of future share price performance.</p> <p>Deploying our valuation experts, we obtained management's impairment assessment and tested the reasonableness of key assumptions underpinning management's value-in-use valuation of the Group's investment, including cash flow forecasts and the selection of growth rates and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to third party data and economic forecasts.</p> <p>We performed independent sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the level of impairment required.</p> <p>Based on our work performed, we concurred with management that an impairment is required in the current year. We have found the judgements and estimates made by management in determining the impairment charge to be materially reasonable in the context of the Group financial statements taken as a whole and the related disclosures to be appropriate.</p>



# INDEPENDENT AUDITORS' REPORT (CONTINUED)

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## KEY AUDIT MATTER

## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS

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### 3. PURCHASE PRICE ALLOCATION FOR THE ACQUISITION OF LES GRANGETTES

(refer to **Audit and Risk Committee Report** on page 136 and note 30 in the **Group financial statements**)

The Group acquired 60% of Les Grangettes for a total consideration of £118 million. The acquisition resulted in the recognition at fair value of total net assets amounting to £32 million and goodwill of £99 million. Net assets assumed at fair value consisted mainly of property, equipment and vehicles (£10 million) and a brand name (£25 million) identified as part of the purchase price allocation. Management performed the purchase price allocation with the assistance of an external expert.

The Group entered into a put and call agreement to acquire the remaining 40% stake in Les Grangettes after four years. A derivative liability of £86 million for the full redemption amount has been recognised with a related charge directly in equity.

We have focused on this area because judgement and estimates are involved in allocating the purchase price to the tangible and intangible assets identified in the business combination and because the valuation of the intangible assets requires specialist skills and knowledge. In addition, the redemption liability for the put option is based on estimates of future business performance, which are inherently judgemental.

We obtained the purchase price allocation prepared by management. Based on discussions with management, reading the purchase agreements and applying our understanding of the business and industry, we critically assessed the process followed for the identification of the assets and liabilities acquired, including assessment of the completeness thereof.

With the assistance of our own valuation experts, we evaluated the valuation methodology adopted by management to value the brand acquired. The underlying assumptions, including the discount rate, terminal growth rate and royalty relief rates used in management's model to value the brand were tested for reasonableness by benchmarking the assumptions to industry average rates and by recalculating the discount rate. We evaluated the commercial rationale for the residual goodwill valuation.

We performed specific procedures on the opening balance sheet of Les Grangettes prepared at 1 October 2018 directed at cut-off. We have specifically considered the recoverability of assets and the completeness of liabilities (including provisions for contractual commitments and for legal and other contingencies) to ensure that the opening balance sheet is appropriately stated at fair value. We have reviewed the assessment of the comparative accounting policies and practices of the Group and Les Grangettes prepared by management to ensure that the Group's accounting policies have been appropriately applied.

We obtained the valuation of the derivative liability prepared by management. We critically assessed the process for calculating the value of the liability by recalculating the expected redemption amount with reference to the contract terms, approved forecast and discount rate. We assessed the reasonableness of the future forecast by reference to current trading and by performing sensitivities on key assumptions.

Based on our work performed, we have found the judgements and estimates made by management to be materially reasonable in the context of the Group financial statements taken as a whole and the related disclosures to be appropriate.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
<p><b>4. FINANCE TRANSFORMATION</b> (refer to <b>Audit and Risk Committee Report</b> on page 136)</p> <p>The Group has commenced a finance transformation programme to simplify, standardise and automate its finance processes. In 2019, the finance transformation included the start of a multi-year roll-out of a new enterprise-wide resource planning (ERP) at Hirslanden, the commencement of a multi-year roll-out of a new clinical and revenue system at Mediclinic Middle East ("MCME") and the migration of the Group's consolidation onto a new technology platform alongside the implementation of new software tools to manage the Group's IT user access rights and IT change management.</p> <p>These changes represent a financial reporting risk while migrations are happening as controls and processes that have been established and embedded over a number of years are updated and migrated into a new environment. There is an increased risk of breakdown in internal financial controls during the transition and an increased risk of inaccurate or incomplete migration of financial data, which would in turn increase the risk of material misstatements to the Group financial statements.</p>	<p>We centrally directed the work performed by component teams at Hirslanden and MCME, with Group site visits to both locations to review the execution and findings of our component teams.</p> <p>At Hirslanden, the testing included evaluation of control design, testing of selected IT related controls and substantive testing. The focus of testing was related to the accuracy and completeness of data migration to the new ERP system together with testing of access controls. At MCME, given the limited extent of roll-out of new systems completed in the financial year, our testing focused on the review of control design.</p> <p>In relation to the Group's consolidation, we evaluated the design and tested the operating effectiveness of key automated and manual controls after the migration to the centralised consolidation environment, including IT general controls and controls in respect of data interfacing. We also substantively tested the accuracy and completeness of data processed into the new system along with the controls over this process.</p> <p>Based on our work performed, we did not identify any significant exceptions as a result of the impact of finance transformation.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, its accounting processes and controls and the industry in which it operates.

The consolidated financial statements are a consolidation of thirteen reporting units which comprise sub-consolidations of the operations in each of the Group's key markets. The Southern Africa, Switzerland and Middle East reporting units required an audit of their complete financial information due to their size.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group audit team, or by component auditors from other PwC network firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Recognising that not every business in each of the thirteen reporting units which comprise the Group's consolidated results and financial position is included in our Group audit scope, we considered as part of our Group audit oversight responsibility what audit coverage has been obtained in aggregate by our component teams by reference to business components at which audit work has been undertaken.

We visited our component teams in South Africa, Switzerland and the UAE, which included file reviews, attendance at key audit meetings with local management and participation in audit clearance meetings at each reporting unit. We also had regular dialogue with our component audit teams at each key reporting unit.

Further specific audit procedures over the Group consolidation, selected financial statement line items reported by the Mediclinic International plc parent company and over the Group's associate interest in Spire (and review procedures over the Annual Report and audit of the financial statement disclosures) were directly led by the Group audit team.

Taken together, the reporting units where we conducted our audit work, together with work performed at the Group level, accounted for 93% of consolidated revenue, 84% of consolidated loss before tax and 83% of consolidated adjusted profit before tax calculated on an absolute basis. Our audit covered all reporting units that individually contributed more than 2% to consolidated revenue and more than 2% to consolidated loss before tax and to consolidated adjusted profit before tax calculated on an absolute basis.

# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Based on our professional judgement, we determined materiality for the consolidated financial statements as a whole as follows:

<b>Overall Group audit materiality</b>	£14 million (2018: £15 million)
<b>How we determined it</b>	Based on approximately 5% of adjusted profit before tax, calculated as consolidated statutory loss before tax adjusted for impairment losses, accelerated depreciation, fair value adjustments on derivative contracts and loss on disposal of businesses
<b>Rationale for benchmark applied</b>	We believe that adjusted profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. The adjusted profit before tax measure removes the impact of significant items which do not recur from year to year or which otherwise significantly affect the underlying trend of performance from continuing operations. This is the metric against which the performance of the Group is most commonly assessed by management and reported to shareholders. We chose 5%, which is consistent with the quantitative materiality thresholds used for profit-oriented companies in this sector.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall materiality. The range of materiality allocated across components was between £6 million and £12.6 million. Certain components were audited to a local statutory audit materiality that was less than our Group audit materiality allocation.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.7 million (2018: £0.75 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

<b>Reporting obligation</b>	<b>Outcome</b>
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to.  However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

## Reporting on other information

The other information comprises all of the information in the **Annual Report** other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the **Strategic Report** and **Directors' Report** for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### **The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 179 of the **Annual Report** that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures in the **Annual Report** that describe those risks and explain how they are being managed or mitigated; and
- The Directors' explanation on page 60 of the **Annual Report** as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "**Code**"); and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit. (*Listing Rules*)

### **Other Code provisions**

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 179, that they consider the **Annual Report** taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit;
- The section of the **Annual Report** on page 136 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; and
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the **Directors' Responsibilities Statement** set out on page 179, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

### Companies Act 2006 exception reporting

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

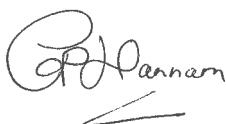
We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 18 March 2016 to audit the financial statements for the year ended 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 March 2016 to 31 March 2019.

## OTHER MATTER

We have reported separately on the Company financial statements of Mediclinic International plc for the year ended 31 March 2019 and on the information in the **Directors' Remuneration Report** that is described as having been audited.



### Giles Hannam (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

22 May 2019

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Notes	2019 £'m	2018 £'m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, equipment and vehicles	6	3 524	3 590
Intangible assets	7	1 587	1 406
Equity accounted investments	8	193	357
Other investments and loans	9	10	7
Deferred income tax assets	10	23	22
<b>Current assets</b>			
Inventories	11	88	90
Trade and other receivables	12	732	607
Other investments and loans	9	1	1
Current income tax assets		1	1
Cash and cash equivalents	29.8	265	261
Assets classified as held for sale	32	4	1
<b>Total assets</b>		<b>6 428</b>	<b>6 343</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	13	74	74
Share premium reserve	13	690	690
Treasury shares	13	-	(1)
Retained earnings		4 769	5 057
Other reserves	14	(2 382)	(2 534)
<b>Attributable to equity holders of the Company</b>		<b>3 151</b>	<b>3 286</b>
Non-controlling interests	16	115	87
<b>Total equity</b>		<b>3 266</b>	<b>3 373</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	17	1 895	1 866
Deferred income tax liabilities	10	423	467
Retirement benefit obligations	18	138	86
Provisions	19	29	23
Derivative financial instruments	20	91	2
Cash-settled share-based payment liabilities		-	1
<b>Current liabilities</b>			
Trade and other payables	21	464	424
Borrowings	17	87	71
Provisions	19	15	15
Retirement benefit obligations	18	11	10
Current income tax liabilities		8	5
Liabilities classified as held for sale	32	1	-
<b>Total liabilities</b>		<b>3 162</b>	<b>2 970</b>
<b>Total equity and liabilities</b>		<b>6 428</b>	<b>6 343</b>

These financial statements and the accompanying notes were approved for issue by the Board of Directors on 22 May 2019 and were signed on its behalf by:



**CA van der Merwe**  
Chief Executive Officer



**PJ Myburgh**  
Chief Financial Officer

Mediclinic International plc (Company no 08338604)



# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'m	(Re-presented)* 2018 £'m
Revenue	22	2 932	2 876
Cost of sales	23	(1 827)	(1 779)
Administration and other operating expenses	23	(1 021)	(1 387)
Impairment of property, equipment and vehicles	6 & 23	(186)	(84)
Impairment of intangible assets	7 & 23	(55)	(560)
Other administration and operating expenses	23	(780)	(743)
Other gains and losses	24	(3)	2
<b>Operating profit/(loss)</b>		<b>81</b>	(288)
Finance income		9	9
Finance cost	25	(66)	(94)
Share of net profit of equity accounted investments	8	3	3
Impairment of equity accounted investment	8	(164)	(109)
<b>Loss before tax</b>		<b>(137)</b>	(479)
Income tax credit	26	7	5
<b>Loss for the year</b>		<b>(130)</b>	(474)
<b>Attributable to:</b>			
Equity holders of the Company		(151)	(492)
Non-controlling interests	16	21	18
		(130)	(474)
<b>Loss per ordinary share attributable to the equity holders of the Company - pence</b>			
Basic	27	(20.5)	(66.7)
Diluted	27	(20.5)	(66.7)

\* Refer to note 2.1

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'m	2018 £'m
<b>Loss for the year</b>		<b>(130)</b>	(474)
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified to the income statement</b>		<b>142</b>	(309)
Currency translation differences	28	142	(310)
Fair value adjustment - cash flow hedges	28	-	1
<b>Items that may not be reclassified to the income statement</b>		<b>(34)</b>	60
Remeasurements of retirement benefit obligations	28	(34)	60
<b>Other comprehensive income/(loss), net of tax</b>	28	<b>108</b>	(249)
<b>Total comprehensive loss for the year</b>		<b>(22)</b>	(723)
<b>Attributable to:</b>			
Equity holders of the Company		(29)	(742)
Non-controlling interests		7	19
		<b>(22)</b>	(723)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	Share capital (note 13) £'m	Capital redemption reserve (note 14) £'m	Share premium reserve (note 13) £'m	Reverse acquisition reserve (note 14) £'m	Treasury shares (note 13) £'m
<b>Balance at 1 April 2017</b>	74	6	690	(3 014)	(2)
(Loss)/profit for the year	-	-	-	-	-
Other comprehensive (loss)/income for the year	-	-	-	-	-
Total comprehensive (loss)/income for the year	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-
Non-controlling shareholders derecognised on disposal of subsidiaries	-	-	-	-	-
Share-based payment expense	-	-	-	-	-
Settlement of Forfeitable Share Plan	-	-	-	-	1
Transactions with non-controlling shareholders	-	-	-	-	-
Dividends paid	-	-	-	-	-
<b>Balance at 31 March 2018</b>	<b>74</b>	<b>6</b>	<b>690</b>	<b>(3 014)</b>	<b>(1)</b>
IFRS 9 transition adjustment	-	-	-	-	-
<b>Restated as at 1 April 2018</b>	<b>74</b>	<b>6</b>	<b>690</b>	<b>(3 014)</b>	<b>(1)</b>
(Loss)/profit for the year	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	-	-
Transfer to other reserves	-	-	-	-	-
Business combinations	-	-	-	-	-
Derivative entered into as part of business combinations	-	-	-	-	-
Settlement of Forfeitable Share Plan	-	-	-	-	1
Transactions with non-controlling shareholders	-	-	-	-	-
Dividends paid	-	-	-	-	-
<b>Balance at 31 March 2019</b>	<b>74</b>	<b>6</b>	<b>690</b>	<b>(3 014)</b>	<b>-</b>

Share-based payment reserve (note 14) £'m	Foreign currency translation reserve (note 14) £'m	Hedging reserve (note 14) £'m	Retained earnings £'m	Attributable to equity holders of the Company £'m	Non- controlling interests (note 16) £'m	Total equity £'m
24	779	4	5 525	4 086	78	4 164
-	-	-	(492)	(492)	18	(474)
-	(311)	1	60	(250)	1	(249)
-	(311)	1	(432)	(742)	19	(723)
(23)	-	-	23	-	-	-
-	-	-	-	-	(1)	(1)
1	-	-	-	1	-	1
(1)	-	-	-	-	-	-
-	-	-	(1)	(1)	1	-
-	-	-	(58)	(58)	(10)	(68)
<b>1</b>	<b>468</b>	<b>5</b>	<b>5 057</b>	<b>3 286</b>	<b>87</b>	<b>3 373</b>
-	-	-	(2)	(2)	-	(2)
<b>1</b>	<b>468</b>	<b>5</b>	<b>5 055</b>	<b>3 284</b>	<b>87</b>	<b>3 371</b>
-	-	-	(151)	(151)	21	(130)
-	153	-	(31)	122	(14)	108
-	153	-	(182)	(29)	7	(22)
-	7	(7)	-	-	-	-
-	-	-	-	-	12	12
-	-	-	(86)	(86)	-	(86)
(1)	-	-	-	-	-	-
-	-	-	41	41	17	58
-	-	-	(59)	(59)	(8)	(67)
-	628	(2)	4 769	3 151	115	3 266

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'m Inflow/ (outflow)	2018 £'m Inflow/ (outflow)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Cash generated from operations</b>	29.1	<b>451</b>	466
Interest received		<b>9</b>	9
Interest paid	29.2	<b>(61)</b>	(74)
Tax paid	29.3	<b>(55)</b>	(56)
<b>Net cash generated from operating activities</b>		<b>344</b>	345
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
		<b>(298)</b>	(319)
Investment to maintain operations	29.4	<b>(86)</b>	(112)
Investment to expand operations	29.5	<b>(154)</b>	(142)
Acquisition of subsidiaries	30	<b>(63)</b>	(83)
Disposal of subsidiaries	31	<b>-</b>	2
Acquisition of investment in associate	8	<b>(4)</b>	(2)
Dividends received from equity accounted investment		<b>4</b>	5
Proceeds from money market funds		<b>-</b>	13
Proceeds from other investments and loans		<b>5</b>	-
<b>Net cash generated before financing activities</b>		<b>46</b>	26
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
		<b>(34)</b>	(108)
Distributions to non-controlling interests	16	<b>(8)</b>	(10)
Distributions to shareholders	29.6	<b>(59)</b>	(58)
Proceeds from borrowings	29.7	<b>385</b>	6
Repayment of borrowings	29.7	<b>(347)</b>	(30)
Refinancing transaction costs		<b>(5)</b>	(12)
Settlement of interest rate swap		<b>-</b>	(4)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12</b>	(82)
Opening balance of cash and cash equivalents		<b>261</b>	361
Exchange rate fluctuations on foreign cash		<b>(8)</b>	(18)
<b>Closing balance of cash and cash equivalents</b>	29.8	<b>265</b>	261

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

## 1. DESCRIPTION OF BUSINESS

Mediclinic International plc is an international healthcare services group with current divisions, in Switzerland, Southern Africa (South Africa and Namibia) and the United Arab Emirates (“UAE”), and with an equity investment in the United Kingdom. Its core purpose is to enhance the quality of life.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The Group has applied IFRS 9 and IFRS 15 for the first time in the 2019 financial year and comparative information has not been restated. Refer to note 33 for descriptions on the changes in accounting policies.

### 2.1 Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the European Union, including IFRS Interpretations Committee (“IFRS IC”) guidance and with the Companies Act 2006 applicable to companies reporting under IFRS. There are no differences for the Group in applying IFRS as issued by the IASB and IFRS as adopted by the European Union. The financial statements are prepared on the historical cost convention, except for the following items, which are carried at fair value or valued using another measurement basis:

- Derivative financial assets and liabilities, equity instruments measured at FVPL and equity instruments measured at FVOCI (2018: available-for-sale financial assets) are measured at fair value;
- Retirement benefit obligations calculated in terms of the projected unit credit method and corresponding plan assets are measured at fair value; and
- Liabilities for cash-settled share-based payments are measured at fair value.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

#### **Functional and presentation currency**

The consolidated financial statements and financial information are presented in pound sterling (the presentation currency), rounded to the nearest million. The functional currency of the majority of the Group’s entities, and the currencies of the primary economic environments in which they operate, is the Swiss franc, the South African rand and UAE dirham. The UAE dirham is pegged against the United States dollar at a rate of 3.6725 per US Dollar.

#### **Exchange rates**

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of foreign subsidiaries, the joint venture and associated undertakings into pound sterling and period-end rates to translate the net assets of those undertakings. The following exchange rates were applicable for the period:

	2019	2018
Average rates		
Swiss franc	1.30	1.29
South African rand	18.01	17.22
UAE dirham	4.82	4.87
Period-end rates:		
Swiss franc	1.30	1.34
South African rand	18.90	16.57
UAE dirham	4.79	5.15



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### **Going concern**

Having assessed the principal risks and other matters considered in the viability statement, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

#### **Income statement reclassification**

The income statement for the year ended 31 March 2018 has been re-presented to reclassify certain costs of the Southern African segment that were previously shown as a reduction of revenue. The impact of the reclassification was an increase in revenue and cost of sales of £6m. The reclassification had no impact on reported cash, profits or net assets.

### 2.2 Consolidation and equity accounting

#### **a) Basis of consolidation**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition until control is relinquished.

Adjustments to the financial statements of subsidiaries are made when necessary to bring their accounting policies in line with those of the Group.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised.

#### **b) Business combinations**

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets obtained and, liabilities incurred or assumed. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt or incur borrowings that are amortised as part of the effective interest and costs to issue equity, which are included in equity.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the recognition conditions of IFRS 3 *Business Combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal companies) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held-for-sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the Group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for Group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests arising from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation and equity accounting (continued)

#### b) *Business combinations (continued)*

In cases where the Company held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity, are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest, less the fair value of the identifiable assets and liabilities of the acquiree. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill is not amortised but is tested on an annual basis for impairment or more frequently if events or changes in circumstances indicate a potential impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases, the goodwill is translated to the functional currency of the Company at the end of each reporting period with the adjustment recognised in equity through other comprehensive income.

#### c) *Investments in associates and joint ventures*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Investments in associates and joint ventures are accounted for using the equity method of accounting.

Under the equity method, the equity accounted investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. Dividends received or receivable from equity accounted investments are recognised as a reduction in the carrying amount of the investment. The Group's investments in associates and joint ventures include goodwill identified on acquisition. When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the investment (which includes any long-term interests that, in substance, form part of the Group's net investment), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

Unrealised gains on transactions between the Group and its equity accounted investments are eliminated to the extent of the Group's interest in these investments. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investments have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an equity accounted investment is reduced but significant influence or joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the equity accounted investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount adjacent to share of profit or loss of the investment in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Segment reporting

Consistent with internal reporting, the Group's segments are identified as the three geographical operating divisions in Switzerland, Southern Africa and Middle East. The United Kingdom and Corporate segments are additional non-operating segments. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the segments, has been identified as the Group Executive Committee that makes strategic decisions. The Group Executive Committee comprises the executive directors and senior management as disclosed in the **Annual Report** on pages 110 and 113.

### 2.4 Property, equipment and vehicles

Land and buildings comprise mainly hospitals and offices. All property, equipment and vehicles are shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs to enhance an asset are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on the other assets is calculated using the straight-line method to allocate the cost less its residual value over its estimated useful life as follows:

- Buildings: 10-100 years
- Equipment: 3-10 years
- Furniture and vehicles: 3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Refer to note 2.6 for impairment of property, equipment and vehicles.

An asset is derecognised on disposal or when no future economic benefits are expected from its use. Profit or loss on disposals is determined by comparing proceeds with carrying amounts. These are included in the income statement.

### 2.5 Intangible assets

#### a) Goodwill

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest, less the fair value of the identifiable assets and liabilities of the acquiree. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures. Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill is carried at cost less accumulated impairment. Impairments on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from business combinations in which goodwill arose. Management monitors goodwill for impairment at an operating segment level, except for Les Grangettes. Any impairment losses that are recognised are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU where the carrying amount is greater than the recoverable amount.

#### b) Trade names

Trade names have been recognised by the Group as part of a business combination. No value is placed on internally developed trade names. Trade names are capitalised at the cost to the Group and amortised on a straight-line basis over their estimated useful lives of 2 to 25 years. Trade names are carried at cost less accumulated amortisation and accumulated impairment. Expenditure to maintain trade names is accounted for against income as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Intangible assets (continued)

#### c) **Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 to 10 years) using the straight-line method.

Internally developed computer software that is clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit beyond one year, is recognised as an intangible asset. Costs associated with maintaining computer software or development expenditure that does not meet the recognition criteria are expensed as incurred.

### 2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate a potential impairment. Assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate a potential impairment. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate. For the purposes of assessing impairment for non-financial assets other than goodwill, assets are grouped at the lowest levels for which there are separately identifiable and independent cash flows – CGUs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.7 Financial assets (accounting policies applied from 1 April 2018)

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- Financial assets measured subsequently at fair value (either through other comprehensive income (FVOCI), or through profit or loss (FVPL)); and
- Financial assets measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual term of the cash flows. Management determines the classification of its investment at initial recognition.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

#### **Equity instruments**

The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at fair value through profit or loss (FVPL) are recognised in other gains and losses in the income statement.

Where management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit and loss. Upon derecognition of these equity investments, any balance within the FVOCI reserve is reclassified to retained earnings. Dividends from such investments are recognised in profit or loss as other gains and losses when the Group's right to receive payments is established. Currently the Group has not elected to designate any equity instruments at FVOCI.

Impairment losses on equity investments measured at FVOCI or FVPL are not reported separately from other changes in fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Financial assets (accounting policies applied from 1 April 2018) (continued)

#### **Debt instruments**

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

There are two measurement categories into which the company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows representing solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Trade receivables are classified as debt instruments measured at amortised cost.
- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss is recognised in profit or loss and presented in the income statement as part of other gains and losses in the period in which it arises. Interest income from these financial assets is included in finance income.

Debt instruments are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

#### **Impairment**

The Group recognises an allowance for expected credit losses for all debt instruments not held at FVPL. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivables only, the Group applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables have been grouped based on shared credit risk characteristics, such as the counterparty (insurer or individual etc) or geographical region, and the days past due. The expected loss rates are based on the payment profiles of debtors over a period of 24 months before 31 March 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

For debt instruments at FVOCI and debt instruments at amortised cost, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Financial assets (accounting policies applied until 31 March 2018)

The Group classifies its financial assets in the following categories: loans and receivables and available for sale financial assets. The classification depends on the purpose for which the asset was acquired. Management determines the classification of its investments at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

#### *Loan and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest rate method less provision for impairment. Trade receivables are classified as loans and receivables.

#### *Investments available for sale*

Other long-term investments are classified as available for sale and are included within non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. These investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in other comprehensive income in the period in which they arise. When available-for-sale investments are either sold or impaired, the accumulated fair value adjustments are realised and included in profit or loss.

#### *Impairment*

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets are impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For financial assets carried at amortised cost, evidence of impairment may include indications that the receivables or a group of receivables are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows. The amount of the provision for impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The movement in the provision is recognised in the income statement.

In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the asset below its cost is considered an indicator that the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### 2.9 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, the legal enforceable right is not contingent on a future event and is enforceable in the normal course of business even in the event of default, bankruptcy or insolvency, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 2.10 Inventories

Inventories are measured at the lower of cost, determined on the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and cash on hand and are classified as debt instruments measured at amortised cost under IFRS 9 (2018: loans and receivables under IAS 39). Bank overdrafts are classified as financial liabilities at amortised cost and are disclosed as part of borrowings in current liabilities in the statement of financial position.

### 2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction is designated as a cash flow hedge. The Group uses interest rate swaps as cash flow hedges.

At inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it applies hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 April 2018, the Group documented its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. The documentation also included the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Beginning 1 April 2018, the documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below under "Cash flow hedges".

The fair values of various derivative instruments used for hedging purposes are disclosed in note 20. The hedging reserve in shareholders' equity is shown in note 14. On the statement of financial position, hedging derivatives are not classified based on whether the amount is expected to be recovered or settled within, or after, 12 months. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge relationship is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedge relationship is less than 12 months.

#### **Cash flow hedges**

The effective portion of changes in the fair value of derivatives that is designated and qualifies as a cash flow hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the interest expense on hedged variable rate borrowings is recognised in profit or loss).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Share capital

Ordinary shares are classified as equity. Shares in the Company held by wholly-owned Group companies are classified as treasury shares and are held at cost.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

### 2.14 Treasury shares

Treasury shares are deducted from equity until the shares are cancelled, reissued or disposed. No gains or losses are recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. All consideration paid or received for treasury shares is recognised directly in equity.

### 2.15 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs are expensed when incurred, except for borrowing costs directly attributable to the construction or acquisition of qualifying assets. Borrowing cost directly attributable to the construction or acquisition of qualifying assets is added to the cost of those assets, until such time as the assets are substantially ready for their intended use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

### 2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Current and deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.19 Employee benefits

#### a) *Retirement benefit costs*

The Group provides defined benefit and defined contribution plans for the benefit of employees, the assets of which are held in separate trustee administered funds. These plans are funded by payments from the employees and the Group, taking into account recommendations of independent qualified actuaries.

#### **Defined contribution plans**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The Group has no legal or constructive obligations to make further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due.

#### **Defined benefit plans**

This plan defines an amount of pension benefit an employee will receive on retirement, dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement. A net pension asset is recorded only to the extent that it does not exceed the present value of any economic benefit available in the form of reductions in future contributions to the plan, and any unrecognised actuarial losses and past service costs. The annual pension costs of the Group's benefit plans are charged to the income statement.

Incurred interest costs/income on the defined benefit obligations are recognised as wages and salaries.

#### b) *Post-retirement medical benefits*

Some group companies provide for post-retirement medical contributions in relation to current and retired employees. The expected costs of these benefits are accounted for by using the projected unit credit method. Under this method, the expected costs of these benefits are accumulated over the service lives of the employees. Valuation of these obligations is carried out by independent qualified actuaries. All actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Employee benefits (continued)

#### c) **Equity-settled share-based compensation**

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

#### d) **Cash-settled share-based compensation**

The Group operates cash-settled share-based compensation plans. The Group recognises the value of the services received (expense), and the liabilities to pay for those services, as the employees render service. The liabilities are measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at the end of each reporting period. All changes to the fair value of the liability are recognised in the income statement.

#### e) **Profit sharing and bonus plans**

The Group recognises a liability and an expense where a contractual obligation exists for short-term incentives. The amounts payable to employees in respect of the short-term incentive schemes are determined based on annual business performance targets.

### 2.20 Revenue recognition (accounting policies applied from 1 April 2018)

Revenues are measured at the transaction price which is the amount of consideration that the Group expects to be entitled to in exchange for the services provided.

A performance obligation is a promise to transfer a distinct good or service to a customer. Hospital services provided to patients are regarded as a bundle of services which comprise accommodation, meals, theatre time, use of equipment, pharmacy stock and nursing services. This is considered to be a single performance obligation as the medical procedures cannot be performed without one of the above elements.

Revenue is recorded during the period in which the hospital service is provided and is based on the amounts due from patients and/or medical funding entities. Fees are calculated and billed based on various tariff agreements with funders.

Discounts comprise retrospective volume discounts granted to certain funders on attainment of certain levels of patient visits and constitutes variable consideration under IFRS 15. These are accrued over the course of the arrangement based on estimates of the level of business expected and are adjusted against revenue at the end of the arrangement to reflect actual volumes. Refer to note 22 for the accounting policies regarding these discounts specifically for Mediclinic Southern Africa and Mediclinic Middle East.

In the Middle East, the normal business process associated with transactions with insurers includes an amount of claims disallowed (disallowance provision) which is not paid by the insurer. These disallowed claims could be for various technical or medical reasons. Disallowance write-offs on rejected claims is a general practice by the insurers in the Middle East. Accordingly, Mediclinic Middle East expects an amount of consideration that is less than what was originally invoiced. These write-offs constitute variable consideration under IFRS 15. Variable consideration is recognised as revenue to the extent that it is highly probable that a reversal of revenue will not occur. In prior periods, revenue was recognised based on the contract with the insurers and a provision for bad debt was recognised for the rejections based on historical trends.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Revenue recognition (accounting policies applied from 1 April 2018) (continued)

The Group does not expect to have any contracts where the period between the transfer of the promised service to the patient and the payment by the patient exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for time value of money.

Refer to note 22 for specific revenue recognition accounting policies relating to different geographical locations.

#### **Other income**

Other income is recognised on the following bases:

- Interest income for credit-impaired financial assets is measured by applying the effective interest rate method to amortised cost. For all other financial assets, the interest income is measured by applying the effective interest rate method to the gross carrying amount.
- Rental income, which is insignificant, is recognised on a straight-line basis over the term of the lease.

With the exception of interest income, all the items above are presented as revenue.

### 2.21 Revenue recognition (accounting policies applied until 31 March 2018)

Revenues are measured at the fair value of the consideration that has been received or is to be received and represent the amounts that can be received for services in the regular course of business when the significant risks and rewards of ownership have been transferred or services have been rendered. Discounts, sales taxes and other taxes associated with the revenues have to be deducted.

Revenue primarily comprises fees charged for inpatient and outpatient medical services. Services include charges for accommodation, theatre, medical professional services, equipment, radiology, laboratory and pharmaceutical goods used. Revenue is recorded and recognised during the period in which the medical service is provided, based on the amounts due from patients and/or medical funding entities. Fees are calculated and billed based on various tariff agreements with funders.

#### **Other income**

Other income is recognised on the following bases:

- Interest income is recognised on a time-proportioned basis using the effective interest rate method.
- Rental income, which is insignificant, is recognised on a straight-line basis over the term of the lease.

With the exception of interest income, all the items above are presented as revenue.

### 2.22 Cost of sales

Cost of sales consists of the cost of inventories, including obsolete stock, which have been expensed during the year, together with personnel costs and related overheads which are directly attributable to the provision of services.

In the Middle East, rebates received from suppliers are recognised when all the conditions agreed with the suppliers are met, the amount of cost of sales can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

### 2.23 Leased assets

Leases of property, equipment and vehicles where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charges is charged to the income statement over the lease period. The property, equipment and vehicles acquired under finance leasing contracts are depreciated over the useful lives of the assets or the term of the lease agreement, if shorter, and transfer of ownership at the end of the lease period is uncertain.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Dividend distribution

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded when paid.

### 2.25 Foreign currency transactions

#### **Transactions and balances**

Foreign currency transactions are translated into the respective Group entities' functional currencies at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in the income statement (except when recognised in other comprehensive income as part of qualifying cash flow hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Translation differences on non-monetary financial assets classified as available-for-sale, are included in other comprehensive income. Foreign exchange gains and losses are presented in the income statement within "Administration and other operating expenses".

#### **Group entities**

The results and financial position of all foreign operations that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date.
- Income and expenses for each income statement are translated at average exchange rates for the year.
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken directly to other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at closing rates at the reporting date.

### 2.26 Standards, interpretations and amendments

#### **Published standards, amendments and interpretations effective for the 31 March 2019 financial period:**

The following published standards, amendments and interpretations are mandatory for the accounting period beginning on or after 1 April 2018 and have been adopted (refer to the changes in accounting policy note (note 33) for a description of the impact of the implementation of these standards):

- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2018)

#### **Other standards adopted**

The following new accounting standards, interpretations and amendments, adopted on 1 April 2018:

- IFRS 2 (amendment) – Classification and measurement of share-based payment transactions (1 January 2018)
- IFRS 4 – Clarification on the implementation approach together with IFRS 9 (1 January 2018)
- IAS 40 – Transfers of investment property (1 January 2018)
- IFRIC 22 – Foreign currency transactions and advance consideration (1 January 2018)
- Annual improvements 2014 – 2016 cycle – Amendments and clarifications to existing IFRS standards (1 January 2018)

The implementation of these standards and amendments had no material financial impact on the reported results or financial position of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Standards, interpretations and amendments (continued)

#### ***Published standards, amendments and interpretations not yet effective and not early adopted:***

The following new standards, amendments and interpretations are expected to have an impact on the financial statements in the period of initial application.

#### **IFRS 16 Leases (1 January 2019)**

The new standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees (recognition of a right-of-use asset to use the leased item and a financial liability to pay the rentals). The standard replaces IAS 17 *Leases* and related interpretations. The consolidated income statement will also be affected because the total expense is generally higher in the earlier years of a lease and lower in later years. Additionally, the operating lease expense will be replaced with interest and depreciation, resulting in an expected change in EBITDA and the EBITDA margin. The Group plans to adopt the new standard on 1 April 2019 using the simplified transition approach and will not restate comparative information.

During the 2019 financial year, the Group performed a detailed impact assessment of the implementation of IFRS 16. The Group expects to recognise right-of-use assets of approximately £610m and lease liabilities of approximately £662m. The deferred tax impact and impairment assessment relating to the initial recognition of the right-of-use assets on adoption of IFRS 16 are still being considered and will be concluded ahead of the announcement of the Group's half year results at 30 September 2019. On application of IFRS 16 to the 2020 financial year income statement, indicatively, profit before tax would be lower by approximately £4m excluding the Group's equity accounted share of the impact at Spire. EBITDA would be higher by approximately £61m due to the fact that the operating lease expense recognised under IAS 17 is replaced with interest and depreciation under IFRS 16 (which are excluded from EBITDA). Spire has disclosed the estimated impact of IFRS 16 in its **Annual Report** at 31 December 2018, which estimated the Group's equity share of profit before tax would be lower by approximately £4m based on the results for the year ended 31 December 2018.

#### **Other standards**

The following new accounting standards, interpretations and amendments will have no material impact on the financial statements:

- IAS 19 – Plan amendment, curtailment or settlement (1 January 2019)
- IAS 28 – Long term interests in associates and joint ventures amendments (1 January 2019)
- IFRS 9 – Prepayment features with negative compensation amendments (1 January 2019)
- IFRIC 23 – Uncertainty over income tax treatments (1 January 2019)
- Annual improvements 2015 – 2017 cycle – Amendments and clarifications to existing IFRS standards (1 January 2019)
- IFRS 17 – Insurance contracts (1 January 2022)

### 3. FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

Normal business activities expose the Group to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme seeks to minimise the effect of potential adverse events on the Group's financial performance.

#### a) Market risk

##### *i) Currency risk*

##### **Investments in foreign operations**

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Changes in the pound sterling/Swiss franc, pound sterling/South African rand and pound sterling/UAE dirham exchange rates over a period of time result in increased/decreased earnings. Other than the Group's earnings and payment of dividends which are presented and declared in sterling and thus exposed to currency risk, the Group is not significantly exposed to currency risk since the divisions predominantly operate and is funded in their local currency.

In the case of corporate offshore transactions and or cross-border business combinations, generally forward cover contracts are considered or taken out to minimise foreign currency risk.

The impact of a 10% change in the sterling/Swiss franc, sterling/South African rand and the sterling/UAE dirham exchange rates for a sustained period of one year is:

- profit for the period would increase/decrease by £8m (2018: increase/decrease by £12m) due to exposure to the sterling/Swiss franc exchange rate;
- profit for the period would increase/decrease by £7m (2018: increase/decrease by £9m) due to exposure to the sterling/South African Rand exchange rate;
- profit for the period would increase/decrease by £5m (2018: increase/decrease by £4m) due to exposure to the sterling/UAE dirham exchange rate;
- foreign currency translation reserve would increase/decrease by £132m (2018: increase/decrease by £152m) due to exposure to the sterling/Swiss franc exchange rate;
- foreign currency translation reserve would increase/decrease by £12m (2018: increase/decrease by £7m) due to exposure to the sterling/South African rand exchange rate; and
- foreign currency translation reserve would increase/decrease by £157m (2018: increase/decrease by £153m) due to exposure to the sterling/UAE dirham exchange rate.

##### *ii) Interest rate risk*

The Group's interest rate risk arises from long-term borrowings as well as short-term deposits. Borrowings and short-term deposits issued at variable rates expose the Group to cash flow interest rate risk. Interest rate derivatives expose the Group to fair value interest rate risk. Group policy is to maintain an appropriate mix between fixed and floating rate borrowings and placings.

The Group's interest rate risk arises from bank borrowings at variable interest rates. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. The interest rate hedges entered into match key contractual terms of the borrowings to enable an economic relationship between hedged item and hedging instrument. At year end a portion of the South African borrowings and Middle East borrowings were hedged and the Swiss borrowings was unhedged (refer to note 17). The unhedged borrowings are evaluated on a regular basis to ensure interest rate risk is managed.

With the interest rate swap agreements the Group entered into to mitigate interest rate risk, the Group did not consider there to be a significant concentration of interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

#### a) Market risk (continued)

##### ii) Interest rate risk (continued)

##### Interest rate sensitivity

The sensitivity analyses below were determined based on the exposure to interest rates to net debt at the reporting date and the stipulated change taking place at the beginning of the financial year, and held constant throughout the reporting period in the case of instruments that have floating rates. The sensitivity of interest rates can be summarised as follows:

- Switzerland – at 31 March 2019, the 3M Swiss LIBOR was -0.71% (2018: -0.74%). Interest rates would have to increase by 71 basis points to have an impact on profit for the period with all other variables held constant. An increase in the interest rate of 25 basis points would have no impact on profit for the period (2018: no impact).
- Southern Africa - profit for the period would increase/decrease by £0.6m (2018: increase/decrease by £1m) if the interest rates had been 100 basis points higher/lower in Southern Africa with all other variables held constant; and
- Middle East – profit for the period would increase/decrease by £0.5m (2018: increase/decrease by £0.5m) if the interest rates had been 50 basis points higher/lower in the Middle East with all other variables held constant.

##### iii) Other price risk

The Group is not materially exposed to commodity or any other price risk.

#### b) Credit risk

Financial assets that potentially subject the Group to concentrations of credit risk consist principally of cash, short-term deposits, trade and other receivables and derivative financial contracts. The Group's cash equivalents and short-term deposits are placed with quality financial institutions with a high credit rating. Trade receivables are represented net of the allowance for expected credit losses. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base, which consists mainly of medical schemes and insurance companies. The financial condition of these clients in relation to their credit standing is evaluated on an ongoing basis. Medical schemes and insurance companies are forced to maintain minimum reserve levels. The policy for patients that do not have a medical scheme or an insurance company paying for the Group's service is to require a preliminary payment instead. The Group does not have any significant exposure to any individual customer or counterparty.

The Group is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. The counterparties to these contracts are major financial institutions. The Group monitors its positions and limits the extent to which it enters into contracts with any one party.

The gross carrying amounts of financial assets (before credit loss allowances) included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to these assets. At 31 March 2018 and 31 March 2019, the Group did not consider there to be a significant concentration of credit risk.

#### c) Liquidity risk

The Group manages liquidity risk by monitoring cash flow forecasts to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

	2019 £'m	2018 £'m
The Group's unused banking facilities and overdraft facilities are:	295	467

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### c) Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been prepared based on the undiscounted cash flows of financial liabilities based on the required date of repayment. The table includes both interest and principal cash flows. The analysis of derivative financial instruments has been prepared based on undiscounted net cash inflows/(outflows) that settle on a net basis.

Financial liabilities	Carrying value	Contractual cash flows	1 - 12 months	1 - 5 years	Beyond 5 years
<b>31 March 2019</b>					
Borrowings	1 982	2 869	160	2 635	73
Derivative financial instruments	91	94	-	94	-
Trade payables	230	230	230	-	-
Other payables and accrued expenses	181	181	181	-	-
<b>31 March 2018</b>					
Borrowings	1 937	2 766	146	990	1 630
Derivative financial instruments	2	2	1	1	-
Trade payables	210	210	210	-	-
Other payables and accrued expenses	144	144	144	-	-

#### 3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and other reserves and non-controlling interest as disclosed in notes 13, 14 and 16 respectively. The Group's Audit and Risk Committee reviews the going concern status and capital structure of the Group bi-annually. The Group balances its overall capital structure through the payment of dividends and new share issues, as well as the issue of new debt or the redemption of existing debt. The Group's dividend policy is to target a pay-out ratio of between 25% and 30% of adjusted earnings. The Board may revise the policy at its discretion. The debt-to-capital ratios at 31 March 2019 and 31 March 2018 were as follows:

	2019 £'m	2018 £'m
Borrowings	1 982	1 937
Less: cash and cash equivalents	(265)	(261)
Net debt	1 717	1 676
Total equity	3 266	3 373
Debt-to-equity capital ratio	53.1%	49.7%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. Although these estimates and assumptions are based on management's best information regarding current circumstances and future events, actual results may differ. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are discussed below.

### Critical accounting judgements

- Level at which management monitors goodwill for impairment testing (refer to note 7)
- Deferred tax on unremitted earnings (refer to note 10)
- Useful lives and residual values of property, equipment and vehicles (refer to note 6)
- Determination of CGUs for impairment testing (refer to note 6)

### Key estimates

- Impairment of properties (refer to note 6)
- Impairment of goodwill (refer to note 7)
- Impairment of equity-accounted investments (refer to note 8)
- Retirement benefits (refer to note 18)

## 5. SEGMENTAL REPORT

The reportable operating segments are identified as follows: Switzerland, Southern Africa, and Middle East and additional segments are shown for the United Kingdom and Corporate.

Year ended 31 March 2019	Total £'m	Reportable operating segments			Other	
		Switzerland £'m	Southern Africa £'m	Middle East £'m	United Kingdom £'m	Corporate £'m
Revenue	2 932	1 368	886	677	-	1
EBITDA	493	219	187	88	-	(1)
EBITDA before management fee	493	224	192	91	-	(14)
Management fees included in EBITDA	-	(5)	(5)	(3)	-	13
Other gains and losses	(3)	-	1	(3)	-	(1)
Depreciation and amortisation	(168)	(101)	(31)	(36)	-	-
Impairment of property, equipment and vehicles	(186)	(186)	-	-	-	-
Impairment of intangible assets	(55)	(55)	-	-	-	-
Operating profit/(loss)	81	(123)	157	49	-	(2)
Income from associate	3	-	-	-	3	-
Impairment of associate	(164)	-	-	-	(164)	-
Finance income	9	-	8	1	-	-
Finance cost (excluding intersegment loan interest)	(66)	(23)	(36)	(7)	-	-
Total finance cost	(66)	(39)	(36)	(7)	-	16
Elimination of intersegment loan interest	-	16	-	-	-	(16)
Taxation	7	47	(39)	-	-	(1)
<b>Segment result</b>	<b>(130)</b>	<b>(99)</b>	<b>90</b>	<b>43</b>	<b>(161)</b>	<b>(3)</b>
<b>At 31 March 2019</b>						
Investments in associates	189	2	3	4	180	-
Investments in joint ventures	4	-	4	-	-	-
Capital expenditure	232	72	65	94	-	1
Total segment assets	6 428	3 532	709	1 965	182	40
Total segment liabilities (excluding intersegment loan)	3 162	2 182	593	385	-	2
Total liabilities from reportable segment	4 060	3 080	593	385	-	2
Elimination of intersegment loan	(898)	(898)	-	-	-	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5. SEGMENTAL REPORT (continued)

	Total £'m	Reportable operating segments			Other	
		Switzerland £'m	Southern Africa* £'m	Middle East £'m	United Kingdom £'m	Corporate £'m
<b>Year ended 31 March 2018</b>						
Revenue	2 876	1 349	883	643	-	1
EBITDA	522	251	189	85	-	(3)
EBITDA before management fee	522	254	194	88	-	(14)
Management fees included in EBITDA	-	(3)	(5)	(3)	-	11
Other gains and losses	2	9	-	(7)	-	-
Depreciation and amortisation	(168)	(86)	(29)	(53)	-	-
Impairment of properties	(84)	(84)	-	-	-	-
Impairment of intangible assets	(560)	(560)	-	-	-	-
Operating (loss)/profit	(288)	(470)	160	25	-	(3)
Income from associate	3	-	-	-	3	-
Impairment of associate	(109)	-	-	-	(109)	-
Finance income	9	1	7	1	-	-
Finance cost (excluding intersegment loan interest)	(94)	(48)	(38)	(8)	-	-
Total finance cost	(94)	(64)	(38)	(8)	-	16
Elimination of intersegment loan interest	-	16	-	-	-	(16)
Taxation	5	46	(40)	-	-	(1)
<b>Segment result</b>	<b>(474)</b>	<b>(471)</b>	<b>89</b>	<b>18</b>	<b>(106)</b>	<b>(4)</b>
<b>At 31 March 2018</b>						
Investments in associates	352	2	2	-	348	-
Investments in joint ventures	5	-	5	-	-	-
Capital expenditure	245	101	62	80	-	2
Total segment assets	6 343	3 448	747	1 757	348	43
Total segment liabilities (excluding intersegment loan)	2 972	1 986	673	309	-	4
Total liabilities from reportable segment	3 829	2 843	673	309	-	4
Elimination of intersegment loan	(857)	(857)	-	-	-	-

\* Refer to note 2.1

## 5. SEGMENTAL REPORT (continued)

	2019 £'m	2018 £'m
The total non-current assets, excluding financial instruments and deferred tax assets per geographical location are:		
Switzerland	2 909	2 958
Southern Africa	482	498
Middle East	1 733	1 549
United Kingdom	180	348
<b>ENTITY-WIDE DISCLOSURES</b>		
<b>Revenue</b>		
From UK	-	-
From foreign countries	2 932	2 876
Revenues from external customers are primarily from hospital services		
<b>The total non-current assets, excluding financial instruments and deferred tax assets:</b>		
From UK	180	348
From foreign countries	5 124	5 005

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6. PROPERTY, EQUIPMENT AND VEHICLES

	2019 £'m	2018 £'m
Land - cost	889	864
Buildings	2 200	2 184
Cost	2 763	2 509
Accumulated depreciation and impairment	(563)	(325)
Land and buildings	3 089	3 048
Capital expenditure in progress	81	181
Equipment	311	306
Cost	904	810
Accumulated depreciation	(593)	(504)
Furniture and vehicles	43	55
Cost	208	224
Accumulated depreciation and impairment	(165)	(169)
	<b>3 524</b>	3 590

	Land and buildings £'m	Capital expenditure in progress £'m	Equipment £'m	Furniture and vehicles £'m	Total £'m
<b>Net book value at 1 April 2017</b>	3 205	113	328	57	3 703
Additions	39	107	55	22	223
Depreciation	(39)	-	(70)	(23)	(132)
Business combinations	103	-	7	-	110
Prior year capital expenditure completed	28	(32)	3	1	-
Impairment	(84)	-	-	-	(84)
Transfer to assets held for sale	-	-	(1)	-	(1)
Exchange differences	(204)	(7)	(16)	(2)	(229)
<b>Net book value at 31 March 2018</b>	3 048	181	306	55	3 590
Additions	17	123	49	15	204
Depreciation	(50)	-	(78)	(20)	(148)
Business combinations	8	-	7	5	20
Transfer between asset classes	-	1	8	(9)	-
Prior year capital expenditure completed	192	(221)	26	3	-
Impairment	(181)	-	-	(5)	(186)
Transfer to assets held for sale	-	-	(1)	-	(1)
Exchange differences	55	(3)	(6)	(1)	45
<b>Net book value at 31 March 2019</b>	<b>3 089</b>	<b>81</b>	<b>311</b>	<b>43</b>	<b>3 524</b>

## 6. PROPERTY, EQUIPMENT AND VEHICLES (continued)

	2019 £'m	2018 £'m
<b>Total additions</b>	<b>204</b>	223
To maintain operations	<b>82</b>	98
To expand operations	<b>122</b>	125

Property, equipment and vehicles with a book value of £2 678m (2018: £2 594m) are encumbered as security for borrowings (see note 17).

Included in equipment is capitalised finance lease equipment with a book value of £1m (2018: £2m).

### Critical accounting estimates and judgements

The estimation of the useful lives of property, equipment and vehicles is based on historical performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. Rates of depreciation represent management's current best estimate of the useful lives and residual values of the assets.

For a private hospital, it is fundamentally important that the earnings potential of a building is maintained on a permanent basis. The Group therefore follows a structured maintenance programme with regard to hospital buildings with the specific goal to prolong the useful lifetime of these buildings.

Property, equipment and vehicles are considered for impairment if impairment indicators are identified at an individual CGU level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group defines CGUs as combined inter-dependent hospitals and/or clinics or as individual hospitals depending on the geographical location or the degree of integration.

The impairment assessment is performed at CGU level and any impairment charge that arises would be allocated to the CGU's goodwill first, followed by other assets (such as property, equipment and vehicles and other intangible assets).

### Impairment of properties in Swiss CGUs

Following the impact of regulatory changes on Hirslanden, the Swiss CGUs were assessed for impairment at 30 September 2018 and 31 March 2019. The recoverable amounts of the CGUs tested for impairment were based on fair value less cost to sell calculations, which is regarded as the more appropriate reflection of the value of the business. In prior years, the recoverable amount was based on value in use calculations. The determination of fair value less cost to sell calculations uses level 3 valuation techniques. In determining the fair value less cost to sell for the CGUs, the cash flows were discounted at rates between 4.9% and 5.1%. Beyond five years a growth rate of 1.6% (2018: 1.6%) was used. The carrying values of five CGUs were determined to be higher than their recoverable amount and as a result an impairment charge of £186m was recognised in the income statement relating to property, equipment and vehicles.

After accounting for impairments in the current year, some CGUs within Hirslanden have limited headroom ranging from £nil to £45m and remain sensitive to reasonably possible changes in key assumptions in the fair value less cost to sell calculations. As a result, any increase in the discount rate or decreases in the short term cash flow projections or long term growth rates could give rise to further material impairment charges in future periods.

Any impairment determined at a CGU level under IAS 36 will include an assessment of the recoverable amount of Hirslanden's owned properties, which are subject to a third party valuation at least annually. This valuation applies a consistent methodology across key assumptions to determine the rental charges based on appropriate and market-related metrics, which is discounted using a market-related discount rate to determine the value of the properties. Therefore, there is a risk that the third party valuation could materially change in future periods.

The level of sensitivity of each individual Swiss CGU to reasonably possible changes in key assumptions in the fair value less cost to sell calculations will vary as the impairment assessment is also dependent on any changes in the third party valuation of Hirslanden's owned property portfolio.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. INTANGIBLE ASSETS

	2019 £'m	2018 £'m
Goodwill	1 451	1 253
Cost	1 759	1 553
Accumulated impairment	(308)	(300)
Trade names	53	83
Cost	425	386
Accumulated amortisation and impairment	(372)	(303)
Computer software	60	48
Cost	119	91
Accumulated amortisation	(59)	(43)
Leases	23	22
Cost	26	24
Accumulated amortisation	(3)	(2)
	<b>1 587</b>	1 406

	Goodwill £'m	Trade names £'m	Computer software £'m	Leases* £'m	Total £'m
<b>Net book value at 1 April 2017</b>	1 715	377	38	26	2 156
Additions	-	-	22	-	22
Amortisation	-	(24)	(11)	(1)	(36)
Business combinations	13	17	-	-	30
Disposal of subsidiaries	(3)	-	-	-	(3)
Impairment	(300)	(260)	-	-	(560)
Exchange differences	(172)	(27)	(1)	(3)	(203)
<b>Net book value at 31 March 2018</b>	1 253	83	48	22	1 406
Additions	-	-	28	-	28
Amortisation	-	(4)	(15)	(1)	(20)
Business combinations	107	25	-	-	132
Impairment	-	(55)	-	-	(55)
Exchange differences	91	4	(1)	2	96
<b>Net book value at 31 March 2019</b>	1 451	53	60	23	1 587

\* Relates to favourable lease contracts on buildings. The leases are characterised by fixed annual rent with no annual rent escalations for majority of the contract.

## 7. INTANGIBLE ASSETS (continued)

### Critical accounting estimates and judgements

The Group tests annually whether goodwill, resulting from acquisitions, has suffered any impairment. The recoverable amounts of CGUs have been determined based on fair value less cost to sell calculations. These calculations require the use of estimates in respect of cash flow projections and long-term growth and discount rates and assume a stable regulatory environment. Regulatory environments are subject to uncertainties that can have an impact on goodwill and the intangible assets' carrying value.

IFRS requires the impairment assessment to be performed at the level at which goodwill and trade names are monitored for impairment by management, provided that this level cannot be bigger than an operating segment. Management assesses goodwill at an operating division level or segmental level except for Grangettes, which was assessed at a CGU level given the significant non-controlling interest and aligned to the location in which synergies are expected to arise. This means that for the Mediclinic Middle East division, recoverability of goodwill is assessed by reference to the aggregated cash flows of the legacy Middle East and Al Noor businesses. The Mediclinic Middle East goodwill originated mainly from the Al Noor business combination with a portion originating from other UAE business combinations. The initial commercial rationale for the acquisition of Al Noor included expected synergies from integrating the legacy Al Noor business with the legacy MCME business that would be realised across the combined Middle East division. In accordance with IFRS, goodwill shall be allocated to all CGUs, or groups of CGUs, that are expected to benefit from the expected synergies.

The Hirslanden trade name could not be allocated on a reasonable and consistent basis to the CGUs that consists of individual hospitals (refer to note 6). As a result, it was viewed as a corporate asset and the carrying amount of the net assets of the group of CGUs (including the allocation of trade name) was tested for impairment at a Swiss operating division level in prior years and at 30 September 2018. The Hirslanden brand was fully impaired after the impairment test was performed at 30 September 2018.

### Impairment testing of significant goodwill balances

The Group tests goodwill for impairment on an annual basis or more frequently if there are indications that these assets may be impaired. The annual impairment assessment is performed at year end when the annual financial planning process is finalised. The Group's impairment assessment compares the carrying value of the group of CGUs with its recoverable amount. The group of CGUs for goodwill impairment assessment purposes are identified on a segmental or operating division level in terms of IFRS 8 except for goodwill arising from the current year acquisition of Les Grangettes which was assessed at a CGU level given the significant non-controlling interest and aligned to the location in which synergies are expected to arise.

The recoverable amount of a group of CGUs is determined by its fair value less cost to sell, regarded as the more appropriate reflection of the value of the business, which is derived from discounted cash flow calculations. The key inputs to its calculations are described below.

#### Forecasts

As part of the annual financial planning process, the Group's operating divisions are required to submit budgets for the next financial year and forecasts for the following four years (except for Mediclinic Middle East which prepared a seven year forecast), which are approved by the Board. Future earnings in the fair value less cost to sell calculation are based on these budgets and forecasts that are calculated on a per hospital basis and considers both internal and external market information. These budgets and forecasts represent management's best view of future revenues and cash flows.

#### Growth rates

Growth rates are determined from budgeted and forecasted revenue. Terminal growth rates are country specific and determined based on the forecast market growth rates and considers long term inflation. The regulatory environment and impact on tariffs are considered. Growth rates have been benchmarked against external data for the relevant markets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. INTANGIBLE ASSETS (continued)

### Impairment testing of significant goodwill balances (continued)

#### Discount rates

The weighted average cost of capital ("WACC") was determined by considering the respective debt and equity costs and ratios. The discount rate is based on the risk-free rate for government bonds adjusted for a risk premium to reflect the increased risk of investing in equities. Discount rates are lower for the operating divisions which operate in more mature markets with low inflation and higher for those operating in markets with a higher inflation. Discount rates reflect the time value and the risks associated with the segment or operating division cash flows. The assumptions used in the calculation of the discount rate are benchmarked to externally available data.

### Impairment testing of Hirslanden goodwill and trade names

Following the impact of regulatory changes on Hirslanden, the recoverable amount of certain Swiss CGUs and the Hirslanden trade name were tested for impairment during the year. The recoverable amounts have been determined based on fair value less costs to sell discounted cash flow calculations.

*Discount rates* - The discount rate applied to cash flow projections is 5.0% (2018: 5.0%).

*Growth rates* - The terminal growth rate beyond five years is 1.6% (2018: 1.6%).

*Forecasts* - As a result of the continued impact of changes in the regulatory and market environment (including TARMED tariffs and regulations that require enhanced outmigration of medical treatments) and to reflect actions taken by management to adapt to the new operating environment, the forecasted cash flows have been adjusted.

The carrying amount of the Hirslanden trade name and Linde trade name were fully impaired during the year. The impairment charge recognised in the income statement consisted of £39m for the impairment of the Hirslanden trade name and £16m for the Linde trade name (2018: £300m for the impairment of goodwill and £260m for the impairment of the Hirslanden trade name). The only remaining goodwill and trade names relate to the current year acquisition of Les Grangettes. A decline in terminal growth rate to 0.3% or an increase in the discount rate to 5.3% would reduce the headroom to nil in the CGU to which Grangettes has been allocated.

### Impairment testing of Mediclinic Middle East goodwill

The Mediclinic Middle East goodwill with a carrying amount of £1 340m (2018: £1 245m) originated mainly from the Al Noor Hospital Group plc (Al Noor) business combination, with a portion originating from other UAE business combinations. Key assumptions used for the fair value less cost to sell calculations for the annual impairment testing were as follows:

*Discount rates* - The discount rate applied to cash flow projections is 9.0% (2018: 8.7%).

*Growth rates* - The terminal growth rate beyond seven years is 3.0% (2018: 3.0%).

*Forecasts* - As a result of the changes in the market environment, mainly due to outlook of tariffs, the forecasted cash flows have been adjusted. The discrete period used for the fair value less cost to sell calculation is 7 years given the expansion and growth anticipated in the medium term from existing expansion projects.

*Sensitivity analysis* - Any increase in the discount rate or decreases in the short-term cash flow projections or long-term growth rate could give rise to material impairment charges in future periods due to the reduced headroom to the current carrying value.

## 8. EQUITY ACCOUNTED INVESTMENTS

	2019 £'m	2018 £'m
Investment in associates	189	352
Investment in joint venture	4	5
	<b>193</b>	357
<b>8.1 Investment in associates</b>		
Listed investment	180	348
Unlisted investments	9	4
	<b>189</b>	352
<b>Reconciliation of carrying value at the beginning and end of the period</b>		
Opening balance	352	461
IFRS 9 transition adjustment	(2)	-
Additional investment in unlisted associate	4	2
Share of net profit of associated companies	3	3
Impairment of listed associate	(164)	(109)
Dividends received from associated companies	(4)	(5)
	<b>189</b>	352

Set out below are details of the associate which is material to the Group:

	Country of incorporation and place of business	% ownership
Spire Healthcare Group plc (Spire)	United Kingdom	29.9%

Spire is listed on the London Stock Exchange. It does not issue publicly available quarterly financial information at a detailed level and has a December year-end. The investment in associate was equity accounted for the 12 months to 31 December 2018 (2018: 31 December 2017). No significant events occurred since 1 January 2019 to the reporting date.

Non-contractual relationships with consultants ("NCRC") were identified as part of the notional purchase price allocation as the only significant intangible asset. The fair value of the total NCRC asset was determined as £225m and the remaining useful life was assessed as 22 years. The Group's 29.9% portion of the asset amounted to £68m at the acquisition date.

During the year, an impairment loss was recognised on the Spire investment. The impairment charge decreased the notional NCRC recognised to £nil (2018: £28m). The amortisation charge for the current period is £1m (2018: £2m).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 8. EQUITY ACCOUNTED INVESTMENTS (continued)

### 8.1 Investment in associates (continued)

Summarised financial information in respect of the Group's material associate is set out below:

	<b>As at 31 Dec 2018 £'m</b>	As at 31 Dec 2017 £'m
<b>Summarised statement of financial position</b>		
Non-current assets	<b>1 537</b>	1 555
Current assets	<b>175</b>	179
Total assets	<b>1 712</b>	1 734
Non-current liabilities	<b>(563)</b>	(571)
Current liabilities	<b>(122)</b>	(125)
<b>Net assets</b>	<b>1 027</b>	1 038
Mediclinic's effective interest	<b>29.9%</b>	29.9%
Mediclinic's effective interest in net assets after impairments	<b>180</b>	310
Transaction costs capitalised	<b>-</b>	10
NCRC	<b>-</b>	28
<b>Total carrying value of equity investment</b>	<b>180</b>	348
Market value of listed investment at 31 March	<b>155</b>	251
<b>Summarised statement of comprehensive income</b>		
Revenue	<b>931</b>	932
Profit from continuing operations	<b>11</b>	17
Other comprehensive income	<b>-</b>	-
<b>Total comprehensive income</b>	<b>11</b>	17

Refer to the Annexure on page 278 for further details of investments in associates.

#### **Critical accounting estimates and judgements**

The Group tests whether equity accounted investments have suffered any impairment when indicators of impairment are identified, in this case the significant and prolonged decline in the market value of the investment below its carrying value. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates in respect of growth and discount rates and it assumes a stable regulatory environment.

At 30 September 2018, the market value of the investment in Spire was £169m, which was below the carrying value. An impairment test was performed by updating the key assumptions applied in the value in use calculation performed at 31 March 2018. The impairment test was prepared based on the Group's updated expectations of Spire's future trading performance and considered external sources of information, including investor analyst valuations and target prices published. Key assumptions related to cash flow growth rates in the short- and medium-term were adjusted in the value in use calculation. As a result, an impairment loss of £164m was recorded against the carrying value.

At year end, another impairment test, updated for latest guidance announced by Spire in March 2019, was performed and indicated no further impairment losses. The following key assumptions were used in the calculation:

*Discount rates* – discount rates ranging between 5.3% and 6.8% was applied to the discrete period cash flow projections for the five years and a discount rate of 7.2% was applied to the terminal year.

*Growth rates* – a terminal growth rate of 2.0% was applied in the calculation.

*Forecasts* – The five year forecast reflects the Group's best view of future earnings.

*Sensitivity analysis* – any increase in the discount rate or decreases in the short-term cash flow projections or long-term growth rate could give rise to further material impairment charges in future periods as there is little headroom to the current carrying value. At 31 March 2019, the market price was £155m.

## 8. EQUITY ACCOUNTED INVESTMENTS (continued)

### 8.2 Investment in joint venture

	2019 £'m	2018 £'m
Reconciliation of carrying value at the beginning and end of the period		
Opening balance	5	4
Exchange differences	(1)	1
	<b>4</b>	<b>5</b>

The Group has a 49.9% interest in Wits University Donald Gordon Medical Centre (Pty) Ltd. The unlisted joint venture is accounted for by using its financial information for the 12 months ended 31 December 2018 (2018: 31 December 2017) since it has a different year-end.

Details of the joint venture appear in the Annexure on page 278.

## 9. OTHER INVESTMENTS AND LOANS

	2019 £'m	2018 £'m
<b>IFRS 9 financial instruments</b>		
Debt instruments at amortised cost	8	-
Equity instruments as FVPL (unlisted shares)	3	-
<b>IAS 39 financial instruments</b>		
Loans and receivables	-	7
Available-for-sale: Unlisted shares	-	1
	<b>11</b>	<b>8</b>
Non-current	10	7
Current	1	1
<b>Total other investments and loans</b>	<b>11</b>	<b>8</b>
<b>Other investments and loans are held in the following currencies:</b>		
Swiss franc	3	1
South African rand	6	7
UAE dirham	2	-
	<b>11</b>	<b>8</b>

Refer to note 33 for explanations regarding the changes in accounting policies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10. DEFERRED TAX

The movement on the deferred tax account is as follows:

	2019 £'m	2018 £'m
Opening balance	445	506
Income statement credit for the year	(60)	(59)
Exchange differences	17	(38)
Business combinations	6	20
(Credited)/charged to other comprehensive income	(8)	16
<b>Balance at the end of the year</b>	<b>400</b>	<b>445</b>
Deferred income tax assets	(23)	(22)
Deferred income tax liabilities	423	467
	<b>400</b>	<b>445</b>

The deferred tax relating to current assets and current liabilities contains temporary differences that are likely to realise in the next 12 months. The deferred tax balance comprises temporary differences arising in separate legal entities. Offsetting has been applied on a legal entity basis. The table below shows the deferred tax balances and movements in the various categories before offsetting was applied:

	Tangible assets £'m	Intangible assets £'m	Current assets £'m	Provisions and others £'m	Total £'m
<b>Deferred tax liabilities</b>					
<b>At 1 April 2017</b>	455	80	7	16	558
Credited to the income statement	(10)	(55)	-	(1)	(66)
Business combinations	17	5	-	-	22
Exchange differences	(30)	(7)	-	(1)	(38)
<b>At 31 March 2018</b>	432	23	7	14	476
Set-off of deferred tax liabilities pursuant to set-off provisions					(9)
<b>Net deferred tax liabilities at the end of the year</b>					<b>467</b>
<b>At 1 April 2018</b>	432	23	7	14	476
(Credited)/charged to the income statement	(47)	(12)	(2)	5	(56)
Business combinations	2	6	-	1	9
Exchange differences	10	-	-	1	11
<b>At 31 March 2019</b>	<b>397</b>	<b>17</b>	<b>5</b>	<b>21</b>	<b>440</b>
Set-off of deferred tax liabilities pursuant to set-off provisions					(17)
<b>Net deferred tax liabilities at the end of the year</b>					<b>423</b>

**10. DEFERRED TAX (continued)**

The impairment of the trade names (£55m) and the impairment of the properties (£186m) led to the release of deferred tax liabilities in the “Intangible assets” and “Tangible assets” categories of £12m and £35m respectively. Refer to notes 6 and 7 regarding the impairment charge recognised. A prior year adjustment relating to a change in the basis of estimating deferred tax on the Swiss properties led to the recognition of a tax credit of £17m.

	Current liabilities £'m	Provisions and others £'m	Long term liabilities £'m	Derivatives £'m	Tax losses carried forward £'m	Total £'m
<b>Deferred tax assets</b>						
<b>At 1 April 2017</b>	(2)	(7)	(25)	(2)	(16)	(52)
(Credited)/charged to the income statement	-	(2)	-	1	8	7
Charged to other comprehensive income	-	-	15	1	-	16
Business combinations	-	-	(2)	-	-	(2)
<b>At 31 March 2018</b>	(2)	(9)	(12)	-	(8)	(31)
Set-off of deferred tax assets pursuant to set-off provisions						9
<b>Net deferred tax assets at the end of the year</b>						(22)
<b>At 1 April 2018</b>	(2)	(9)	(12)	-	(8)	(31)
Charged/(credited) to the income statement	-	1	(2)	(1)	(2)	(4)
Credited to other comprehensive income	-	-	(8)	-	-	(8)
Business combinations	-	-	(3)	-	-	(3)
Exchange differences	-	1	3	1	1	6
<b>At 31 March 2019</b>	(2)	(7)	(22)	-	(9)	(40)
Set-off of deferred tax assets pursuant to set-off provisions						17
<b>Net deferred tax assets at the end of the year</b>						(23)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10. DEFERRED TAX (continued)

At 31 March 2019, the Group had unutilised tax losses of approximately £113m (2018: £96m) potentially available for offset against future profits. A deferred tax asset of £9m (2018: £8m) has been recognised in respect of losses based on profitability from approved budgets and business plans. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability and availability of future profit streams in the relevant jurisdictions. The majority of the unrecognised losses relate to the Mediclinic International plc in the United Kingdom, which have no expiry, and the remainder relate to Switzerland, which expire after seven years. Their utilisation is dependent on the profitability of the related entities. The financial projections used in assessing the future profitability are consistent with those used in assessing the carrying value of goodwill as set out in note 7. The rate of utilisation of these losses will depend on the incidence and timing of profits within each entity which consequently impacts their recognition as deferred tax assets.

Unused tax losses for the Group are as follows:

	2019 £'m	2018 £'m
<b>Unused tax losses not recognised as deferred tax assets</b>		
Expiry in 1 year	19	-
Expiry in 2 years	1	18
Expiry in 3 to 7 years	9	5
No expiry	47	40
	<b>76</b>	<b>63</b>

### Deferred tax on unremitted earnings

The Group recognised a deferred tax liability of £1m (2018: £1m) in respect of temporary differences relating to unremitted earnings. This liability relates to non-resident shareholder tax of the Group's Namibian subsidiaries and the amount is included in the "provisions and other" category of deferred tax liabilities above. No deferred tax liability has been recognised for the other foreign subsidiaries and equity accounted investments of the Group where the Group is able to control the timing of any distributions and it is not probable that any distributions will be made in the foreseeable future. Similarly, tax is not provided where it is expected at the reporting date that such distributions will not give rise to a tax liability. The gross timing difference in this regard amounts to £1 270m (2018: £1 616m). There are no significant expected income tax consequences of earnings being distributed from Switzerland and the UAE, as there is no dividend withholding tax applicable to earnings being distributed from these operations neither should there be any tax liability on the receipt of these dividends. Although South African distributions to the UK are typically subject to dividend withholding taxes, distributions from South Africa are not expected to have income tax consequences in the foreseeable future as the operations in South Africa have a significant contributed tax capital balance from which may be paid dividends free from withholding tax. In line with the South African Reserve Bank requirement, it is intended that dividends to the South African resident shareholders on the South African share register will be paid from the dividend access scheme. Refer to note 13 for details on the dividend access scheme.

## 11. INVENTORIES

	2019 £'m	2018 £'m
<b>Inventories consist of:</b>		
Pharmaceutical products	78	80
Consumables	10	10
	<b>88</b>	90

The cost of inventories recognised as an expense and included in cost of sales amounted to £656m (2018: £671m).

## 12. TRADE AND OTHER RECEIVABLES

The accounting policies were changed to comply with IFRS 9 which replaces the provisions of IAS 39. The 2019 figures are presented on an IFRS 9 basis and the 2018 figures are presented on an IAS 39 basis.

	2019 £'m	2018 £'m
Trade receivables	534	485
Loss allowance (2018: IAS 39 provision for impairment)	(18)	(45)
	516	440
Other receivables*	216	167
	<b>732</b>	607

\* Included in other receivables are Swiss unbilled services of £119m (2018: £79m). More than 92% will be recovered from Swiss insurance companies and federal authorities (cantons). Swiss insurance companies are subject to regular creditworthiness checks (e.g. minimum reserve levels).

Trade and other receivables are categorised as debt instruments at amortised cost (2018: loans and receivables under IAS 39). The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2019 £'m	2018 £'m
Swiss franc	458	380
South African rand	87	90
UAE dirham	187	137
	<b>732</b>	607

Trade receivables to the value of £59m (2018: £61m) have been ceded as security for banking facilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 12. TRADE AND OTHER RECEIVABLES (continued)

The Group applies the simplified approach for providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance as at March 2019 is determined as follows:

	Current £'m	1 – 30 days past due*	31 – 60 days past due*	61 – 90 days past due £'m	More than 90 days past due £'m	Total £'m
<b>2019</b>						
Gross carrying amount	280	74	45	33	102	534
Loss allowance	(2)	-	-	(1)	(15)	(18)
Net carrying amount	278	74	45	32	87	516
Expected loss rate	0.45%	0.65%	0.93%	2.93%	14.17%	

\* Impact is less than £0.5m.

The loss allowance for credit-impaired trade receivables as at 31 March 2019 reconciles to the opening balance for provision for impairment of receivables calculated in terms of IAS 39 as follows:

	2019 £'m	2018 £'m
<b>Movement in the loss allowance (2018: IAS 39 provision for impairment)</b>		
Opening balance (calculated under IAS 39)	45	41
Restatement on adoption of IFRS 9*	-	-
Loss allowance (2018: IAS 39 provision for impairment)	11	23
Disallowances recognised as bad debt reclassified to gross debtors (IFRS 15 adjustment)	(32)	-
Exchange differences	1	(10)
Amounts written off as uncollectable	(7)	(9)
<b>Balance at the end of the year calculated under IFRS 9 (2018: IAS 39)</b>	<b>18</b>	45

\* Impact is less than £0.5m.

A loss allowance is recognised for all receivables, in accordance with IFRS 9 *Financial Instruments*, and is monitored at the end of each reporting period. In addition to the loss allowance, receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Receivables which have been written off are not subject to enforcement activities.

The other receivables which include the Swiss unbilled services have been assessed for impairment and no impairment has been identified.

The expected credit losses for non credit-impaired receivables is not material.

Refer to note 33 for and explanation on the impact of the implementation of the new accounting policies.

## 12. TRADE AND OTHER RECEIVABLES (continued)

Management considers the credit quality of the trade receivables, that have not been credit impaired, to be high in light of the nature of these trade receivables as described in note 3.1(b).

### Disclosures for comparatives under IAS 39:

Included in the Group's trade receivables balance for 2018 are trade receivables with a carrying value of £167m that were past due at 31 March 2018, but which the Group had not impaired as there was not a significant change in credit quality and the amounts were still considered to be recoverable. The ageing of these receivables was as follows:

	2018 £'m
Up to 3 months	90
Between 3 and 6 months	41
Over 6 months	36
	<b>167</b>

## 13. SHARE CAPITAL

	2019 £'m	2018 £'m
<b>Issued share capital</b>		
Share capital	74	74
Share premium	690	690
Treasury shares	-	(1)
	<b>764</b>	763

<b>Ordinary Shares</b>	2019	2018
Number of shares in issue	<b>737 243 810</b>	737 243 810
Nominal value	<b>10p</b>	10p

Value: indicating nominal and share premium amount

Rights of the Ordinary Shares (the "Ordinary Shares") to profits: All dividends shall be declared and paid according to the amounts paid up on the Ordinary Shares.

Rights of the Ordinary Shares to capital: If there is a return of capital on winding-up or otherwise, the Ordinary Shares shall confer full rights but they do not confer any rights of redemption.

Voting rights of the Ordinary Shares: The Ordinary Shares shall confer, on each holder of the Ordinary Shares, the right to receive notice of and to attend, speak and vote at all general meetings of the Company. Each Ordinary Share carries the right to one vote on a poll.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 13. SHARE CAPITAL (continued)

Treasury Shares	Number of shares	Total £'m
<b>At 1 April 2017</b>	271 620	(2)
Vesting of Forfeitable Share Plan	(137 948)	1
<b>At 31 March 2018</b>	<b>133 672</b>	<b>(1)</b>
Vesting of Forfeitable Share Plan	<b>(101 342)</b>	<b>1</b>
<b>At 31 March 2019</b>	<b>32 330</b>	<b>-</b>
<b>The balance of the treasury shares comprise:</b>		
Forfeitable Share Plan	-	
Mpilo Trusts	<b>32 330</b>	
	<b>32 330</b>	

### Dividend Access Scheme (“DAS”)

A wholly-owned subsidiary of the Company, Mediclinic International (RF) (Pty) Ltd, formed a Dividend Access Trust to comply with a South African Reserve Bank requirement that dividends from a South African source due to South African shareholders on the South African share register must be paid locally to avoid an outflow of funds from South Africa.

The beneficiaries of the trust are the South African shareholders of the Company who hold their shares via the South African share register on the relevant record date in respect of each distribution paid through the DAS. The Dividend Access Trust does not participate in any profits.

When a dividend is declared by the Company, the Dividend Access Trust would receive a dividend from Mediclinic International (RF) (Pty) Ltd, which in turn is paid over to the Company’s transfer secretaries in South Africa, who arrange for the payment of the relevant amount to the South African shareholders (the beneficiaries of the trust) through the usual dividend payment procedures, as if they were dividends received from Mediclinic International plc. To the extent that the dividends due to South African shareholders are not ultimately funded from Mediclinic International (RF) (Pty) Ltd, they receive those dividends as normal dividends from Mediclinic International plc. The South African shareholders’ entitlement to receive dividends declared by Mediclinic International plc is reduced by any amounts they receive via the trust.

## 14. OTHER RESERVES

	2019 £'m	2018 £'m
<b>Other reserves comprise of:</b>		
Equity-settled share-based payment reserves (refer to note 15)	-	1
Foreign currency translation reserve	628	468
Hedging reserve	(2)	5
Reverse acquisition reserve*	(3 014)	(3 014)
Capital redemption reserve**	6	6
	<b>(2 382)</b>	<b>(2 534)</b>
<b>Movements in other reserves</b>		
<b>Equity-settled share-based payment reserves (refer to note 15)</b>	-	1
Opening balance	1	24
Share-based payment expense	-	1
Settlement of Forfeitable Share Plan	(1)	(1)
Transfer to retained earnings	-	(23)
<b>Foreign currency translation reserve</b>	628	468
Opening balance	468	779
Currency translation differences	153	(311)
Transfer from other reserves	7	-
<b>Hedging reserve</b>	(2)	5
Opening balance	5	4
Fair value adjustments of cash flow hedges, net of tax	-	1
Transfer to other reserves	(7)	-

### Reverse acquisition

During February 2016, Mediclinic completed the combination between Al Noor Hospitals Group plc (Al Noor) and Mediclinic International Limited. The combination was classified as a reverse acquisition.

\* The reverse acquisition reserve represents the net of the following adjustments resulting from the Al Noor reverse acquisition:

- adjustment of the capital structure (share capital and share premium) of the Group to that of the legal parent;
- adjustment to account for the premium on shares issued to the Mediclinic International Limited shareholders; and
- the share value component of the total consideration.

\*\* The UK Companies Act provides that where shares of a company are repurchased and funded by a new issue of shares, the amount by which the Company's issued share capital is diminished on cancellation of the shares are transferred to a capital redemption reserve to maintain capital. The reduction of the Company's share capital shall be treated as if the capital redemption reserve was paid up capital of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 15. SHARE-BASED PAYMENTS

	2019 £'m	2018 £'m
Equity-settled share-based payment reserve (refer to note 14 and 15.1)	-	1
Cash-settled share-based payment liability (refer to note 15.2)	-	1
<b>Total share-based payment reserves and liabilities</b>	<b>-</b>	<b>2</b>
<b>15.1 Equity settled share-based payment arrangements</b>		
<b>The balance of the equity-settled share-based payment reserve comprise:</b>		
Forfeitable Share Plan	-	1
	-	1
<b>Expenses arising from equity-settled share-based payment transactions</b>		
Forfeitable Share Plan	-	1
	-	1

### Forfeitable Share Plan

The Mediclinic International Limited Forfeitable Share Plan ("FSP") was approved by the Company's shareholders in July 2014 as a long-term incentive scheme for selected senior management (executive directors and prescribed officers). This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction. With the change in control and the acquisition of Al Noor, the performance conditions of FSP have been finalised to the extent that the performance conditions were met as at 30 September 2015. The performance conditions constitute a combination of: absolute total shareholder return ("TSR") (40% weighting) and adjusted diluted headline earnings per share (60% weighting). The vesting of the shares granted in 2015 are subject to continued employment. The remaining shares vested in June 2018.

	Weighted average fair value at grant date offer price	2019 Number of shares	2018 Number of shares
Opening balance	R87.41	101 342	239 290
Vested		(101 342)	(137 948)
Closing balance		-	101 342

A valuation has been determined and an expense recognised over a three-year period. The fair value of the TSR performance condition was determined by using the Monte Carlo simulation model and for the headline earnings per share performance condition, consensus forecasts were used. The following assumptions were used with the valuation of the scheme: risk-free rate of 7.49%, dividend yield of 1.0% and volatility of 20%.

Apart from the FSP, there are no other share option schemes in place. Therefore, no director exercised any rights in relation to share option schemes during the reporting period.



## 15. SHARE-BASED PAYMENTS (continued)

### 15.2 Cash-settled share-based payment arrangements

#### Long-term incentive plan ("LTIP") awards

The LTIP awards are phantom shares awarded to selected senior management. This share-based payment arrangement is accounted for as a cash-settled share-based payment transaction.

Under the LTIP, conditional phantom shares are granted to selected employees of the Group. The vesting of these shares are subject to continued employment and is conditional upon achievement of performance targets, measured over a three-year period. The performance conditions for the year under review constitute a combination of: absolute total shareholder return ("TSR") (40% weighting) and adjusted earnings per share (60% weighting).

	2019 £'m	2018 £'m
Opening balance	1	1
Share-based payment expense	(1)	-
Benefits paid	-	-
<b>Closing balance</b>	<b>-</b>	<b>1</b>

A reconciliation of the movement in the LTIP award units is detailed below:

	Average price (pence)	2019 Number of units	2018 Number of units
Opening balance		875 846	284 011
Granted	547	1 216 177	593 492
Vested	564	(2 516)	(1 657)
Lapsed		(41 774)	-
<b>Closing balance</b>		<b>2 047 733</b>	<b>875 846</b>

Valuation assumptions relating to the outstanding units:

	2018 LTIP allocation	2017 LTIP allocation	2016 LTIP allocation
Grant date	15 June 2018	1 June 2017	14 June 2016
Vesting date	15 June 2021/2023	1 June 2020/2022	14 June 2019/2021
Outstanding units	1 183 768	584 127	271 579
Closing share price	305	305	305
Risk-free interest rate	0.68%	0.67%	0.67%
Expected dividend yield	0.0%	0.0%	0.0%
Volatility	38.2%	41.3%	41.3%

Certain awards were also granted to management that were subject only to service conditions. These awards were granted on 1 September 2016 and vest on different dates between 1 September 2016 and 14 June 2019. The total number of these awards granted was 16 115. Of these awards, 2 516 vested in 2019 and 5 340 units of these awards vested in 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 16. NON-CONTROLLING INTEREST

	2019 £'m	2018 £'m
Opening balance	87	78
Transactions with non-controlling shareholders	17	1
Dividends to non-controlling shareholders	(8)	(10)
Business combinations	12	-
Non-controlling shareholders derecognised on disposal of subsidiaries	-	(1)
Share of total comprehensive income	7	19
Share of profit	21	18
Currency translation differences	(14)	1
<b>Non-controlling interest</b>	<b>115</b>	<b>87</b>
Details of non-wholly-owned subsidiaries that have material non-controlling interests ("NCI"):		
<b>Mediclinic (Pty) Ltd*</b>		
Ownership interest held by NCI	3.3%	3.6%
Accumulated non-controlling interests in statement of financial position	7	7
Profit allocated to non-controlling interests	2	2
<b>Curamed Holdings (Pty) Ltd (group)*</b>		
Ownership interest held by NCI	30.4%	30.4%
Accumulated non-controlling interests in statement of financial position	21	22
Profit allocated to non-controlling interests	4	4
<b>Grangettes Group**</b>		
Ownership interest held by NCI	40.0%	0%
Accumulated non-controlling interests in statement of financial position	29	-
Profit allocated to non-controlling interests	3	-

\* Place of business: South Africa

\*\* Place of business: Switzerland

**16. NON-CONTROLLING INTEREST (continued)**

Summarised financial information in respect of the Group's subsidiaries that have material NCIs is set out below. The summarised financial information below represents amounts before inter-group eliminations.

	2019 £'m	2018 £'m
<b>Mediclinic (Pty) Ltd</b>		
Non-current assets	137	168
Current assets	148	158
Non-current liabilities	(33)	(36)
Current liabilities	(133)	(161)
Revenue	384	391
Profit for the year	38	39
Other comprehensive income	2	-
Total comprehensive income	40	39
Net cash inflow from operating activities	44	62
Net cash outflow from investing activities	(10)	(15)
Net cash outflow from financing activities	(34)	(45)
Net cash inflow	-	1
<b>Curamed Holdings (Pty) Ltd (group)</b>		
Non-current assets	48	50
Current assets	36	38
Non-current liabilities	(3)	(3)
Current liabilities	(13)	(12)
Revenue	68	66
Profit for the year	13	13
Other comprehensive income	-	-
Total comprehensive income	13	13
Net cash inflow from operating activities	15	15
Net cash outflow from investing activities	(7)	(14)
Net cash outflow from financing activities	(8)	(8)
Net cash outflow	-	(7)
<b>Grangettes Group</b>		
Non-current assets	163	-
Current assets	73	-
Non-current liabilities	33	-
Current liabilities	31	-
Revenue	74	-
Profit for the year	8	-
Other comprehensive income	(7)	-
Total comprehensive income	1	-
Net cash inflow from operating activities	23	-
Net cash inflow from investing activities	4	-
Net cash outflow from financing activities	(9)	-
Net cash inflow	18	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 17. BORROWINGS

	2019 £'m	2018 £'m
Bank loans	1 703	1 559
Preference shares	96	200
Listed bonds	181	176
Other liabilities	2	2
	<b>1 982</b>	1 937
Non-current borrowings	<b>1 895</b>	1 866
Current borrowings	<b>87</b>	71
<b>Total borrowings</b>	<b>1 982</b>	1 937

	2019 £'m Non- current	2019 £'m Current	2018 £'m Non- current	2018 £'m Current
<b>Swiss operations (denominated in Swiss franc)</b>				
Secured bank loan one <sup>1</sup>	1 066	77	1 085	26
Secured bank loan two <sup>1</sup>	14	1	13	-
Secured bank loan three <sup>2</sup>	8	-	7	-
Secured bank loan four <sup>2</sup>	12	-	-	-
Listed bonds	181	-	176	-
Secured long term finance <sup>3</sup>	1	1	1	1
<b>Balance carried forward</b>	<b>1 282</b>	<b>79</b>	1 282	27

## 17. BORROWINGS (continued)

	2019 £'m Non- current	2019 £'m Current	2018 £'m Non- current	2018 £'m Current
Balance carried forward	1 282	79	1 282	27
<b>Southern African operations (denominated in South African rand)</b>				
Secured bank loan one <sup>4</sup> The loan bears interest at the 3M JIBAR variable rate plus a margin of 1.49% compounded quarterly and is repayable on 26 September 2022.	136	1	-	-
Secured bank loan two <sup>4</sup> The loan bears interest at the 3M JIBAR variable rate plus a margin of 1.59% compounded quarterly and is repayable on 26 September 2023.	189	1	-	-
Secured bank loan three <sup>4</sup> The loan bears interest at the 3M JIBAR variable rate plus a margin of 1.51% compounded quarterly. This liability was extinguished during September 2018 as part of the refinancing.	-	-	208	2
Secured bank loan four <sup>4</sup> The loan bears interest at the 3M JIBAR variable rate plus a margin of 1.69% compounded quarterly. This liability was extinguished during September 2018 as part of the refinancing.	-	-	73	-
Secured bank loan five <sup>5</sup> These loans bear interest at variable rates linked to the prime overdraft rate and are repayable in periods ranging between one and twelve years.	6	1	6	2
Preference shares <sup>4</sup> Dividends are payable monthly at a rate of 72% of 3M JIBAR plus a margin of 1.65%. The outstanding balance will be redeemed on 26 September 2022.	95	1	108	1
Preference shares Dividends are payable semi-annually at a rate of 73% of the prime interest rate (10.25%). The amount was repaid on 26 September 2018 as part of the refinancing.	-	-	91	-
<b>Middle East operations (denominated in UAE dirham)</b>				
Secured bank loan one <sup>6</sup> The loan bears interest at variable rates linked to the 3M LIBOR and a margin of 1.85% with 5-year amortising terms, expiring in August 2023.	187	4	-	-
Secured bank loan two <sup>6</sup> The loan bears interest at variable rates linked to the 3M LIBOR and a margin of 2.50%. The liability was extinguished during August 2018 as part of the refinancing.	-	-	98	39
	<b>1 895</b>	<b>87</b>	<b>1 866</b>	<b>71</b>

<sup>1</sup> The loan is secured by mortgage notes on Swiss properties and buildings to the value of £2 395m (2018: £2 326m) and Swiss bank accounts with a book value of £112m (2018: £64m).

<sup>2</sup> These loans are secured by mortgage notes on the properties and buildings of the Linde Group.

<sup>3</sup> Equipment with a book value of £1m (2018: £2m) is encumbered as security for these loans.

<sup>4</sup> Property and equipment with a book value of £262m (2018: £251m) are encumbered as security for these loans. Cash and cash equivalents of £12m (2018: £34m) and trade receivables of £58m (2018: £60m) have also been ceded as security for these borrowings.

<sup>5</sup> Property, equipment and vehicles with a book value of £20m (2018: £15m) are encumbered as security for these loans. Net trade receivables of £1m (2018: £1m) have also been ceded as security for these loans.

<sup>6</sup> Shares of investments in Emirates Healthcare Holdings Limited and Emirates Healthcare Limited are encumbered as security for these loans as well as an account pledge on receivable collection accounts.

The borrowing facilities in Mediclinic Southern Africa and Mediclinic Middle East were refinanced during the year. In both instances, the terms of the loans were extended with favourable pricing. The effective date for the funding and the closing was 26 September 2018 and 29 August 2018 respectively.

The refinancing agreements in both Mediclinic Southern Africa and Mediclinic Middle East have been treated as extinguishments of the original financial liabilities due to the substantial modifications of the terms (including the terms of the financing and the margins). As a result, the original liabilities were derecognised and new financial liabilities were recognised. The unamortised portion of the capitalised finance cost of the original agreements of £2m in Mediclinic Middle East was derecognised as a result of the extinguishment of the liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS

	2019 £'m	2018 £'m
<b>Statement of financial position obligations for:</b>		
Swiss pension benefit obligation	52	4
South African post-retirement medical benefit obligation	37	40
UAE end-of-service benefit obligation	60	52
	<b>149</b>	96
Total retirement benefit obligations	<b>149</b>	96
Short-term portion of retirement benefit obligations	<b>(11)</b>	(10)
<b>Non-current retirement benefit obligations</b>	<b>138</b>	86
<b>Total amount charged to the income statement:</b>		
Swiss pension benefit obligation	36	34
South African post-retirement medical benefit obligation	6	6
UAE end-of-service benefit obligation	9	9
	<b>51</b>	49
<b>Total amount charged/(credited) to the other comprehensive income:</b>		
Swiss pension benefit obligation	44	(74)
South African post-retirement medical benefit obligation	(3)	-
UAE end of service benefit obligation	1	(2)
	<b>42</b>	(76)

### Critical accounting estimates and judgements

The cost of defined benefit pension plans, post-retirement medical benefit liability obligations and the UAE end-of-service obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and can have a material impact on the valuations. Details of the key assumptions for each relevant obligation, together with the sensitivities of the carrying value of the obligations, are disclosed below.

**18. RETIREMENT BENEFIT OBLIGATIONS (continued)****(a) Swiss pension benefit obligation**

The Group's Swiss operations has six defined benefit pension plans, namely:

- Pensionskasse Hirslanden (cash balance plan)
- Vorsorgestiftung VSAO (cash balance plan) (Association for Swiss Assistant and Senior Doctors)
- Radiotherapie Hirslanden AG (cash balance plan)
- Hirslanden Clinique La Colline SA (cash balance plan)
- Privatklinik Linde AG (cash balance plan)
- Clinique des Grangettes SA (cash balance plan)

<b>Swiss pension benefit obligation</b>	<b>2019</b>	2018
	<b>£'m</b>	£'m
<b>Statement of financial position</b>		
<b>Amounts recognised in the statement of financial position are as follows:</b>		
Present value of funded obligations	<b>1 216</b>	1 045
Fair value of plan assets	<b>(1 164)</b>	(1 041)
<b>Net pension liability</b>	<b>52</b>	4
<b>The movement in the defined benefit obligation over the period is as follows:</b>		
Opening balance	<b>1 045</b>	1 086
Current service cost	<b>35</b>	37
Interest cost	<b>8</b>	6
Past service cost	<b>-</b>	(4)
Employee contributions	<b>35</b>	34
Benefits paid	<b>(32)</b>	(35)
Business combinations	<b>49</b>	39
Actuarial loss/(gain)	<b>45</b>	(45)
Exchange differences	<b>31</b>	(73)
<b>Balance at the end of the year</b>	<b>1 216</b>	1 045
<b>The movement of the fair value of plan assets over the period is as follows:</b>		
Opening balance	<b>1 041</b>	1 013
Employer contributions	<b>38</b>	38
Plan participants contributions	<b>35</b>	34
Benefits paid from fund	<b>(32)</b>	(35)
Business combinations	<b>42</b>	28
Interest income on plan assets	<b>8</b>	6
Return on plan assets greater than discount rate	<b>1</b>	29
Administration costs	<b>(1)</b>	(1)
Exchange differences	<b>32</b>	(71)
<b>Balance at the end of the year</b>	<b>1 164</b>	1 041



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS (continued)

### a) Swiss pension benefit obligation (continued)

	2019 £'m	2018 £'m
<b>Statement of financial position</b>		
<b>Net pension liability reconciliation</b>		
Opening net liability	4	73
Expenses recognised in the income statement	36	34
Contributions paid by employer	(38)	(38)
Business combinations	7	11
Exchange differences	(1)	(2)
Actuarial gain/(loss)	44	(74)
<b>Closing net liability</b>	<b>52</b>	<b>4</b>
<b>Statement of other comprehensive income</b>		
<b>Amounts recognised in other comprehensive income are as follows:</b>		
Actuarial loss – experience	(5)	(6)
Actuarial (gain)/loss due to liability assumption changes	(40)	51
Return on plan assets greater than discount rate	1	29
<b>Total other comprehensive income</b>	<b>(44)</b>	<b>74</b>
<b>Income statement</b>		
<b>Amounts recognised in the income statement are as follows:</b>		
Current service cost	35	37
Past service cost	-	(4)
Interest on liability	8	6
Interest on plan assets	(8)	(6)
Administration cost	1	1
	<b>36</b>	<b>34</b>
Actual return on plan assets	9	35
<b>Principal actuarial assumptions on statement of financial position</b>		
Discount rate	0.45%	0.75%
Future salary increases	1.75%	1.75%
Future pension increases	0.00%	0.00%
Inflation rate	1.25%	1.25%
<b>Number of plan members</b>		
Active members	9 804	9 168
Pensioners	995	844

**18. RETIREMENT BENEFIT OBLIGATIONS (continued)****a) Swiss pension benefit obligation (continued)**

<b>Asset allocation</b>	<b>2019 £'m</b>	<b>2019 %</b>	2018 £'m	2018 %
<b>Quoted investments</b>				
Fixed income investments	<b>367</b>	<b>31.5%</b>	352	33.8%
Equity investments	<b>280</b>	<b>24.1%</b>	247	23.7%
Real estate	<b>42</b>	<b>3.6%</b>	28	2.7%
Other	<b>147</b>	<b>12.6%</b>	138	13.3%
	<b>836</b>	<b>71.8%</b>	765	73.5%
<b>Non-quoted investments</b>				
Fixed income investments	<b>32</b>	<b>2.7%</b>	4	0.4%
Equity investments	<b>12</b>	<b>1.0%</b>	13	1.2%
Real estate	<b>223</b>	<b>19.2%</b>	207	19.9%
Other	<b>61</b>	<b>5.2%</b>	52	5.0%
	<b>328</b>	<b>28.2%</b>	276	26.5%
	<b>1 164</b>	<b>100.0%</b>	1 041	100.0%

**Assumptions and sensitivity analysis**

<b>Impact on defined benefit obligation</b>	<b>Base assumption</b>	<b>Change in assumption</b>	<b>Increase in obligation</b>	<b>Decrease in obligation</b>
Discount rate	0.45%	0.25%	(2.7%)	2.9%
Salary growth rate	1.75%	0.50%	0.8%	(0.8%)
Pension growth rate	0.00%	0.25%	2.4%	0.0%
	<b>Change in assumption</b>		<b>Increase by 1 year in assumption</b>	<b>Decrease by 1 year in assumption</b>
Life expectancy (mortality)	1 year in expected life time of plan participants		2.2%	(2.2%)

The Group accounts for actuarially determined future pension benefits and provides for the expected liability in the statement of financial position. The assumptions used to calculate the expected liability are based on actuarial advice. The discount rate is based on market yields obtained on high quality corporate bonds that have durations consistent with the term of the obligation.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS (continued)

### a) Swiss pension benefit obligation (continued)

Expected employer contributions to be paid to the pension plans for the year ended 31 March 2020 are £34m and it is anticipated that these contributions will remain at a similar level in the foreseeable future subject to change in financial conditions.

The weighted average duration of the defined benefit obligation is 13.9 years (2018: 12.9 years). The maturity profile of the defined benefit obligation is as follows:

	<= 1 year £'m	1 - 5 years £'m	> 5 years £'m	Total £'m
<b>31 March 2019</b>				
Defined benefit obligation	80	242	980	1 302
<b>31 March 2018</b>				
Defined benefit obligation	73	219	877	1 169

#### Additional information on Swiss defined benefit pension plans

Additional information is provided for the largest two Swiss defined benefit pension plans:

##### **Pensionskasse Hirslanden**

For employees of Hirslanden Group in Switzerland, the Pensionskasse Hirslanden ("PH") Fund provides post-employment, death-in-service and disability benefits in accordance with the Federal Law on Occupational Old-age, Survivor's and Disability Insurance (German: BVG). PH Fund is a foundation and an entity legally separate from Hirslanden Group. The PH Fund's governing body is composed of an equal number of employer and employee representatives. This governing body determines the level of benefits and the investment strategy for the plan assets based on asset-liability analyses performed periodically. The basis for these asset-liability analyses are the statutory pension obligations, as these largely determine the cash flows of the PH Fund. In addition, the investment of the plan assets is based on regulations developed by the governing body in accordance with the legal investment guidelines (BVV2). The investment committee of the governing body is responsible for their implementation.

The investment strategy complies with the legal guidelines and is relatively conservative. Alternative investments and unhedged foreign currency positions are rare.

The benefits of the pension plan are substantially higher than the legal minimum. They are determined by the employer's and employee's contributions and interest granted on the plan members' accumulated savings; the interest rate is determined annually by the governing body in accordance with the legal framework (defined contribution, as defined by the occupational pension law). The employee's and the employer's contributions are determined based on the insured salary and range from 1.25% to 15.5% of the insured salary depending on the age of the beneficiary.

If an employee leaves Hirslanden Group or the pension plan respectively before reaching retirement age, the law provides for the transfer of the vested benefits to the new pension plan. These vested benefits comprise the employee's and the employer's contributions plus interest, the money originally brought in to the pension plan by the beneficiary. On reaching retirement age, the plan participant may decide whether to withdraw the benefits in the form of an annuity or (partly) as a lump-sum payment. The pension law requires adjusting pension annuities for inflation depending on the financial condition of the pension fund. Although the pension plan is fully funded at present in accordance with the pension law, the financial situation of the PH Fund will not allow for inflation adjustments.

The pension law in Switzerland envisages that benefits provided by a pension fund are fully financed through the annual contributions defined by the regulations. If insufficient investment returns or actuarial losses lead to a plan deficit as defined by the pension law, the governing body is legally obliged to take actions to close the funding gap within a period of five years to a maximum of seven years. Besides adjustments to the level of benefits, such actions could also include additional contributions from respective Group companies and the beneficiaries. The current financial situation of the PH Fund does not require such restructuring actions. None of the Group companies benefit from any plan surpluses.

## 18. RETIREMENT BENEFIT OBLIGATIONS (continued)

### a) Swiss pension benefit obligation (continued)

#### VSAO

For employed physicians of Hirslanden Group in Switzerland, the VSAO Pension Fund provides post-employment, death-in-service and disability benefits in accordance with the Federal Law on Occupational Old-age, Survivor's and Disability Insurance (German: BVG). VSAO Fund is a foundation and an entity legally separate from Hirslanden Group. The Fund's governing body is composed of an equal number of employer and employee representatives. The investment of the plan assets is in accordance with the legal investment guidelines (BVV2).

The benefits of the pension plan are substantially higher than the legal minimum. They are determined by the employer's and employee's contributions and interest granted on the plan members' accumulated savings; the interest rate is determined by the governing body in accordance with the legal framework (defined contribution, as defined by the occupational pension law).

If an employee leaves Hirslanden Group or the pension plan respectively before reaching retirement age, the law provides for the transfer of the vested benefits to the new pension plan. These vested benefits comprise the employee's and the employer's contributions plus interest, the money originally brought into the pension plan by the beneficiary. On reaching retirement age, the plan participant may decide whether to withdraw the benefits in the form of an annuity or as a lump-sum payment. The employee's and the employer's contributions are 14% of the insured salary.

The pension law in Switzerland envisages that benefits provided by a pension fund are fully financed through the annual contributions defined by the regulations. If insufficient investment returns or actuarial losses lead to a plan deficit as defined by the pension law, the governing body is legally obliged to take actions to close the funding gap within a period of five years to a maximum of seven years. Besides adjustments to the level of benefits, such actions could also include additional contributions from respective Group companies and the beneficiaries. The current financial situation of the VSAO Pension Fund does not require such restructuring actions. None of the Group companies benefit from any plan surpluses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18. RETIREMENT BENEFIT OBLIGATIONS (continued)

### (b) South African post-retirement medical benefit obligation

The Group's Southern African operations have a post-retirement medical benefit obligation for employees who joined before 1 July 2012.

The Group accounts for actuarially determined future medical benefits and provides for the expected liability in the statement of financial position. The assumptions used to calculate the expected liability are based on actuarial advice. The discount rate is based on market yields obtained on high quality corporate bonds which have durations consistent with the term of the obligation. It has been assumed that medical inflation will take place at a rate of 2.40% in excess of consumer price inflation.

In the last valuation on 31 March 2019, a 9.30% (2018: 8.10%) medical inflation rate and a 10.50% (2018: 9.10%) discount rate were assumed. The average retirement age was set at 63 years (2018: 63 years).

The assumed rates of mortality are as follows:

- During employment: SA 85/90 tables of mortality
- Post-employment: PA(90) tables

	2019 £'m	2018 £'m
<b>Amounts recognised in the statement of financial position are as follows:</b>		
Opening balance	40	35
Amounts recognised in the income statement	6	6
Current service cost	2	2
Interest cost	4	4
Benefits paid	(1)	(1)
Exchange differences	(5)	-
Actuarial gain recognised in other comprehensive income	(3)	-
<b>Present value of unfunded obligations</b>	<b>37</b>	40

#### Assumptions and sensitivity analysis

Impact on defined benefit obligation	Base assumption	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	10.50%	0.50%	(7.0%)	8.0%
Medical inflation rate	9.30%	1.00%	16.0%	(13.0%)

Expected post-employment medical benefits payable for the year ended 31 March 2019 is £1m.

## 18. RETIREMENT BENEFIT OBLIGATIONS (continued)

### (c) UAE end-of-service benefit obligation

In terms of UAE labour law, employees are entitled to severance pay at the end of employment. Severance pay is calculated as follows:

First five years of service: between 7 and 30 days' wage per year of service and thereafter 30 days per additional year. The employee benefit was actuarially determined.

The Group accounts for actuarially determined future end-of-service benefits and provides for the expected liability in the statement of financial position. The assumptions used to calculate the expected liability are based on actuarial advice. The discount rate is based on market yields obtained on high quality corporate bonds which have durations consistent with the term of the obligation.

	2019	2018
<b>The following are the principal actuarial assumptions:</b>		
Discount rate	2.9%	3.4%
Future salary increases	1.9%	2.0%
Average retirement age	60 years	60 years
Annual turnover rate	10.0%	10.3%

	2019 £'m	2018 £'m
<b>Amounts recognised in the statement of financial position are as follows:</b>		
Opening balance	52	56
Amounts recognised in the income statement	9	9
Current service cost	7	7
Interest cost	2	2
Contributions	(6)	(6)
Classified as held for sale	(1)	-
Exchange differences	5	(5)
Actuarial loss/(gain) recognised in other comprehensive income	1	(2)
<b>Present value of unfunded obligations</b>	<b>60</b>	<b>52</b>
Current portion of retirement benefit obligations	11	10
Non-current retirement benefit obligations	49	42
	<b>60</b>	<b>52</b>

#### Assumptions and sensitivity analysis

Impact on defined benefit obligation	Base assumption	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	2.91%	1.00%	(6.0%)	7.0%
Future salary increases	1.90%	1.00%	7.0%	(6.0%)

Expected employer contributions to be paid to the UAE end-of-service benefit obligation for the year ended 31 March 2019 are £11m.

None of the Directors of Mediclinic International plc participate in Swiss pension benefits or the UAE end-of-service benefit. One Executive Director and one non-executive director of Mediclinic International plc participate in the South African post-retirement medical benefit obligation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 19. PROVISIONS

	2019 £'m	2018 £'m
Non-current	29	23
Employee benefits	16	14
Legal cases and other	1	-
Tariff risks	12	9
Current	15	15
Employee benefits	2	2
Legal cases and other	6	5
Tariff risks	7	8
	44	38

	Employee benefits £'m	Legal cases and other £'m	Tariff risks £'m	Total £'m
Opening balance at 1 April 2017	17	5	23	45
Charged to the income statement	2	2	4	8
Utilised during the year	(2)	(2)	(5)	(9)
Unused amounts reversed	-	(1)	(5)	(6)
Business combinations	-	-	2	2
Exchange differences	(1)	1	(2)	(2)
<b>Closing balance at 31 March 2018</b>	<b>16</b>	<b>5</b>	<b>17</b>	<b>38</b>
Charged to the income statement	3	2	6	11
Utilised during the year	(2)	(1)	-	(3)
Unused amounts reversed	-	-	(5)	(5)
Business combinations	-	1	-	1
Exchange differences	1	-	1	2
<b>Closing balance at 31 March 2019</b>	<b>18</b>	<b>7</b>	<b>19</b>	<b>44</b>

### (a) Employee benefits

This provision is for benefits granted to employees for long service. The provision is calculated based on the employee's cost to the company as well as the estimated expected utilisation of the employee benefits.

### (b) Legal cases and other

This provision relates to payments for malpractice claims and other costs for legal claims. The recognised provision reflects the best estimate of the most likely outcome.

### (c) Tariff risks

This provision relates to compulsory health insurance tariff risks in Switzerland and other tariff disputes at some of the Group's Swiss hospitals. The tariff risk provision is calculated based on historical experience of outcomes to negotiations between healthcare providers and funders. This is regularly reassessed based on the actual outcome of tariff negotiations. Refer to note 22 for an explanation of the provisional tariffs and the impact on recognition of the tariff risk provision.

	2019 £'m	2018 £'m
Provisions are expected to be payable during the following financial years:		
Within one year	15	15
After one year but not more than five years	22	16
More than five years	7	7
	44	38



## 20. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 £'m	2018 £'m
<b>Non-current</b>		
Interest rate swaps – cash flow hedges	2	2
Forward exchange contracts	1	-
Written put option (redemption liability)	88	-
	<b>91</b>	2
<b>Current</b>		
Interest rate swaps – cash flow hedges*	-	-
	-	-
	<b>91</b>	2

\* Amount is less than £0.5m in current year.

### Effective interest rate swaps

In order to hedge specific exposures in the interest rate repricing profile of existing borrowings, the Group uses interest rate derivatives to generate the desired interest profile. At 31 March 2019, the Group had 14 effective interest rate swap contracts (2018: 10) for borrowings specifically in Southern Africa. The value of borrowings hedged by the interest rate derivatives and the rates applicable to these contracts are as follows:

	Borrowings hedged £'m	Fixed interest payable	Interest receivable	Fair value gain/(loss) for the year £'m
<b>31 March 2019</b>				
1 to 3 years*	245	6.9 – 7.7%	3 month JIBAR/ 69% of prime interest rate	-
<b>31 March 2018</b>				
1 to 3 years*	222	6.9 – 7.7%	3 month JIBAR/ 69% of prime interest rate	1

\* The interest rate swap agreement resets every three months on 1 June, 1 September, 1 December and 1 March with a final reset on 3 June 2019 for £53m, 2 March 2020 for £26m, 1 June 2020 for £78m, on 1 September 2020 for £38m and on 1 June 2021 for £51m. There is no ineffective portion recognised in the profit and loss that arises from the cash flow hedges.

In Mediclinic Middle East, an interest rate swap was entered into for a third of the borrowing facility (£64m) to hedge for rising interest rates. The swap was entered into at a fixed rate of 4.99% (1.85% margin plus 3.1% for the 5 year USD swap curve rate). The fair value movement was immaterial during the current financial year.

### Redemption liability (written put option)

Through the acquisition of the Grangettes group, the Group entered into a put/call agreement over the remaining 40% interest in the combined company of Clinique des Grangettes and Clinique La Colline. The options are exercisable after 4 years and the consideration on exercise will be determined based on the profitability of Clinique des Grangettes and Clinique La Colline at that time. The exercise price is formula based. Refer to note 30 for the disclosures of the Grangettes business combination.

The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interests.

The liability is subsequently adjusted for changes in the estimated performance and increased through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity. The changes in the fair value of the liability will impact the income statement. A 10% change in the projected earnings will change the liability and profit before tax by £9m.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 21. TRADE AND OTHER PAYABLES

	2019 £'m	2018 £'m
Trade payables	230	210
Other payables and accrued expenses	181	144
Social insurance and accrued leave pay	43	62
Value added tax	10	8
	<b>464</b>	424

## 22. REVENUE

Revenue primarily comprises fees charged for inpatient and outpatient medical services. Services include charges for accommodation, theatre, medical professional services, equipment, radiology, laboratory and pharmaceutical goods used.

### Disaggregation of revenue from contracts with customers

	2019 £'m	(Re-presented)* 2018 £'m
<b>Major service lines</b>		
Healthcare services	2 838	2 780
Rental income	31	29
Corporate	1	1
Other	62	66
	<b>2 932</b>	2 876
<b>Primary geographic markets</b>		
Switzerland	1 368	1 349
Southern Africa	886	883
United Arab Emirates	677	643
Other	1	1
	<b>2 932</b>	2 876

\* Refer to note 2.1

### Switzerland healthcare services revenue

In Switzerland, the cost of treating inpatients with basic health insurance is fixed by the government. The pricing model is based on diagnostic related groups ("Swiss DRGs") for inpatients and can be seen as a fixed fee arrangement. Invoicing occurs when the patient is discharged. Revenue is recognised over the length of stay of the patient. In some cases, the pricing model for DRGs is based on provisional tariffs as delays occur in the agreement of the tariffs between the healthcare providers and the funders. Tariff provisions are recognised in revenue when the pricing model for DRGs is based on provisional tariffs. Provisional tariffs are recognised in revenue to the extent that it is highly probable that it will not be reversed. At the time of revenue recognition, the revenue based on the provisional tariff is billed and claimed from the insurer or the canton. Subsequently, when the tariffs are finalised and payments made, the insurer can claim from the healthcare provider if the tariffs are lower than the provisional tariffs billed. The accounting for the provision results in a reduction of revenue with a corresponding entry to provisions in the statement of financial position. The tariff adjustment cannot be adjusted against accounts receivable due to the fact that the original invoices are settled before the finalisation of the tariffs. Tariff adjustments are therefore classified as provisions and this view is supported by the fact that balances due to funders are not settled on a net basis. The tariff provision is calculated based on historical experience of outcomes to negotiations between healthcare providers and funders. This is regularly reassessed based on the actual outcome of tariff negotiations.

## 22. REVENUE (continued)

### Switzerland healthcare services revenue (continued)

Swiss private and semi-private patients enter into supplementary insurance contracts for costs not covered by basic health insurance. The pricing model is based on fee-for-service principles and the contract with Hirslanden includes technical medical services (such as the nursing and infrastructure). The doctor fees are agreed directly between the insurer and the relevant doctor. The revenue is recognised as the services are rendered over the period of the stay of the patient.

For Switzerland outpatient cases, the pricing model is based on the TARMED rates. The applicable TARMED rate varies depending on the relevant canton, procedure and patient. Invoicing occurs when the patient is discharged directly after the treatment and revenue is recognised at the same time.

Set out below is a breakdown of the Swiss healthcare services revenue:

	2019 £'m
Inpatient revenue	1 029
Outpatient revenue	265
	<b>1 294</b>

### Southern Africa healthcare services revenue

In Southern Africa, a fee-for-service model is predominantly used with funders. Mediclinic will invoice the funders for technical medical services (such as nursing, infrastructure, pharmaceutical goods, etc.). The revenue is recognised as the services are rendered over the period of the stay of the patient.

For certain procedures, a fixed fee contract model is used. In these scenarios, the transaction price is fixed and no adjustments can be made to the amount invoiced to the funder. Invoicing occurs when the patient is discharged. Revenue is recognised over the length of stay of the patient. Excess costs or savings are not charged to the funder and are absorbed by the division.

Discounts comprise retrospective volume discounts granted to certain funders on attainment of certain admission levels. These volume discounts are negotiated with funders on an annual basis. The retrospective volume discounts give rise to variable consideration. Variable consideration is recognised as a revenue to the extent that it is highly probable that it will not reverse. Discounts are accrued over the course of the period based on the estimates of the level of business expected. This is adjusted at the end of the period to reflect actual volumes. Volume discounts are recorded as a reduction in revenue with a corresponding entry against accruals (as volume discounts are not settled on a net basis with funders).

Set out below is a breakdown of the Southern Africa healthcare services revenue:

	2019 £'m
Hospital and day clinic patient income	836
Emergency medical transport	35
	<b>871</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 22. REVENUE (continued)

### Middle East healthcare services revenue

In the Middle East (Dubai) a fee-for-service model is used with funders. Mediclinic will invoice the funders for technical medical services (such as nursing, infrastructure, pharmaceutical goods, etc.). The revenue is recognised as the services are rendered over the period of the stay of the patient.

For certain procedures in the Middle East (Abu Dhabi), the fixed fee contract model is used with funders. In these scenarios, the transaction price is fixed and no adjustments can be made to the amount invoiced to the funder. Invoicing occurs when the patient is discharged. Revenue is recognised over the length of stay of the patient. Excess costs or savings are not charged to the funder and are absorbed by the division.

Discounts comprise retrospective volume discounts granted to certain funders on attainment of certain admission levels. These volume discounts are negotiated with funders on an annual basis. The retrospective volume discounts give rise to variable consideration. Variable consideration is recognised as revenue to the extent that it is highly probable that it will not reverse. Discounts are accrued over the course of the period based on the estimates of the level of business expected. This is adjusted at the end of the period to reflect actual volumes. Volume discounts are recorded as a reduction in revenue with a corresponding entry against accruals (as volume discounts are not settled on a net basis with funders).

In the Middle East, the normal business process associated with transactions with insurers includes an amount of claims disallowed which is not paid by the insurer. These rejected claims could be for various technical or medical reasons. Accordingly, Mediclinic Middle East accepts and expects an amount of consideration that is less than what was originally invoiced. These write-offs constitute variable consideration under IFRS 15. Variable consideration is recognised as revenue to the extent that it is highly probable that a reversal of revenue will not occur. In prior periods, revenue was recognised based on the contract with the insurers and a provision for bad debt was recognised for the rejections based on historical trends. Under IFRS 15, these rejected claims are recognised as part of revenue (decreasing the revenue recognised). The rejections recognised in the provision for impairment of trade receivables in the prior period is reclassified to gross debtors on 1 April 2018, refer to note 33.2.

Set out below is a breakdown of the Middle East healthcare services revenue:

	<b>2019 £'m</b>
Inpatient revenue	<b>239</b>
Outpatient revenue	<b>434</b>
	<b>673</b>

**23. EXPENSES BY NATURE**

	<b>2019</b>	(Re-presented)*
	<b>£'m</b>	2018 £'m
Fees paid to the Group's auditors for the following services:		
Audit of the parent company and consolidated financial statements	<b>0.5</b>	0.4
Audit company subsidiaries	<b>1.9</b>	2.0
Audit services	<b>2.4</b>	2.4
Audit related services	<b>0.4</b>	0.4
Other assurance services	<b>0.2</b>	0.1
All other services	<b>-</b>	0.1
	<b>3.0</b>	3.0
Cost of inventories	<b>656</b>	671
Depreciation (note 6)	<b>148</b>	132
Buildings	<b>50</b>	39
Equipment	<b>78</b>	70
Furniture and vehicles	<b>20</b>	23
Employee benefit expenses	<b>1 233</b>	1 293
Wages and salaries	<b>1 167</b>	1 228
Retirement benefit costs – defined contribution plans	<b>16</b>	15
Retirement benefit costs – defined benefit obligations (note 18)	<b>51</b>	49
Share-based payment expense (note 15)	<b>(1)</b>	1
Increase in provision for impairment of receivables (note 12)	<b>11</b>	23
Maintenance costs	<b>53</b>	52
Operating leases	<b>63</b>	57
Buildings	<b>60</b>	54
Equipment	<b>3</b>	3
Amortisation of intangible assets (note 7)	<b>20</b>	36
Impairments (note 6 and 7)	<b>241</b>	644
Impairment of property, equipment and vehicles	<b>186</b>	84
Impairment of goodwill	<b>-</b>	300
Impairment of trade names	<b>55</b>	260
Other expenses	<b>420</b>	255
	<b>2 848</b>	3 166

\* Refer to note 2.1

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 23. EXPENSES BY NATURE (continued)

	2019 £'m	(Re-presented)* 2018 £'m
Classified as:		
Cost of sales	1 827	1 779
Administration and other operating expenses	1 021	1 387
	<b>2 848</b>	3 166
Depreciation and amortisation is classified as:		
Cost of sales	124	112
Administration and other operating expenses	44	56
	<b>168</b>	168
Number of employees	<b>32 398</b>	31 504
<i>* Refer to note 2.1</i>		
<b>24. OTHER GAINS AND LOSSES</b>		
Release of pre-acquisition Swiss provision	-	9
Loss on disposal of subsidiaries	<b>(1)</b>	(7)
Fair value adjustments on derivative contracts	<b>(2)</b>	-
	<b>(3)</b>	2
<b>25. FINANCE COST</b>		
Interest expense	<b>55</b>	55
Interest rate swaps*	-	6
Amortisation of capitalised financing costs	<b>5</b>	5
Derecognition of unamortised financing costs	<b>2</b>	19
Fair value gains on ineffective cash flow hedges	-	(4)
Preference share dividend	<b>10</b>	15
Less: amounts included in cost of qualifying assets	<b>(6)</b>	(2)
	<b>66</b>	94

*\* Amount is less than £0.5m*

## 26 INCOME TAX EXPENSE

	2019 £'m	(Re-presented) 2018 £'m
Current tax		
Current year	53	56
Previous year	-	(2)
Deferred tax credit (note 10)	(60)	(59)
<b>Taxation per income statement</b>	<b>(7)</b>	<b>(5)</b>
<b>Composition</b>	<b>-</b>	<b>-</b>
UK tax	(7)	(5)
Foreign tax	(7)	(5)
	2019 %	2018 %
<b>Reconciliation of rate of taxation:</b>		
UK statutory rate of taxation	19.0%	19.0%
Adjusted for:		
Capital gains taxed at different rates	0.1%	-
Benefit of tax incentives	0.4%	0.1%
Share of net profit of equity accounted investments	0.4%	0.1%
Non-deductible expenses <sup>1</sup>	(26.5%)	(18.0%)
Non-controlling interests' share of profit before tax	0.7%	0.2%
Effect of different tax rates <sup>2</sup>	1.5%	0.7%
Effect of differences between deferred and current tax rates <sup>3</sup>	0.1%	(0.6%)
Non-recognition of tax losses in current year	(1.7%)	(0.5%)
Derecognition of tax losses relating to prior years	(0.3%)	(0.2%)
Prior year adjustment <sup>4</sup>	11.7%	0.3%
<b>Effective tax rate<sup>5</sup></b>	<b>5.4%</b>	<b>1.1%</b>

<sup>1</sup> Impairment of the listed associate of £164m was not deductible for tax purposes. The tax effect amounted to £31m (impact of 22.7% in effective tax rate).

<sup>2</sup> Since the tax reconciliation is based on a UK statutory tax rate at 19.0%, a reconciling item result due to profit from South Africa which is subject to an income tax rate of 28.0% reduced by profit from the Middle East which is not subject to income tax.

<sup>3</sup> The impairment of the trade names (£55m) and the impairment of property, equipment and vehicles (£186m) in Switzerland led to the release of a deferred tax liability of £47m. A reconciling item arises because the tax rate applied in calculating the deferred tax liabilities was higher than the current statutory rate of taxation.

<sup>4</sup> Included in the prior year adjustment is a credit of £17m relating to a change in the basis of estimating deferred tax related to Swiss properties from providing at a tax rate of 20.1% to tax rate of 19.3%.

<sup>5</sup> If the impairment charges (and related deferred tax effect) discussed in point 3 above together with the items listed in point 1 and 4 were excluded from the effective tax rate calculation, the adjusted effective tax rate would be 20.4% (2018: 20.8%). The adjusted effective tax rate changes year-on-year reflecting a lower average tax rate in Switzerland.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 27. EARNINGS PER ORDINARY SHARE

	2019 £'m	2018 £'m
<b>Loss per ordinary share (pence)</b>		
Basic (pence)	(20.5)	(66.7)
Diluted (pence)	(20.5)	(66.7)
<b>Earnings reconciliation</b>		
Loss attributable to equity holders of the Company	(151)	(492)
Adjusted for:		
No adjustments	-	-
<b>Loss for basic and diluted earnings per share</b>	<b>(151)</b>	<b>(492)</b>

	2019 Number of shares	2018 Number of shares
<b>Number of shares reconciliation</b>		
<b>Weighted average number of ordinary shares in issue for basic earnings per share</b>		
Number of ordinary shares in issue at the beginning of the year	737 243 810	737 243 810
Weighted average number of treasury shares	(49 544)	(133 672)
Mpilo Trusts	(32 330)	(32 330)
Forfeitable Share Plan	(17 214)	(101 342)
	<b>737 194 266</b>	<b>737 110 138</b>
<b>Weighted average number of ordinary shares in issue for diluted earnings per share</b>		
Weighted average number of ordinary shares in issue	737 194 266	737 110 138
Weighted average number of treasury shares held not yet released from treasury stock	49 544	133 672
Mpilo Trusts	32 330	32 330
Forfeitable Share Plan	17 214	101 342
	<b>737 243 810</b>	<b>737 243 810</b>

Mpilo Investment Holdings 1 (RF) (Pty) Ltd is a structured entity that is not consolidated due to the Group not having control. This company is an investment holding company and was incorporated as part of the Mediclinic BEE transaction. The company holds ordinary shares in Mediclinic International plc on which it receives dividends. These dividends are used to repay the outstanding debt of the company. The outstanding debt referred to is provided by third parties with no recourse to the Group.

**27. EARNINGS PER ORDINARY SHARE (continued)****Headline earnings per ordinary share**

The Group is required to calculate headline earnings per share (“HEPS”) in accordance with the JSE Limited (“JSE”) Listings Requirements, determined by reference to the South African Institute of Chartered Accountants’ circular 04/2018 (Revised) ‘Headline Earnings’. The table below sets out a reconciliation of basic EPS and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa. The table below reconciles the profit for the financial year attributable to equity holders of the parent to headline earnings and summarises the calculation of basic HEPS:

	2019 £’m	2018 £’m
<b>Headline earnings per share</b>		
<b>Loss for basic and diluted earnings per share</b>	<b>(151)</b>	(492)
Adjustments		
Impairment of equity accounted investment	<b>164</b>	109
Impairment of properties and intangible assets	<b>192</b>	576
Loss on disposal of subsidiaries	<b>1</b>	7
Associate’s impairment of property, plant and equipment	<b>5</b>	3
<b>Headline earnings</b>	<b>211</b>	203
Headline earnings per share (pence)	<b>28.6</b>	27.6
Diluted headline earnings per share (pence)	<b>28.6</b>	27.6

**28. OTHER COMPREHENSIVE INCOME**

	2019 £’m	2018 £’m
<b>Components of other comprehensive income</b>		
Currency translation differences	<b>142</b>	(310)
Fair value adjustments – cash flow hedges	-	1
Remeasurement of retirement benefit obligations	<b>(34)</b>	60
<b>Other comprehensive income, net of tax</b>	<b>108</b>	(249)

	Attributable to equity holders of Company (before tax) £’m	Tax charge attributable to equity holders of the Company £’m	Attributable to non- controlling interest (after tax) £’m	Total £’m
<b>Year ended 31 March 2019</b>				
Currency translation differences	<b>153</b>	-	<b>(11)</b>	<b>142</b>
Remeasurement of retirement benefit obligations	<b>(39)</b>	<b>8</b>	<b>(3)</b>	<b>(34)</b>
<b>Other comprehensive income</b>	<b>114</b>	<b>8</b>	<b>(14)</b>	<b>108</b>
<b>Year ended 31 March 2018</b>				
Currency translation differences	(311)	-	1	(310)
Fair value adjustments – cash flow hedges	1	-	-	1
Remeasurement of retirement benefit obligations	76	(16)	-	60
<b>Other comprehensive income</b>	<b>(234)</b>	<b>(16)</b>	<b>1</b>	<b>(249)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 29. CASH FLOW INFORMATION

	2019 £'m	2018 £'m
<b>29.1 Reconciliation of profit before taxation to cash generated from operations</b>		
Loss before taxation	(137)	(479)
Adjustments for:		
Finance cost - net	57	85
Share of net profit of equity accounted investments	(3)	(3)
Share-based payments	(1)	1
Depreciation and amortisation	168	168
Loss allowance (2018: Impairment provision) of trade receivables	11	23
Movement in provisions	5	(7)
Movement in retirement benefit obligations	7	3
Impairment of properties and intangible assets	241	644
Impairment of equity accounted investment	164	109
Loss on disposal of subsidiaries	1	7
Release of pre-acquisition Swiss provision	-	(9)
Fair value adjustments on derivative contracts	2	-
Operating income before changes in working capital	515	542
Working capital changes	(64)	(76)
Decrease/(increase) in inventories	4	(3)
Increase in trade and other receivables	(104)	(61)
Increase/(decrease) in trade and other payables	36	(12)
	451	466
<b>29.2 Interest paid</b>		
Finance cost per income statement	66	94
Non-cash items		
Amortisation of capitalised financing fees	(5)	(5)
Derecognition of unamortised financing fees	-	(19)
Fair value gains on ineffective cash flow hedges	-	4
	61	74
<b>29.3 Tax paid</b>		
Liability at the beginning of the year	4	6
Provision for the year	53	54
Business combinations	5	-
	62	60
Liability at the end of the year	(7)	(4)
	55	56
<b>29.4 Investment to maintain operations</b>		
Property, equipment and vehicles purchased	82	98
Intangible assets purchased	1	10
Movement in capital expenditure payables	3	4
	86	112
<b>29.5 Investment to expand operations</b>		
Property, equipment and vehicles purchased	122	125
Intangible assets purchased	26	12
Movement in capital expenditure payables	6	5
	154	142

**29. CASH FLOW INFORMATION (continued)****29.6 Dividends**

	Date paid/ payable	Dividend per share (pence)	2019 £'m	2018 £'m
<b>Dividends declared</b>				
<b>Year ended 31 March 2019</b>				
Interim dividend	18 December 2018	3.20	<b>24</b>	
Final dividend	29 July 2019	4.70	<b>35</b>	
		<b>7.90</b>		
<b>Year ended 31 March 2018</b>				
Interim dividend	18 December 2017	3.20		24
Final dividend	30 July 2018	4.70		35
		<b>7.90</b>	<b>59</b>	59
<b>Dividends paid</b>				
Dividends paid during the period			<b>59</b>	58

Under IFRS, dividends are only recognised in the financial statements when authorised by the Board of Directors (for interim dividends) or when authorised by the shareholders (for final dividends). The aggregate amount of the proposed dividend expected to be paid on 29 July 2019 from retained earnings has not been recognised as a liability on 31 March 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 29. CASH FLOW INFORMATION (continued)

### 29.7 Changes in liabilities arising from financing activities

	Total borrowings £'m	Net derivative financial instruments held to hedge borrowings £'m	Total £'m
<b>Year ended 31 March 2019</b>			
Opening balance	1 937	2	1 939
Cash flow movements			
Proceeds from borrowings	385	-	385
Repayment of borrowings	(347)	-	(347)
Refinancing transaction cost	(5)	-	(5)
Non-cash items			
Amortisation of capitalised financing fees	5	-	5
Business combinations	19	-	19
Exchange rate differences	(12)	-	(12)
<b>Closing balance</b>	<b>1 982</b>	<b>2</b>	<b>1 984</b>
<b>Year ended 31 March 2018</b>			
Opening balance	2 030	9	2 039
Cash flow movements			
Proceeds from borrowings	6	-	6
Repayment of borrowings	(30)	-	(30)
Settlement of interest rate swap	-	(4)	(4)
Refinancing transaction cost	(12)	-	(12)
Non-cash items			
Amortisation of capitalised financing fees	5	-	5
Derecognition of unamortised financing fees	19	-	19
Fair value changes	-	(5)	(5)
Business combinations	25	-	25
Exchange rate differences	(106)	2	(104)
<b>Closing balance</b>	<b>1 937</b>	<b>2</b>	<b>1 939</b>

	2019 £'m	2018 £'m
<b>29.8 Cash and cash equivalents</b>		
For the purposes of the statement of cash flows, cash, cash equivalents and bank overdrafts include:		
Cash and cash equivalents	<b>265</b>	261
Cash, cash equivalents and bank overdrafts are denominated in the following currencies:		
Swiss franc*	<b>119</b>	71
South African rand**	<b>97</b>	116
UAE dirham***	<b>19</b>	46
Pound sterling****	<b>30</b>	28
	<b>265</b>	261

\* The facility agreement of the Swiss subsidiary restricts the distribution of cash. The counterparties have a minimum A1 credit rating by Moody's and a minimum A credit rating by Standard & Poor's.

\*\* The counterparties have a minimum Baa3 credit rating by Moody's.

\*\*\* The counterparties have a minimum BBB+ by Standard & Poor's.

\*\*\*\* The counterparty has a Aa3 credit rating by Moody's.

Cash and cash equivalents denominated in South African rand amounting to £12m (2018: £34m) and Swiss bank accounts denominated in Swiss franc amounting to £112m (2018: £64m) have been ceded as security for borrowings (see note 17).

### 30. BUSINESS COMBINATIONS

The following business combinations occurred during the current and prior years:

	2019 £'m	2018 £'m
<b>Cash flow on acquisition:</b>		
Clinique des Grangettes	(50)	-
City Centre Clinics Deira and Me'aisem	(7)	-
Welkom Medical Centre	(6)	-
Intercare Hospital Group	-	-
Sandton Day Hospital and Sandton sub-acute Hospital	-	-
Linde Holding Biel/Bienne AG	-	(74)
Rontgeninstitut Cham AG	-	(9)
	<b>(63)</b>	<b>(83)</b>

#### Clinique des Grangettes

Effective on 1 October 2018, Hirslanden AG acquired a 60% stake in Grangettes Healthcare SA through a newly formed structure and obtained control over the company. A new entity, Hirslanden La Colline Grangettes SA, was formed to effect the business combination. The new entity was established by contribution in kind of the investment in Grangettes Healthcare SA. As part of the consideration transferred, the investment in Hirslanden Clinique La Colline SA was transferred to the newly founded entity.

Clinique des Grangettes is a leading private hospital in Geneva offering a wide range of medical services, specialising in maternity care, paediatrics, cardiology, oncology, radiology and emergency care. The Clinique des Grangettes has state-of-the-art equipment diagnostic and treatment equipment, which is used by more than 450 affiliated doctors.

The Clinique La Colline is known for its competence centres in orthopaedics, neurosurgery, visceral surgery and sports medicine. The medical services of the two hospitals thus complement each other perfectly. The combination of the Clinique des Grangettes and the Hirslanden Clinique La Colline enables operational synergies and cost savings.

The goodwill of £99m (CHF126m) arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of the Group and Grangettes Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the total consideration transferred at the acquisition date for the Grangettes Group (consisting of Clinique des Grangettes SA, Dianecho SA and Grangettes Healthcare SA).

	2019 £'m
<b>Consideration at 1 October 2018</b>	
Cash	60
Portion given up of investment in Clinique La Colline	58
<b>Total consideration transferred</b>	<b>118</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 30. BUSINESS COMBINATIONS (continued)

### Clinique des Grangettes (continued)

The following table summarises the provisional fair value of assets acquired and liabilities assumed at the acquisition date for the Grangettes Group (consisting of Clinique des Grangettes SA, Dianecho SA and Grangettes Healthcare SA).

	2019 £'m
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Assets	
Property, equipment and vehicles	10
Intangible assets	25
Inventories	2
Trade and other receivables	25
Cash and cash equivalents	10
Deferred tax assets	2
Other investments and loans	8
<b>Total assets</b>	<b>82</b>
Liabilities	
Borrowings	15
Provisions	1
Retirement benefit obligations	7
Deferred tax liabilities	9
Trade and other payables	13
Current income tax liabilities	5
<b>Total liabilities</b>	<b>50</b>
Total identifiable net assets at fair value	32
Non-controlling interest at fair value	(13)
Goodwill	99
<b>Consideration transferred for the business</b>	<b>118</b>
Net cash acquired with subsidiary	10
Cash paid	(60)
<b>Net cash flow on acquisition</b>	<b>(50)</b>

The Group elected to recognise the non-controlling interest at its proportionate share of the acquired net identifiable assets. As part of the consideration transferred, 40% of the previously fully owned Hirslanden Clinique la Colline SA was transferred to the seller of Grangettes group. This transfer is accounted for as a transaction with non-controlling interest, as it does not result in a loss of control and amounted to £17m. The difference between fair value of the consideration transferred and the carrying value of the net assets of Hirslanden Clinique La Colline at the acquisition date is recorded in equity (£41m). The Group entered into a put/call agreement over the remaining 40% of the interest in the combined company of Clinique des Grangettes and Clinique La Colline. Refer to note 20.



### 30. BUSINESS COMBINATIONS (continued)

The fair value of trade and other receivables is £25m. The best estimate at acquisition date of the contractual cash flows not expected to be collected are £2m. From the date of acquisition, the Grangettes Healthcare SA has contributed £44m to revenue and £6m to the net profit before tax of the Group. The Group does not disclose revenue and profit before tax of Les Grangettes as if the business combination occurred at the beginning of the reporting period due to not having access to the relevant information before the Group obtained control over the business.

The fair value of the acquired identifiable assets and liabilities has been provisionally determined for all business combinations. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, then the accounting for the acquisition will be revised. The following smaller business combinations occurred during the current year:

#### City Centre Clinics Deira and Me'aisem

On 28 June 2018, Mediclinic Middle East acquired 100% of the Dubai based City Centre Clinics Deira and Me'aisem from Majid Al Futtaim for £7m (AED35m).

City Centre Clinic Deira is a large outpatient facility with one day case surgery theatre and 18 medical disciplines. City Centre Clinic Me'aisem is a smaller community clinic focusing on six core disciplines. The clinics serve strategic geographic locations and offer the opportunity to refer higher acuity inpatient cases to existing Mediclinic Middle East hospitals as well as the new Mediclinic Parkview Hospital.

The goodwill of £2m (AED8m) arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of Mediclinic Middle East and the City Centre Clinics.

#### Welkom Medical Centre

On 3 September 2018, Mediclinic Southern Africa acquired 100% of the share capital of Welkom Medical Centre for £6m (ZAR110m).

Welkom Medical Centre consists of a day case clinic with 20 beds, a sub-acute unit of 20 beds and a mental health unit with a further 20 beds. The goodwill of £3m (ZAR54m) arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of Welkom Medical Centre and Mediclinic Southern Africa. None of the goodwill recognised is expected to be deductible for income tax purposes.

#### Intercare Hospital Group

On 1 November 2018, Mediclinic Southern Africa acquired 50% plus one share of Intercare Hospital Group for £1m (ZAR32m).

The Intercare Hospital Group consists of 4 day case clinics and 4 sub-acute hospitals and a fertility hospital. The goodwill of £2m (ZAR37m) arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of the Intercare Hospital Group and Mediclinic Southern Africa. None of the goodwill recognised is expected to be deductible for income tax purposes.

#### Sandton Day Hospital and Sandton sub-acute Hospital

On 1 November 2018, Mediclinic Southern Africa acquired 71% of the share capital of Sandton Day Hospital and Sandton sub-acute Hospital for £0.2m (ZAR2m).

The Sandton Day Hospital and Sandton sub-acute Hospital consist of a day case clinic with 20 beds and sub-acute units of 30 beds. The goodwill of £1m (ZAR20m) arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of the Sandton Day Hospital and Sandton sub-acute Hospital and Mediclinic Southern Africa. None of the goodwill recognised is expected to be deductible for income tax purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 30. BUSINESS COMBINATIONS (continued)

The following table summarises the consideration paid for the smaller business combinations and the provisional fair value of assets and liabilities assumed at the acquisition date:

	Total £'m	City Centre Clinics £'m	Welkom Medical Centre £'m	Intercare Hospital Group £'m	Sandton Day and sub- acute Hospitals £'m
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>					
Assets					
Property, equipment and vehicles	10	5	3	1	1
Deferred tax assets	1	-	-	1	-
Cash and cash equivalents	1	-	-	1	-
<b>Total assets</b>	<b>12</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>1</b>
Liabilities					
Borrowings	4	-	-	2	2
Trade and other payables	3	-	-	3	-
<b>Total liabilities</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>2</b>
Total identifiable net assets at fair value	5	5	3	(2)	(1)
Non-controlling interest	1	-	-	1	-
Goodwill	8	2	3	2	1
<b>Consideration transferred for the business</b>	<b>14</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>-</b>
Cash flow on acquisition					
Cash acquired with subsidiary	1	-	-	1	-
Cash paid	(14)	(7)	(6)	(1)	-
<b>Net cash flow on acquisition</b>	<b>(13)</b>	<b>(7)</b>	<b>(6)</b>	<b>-</b>	<b>-</b>

### 31. DISPOSAL OF SUBSIDIARIES

During the current year, the Group disposed of Mediclinic Aspetar LLC and Mediclinic Pharmacy Aspetar LLC that were part of the Middle East segment as well as Mediclinic Barberton (Pty) Ltd that was part of the Southern Africa segment. In the prior year, the following companies that were part of the Middle East segment were disposed of: Lookwow One Day Surgery Company LLC and the following branches of Mediclinic Hospitals LLC: Mirfa, Ajman, Hamdan Pharmacy, Sanaya and ICAD.

	2019 £'m	2018 £'m
<b>Analysis of assets and liabilities over which control was lost</b>		
Property, equipment and vehicles	1	8
Goodwill	-	3
Trade and other payables	-	(1)
Non-controlling interest derecognised	-	(1)
<b>Net assets disposed of</b>	<b>1</b>	<b>9</b>
<b>Consideration received</b>		
Cash and cash equivalents	-	2
<b>Total consideration</b>	<b>-</b>	<b>2</b>
<b>Loss on disposal of subsidiary</b>		
Consideration received*	-	2
Net assets disposed of	(1)	(9)
<b>Loss on disposal</b>	<b>(1)</b>	<b>(7)</b>
<b>Net cash inflow</b>		
Total cash flow on disposal of subsidiary	-	2
Less: cash and cash equivalents disposed of	-	-
<b>Net cash inflow on disposal</b>	<b>-</b>	<b>2</b>

\* Amount is less than £0.5m

### 32. DISPOSAL GROUPS HELD FOR SALE

During the financial year, management decided to sell the following clinics within the Mediclinic Middle East segment: Mediclinic Hospitals - Al Musafah Speciality Clinics.

	2019 £'m	2018 £'m
<b>Analysis of assets and liabilities held for sale</b>		
<b>Assets</b>		
Property, equipment and vehicles	1	1
Trade and other receivables	3	-
<b>Total assets</b>	<b>4</b>	<b>1</b>
<b>Liabilities</b>		
Retirement benefit obligations	1	-
<b>Total liabilities</b>	<b>1</b>	<b>-</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 33. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* on the Group's financial statements.

### 33.1 IFRS 15 *Revenue from contracts with customers*

The Group adopted IFRS 15 from 1 April 2018 which resulted in changes in accounting policies. In accordance with the transitional provisions in the standard, the Group followed the modified retrospective approach. The comparative information is presented based on the requirements of IAS 18 *Revenue* and no adjustment to opening retained earnings was required.

In the Middle East, the normal business process associated with transactions with insurers includes an amount of claims disallowed (disallowance provision) which is not paid by the insurer. These disallowed claims could be for various technical or medical reasons. Disallowance write-offs on rejected claims is a general practice by the insurers in the Middle East. Accordingly, Mediclinic Middle East expects an amount of consideration that is less than what was originally invoiced. These write-offs constitute variable consideration under IFRS 15. Variable consideration is recognised as revenue to the extent that it is highly probable that a reversal of revenue will not occur. In prior periods, revenue was recognised based on the contract with the insurers and a provision for bad debt was recognised for the rejections based on historical trends. Under IFRS 15, these rejected claims are recognised as part of revenue (decreasing the revenue recognised). The rejections recognised in the provision for impairment of trade receivables in the prior period is reclassified to gross debtors on 1 April 2018. Refer to note 33.2 below. If IFRS 15 was applied to the prior period results, revenue from the Middle East segment would have been £626m compared to the £643m recognised under IAS 18 (with a corresponding decrease of £17m in expenses). This change has no impact on net profit.

The implementation of IFRS 15 did not have a material impact on the Group's other divisions.

### 33.2 IFRS 9 *Financial Instruments*

The accounting policies were changed to comply with IFRS 9 which replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets; and hedge accounting.

The Group has adopted IFRS 9 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in the standard, comparative figures have not been restated. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 March 2018, but are recognised in the opening balance of retained earnings on 1 April 2018.

The changes due to the implementation of IFRS 9 are described below:

#### **Classification and measurement**

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The following are the changes in the classification of the Group's financial assets:

- Trade receivables and other loans and receivables classified as "loans and receivables" at 31 March 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as "debt instruments at amortised cost" beginning 1 April 2018.
- Equity investments in non-listed companies classified as "investments available for sale" at 31 March 2018 are classified and measured as "financial assets at fair value through profit or loss" beginning 1 April 2018. These investments do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. This reclassification had no impact on equity because the equity reserve relating to these available for sale investments was nil at 1 April 2018.

### 33. CHANGES IN ACCOUNTING POLICIES (continued)

There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 April 2018:

	IFRS 9 measurement category	
	£'m	Amortised cost £'m
<b>IAS 39 measurement category</b>		
Loans and receivables		
Trade and other receivables	607	607
Loans and receivables (other investments and loans)	7	7
Investments available for sale		
Unlisted shares (other investments and loans)	1	-
		<b>1</b>
		<b>614</b>

#### Impairment of financial assets

The Group was required to revise its impairment methodology under IFRS 9. The Group applied the simplified approach to measure the expected credit losses as prescribed by IFRS 9 for trade receivables. The simplified approach requires the use of the lifetime expected loss provision for all trade receivables. Other financial assets classified as debt instruments at amortised cost are considered to be low risk and therefore the impairment provision is determined as 12 months of expected credit losses. The impact of the change in the impairment methodology on the Group's equity is as follows:

	1 Apr 2018 £'m
Opening retained earnings - IAS 39	5 057
Adjustment to retained earnings on adoption of IFRS 9:	
Increase in provision for impairment of trade receivables*	-
Impact of IFRS 9 on equity accounted investments	(2)
<b>Opening retained earnings - IFRS 9</b>	<b>5 055</b>

\* Impact is less than £0.5m.

The Group was required to revise its impairment methodology under IFRS 9 for trade receivables. The Group applied the simplified approach to measure the expected credit losses as prescribed by IFRS 9. The simplified approach requires the use of the lifetime expected loss provision for all trade receivables.

#### Hedge accounting

At the date of initial application, all of the Group's existing hedging relationships (10 hedges in the Southern Africa segment) were eligible to be treated as continuing hedging relationships. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 34. COMMITMENTS

	2019 £'m	2018 £'m
<b>Capital commitments</b>		
<b>Incomplete capital expenditure contracts</b>	<b>99</b>	138
Switzerland	15	14
Southern Africa	69	77
Middle East	15	47
<b>Capital expenses authorised by the Board of Directors but not yet contracted</b>	<b>166</b>	204
Switzerland	16	15
Southern Africa	130	142
Middle East	20	47
	<b>265</b>	342

In terms of a forward contract in the Middle East, the Group has an obligation to pay £7m on 31 October 2020. This best estimate of the obligation is determined based on an earnings multiple and is contractually capped to an amount of £80m.

These commitments will be financed from Group cash flow and borrowed funds.

### Operating lease commitments

The Group has entered into various operating lease agreements on premises and equipment. The future non-cancellable minimum lease rentals are payable during the following financial years:

	2019 £'m	2018 £'m
Within 1 year	63	47
1 to 5 years	199	147
Beyond 5 years	492	413
	<b>754</b>	607

### Income guarantees

As part of the expansion of network of specialist institutes in Switzerland and centres of expertise, the Group has agreed to guarantee a minimum net income to these specialists for a start-up period of three to five years.

Payments under such guarantees become due if the net income from the collaboration does not meet the amounts guaranteed. There were no payments under the above mentioned income guarantees in the reporting period as the net income individually generated met or exceeded the amounts guaranteed.

	2019 £'m	2018 £'m
<b>Total of net income guaranteed:</b>		
April 2018 to March 2019	-	3
April 2019 to March 2020	3	1
April 2020 to March 2021	1	1
April 2021 to March 2022	1	-
	<b>5</b>	5

**34. COMMITMENTS (continued)****Contingent liabilities**

The Group is routinely subject to legal proceedings, claims, complaints and investigations arising out of the ordinary course of business. The Group cannot always accurately predict the outcome of individual legal actions, claims, complaints or investigations but a best estimate of the likelihood of such actions and claims crystallising a financial exposure is made at each period end. Where an exposure is deemed probable and is reliably estimable, a provision is made. Except for those matters where provisions have been recorded, which are described in note 19, the Group considers that no material loss to the Group is expected to result from legal proceedings, claims, complaints and investigations.

**35. RELATED PARTY TRANSACTIONS**

Remgro Limited owns, through various subsidiaries (Remgro Healthcare (Pty) Ltd, Remgro Health Ltd and Remgro Jersey GBP Ltd) 44.56% (2018: 44.56%) of the Company's issued share capital.

The following transactions were carried out with related parties:

	2019 £'m	2018 £'m
<b>i) Transactions with shareholders</b>		
<b>Remgro Management Services Ltd (subsidiary of Remgro Ltd)</b>		
Managerial and administration fees	0.3	0.3
Internal audit services	0.2	0.2
<b>V&amp;R Management Services AG (subsidiary of Remgro Ltd)</b>		
Administration fees*	-	-
<b>ii) Key management compensation</b>		
Key management includes the directors (executive and non-executive) and members of the executive committee.		
<b>Salaries and other short term benefits</b>		
Short-term benefits	6	6
Post employment benefits*	-	-
Share-based payment	-	1
<b>iii) Transactions with associates</b>		
<b>Zentrallabor Zürich</b>		
Fees earned	(2)	(2)
Purchases	9	8
<b>Spire Healthcare Group plc</b>		
Non-executive director fee*	-	-
<b>Wits University Donald Gordon Medical Centre (Pty) Ltd</b>		
Fees paid	2	2

\* Amount is less than £0.1m



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 36. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value in the statement of financial position, are classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Input (other than quoted prices included within level 1) that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - Input for the asset or liability that is not based on observable market data (unobservable input).

<b>Financial instruments carried at fair value in the statement of financial position</b>	<b>2019 £'m</b>	2018 £'m
<b>Financial assets</b>		
Other investments and loans	<b>3</b>	1
<b>Financial liabilities</b>		
Derivative financial instruments	<b>(91)</b>	(2)

- Debt instruments at FVPL (part of other investments and loans): Fair value is based on appropriate valuation methodologies being discounted cash flow or actual net asset value of the investment. These assets are grouped as level 2.
- Derivative financial instruments: Interest rate swaps, put/call agreements and forward contracts. These financial instruments are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Based on the degree to which the fair value is observable, the interest rate swaps are grouped as level 2. The forward contract and put option (redemption liability) are grouped as level 3.

<b>Financial instruments not carried at fair value in the statement of financial position</b>	<b>2019 £'m</b>	2018 £'m
<b>Financial assets</b>		
Other investments and loans	<b>8</b>	7
Trade and other receivables	<b>516</b>	440
Cash and cash equivalents	<b>265</b>	261
<b>Financial liabilities</b>		
Borrowings	<b>(1 982)</b>	(1 937)
Trade and other payables	<b>(411)</b>	(354)

- Cash and cash equivalents, trade and other receivables, trade and other payables and other investments and loans: Due to the expected short-term maturity of these financial instruments, their carrying value approximate their fair value.
- Borrowings: The fair value of long-term borrowings is based on discounted cash flows using the effective interest rate method. As the interest rates of long-term borrowings are all market related, their carrying values approximate their fair value.

## 37. EVENTS AFTER THE REPORTING DATE

No material events occurred between the reporting date and the date the financial statements were authorised for issue.

# ANNEXURE – INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

## SUBSIDIARIES

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>a</sup>	
			31 March 2019 %	31 March 2018 %
Al Noor Holdings Cayman Limited (“ <b>ANH Cayman</b> ”)	Cayman Islands	Dormant company in process of liquidation	100.0	100.0
ANMC Management Limited (“ <b>ANMC Management</b> ”)	Cayman Islands	Dormant company in process of liquidation	100.0	100.0
Mediclinic CHF Finco Limited	Jersey	Treasury	100.0	100.0
Mediclinic Holdings Netherlands B.V.	Netherlands	Intermediary holding company	100.0	100.0
Mediclinic International (RF) (Pty) Ltd	South Africa	Intermediary holding company	100.0	100.0
Mediclinic Middle East Holdings Limited	Jersey	Intermediary holding company	100.0	100.0
<b>Group</b>				
<b>Indirectly held through Mediclinic CHF Finco Limited</b>				
Mediclinic Jersey Limited	Jersey	Intermediary holding company	100.0	100.0
<b>Indirectly held through Mediclinic International (RF) (Pty) Ltd</b>				
Mediclinic Investments (Pty) Ltd	South Africa	Intermediary holding company	100.0	100.0
Mediclinic Group Services (Pty) Ltd	South Africa	Provision of group services within the Mediclinic Group	100.0	100.0
<b>Indirectly held through Mediclinic Investments (Pty) Ltd</b>				
Mediclinic Middle East Investment Holdings (Pty) Ltd	South Africa	Deregistered	-	100.0
Mediclinic Southern Africa (Pty) Ltd	South Africa	Intermediary holding company	100.0	100.0
<b>Indirectly held through Mediclinic Group Services (Pty) Ltd</b>				
Medical Innovations (Pty) Ltd	South Africa	Hospital equipment and procurement	100.0	100.00
<b>Indirectly held through Mediclinic Southern Africa (Pty) Ltd</b>				
Curamed Holdings (Pty) Ltd	South Africa	Intermediary holding company	69.6	69.6
ER24 Holdings (Pty) Ltd	South Africa	Intermediary holding company	100.0	100.0
Howick Private Hospital Holdings (Pty) Ltd* (50% plus 1 share)	South Africa	Intermediary holding company	50.0	50.0
Medical Human Resources (Pty) Ltd	South Africa	Management of healthcare staff	100.0	100.0
Mediclinic (Pty) Ltd (ordinary shares and Mediclinic Head Office Hospital shares)	South Africa	Intermediary holding company and operating company of Mediclinic Southern Africa	100.0	100.0
Mediclinic Brits (Pty) Ltd*	South Africa	Healthcare services	66.7	67.8
Mediclinic Finance Corporation (Pty) Ltd	South Africa	Treasury	100.0	100.0
Mediclinic Holdings (Namibia) (Pty) Ltd	Namibia	Intermediary holding company	100.0	100.0
Mediclinic Lephalale (Pty) Ltd*	South Africa	Healthcare services	91.2	91.2
Mediclinic Midstream (Pty) Ltd*	South Africa	Healthcare services	79.8	81.1
Mediclinic Midstream Properties (Pty) Ltd	South Africa	Deregistered	-	100.0
Mediclinic Paarl (Pty) Ltd*	South Africa	Healthcare services	75.5	75.9

## ANNEXURE – INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
Mediclinic Properties (Pty) Ltd	South Africa	Property ownership and management	100.0	100.0
Mediclinic Tzaneen (Pty) Ltd* (50% plus one share)	South Africa	Healthcare services	50.0	50.0
Mediclinic Stellenbosch (Pty) Ltd*	South Africa	Healthcare services	72.5	-
<b>Indirectly held through Mediclinic Southern Africa (Pty) Ltd</b>				
Intercare Holdings (Pty) Ltd (Clinics)	South Africa	Healthcare services	34.0	-
Intercare Group Hospital Holdings (Pty) Ltd (Hospitals) (50% plus one share)	South Africa	Healthcare services	50.0	-
Newcastle Private Hospital (Pty) Ltd* (50% plus one share, including B class shares)	South Africa	Healthcare services	50.0	50.0
Practice Relief (Pty) Ltd	South Africa	Provision of debt collection and related services	100.0	100.0
Victoria Hospital (Pty) Ltd* (50% plus five shares, including B class shares)	South Africa	Healthcare services	50.0	50.0
<b>Indirectly held through Mediclinic Holdings (Namibia) (Pty) Ltd</b>				
Mediclinic Capital (Namibia) (Pty) Ltd	Namibia	Investment holding company	100.0	100.0
Mediclinic Otjiwarongo (Pty) Ltd	Namibia	Healthcare services	100.0	100.0
Mediclinic Properties (Swakopmund) (Pty) Ltd	Namibia	Property ownership and management	100.0	100.0
Mediclinic Properties (Windhoek) (Pty) Ltd	Namibia	Property ownership and management	100.0	100.0
Mediclinic Swakopmund (Pty) Ltd	Namibia	Healthcare services	99.0	99.0
Mediclinic Windhoek (Pty) Ltd	Namibia	Healthcare services	97.1	96.5
<b>Hospital Investment Companies</b>				
Mediclinic Bloemfontein Investments (Pty) Ltd	South Africa	Hospital investment company	98.2	98.9
Mediclinic Cape Gate Investments (Pty) Ltd	South Africa	Hospital investment company	89.9	90.9
Mediclinic Cape Town Investments (Pty) Ltd	South Africa	Hospital investment company	99.0	99.0
Mediclinic Constantiaberg Investments (Pty) Ltd	South Africa	Hospital investment company	75.0	75.5
Mediclinic Durbanville Investments (Pty) Ltd	South Africa	Hospital investment company	99.4	99.4
Mediclinic Emfuleni Investments (Pty) Ltd	South Africa	Hospital investment company	80.1	83.0
Mediclinic George Investments (Pty) Ltd	South Africa	Hospital investment company	99.3	97.3
Mediclinic Highveld Investments (Pty) Ltd	South Africa	Hospital investment company	98.5	98.5

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
Mediclinic Hoogland Investments (Pty) Ltd	South Africa	Hospital investment company	99.1	99.1
Mediclinic Kathu Investments (Pty) Ltd	South Africa	Dormant	100.0	100.0
Mediclinic Klein Karoo Investments (Pty) Ltd	South Africa	Hospital investment company	100.0	100.0
Mediclinic Legae Investments (Pty) Ltd	South Africa	Hospital investment company	89.3	91.8
Mediclinic Louis Leipoldt Investments (Pty) Ltd	South Africa	Hospital investment company	99.8	99.6
Mediclinic Milnerton Investments (Pty) Ltd	South Africa	Hospital investment company	99.4	99.4
Mediclinic Morningside Investments (Pty) Ltd	South Africa	Hospital investment company	79.7	79.5
Mediclinic Nelspruit Investments (Pty) Ltd	South Africa	Hospital investment company	98.2	98.7
Mediclinic Panorama Investments (Pty) Ltd	South Africa	Hospital investment company	99.2	99.2
Mediclinic Pietermaritzburg Investments (Pty) Ltd	South Africa	Hospital investment company	76.4	77.4
Mediclinic Plettenberg Bay Investments (Pty) Ltd	South Africa	Hospital investment company	93.0	93.0
Mediclinic Sandton Investments (Pty) Ltd	South Africa	Hospital investment company	93.8	94.0
Mediclinic Secunda Investments (Pty) Ltd	South Africa	Hospital investment company	81.8	81.8
Mediclinic Vereeniging Investments (Pty) Ltd	South Africa	Hospital investment company	98.5	98.5
Mediclinic Vergelegen Investments (Pty) Ltd	South Africa	Hospital investment company	94.4	92.9
Mediclinic Welkom Investments (Pty) Ltd	South Africa	Hospital investment company	91.9	91.4
Mediclinic Worcester Investments (Pty) Ltd	South Africa	Hospital investment company	97.3	97.3
<b>Indirectly held through Mediclinic (Pty) Ltd</b>				
Mediclinic Ermelo (Pty) Ltd*	South Africa	Healthcare services	58.1	52.2
Mediclinic Hermanus (Pty) Ltd*	South Africa	Healthcare services	53.2	53.2
Mediclinic Kimberley (Pty) Ltd*	South Africa	Healthcare services	89.5	89.4
Mediclinic Limpopo (Pty) Ltd <sup>5*</sup>	South Africa	Healthcare services	50.0	50.0
Mediclinic Potchefstroom (Pty) Ltd*	South Africa	Healthcare services	85.6	86.1
Mediclinic Upington (Pty) Ltd*	South Africa	Healthcare services	50.0	50.0
<b>Indirectly held through Howick Private Hospital Holdings (Pty) Ltd</b>				
Howick Private Hospital (Pty) Ltd*	South Africa	Healthcare services	100.0	100.0

## ANNEXURE – INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
<b>Indirectly held through Mediclinic Limpopo (Pty) Ltd</b>				
Mediclinic Limpopo Day Clinic (Pty) Ltd	South Africa	Day clinic investment company	<b>57.9</b>	60.2
Mediclinic Limpopo Investments (Pty) Ltd	South Africa	Investment holding company	<b>100.0</b>	100.0
<b>Indirectly held through Mediclinic Durbanville Investments (Pty) Ltd</b>				
Mediclinic Durbanville Day Clinic (Pty) Ltd	South Africa	Day clinic investment company	<b>85.2</b>	89.9
<b>Indirectly held through Mediclinic Welkom Investments (Pty) Ltd</b>				
Welkom Medical Centre (Free State) (Pty) Ltd	South Africa	Healthcare services	<b>78.8</b>	77.3
<b>Indirectly held through Mediclinic Morningside Investments (Pty) Ltd</b>				
Sandton Day Hospital (Pty) Ltd	South Africa	Healthcare services	<b>70.0</b>	–
Sandton Sub-Acute Hospital (Pty) Ltd	South Africa	Healthcare services	<b>70.0</b>	–
<b>Indirectly held through Mediclinic Victoria Hospital (Pty) Ltd</b>				
Victoria Hospital Investments (Pty) Ltd	South Africa	Investment holding company	<b>100.0</b>	100.0
<b>Indirectly held through Curamed Holdings (Pty) Ltd</b>				
Curamed Hospitals (Pty) Ltd	South Africa	Healthcare services	<b>100.0</b>	100.0
Curamed Properties (Pty) Ltd	South Africa	Property ownership and management	<b>100.0</b>	100.0
<b>Indirectly held through Curamed Hospitals (Pty) Ltd</b>				
Mediclinic Thabazimbi (Pty) Ltd	South Africa	Healthcare services	<b>76.0</b>	76.0
<b>Indirectly held through ER24 Holdings (Pty) Ltd</b>				
ER24 EMS (Pty) Ltd	South Africa	Emergency medical services	<b>100.0</b>	100.0
ER24 Trademarks (Pty) Ltd	South Africa	Intellectual property holding company	<b>100.0</b>	100.0
ER24 Zambia Ltd	Zambia	Emergency medical services	<b>99.0</b>	99.0
<b>Indirectly held through Mediclinic Stellenbosch (Pty) Ltd</b>				
Mediclinic Winelands (Pty) Ltd	South Africa	Healthcare services	<b>100.0</b>	100.0
Hedrapix Investments (Pty) Ltd (to be renamed Stellenbosch Day Clinic (Pty) Ltd)	South Africa	Dormant	<b>100.0</b>	100.0

\* Controlled through long-term management agreements.

<sup>§</sup> Operating through a trust.

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
<b>Indirectly held through Mediclinic Holdings Netherlands B.V.</b>				
Mediclinic Luxembourg S.à.r.l	Luxembourg	Intermediary holding company	100.0	100.0
<b>Indirectly held through Mediclinic Luxembourg S.à.r.l.</b>				
Hirslanden AG	Switzerland	Intermediary holding company and operating company of the Hirslanden group	100.0	100.0
<b>Indirectly held through Hirslanden AG</b>				
AndreasKlinik AG Cham	Switzerland	Healthcare services	100.0	100.0
Hirslanden Bern AG	Switzerland	Healthcare services	100.0	100.0
Hirslanden Freiburg AG, Dürdingen	Switzerland	Healthcare services	100.0	100.0
Hirslanden Klinik Aarau AG	Switzerland	Healthcare services	100.0	100.0
<b>Indirectly held through Hirslanden AG</b>				
Hirslanden Klinik Am Rosenberg AG	Switzerland	Healthcare services	100.0	100.0
Hirslanden Lausanne SA	Switzerland	Healthcare services	100.0	100.0
IMRAD SA	Switzerland	Healthcare services	80.0	80.0
Klinik Belair AG	Switzerland	Healthcare services	100.0	100.0
Klinik Birshof AG	Switzerland	Healthcare services	99.7	99.7
Klinik St. Anna AG	Switzerland	Healthcare services	100.0	100.0
Klinik Stephanshorn AG	Switzerland	Healthcare services	100.0	100.0
Radiotherapie Hirslanden AG	Switzerland	Healthcare services	100.0	100.0
Röntgeninstitut Cham AG	Switzerland	Healthcare services	-	100.0
Hirslanden Klinik Linde AG	Switzerland	Healthcare services	100.0	99.7
Hirslanden La Colline Grangette SA	Switzerland	Healthcare services	60.0	-
<b>Indirectly held through Hirslanden Klinik am Rosenberg AG</b>				
Klinik am Rosenberg Heiden AG	Switzerland	Healthcare services	99.2	99.2
Lindenpark Immobilien AG	Switzerland	Healthcare services	-	99.7
<b>Indirectly held through Hirslanden Bern AG</b>				
Herzchirurgie Hirslanden Bern AG	Switzerland	Healthcare services	-	100.0
<b>Indirectly held through Hirslanden La Colline Grangettes SA</b>				
Hirslanden Clinique La Colline SA	Switzerland	Healthcare services	60.0	-
Grangettes Healthcare SA	Switzerland	Healthcare services	60.0	100.0
<b>Indirectly held through Grangettes Healthcare SA</b>				
Clinique des Grangettes SA	Switzerland	Healthcare services	60.0	-
Dianecho SA	Switzerland	Healthcare services	43.9	-
<b>Indirectly held through Mediclinic Middle East Holdings Limited</b>				
Mediclinic International Co Limited	United Kingdom	Dormant	100.0	100.0
Emirates Healthcare Holdings Limited	British Virgin Islands	Intermediary holding company	100.0	100.0

## ANNEXURE – INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
<b>Indirectly held through Emirates Healthcare Holdings Limited</b>				
Welcare World Holdings Limited	British Virgin Islands	Healthcare services	100.0	100.0
Emirates Healthcare Limited	British Virgin Islands	Healthcare services	100.0	100.0
<b>Indirectly held through Emirates Healthcare Limited</b>				
Delah Cafe FZ LLC (incorporated in October 2016)	UAE	Food and catering	100.0	100.0
Emirates Healthcare Estates Limited (liquidated)	British Virgin Islands	Property management	-	100.0
Mediclinic Al Quasis Clinic LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
Mediclinic Beach Road LLC <sup>2</sup> (dormant)	UAE	Healthcare services	49.0	49.0
Mediclinic City Hospital FZ LLC	UAE	Healthcare services	100.0	100.0
Mediclinic Clinics Investment LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
Mediclinic Ibn Battuta Clinic LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
Mediclinic Medical Stores Co LLC <sup>2</sup>	UAE	Procurement	49.0	49.0
Mediclinic Mirdif Clinic LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
Mediclinic Parkview Hospital LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
Mediclinic Al Bahr Clinic LLC (dormant)	UAE	Healthcare services	49.0	49.0
Welcare Hospitals Limited (BVI)	British Virgin Islands	Healthcare services	100.0	100.0
Welcare World Health Systems Limited	British Virgin Islands	Healthcare services	100.0	100.0
Mediclinic Hospitals LLC <sup>4*</sup> (Al Noor Hospital)	UAE	Healthcare services	49.0	-
Pharma Light Medical Store LLC	UAE	Medical store / procurement	49.0	-
<b>Indirectly held through Welcare Hospitals Limited (BVI)</b>				
Mediclinic Welcare Hospital LLC <sup>2</sup>	UAE	Healthcare services	49.0	49.0
<b>Indirectly held through Welcare World Holdings Limited</b>				
Mediclinic Corniche Medical Centre LLC <sup>2</sup> (dormant)	UAE	Healthcare services	49.0	49.0
Mediclinic Pharmacy LLC <sup>2</sup> (dormant)	UAE	Healthcare services (pharmacy)	49.0	49.0
<b>Indirectly held through Welcare World Health Systems Limited</b>				
Mediclinic Middle East Management Services FZ LLC	UAE	Healthcare management services	100.0	100.0
<b>Indirectly held through Al Noor Commercial Investment – Sole Proprietorship LLC</b>				
Al Noor Hospital Clinics – Al Ain <sup>9</sup>	UAE	Intermediary holding company	51.0	-



Company	Country of incorporation and place of business	Principal activities	Interest in capital <sup>1</sup>	
			31 March 2019 %	31 March 2018 %
<b>Indirectly held through Mediclinic Hospitals LLC</b>				
Al Madar Medical Center LLC <sup>5</sup> (previously Al Madar Group LLC) (dormant)	UAE	Healthcare services	<b>73.0</b>	73.0
Al Madar Medical Center Pharmacy LLC	UAE	Healthcare services	<b>49.0</b>	49.0
Mediclinic Al Mamora LLC (previously named Al Noor Hospital Family Care Centre – Al Mamora LLC) <sup>6</sup>	UAE	Healthcare services	<b>99.0</b>	100.0
Mediclinic Khalifa City Clinic LLC (previously named Al Noor Hospital Medical Centre Khalifa City LLC) <sup>7</sup>	UAE	Healthcare services	<b>49.0</b>	49.0
Mediclinic Aspetar LLC (previously named Aspetar Al Madar Medical Center LLC) <sup>8</sup> (sold on 5 December 2018)	UAE	Healthcare services	<b>-</b>	49.0
Mediclinic Pharmacy Aspetar LLC (previously named Aspetar Al Madar Medical Pharmacy) (sold on 5 December 2018)	UAE	Healthcare services	<b>-</b>	49.0

#### Notes

- <sup>1</sup> The actual equity interest in the UAE entities are disclosed herein, with the beneficial interest further explained in the notes.
- <sup>2</sup> In terms of the constitutional and contractual arrangements, the Group has full management control and an economic interest of 100% in these UAE entities.
- <sup>3</sup> Al Nahda International Holding LLC holds 100% share capital of Al Noor Commercial Investments– Sole proprietorship LLC. As per the Shareholders Agreement dated 17 May 2017, executed between Emirates Healthcare Limited, Al Nahda International Limited, Al Noor Commercial Investment LLC and Mediclinic Hospitals LLC, the parties have agreed that Al Nahda International Holding LLC will become the sole shareholder of ANCI and the local sponsor for the group (OPCO of Mediclinic Hospitals LLC (Al Noor Hospital) and its subsidiaries and their respective registered branches and operational units from time to time). In terms of this agreement, ANCI holds 51% of the share capital of Mediclinic Hospitals LLC (Al Noor Hospital) and Emirates Healthcare Limited BVI holds the remaining 49%. By virtue of this shareholder agreement, the parties have agreed that ANCI and Mediclinic Hospitals LLC (Al Noor Hospital) will be managed and controlled by EHL. Every dividend declared by Mediclinic Hospitals LLC (Al Noor Hospital) will be paid directly to Emirates Healthcare Limited. Accordingly, the management, voting rights and the dividend rights have been assigned to Emirates Healthcare Limited. As per the termination agreement dated 21 August 2017, between Al Noor Golden Commercial Investment LLC, Sheikh Mohamed Bin Butti Al Hamid, Al Noor Commercial Investment LLC, ANMC Management Limited, Al Noor Holdings Cayman and Emirates Healthcare Limited whereby the parties agreed to terminate the following:
- a) Relationship management agreement entered into between ANGCI, Sheikh Bin Butti and the OPCO on 20 May 2013 (“Relationship Agreement 1”);
- b) The relationship agreement entered into between ANGCI, ANCI and OPCO on 20 May 2013 (“Relationship Management Agreement 2”);
- c) The management agreement entered into between ANCI, ANMC Management on 20 May 2013 (“Management Agreement”); and
- d) A shareholders agreement entered into between Sheikh Bin Butti, The First Arabian Corporation LLC, Al Noor Cayman, ANMC Management and ANCI on 20 May 2013 (“Shareholders Agreement”).
- <sup>4</sup> Emirates Healthcare Limited BVI holds 49% of the issued share capital of Mediclinic Hospitals LLC, (Al Noor Hospital) with the remaining 51% held by ANCI. ANCI assigned 100% of the voting rights, management control and dividend rights to Emirates Healthcare Limited BVI. Emirates Healthcare Limited BVI has the right to be appointed as the proxy of ANCI, to attend and to vote at all shareholder meetings of Mediclinic Hospitals LLC (Al Noor Hospital)
- <sup>5</sup> Mediclinic Hospitals LLC (Al Noor Hospital) holds 73% of the issued share capital of Al Madar Medical Center LLC, with the remaining 27% interest held by ANCI. The Memorandum of Association of the company provides that Mediclinic Hospitals LLC (Al Noor Hospital) is entitled to receive 99% of distributions by the company and ANCI is entitled to receive 1%. The group’s effective beneficial interest in the entity is therefore 99%.
- <sup>6</sup> Mediclinic Hospitals LLC (Al Noor Hospital) holds 99% and ANCI holds 1% in the issued share capital of Mediclinic Al Mamora LLC, collectively 100%.
- <sup>7</sup> Mediclinic Hospitals (Al Noor Hospital) holds 49% of the issued share capital of Mediclinic – Khalifa City Clinic LLC, with the remaining 51% held by ANCI. The Memorandum of Association of the company provides that Mediclinic Hospitals LLC (Al Noor Hospital) is entitled to receive 99% of distributions by the company and ANCI is entitled to receive 1%. The group’s effective beneficial interest in the entity is therefore 99%.
- <sup>8</sup> Al Noor Commercial Investment \_ Sole Proprietorship LLC holds 51% of the issued share capital of Al Noor Hospital Clinics - Al Ain LLC, with the remaining 49% held by Mediclinic Hospitals LLC. The Memorandum of Association of the company provides that Mediclinic Hospitals LLC is entitled to receive 99% of distributions by the company and ANCI is entitled to receive 1%. The Group’s effective beneficial interest in the entity is therefore 99%.
- <sup>9</sup> Mediclinic Hospitals (Al Noor Hospital) holds 49% of the issued share capital of Al Madar Medical Centre Pharmacy LLC, with the remaining 51% interest held by ANCI. The Memorandum of Association of the company provides that Mediclinic Hospitals LLC is entitled to receive 99% of distributions by the company and ANCI is entitled to receive 1%. The Group’s effective beneficial interest in the entity is therefore 99%.
- \* Controlled through long-term management agreements.
- <sup>5</sup> Operating through trusts or partnerships.

# ANNEXURE - INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

## JOINT VENTURES

Company	Country of incorporation and place of business	Principal activities	Interest in capital	
			31 March 2019 %	31 March 2018 %
Wits University Donald Gordon Medical Centre (Pty) Ltd	South Africa	Healthcare services	49.9	49.9

## ASSOCIATES

Company	Interest in capital		Book value of investment	
	31 March 2019 %	31 March 2018 %	31 March 2019 £'m	31 March 2018 £'m
<i>Listed:</i>				
Spire Healthcare Group plc (held through Mediclinic Jersey Limited)	29.9	29.9	180	348
<i>Unlisted:</i>				
Intercare Medical Proprietary Limited	34.0	34.0	3	2
Bourn Hall International MENA Limited	30.0	-	4	-
Zentrallabor Zürich, Zürich**	49.2	50.0	2	2
Baukonsortium, Cham*	24.0	24.0	-	-
EFG Parkierung Rigistrasse, Cham*	25.0	25.0	-	-
Centre de Reeducation et de Physiotherapie SA*	20.0	20.0	-	-
Centre de Physiotherapie du Sport S.à.r.l.*	23.0	23.0	-	-
CORTS AG, Maur*	30.0	30.0	-	-
GRGB Santé SA, Genève	30.0	-	-	-
			189	352

The nature of the activities of the associates is similar to the major activities of the Group.

\* Book value is less than £0.5m.

\*\* The Hirslanden group does not control Zentrallabor Zürich as it has no power over the company.



# COMPANY FINANCIAL STATEMENTS

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MEDICLINIC INTERNATIONAL PLC

### REPORT ON THE AUDIT OF THE COMPANY FINANCIAL STATEMENTS

#### Opinion

In our opinion, Mediclinic International plc's Company financial statements:

- give a true and fair view of the state of the Company's affairs at 31 March 2019 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Company statement of financial position at 31 March 2019; the Company statement of cash flows and the Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which include the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Company in the period from 1 April 2018 to 31 March 2019.

#### Our audit approach

##### Overview



- Overall materiality: £38 million based on approximately 1% of total assets (2018: £13.4 million).
- Our audit included substantive procedures of all material balances and transactions.
- Impairment assessment of the Company's investments in subsidiaries.

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to healthcare reforms and introduction of new regulations in the Group's markets and unethical and prohibited business practices (see page 55 of the Annual Report) and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the UK Listing Rules and UK taxation legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and we determined that the principal risks were related to posting inappropriate journal entries to increase income or reduce expenditure or to misstate asset balances and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management, Internal Audit and the Audit and Risk Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in relation to the Company's significant accounting estimates, in particular in relation to the impairment assessment of the Company's investments in subsidiaries; and
- Identifying and testing journal entries based on our risk assessment.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. In addition, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the audit team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



# INDEPENDENT AUDITORS' REPORT (CONTINUED)

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## KEY AUDIT MATTER

### IMPAIRMENT ASSESSMENT OF THE COMPANY'S INVESTMENTS IN SUBSIDIARIES

(refer to note 3 in the **Company financial statements**)

Investments in subsidiaries are accounted for at cost less impairment in the Company balance sheet.

At 31 March 2019, the Company holds investments in subsidiaries with a historical cost of £5,916 million.

Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

At the start of the financial year, accumulated impairment charges recorded totalled £1 169 million. In the current financial year impairment triggers were identified in connection with the Company's investments in Mediclinic Holdings Netherlands B.V. (which holds the Groups Swiss operations) and CHF Finco Limited (Jersey) (which holds the Groups investment in Spire) due to a decline in the expected recoverable value of the underlying Swiss operations and following a reduction in the listed market price of the underlying investment in Spire respectively. An impairment trigger was also identified in connection with the Company's investment in Mediclinic International (RF) Pty Limited (which holds the Group's South African operations) due to the weakening of the South African rand against the Great British pound. As a result, an impairment loss of £943 million was recognised in the current year, reflecting a write-down of the investments in Mediclinic Holdings Netherlands B.V., CHF Finco Limited (Jersey) and Mediclinic International (RF) (Pty) Limited to their recoverable value at 31 March 2019. The total accumulated impairment charges at 31 March 2019 amount to £2,113 million.

The impairment assessment performed by management was considered a key audit matter given the size of the underlying investment carrying values and recognising the significance of the impairment charge that has been recorded. The assessment requires the application of management judgement, particularly in determining whether any impairment indicators have arisen that trigger the need for an impairment review and assessing whether the carrying value of an asset can be supported by its recoverable amount, which is determined by reference to the key valuation assumptions for each investment.

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## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS

We independently evaluated management's assessment whether any indicators of impairment existed by comparing the Company's carrying value of investments in subsidiaries to the Group's market capitalisation at 31 March 2019 and to the valuations implied by other models, including valuation models prepared for impairment review purposes and for the Group's associate investment in Spire, which were subject to audit procedures as part of our Group audit.

Deploying our valuation experts, we tested the reasonableness of key assumptions underpinning management's recoverable amount valuation of the Company's investments, focusing in particular on the Swiss operations and the investment in Spire, including cash flow forecasts and the selection of growth rates and discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to third party data and economic forecasts.

We evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the level of impairment required.

Based on our work performed, we concurred with management that an impairment is required in the current year. We have found the judgements and estimates made by management in determining the impairment charge to be materially reasonable in the context of the Company financial statements taken as a whole and the related disclosures to be appropriate.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, its accounting processes and controls and the industry in which it operates. Our audit included substantive procedures on all material balances and transactions recorded in the Company's financial statements.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	£38 million (2018: £13.4 million)
<b>How we determined it</b>	Based on approximately 1% of total assets (2018: based on 1% of total assets capped at 90% of overall materiality applied as part of our Group audit as the Company was determined to be a component of the Group audit in the prior year)
<b>Rationale for benchmark applied</b>	<p>Mediclinic International plc is the ultimate parent company which holds the Group's investments. Therefore, the entity is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to shareholders, since the primary concern for the parent company is the payment of dividends. Using a benchmark of total assets is therefore most appropriate.</p> <p>For 2019, selected financial statement line items related to cash and equity of the Company are included in the scope of the Group audit and were audited to a lower capped materiality of £12.6 million. However, we determined that the Company did not require a full scope audit of its complete financial information for the purposes of the Group audit in 2019. For 2018, the Company financial information was a full scope component of the Group audit and all audit procedures were performed based on a capped materiality level of £13.4 million.</p>

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.7 million (2018: £0.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

<b>Reporting obligation</b>	<b>Outcome</b>
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	<p>We have nothing material to add or to draw attention to.</p> <p>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.</p>
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.



# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the **Strategic Report** and **Directors' Report** for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### **The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company**

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 179 of the **Annual Report** that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures in the **Annual Report** that describe those risks and explain how they are being managed or mitigated; and
- The Directors' explanation on page 60 of the **Annual Report** as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "**Code**"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

**Other Code provisions**

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 179, that they consider the **Annual Report** taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit;
- The section of the **Annual Report** on page 136 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; and
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

**Directors' remuneration**

In our opinion, the part of the **Directors' Remuneration Report** to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

**Responsibilities for the financial statements and the audit****Responsibilities of the Directors for the financial statements**

As explained more fully in the **Directors' Responsibilities Statement** set out on page 179, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**OTHER REQUIRED REPORTING****Companies Act 2006 exception reporting**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements and the part of the **Directors' Remuneration Report** to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

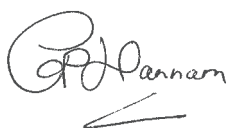
# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 18 March 2016 to audit the financial statements for the year ended 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 March 2016 to 31 March 2019.

## Other matter

We have reported separately on the **Group financial statements** of Mediclinic International plc for the year ended 31 March 2019.

A handwritten signature in black ink, appearing to read 'G. Hannam', with a horizontal line underneath it.

**Giles Hannam (Senior Statutory Auditor)**

*for and on behalf of PricewaterhouseCoopers LLP*

Chartered Accountants and Statutory Auditors

London

22 May 2019

# COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Notes	2019 £'m	2018 £'m
<b>Non-current assets</b>			
Investment in subsidiaries	3	3 803	4 747
<b>Current assets</b>			
Cash and cash equivalents		28	26
<b>Total assets</b>		<b>3 831</b>	<b>4 773</b>
<b>EQUITY</b>			
Share capital	5	74	74
Capital redemption reserve	5	6	6
Share premium	5	690	690
Retained earnings	5	3 032	3 976
Opening balance	5	3 976	5 154
Loss for the year	5	(885)	(1 120)
Dividends paid	6	(59)	(58)
Share-based payment reserve	5	-	1
Treasury shares	5	-	(1)
<b>Total equity</b>		<b>3 802</b>	<b>4 746</b>
<b>Current liabilities</b>			
Other payables		1	1
Amount due to related parties	4	28	26
<b>Total liabilities</b>		<b>29</b>	<b>27</b>
		<b>3 831</b>	<b>4 773</b>

These financial statements as set out on pages 287–294 were approved and authorised for issue by the Board of Directors and signed on their behalf by:



**CA van der Merwe**  
Chief Executive Officer  
22 May 2019



**PJ Myburgh**  
Chief Financial Officer  
22 May 2019

Mediclinic International plc (Company no 08338604)

The notes on pages 290 – 294 form an integral part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £'m	Capital redemption reserve £'m	Share premium £'m	Retained earnings £'m	Share- based payment reserve £'m	Treasury shares £'m	Total £'m
<b>At 1 April 2017</b>	74	6	690	5 154	1	(2)	5 923
Loss for the year	-	-	-	(1 120)	-	-	(1 120)
Dividends paid in the year	-	-	-	(58)	-	-	(58)
Addition to share- based payment reserve	-	-	-	-	1	-	1
Settlement of share- based payment reserve	-	-	-	-	(1)	1	-
<b>At 31 March 2018</b>	74	6	690	3 976	1	(1)	4 746
Loss for the year	-	-	-	(885)	-	-	(885)
Dividends paid in the year	-	-	-	(59)	-	-	(59)
Settlement of share- based payment reserve	-	-	-	-	(1)	1	-
<b>At 31 March 2019</b>	<b>74</b>	<b>6</b>	<b>690</b>	<b>3 032</b>	<b>-</b>	<b>-</b>	<b>3 802</b>

The notes on pages 290–294 form an integral part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'m	2018 £'m
<b>OPERATING ACTIVITIES</b>			
Loss before tax		<b>(885)</b>	(1 120)
Adjustments for:			
Other income	6	<b>(38)</b>	(33)
Impairment of investments	3	<b>943</b>	1 169
Settlement of share-based payments		<b>-</b>	1
Dividend income		<b>(28)</b>	(24)
<b>Net cash used in operating activities before movements in working capital</b>		<b>(8)</b>	(7)
Change in balances with related parties		<b>2</b>	-
<b>Net cash (used in)/generated from operating activities</b>		<b>(6)</b>	(7)
<b>INVESTING ACTIVITIES</b>			
Dividend received	4	<b>28</b>	24
<b>Net cash generated from investing activities</b>		<b>28</b>	24
<b>FINANCING ACTIVITIES</b>			
Dividend paid	6	<b>(20)</b>	(25)
<b>Net cash used in financing activities</b>		<b>(20)</b>	(25)
Net movement in cash and cash equivalents		<b>2</b>	(8)
Cash and cash equivalents at the beginning of the year		<b>26</b>	34
<b>Cash and cash equivalents at the end of the year</b>		<b>28</b>	26

The notes on pages 290–294 form an integral part of these financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

## 1. STATUS AND ACTIVITY

Mediclinic International plc (the “**Company**” or “**Parent**”) is a Company which was incorporated in England and Wales on 20 December 2012. The address of the registered office of the Company is C/O Link Company Matters Limited, 6<sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ. The registration number of the Company is 08338604. There is no ultimate controlling party. The domicile of the Company is the United Kingdom. The Company is a public liability company with three operating divisions in Switzerland, Southern Africa (South Africa and Namibia) and the United Arab Emirates.

The activities of the subsidiaries are the operation of medical hospitals and clinics and the sale of pharmaceuticals, medical supplies and related equipment.

These financial statements are the separate financial statements of the Company only and the financial statements of the Group are prepared and presented separately. The financial statements are available at the registered office of the Company.

## 2. BASIS OF PREPARATION

The Company's principal accounting policies applied in the preparation of these financial statements are the same as those set out in note 2 of the Group's financial statements, except as noted below. These policies have been consistently applied to all the years presented.

Investments in subsidiaries are carried at cost less any accumulated impairment.

Dividend income is recognised when the right to receive payment is established.

The Company is taking advantage of the exemption in section 408 of the UK Companies Act not to present its individual income statement as part of these financial statements.

### a) Basis of measurement

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as adopted by the European Union, including IFRS Interpretations Committee (“**IFRS IC**”) applicable to companies reporting under IFRS. The financial statements are prepared on the historical cost convention, as modified by the revaluation of certain financial instruments to fair value.

### b) Functional and presentation currency

The financial statements and financial information are presented in pound sterling, rounded to the nearest million.

### c) Going concern

The Company's financial statements were prepared on a going concern basis. The Directors believe that the Company will continue to be in operation in the foreseeable future.

### d) Critical accounting estimate

The Company makes estimates and assumptions concerning the future. Although these estimates and assumptions are based on management's best information regarding current circumstances and future events, actual results may differ. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are discussed below.

#### **Key estimate**

- Impairment of investment in subsidiaries (refer to note 3).



### 3. INVESTMENT IN SUBSIDIARIES

This investment is stated at cost less impairment.

	2019 £'m	2018 £'m
Shares at cost	5 916	5 916
Less: accumulated impairment charge	(2 113)	(1 169)
Closing balance	<b>3 803</b>	4 747

The investments held by the Company are Al Noor Holdings Cayman Limited, ANMC Management Limited, Mediclinic CHF Finco Limited, Mediclinic Holdings Netherlands B.V., Mediclinic Middle East Holdings Limited and Mediclinic International (RF) (Pty) Ltd, each being wholly-owned subsidiaries.

The activities of the subsidiaries are the operation of medical hospitals and clinics and the sale of pharmaceuticals, medical supplies and related equipment.

At the financial year end, an impairment charge of £943m was recognised in respect of the carrying values of the investments in Mediclinic CHF Finco Limited, Mediclinic Holdings Netherlands B.V. and Mediclinic International (RF) (Pty) Ltd. Mediclinic CHF Finco Limited was impaired due to the impairment of the listed associate (Spire). Refer to note 8 in the consolidated financial statements for more detail relating to the impairment calculation. Mediclinic Holdings Netherlands B.V. was impaired due to the impairment of the properties and intangible assets of its underlying investment. Any change in the discount rates, short-term cash flow projections or long-term growth rates could give rise to material impairment charges in future periods. Refer to note 6 and 7 in the consolidated financial statements for more detail relating to the impairment calculations. Mediclinic International (RF) (Pty) Ltd was impaired mainly due to weakening of the South African rand.

Refer to the Annexure to the notes to the consolidated financial statements on page 271 for a complete listing of investments in subsidiaries, associates and joint ventures of the Group and details of the country of incorporation, place of business, principal activities and interest in capital.

### 4. RELATED PARTY BALANCES AND TRANSACTIONS

Related-parties comprise the subsidiaries, the shareholders, key management personnel and those entities over which the parent, the directors or the Company can exercise significant influence or which can significantly influence the Company.

	2019 £'m	2018 £'m
<b>a) Transactions with key management personnel</b>		
Key management includes the directors (executive and non-executive) and members of the Executive Committee		
Directors' fees	1	1
<b>b) Amount due to a related party:</b>		
Mediclinic Hospitals LLC	<b>28</b>	26

This amount included the transaction and operational expenses paid by Mediclinic Hospitals LLC on behalf of the Company. This amount is payable on demand.

Information regarding the Group's subsidiaries and associates can be found in the Annexure to the consolidated financial statements on page 271.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 4. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	2019 £'m	2018 £'m
<b>c) Dividends received from related parties:</b>		
Mediclinic CHF Finco Limited	5	4
Mediclinic Holdings Netherlands B.V.	7	8
Mediclinic Middle East Holdings Limited	16	12
	<b>28</b>	<b>24</b>
<b>5. SHARE CAPITAL AND RESERVES</b>		
Issued and fully paid 737 243 810 (2018: 737 243 810) shares of 10 pence each	<b>74</b>	74

### Other reserves

	Share-based payment reserve £'m	Treasury shares £'m	Total £'m
<b>As at 1 April 2017</b>	1	(2)	(1)
Addition of share-based payment reserve	1	-	1
Settlement of share-based payment reserve	(1)	1	-
<b>As at 31 March 2018</b>	1	(1)	-
Settlement of share-based payment reserve	<b>(1)</b>	<b>1</b>	<b>-</b>
<b>As at 31 March 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 6. DIVIDENDS

The Company declared interim dividends for the 2018/19 period and final dividends for the 2017/18 period amounting to £59m. The Company paid £20m (2018: £25m) of these dividends and the remainder of £39m (2018: £33m) was paid by the Dividend Access Trust.

A wholly-owned subsidiary of the Company, Mediclinic International (RF) (Pty) Ltd, formed a Dividend Access Trust to comply with a South African Reserve Bank requirement that dividends from a South African source due to South African shareholders on the South African share register must be paid locally to avoid an outflow of funds from South Africa.

The beneficiaries of the trust are the South African shareholders of the Company who hold their shares via the South African share register on the relevant record date in respect of each distribution paid through the Dividend Access Scheme. The Dividend Access Trust does not participate in any profits.

When a dividend is declared by the Company, the Dividend Access Trust would receive a dividend from Mediclinic International (RF) (Pty) Ltd which in turn is paid over to the Company's transfer secretaries in South Africa, who arrange for the payment of the relevant amount to the South African shareholders (the beneficiaries of the trust) through the usual dividend payment procedures, as if they were dividends received from Mediclinic International plc. To the extent that the dividends due to South African shareholders are not ultimately funded from Mediclinic International (RF) (Pty) Ltd, they receive those dividends as normal dividends from Mediclinic International plc. The South African shareholders' entitlement to receive dividends declared by Mediclinic International plc is reduced by any amounts they receive via the trust.

Details on the final proposed dividend have been disclosed in note 29.6 to the consolidated financial statements.

## 7. AUDITOR'S REMUNERATION

The Company incurred an amount of £452 025 (2018: £448 758) to its auditor in respect of the audit of the Company and Group's financial statements for the year ended 31 March 2019. The fee includes an amount of £nil (2018: £42 959) in respect of prior years.

Fees to the Company's auditors for other services:

	2019 £'m	2018 £'m
Audit-related services	0.11	0.12
	0.11	0.12

## 8. SHARE-BASED PAYMENT RESERVE

### Forfeitable Share Plan

The Mediclinic International (RF) (Pty) Ltd Forfeitable Share Plan ("FSP") was approved by the Company's shareholders in July 2014 as a long-term incentive scheme for selected senior management (executive directors and prescribed officers). This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction. The FSP shares will vest after the vesting period has lapsed. The remaining shares vested during the financial year.

Under the FSP, conditional share awards are granted to selected employees of the Group. The vesting of these shares is subject to continued employment and measured over a three-year period.

	2019 Number of shares	2018 Number of shares
As at 1 April 2018 (2018: 1 April 2017)	101 342	239 290
Vested during the year	(101 342)	(137 948)
As at 31 March	-	101 342

A valuation has been determined and an expense recognised over a three-year period. The fair value of the total shareholder return ("TSR") performance condition has been determined by using the Monte Carlo simulation model and the fair value of the headline earnings per share performance condition, consensus forecasts have been used. The following assumptions were used with the valuation of the scheme: risk-free rate of 7.49%, dividend yield of 1.0% and volatility of 20%.

Apart from the FSP, there are no other share option schemes in place. Therefore, no director exercised any rights in relation to share option schemes during the reporting period.

## 9. TAXATION

At 31 March 2019, the Company had unutilised tax losses of approximately £47m (2018: £40m). No deferred tax asset has been recognised in respect of these losses.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 10. FINANCIAL INSTRUMENTS

### a) Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern while maximising the return on equity. The Company does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objective. The Company's overall strategy remains unchanged from the prior year. The Company is not subject to externally imposed capital requirements.

### b) Financial risk management objectives

The Company is exposed to the following risks related to financial instruments: credit risk, liquidity risk and foreign currency risk. The Company does not enter into or trade in financial instruments, investments in securities, including derivative financial instruments, for speculative purposes.

### c) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. There is no material credit risk involved on the Company's financial statements. The Company's cash equivalents are placed with quality financial institutions with a high credit rating.

### d) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, who have built an appropriate liquidity risk management framework for managing the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. The table below summarises the maturity profile of the Company's financial liabilities. The contractual maturities of the financial liabilities have been determined on the basis of the remaining period at the end of reporting period to the contractual repayment date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the liabilities at the end of reporting period based on existing contractual repayment arrangements was as follows:

	Carrying amount £'m	Contractual cash flows £'m	1 year or less £'m
<b>31 March 2019</b>			
Other payables	1	1	1
Related-party payables	28	28	28
	<b>29</b>	<b>29</b>	<b>29</b>
<b>31 March 2018</b>			
Other payables	1	1	1
Related-party payables	26	26	26
	<b>27</b>	<b>27</b>	<b>27</b>

### e) Foreign currency risk

The Company has an insignificant exposure regarding foreign currency, but a prudent approach towards foreign cover is followed if applicable.



# ADDITIONAL INFORMATION

# SHAREHOLDER INFORMATION

## SHARE CAPITAL AND SHAREHOLDERS

### Structure

The Company's ordinary issued share capital as at 31 March 2019 was 737 243 810 ordinary shares of £0.10 each which have a primary listing on the LSE in the UK and secondary listings on the JSE in South Africa and the NSX in Namibia. The ordinary share class represents 100% of the Company's total issued share capital. Further information on the Company's issued share capital can be found in note 13 to the **consolidated financial statements** on pages 231-232.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares.

Shares acquired through the Company's share schemes and plans rank equally with the other shares in issue and have no special rights. Further details on the Company's employee share scheme are included in the **Directors' Remuneration Report** on page 170.

The Company has no intention to complete a market purchase of its ordinary shares and will not seek this authority at the Company's annual general meeting on 24 July 2019.

**TABLE 1: DISTRIBUTION OF ORDINARY SHAREHOLDERS AS AT 31 MARCH 2019**

	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES	% OF ISSUED SHARE CAPITAL
LSE register (registered)	454	223 248 037	30.28
JSE register (beneficial) comprising:	24 761	513 995 773	69.72
certificated	1 058	473 969	0.06
dematerialised	23 703	513 521 804	69.66
<b>Total</b>	<b>25 215</b>	<b>737 243 810</b>	<b>100.00</b>

### Restrictions on the transfer of company shares

The South African Broad-Based Black Economic Empowerment Act, No. 53 of 2003, as amended, was enacted to establish a legislative framework for the promotion of broad-based black economic empowerment in South Africa and is intended to encourage transformation by including black people in the economy. It covers aspects such as ownership, management control, skills development, enterprise and supplier development and social-economic development. In 2005, Mediclinic International (RF) (Pty) Ltd (previously Mediclinic International Ltd) ("**Mediclinic SA**") implemented a black ownership initiative with MP1 Investment Holdings (Pty) Ltd (previously Circle Capital Ventures (Pty) Ltd) ("**MP1**") and Phodiso Holdings Ltd ("**Phodiso**") (collectively, the "**Strategic Black Partners**").

Following the combination of Mediclinic SA with Al Noor Hospitals Group plc in February 2016, the Company entered into arrangements with the Strategic Black Partners to formalise the basis on which the Strategic

Black Partners hold their shares in the Company, which are materially the same as the arrangements in existence prior to the combination. The arrangements that originally applied to the holdings of the Strategic Black Partners in relation to their shares in Mediclinic SA before completion of the combination continue to apply to their holdings of shares in the Company.

In the case of the 10 958 206 shares held by MP1 through its subsidiary, Mpilo 1 Newco (RF) (Pty) Ltd ("**Mpilo 1**"), representing approximately 1.49% of the Company's issued share capital, disposals of such shares are restricted until 31 December 2019.

The arrangements also contain pre-emptive rights in favour of the Company which provide that, if any of the shares in the Company held by Mpilo 1 are to be offered for sale, the Company will be offered the opportunity to purchase such shares or to nominate another person to purchase such shares, in each case, at a discounted price of approximately 5% to the then market value. Any exercise of a right to purchase such shares by the Company itself would require the approval of its shareholders.



## RESTRICTIONS ON VOTING RIGHTS

The Company's Articles provide that, unless the Directors determine otherwise, a shareholder shall not be entitled to vote, either personally or by proxy, at any general meeting of the Company or to exercise any other right conferred by membership, if:

- any call or other sum payable to the Company in respect of that share remains unpaid; or
- such shareholder, having been duly served with a notice to provide the Company with information under Section 793 of the Act, has failed to do so within 14 days of such notice, for so long as the default continues.

## SUBSTANTIAL SHAREHOLDERS

As at year-end, the following shareholders notified the Company, in accordance with Disclosure Guidance and Transparency Rules, of their interest of 3% or more in the Company's issued share capital:

**TABLE 2: 2019 SUBSTANTIAL SHAREHOLDERS**

	ORDINARY SHARES	% VOTING RIGHTS	DATE NOTIFIED
Remgro Ltd (through wholly owned subsidiaries)	328 497 888	44.56	17/02/2016
Public Investment Corporation SOC Ltd	58 392 076	7.93	10/12/2018
Genesis Asset Managers LLP	37 989 258	5.15	28/11/2017

The Company received no shareholder notifications under the Disclosure Guidance and Transparency Rules between the year-end and the Last Practicable Date.

## 2019 ANNUAL GENERAL MEETING

The Company's AGM will take place at 15:00 (BST) on Wednesday, 24 July 2019 at Rosewood London Hotel, 252 High Holborn, London WC1V 7EN, UK. All ordinary shareholders have the opportunity to attend and vote, in person or by proxy. All ordinary shareholders have the opportunity to attend and vote, in person or by proxy. The [2019 Notice of AGM](#) can be found on the Investor

Relations section of the Company's website at <https://investor.mediclinic.com/>, and is being posted in a separate booklet at the same time as this [Annual Report](#). The notice sets out the business of the meeting and provides explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue. The AGM is the Company's principal forum for communication with private shareholders. The Chairman of the Board and the chairpersons of the Board sub-committees, together members of the Group Executive Committee, will be available to answer shareholders' questions at the meeting and the Directors encourage shareholders to participate at the event.



# SHAREHOLDER INFORMATION (CONTINUED)

## DIVIDENDS

The Board proposes a final dividend of 4.70 pence per ordinary share for the financial year ended 31 March 2019 for approval by the Company's shareholders at the AGM to be held on Wednesday, 24 July 2019. The salient dates for the dividend are as follows:

Last date to trade cum dividend (SA register)	Tuesday, 11 June 2019
First date of trading ex-dividend (SA register)	Wednesday, 12 June 2019
First date of trading ex-dividend (UK register)	Thursday, 13 June 2019
Record date for final dividend	Friday, 14 June 2019
Shareholder approval at AGM (London)	Wednesday, 24 July 2019
Final dividend payment date	Monday, 29 July 2019

The Company's Dividend Policy is dealt with in the **Financial Review** on page 39.

The tax treatment of the dividend for shareholders on the South African register are available on the Company's website. Details of the dividend access trust established for South African resident shareholders are provided in note 13 of the **consolidated financial statements** on page 232.

The dividends declared by the Company to its ordinary shareholders during the reporting period are summarised below:

**TABLE 3: 2018/2019 DIVIDENDS DECLARED**

	2019	2018
Interim dividend	3.20	3.20
Final dividend	4.70	4.70
<b>Total dividend</b>	<b>7.90</b>	<b>7.90</b>

## SHARE PRICE

The latest share price information can be found on the Company's website at [www.mediclinic.com](http://www.mediclinic.com) or through a broker.

## SHAREHOLDER SERVICES AND CONTACTS

Enquiries relating to shareholdings, including notification of change of address, queries regarding the loss of a share certificate and dividend payments should be made to the Company's registrars:

### Shareholders on the Southern African register

#### South African transfer secretary

Computershare Investor Services (Pty) Ltd  
Rosebank Towers, 15 Biermann Avenue,  
Rosebank 2196, South Africa  
Postal address: PO Box 61051,  
Marshalltown 2107, South Africa  
Tel: +27 11 370 5000  
Fax: +27 11 688 7716

#### Namibian transfer secretary

Transfer Secretaries (Pty) Ltd  
4 Robert Mugabe Avenue, Windhoek, Namibia  
Postal address: PO Box 2401, Windhoek, Namibia  
Tel: +264 61 227 647  
Fax: +264 61 248 531

### Shareholders on the UK register

Computershare Investor Services plc  
The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, United Kingdom  
Tel: +44 370 703 6022  
Email: [WebCorres@computershare.co.uk](mailto:WebCorres@computershare.co.uk)

Lines are open during normal business hours from 08:30-17:30 GMT, Monday to Friday, and charged at the standard rate. Shareholders can use Computershare's website to check and maintain their records. Details can be found at [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus).

#### Share Dealing Service

Computershare offers a share dealing service which allows UK resident shareholders to buy and sell the Company's shares. Shareholders can deal in their shares on the Internet or by telephone. Please contact Computershare for more details on this service.

#### ShareGift

If a few shares are held, which low value makes them difficult to sell, they may be donated to charity through ShareGift, an independent charity share donation scheme. For further details please contact Computershare or ShareGift at telephone number +44 20 7930 3737 or visit their website at [www.sharegift.org](http://www.sharegift.org).

# COMPANY INFORMATION

## COMPANY NAME AND NUMBER

Mediclinic International plc  
(incorporated and registered in England and Wales)  
Company number: 08338604

## REGISTERED OFFICE

Mediclinic International plc, 6<sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom  
Tel: +44 20 7954 9569 Fax: +44 20 7954 9886  
Ethics Line: +27 12 543 5332/Toll-free 0800 005 316 (South Africa only)/[ethics@mediclinic.com](mailto:ethics@mediclinic.com)  
Email: [info@mediclinic.com](mailto:info@mediclinic.com)  
Website: [www.mediclinic.com](http://www.mediclinic.com)

## LISTINGS

FTSE sector: Health Care Equipment & Services  
ISIN code: GB00B8HX8Z88  
SEDOL number: B8HX8Z8  
EPIC number: MDC  
LEI: 2138002S5BSBIZTD5I60  
Primary listing: London Stock Exchange (share code: MDC)  
Secondary listing: JSE Limited (share code: MEI)  
Secondary listing: Namibian Stock Exchange (share code: MEP)

## DIRECTORS

Dr Edwin Hertzog (*ne*) (*Chairman*) (*South African*), Dr Ronnie van der Merwe (*Chief Executive Officer*) (*South African*), Jurgens Myburgh (*Chief Financial Officer*) (*South African*), Dr Muhadditha Al Hashimi (*ind ne*) (*Emirati*), Jannie Durand (*ne*) (*South African*), Alan Grieve (*ind ne*) (*British and Swiss*), Dr Felicity Harvey (*ind ne*) (*British*), Seamus Keating (*ind ne*) (*Irish*), Danie Meintjes (*ne*) (*South African*), Dr Anja Oswald (*ne*) (*Swiss*), Trevor Petersen (*ind ne*) (*South African*), Desmond Smith (*Senior Independent Director*) (*South African*), Pieter Uys (*alternate to Jannie Durand*) (*South African*)

## COMPANY SECRETARY

Link Company Matters Ltd (previously named Capita Company Secretarial Services Ltd)  
Jayne Meacham/Caroline Emmet  
6<sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom  
Tel: +44 20 7954 9569  
Email: [mediclinicInternational@linkgroup.co.uk](mailto:mediclinicInternational@linkgroup.co.uk)

## INVESTOR RELATIONS CONTACT

Mr James Arnold  
Head of Investor Relations  
14 Curzon Street, London, W1J 5HN, United Kingdom  
Tel: +44 20 3786 8180/1  
Email: [ir@mediclinic.com](mailto:ir@mediclinic.com)

## REGISTRAR/TRANSFER SECRETARIES

### UK

Computershare Investor Services plc  
The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, United Kingdom  
Tel: +44 370 703 6022  
Email: [WebCorres@computershare.co.uk](mailto:WebCorres@computershare.co.uk)

### South Africa

Computershare Investor Services (Pty) Ltd  
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, South Africa  
PO Box 61051, Marshalltown 2107, South Africa  
Tel: +27 11 370 5000

### Namibia

Transfer Secretaries (Pty) Ltd  
4 Robert Mugabe Avenue, Windhoek, Namibia  
PO Box 2401, Windhoek, Namibia  
Tel: +264 61 227 647

## CORPORATE ADVISORS

### Auditor

PricewaterhouseCoopers LLP, London

### Corporate broker and sponsors

Joint corporate brokers (UK): Morgan Stanley & Co International plc and UBS Investment Bank  
JSE sponsor (SA): Rand Merchant Bank (a division of FirstRand Bank Ltd)  
NSX sponsor (Namibia): Simonis Storm Securities (Pty) Ltd

### Legal advisors

UK legal advisors: Slaughter and May  
SA legal advisors: Cliffe Dekker Hofmeyr Inc.

### Remuneration consultant

Deloitte LLP

### Communication agency

FTI Consulting  
Tel: +44 20 3727 1000  
Email: [businessinquiries@fticonsulting.com](mailto:businessinquiries@fticonsulting.com)

# FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements relating to the business of the Company and its subsidiaries, including with respect to the progress, timing and completion of the Group's development; the Group's ability to treat, attract and retain patients and clients; its ability to engage consultants and general practitioners and to operate its business and increase referrals; the integration of prior acquisitions; the Group's estimates for future performance and its estimates regarding anticipated operating results; future revenue; capital requirements; shareholder structure; and financing. In addition, even if the Group's actual results or development are consistent with the forward-looking statements contained in this Annual Report, those results or developments may not be indicative of the Group's results or developments in the future. In some cases, forward-looking statements can be identified by words such as "could", "should", "may", "expects", "aims", "targets", "anticipates", "believes", "intends", "estimates", or similar. These forward-looking statements are based largely on the Group's current expectations as of the date of this Annual Report and are subject to a number of known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In particular, the Group's expectations could be affected by, among other things, uncertainties involved in the integration of acquisitions or new developments; changes in legislation or the regulatory regime governing healthcare in Switzerland, South Africa, Namibia and the United Arab Emirates; poor performance by healthcare practitioners who practise at its facilities; unexpected regulatory actions or suspensions; competition in general; the impact of global economic changes; and the Group's ability to obtain or maintain accreditation or approval for its facilities or service lines. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements made in this Annual Report will in fact be realised and no representation or warranty is given with regard to the completeness or accuracy of the forward-looking statements contained herein.

The Group is providing the information in this Annual Report as of this date, and disclaims any intention to, and makes no undertaking to, publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# GLOSSARY

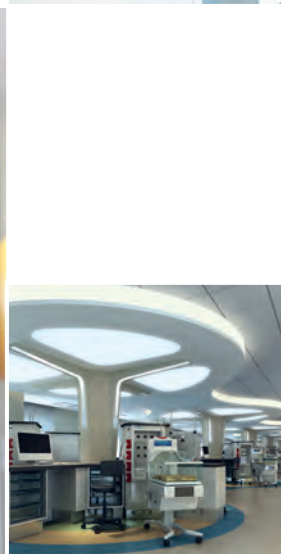
TERM	MEANING
Act	the United Kingdom Companies Act of 2006, as amended
AGM	the 2019 annual general meeting of the Company to be held on Wednesday, 24 July 2019, the notice of which have been distributed to shareholders by Friday, 21 June 2019 and a copy of which is available on the Company's website
Annual Report	this annual report and financial statements for the reporting period ended 31 March 2019
Al Noor	the Al Noor Hospitals Group plc
Articles	the Company's Articles of Association as adopted at the annual general meeting on 20 July 2016
Board or Board of Directors	the Board of Directors of Mediclinic International plc
bps	basis points
Bourn Hall International	Bourn Hall International MENA Ltd, the holding company for the Bourn Hall Fertility Centre in the UAE
Brexit	the departure of the United Kingdom from the European Union
BST	British Summer Time
cash conversion (%)	cash generated from operations divided by adjusted EBITDA
CAUTI	catheter-associated urinary tract infections
CCRG	clinical and cost-related groupings
CDLI	Carbon Disclosure Leadership Index
CDP	Climate Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	cash-generating unit
CIO	Chief Information Officer
CLABSI	central line-associated blood stream
CO <sub>2</sub> e	carbon dioxide equivalent
Company	Mediclinic International plc
Controllable Employee Turnover	Controllable employment terminations for all permanent employees are determined by a sub-set of 30 criteria, but specially excludes a sub-set of 21 criteria such as death, disability, dismissal due to operational requirements, family responsibility, poor health and retirement.
2016 Corporate Governance Code	UK Corporate Governance Code, as published in 2016 by the FRC
2018 Corporate Governance Code	UK Corporate Governance Code, as amended and published in 2018 by the FRC
CSI	corporate social investment
CSR	corporate social responsibility
CoBIT	Centre of Control Objectives for information technology
DRG	diagnosis-related grouping

## GLOSSARY (CONTINUED)

TERM	MEANING
EBITDA	operating profit before depreciation and amortisation, excluding other gains and losses
EHR	electronic health record
EMEA	Europe, Middle East and Africa
EPS	earnings per share
ERM	enterprise-wide risk management
ERP	enterprise resource planning
ESG	environmental, social and governance
Ethics Code	Company's Code of Business Conduct and Ethics
EU	European Union
external auditor	when referring to the Company's external auditor, means PricewaterhouseCoopers LLP
FRC	Financial Reporting Council
FY18	the prior financial year ended on 31 March 2018
FY19/period under review/ reporting period	the financial year ended on 31 March 2019
FY20/next financial year	the financial year ending on 31 March 2020
FCA	the United Kingdom Financial Conduct Authority
GDPR	General Data Protection Regulation
GMT	Greenwich Mean Time
GRI Standards	the GRI Sustainability Reporting Standards issued in 2016 by the Global Sustainability Standards Board, which standards represent global best practice for reporting publicly on a range of economic, environmental and social impacts
Group	Mediclinic International plc and its subsidiaries, including its divisions in Switzerland, Southern Africa and the United Arab Emirates
Group Executive Committee	the executive committee of Mediclinic International plc
HAI	healthcare-associated infection
Hirlanden	the Group's operations in Switzerland, trading under the Hirlanden brand, with Hirlanden AG as the intermediary holding company of the Group's operations in Switzerland
ICT	information and communications technology
IFRS	International Financial Reporting Standards, as adopted by the European Union
IPC	infection prevention and control
IVF	<i>in vitro</i> fertilisation
JCI	Joint Commission International, an international quality measurement accreditation organisation, aimed at improving quality of care
JIBAR	Johannesburg Interbank Average Rate
JSE	JSE Ltd, the stock exchange of South Africa based in Johannesburg
KPI	key performance indicator



<b>TERM</b>	<b>MEANING</b>
Last Practicable Date	the date of approval of the Annual Report by the Board, being 22 May 2019
LIBOR	London Interbank Offered Rate
Listings Rules	the listings rules of the FCA applicable to companies listed on the LSE, subject to the oversight of the United Kingdom Listing Authority
LTIP	long-term incentive plan
LSE	the stock exchange operated by London Stock Exchange plc, based in London
Mediclinic	Mediclinic International plc
Mediclinic Middle East	the Group's operations in the UAE, trading under the Mediclinic brand, with Mediclinic Middle East Holdings (registered in Jersey) as the intermediate holding company of the Group's operations in Dubai and Abu Dhabi
Mediclinic Southern Africa	the Group's operations in South Africa and Namibia, trading under the Mediclinic brand, with Mediclinic Southern Africa (Pty) Ltd as the intermediary holding company of the Group's operations in South Africa and Namibia
MBRUHS	Mohammed Bin Rashid University of Medicine and Health Sciences in Dubai
NSX	the Namibian Stock Exchange based in Windhoek, Namibia
NHI Bill	the South African National Health Insurance Bill, published on 21 June 2018
Parker Report	Parker Review Committee's Report into the Ethnic Diversity of UK Boards, issued in October 2017
PDMS	patient data management system
ROIC	return on invested capital
Remgro	Remgro Ltd, a controlling shareholder of Mediclinic which through wholly owned subsidiaries held a 44.56% stake in the Company as at 31 March 2019
SA Companies Act	the South African Companies Act, No. 71 of 2008, as amended
STI	Group Short-term Incentive for the 2020 financial year
TSR	total shareholder return
TARMED	national outpatient tariff in Switzerland
UAE	the United Arab Emirates
UK	the United Kingdom of Great Britain and Northern Ireland
VAP	ventilator-associated pneumonia



**EXPERTISE YOU CAN TRUST.**

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