



2017-18 Interim Results Presentation

Thursday, 16th November 2017

Introductory Remarks

James Arnold

Head of Investor Relations, Mediclinic International plc

Agenda

Good morning everybody and welcome to Mediclinic's 2017-18 Interim Results Presentation. Thank you for attending here in London and welcome to everyone that's on the conference call and the webcast. My names is James Arnold; I'm Head of Investor Relations.

I'm just going to do a brief introduction and then hand over to Danie and Jurgens who will take you through today's presentation. At the end of the presentation, we will open up to Q&A. Those that are on the conference call, please could you register your questions with the operator, and we'll hand over to you after we've taken questions in the room. On the front page, I just point to the disclaimer; you can read that at your leisure, thank you very much.

And on that note, I'll hand over to Danie. Thank you, everyone.

Introduction

Danie Meintjes

Chief Executive Officer, Mediclinic International plc

Morning everybody, thank you James. Welcome to all over you, those in the room and also those on the web and on the telephone lines. I think a special word of welcome to our Chairman, Dr Edwin Hertzog, and the founder of the Group: Edwin, thank you for your support and your time in being here this morning.

Announcement regarding Spire Healthcare Group plc

The purpose is to cover to interim results. But maybe before we start with the results, you would have seen this morning that we also issued a separate statement with regards to the current situation in relation to the Spire approach. I know that there will be a lot of questions regarding this matter, but everything that we can say at this moment is contained in this announcement. So if there are any questions regarding Spire, we kindly refer you to the announcement this morning.

Who We Are

What and where

I'm going to start off with the results and as an introduction, just three slides to just highlight, giving you a little bit of a feel and remind you again of who we are, what we do, what we focus on.

In summary, we're an international group represented in five countries. We've worked more than 30 years of a track record in experience, and the core of our business is still very much focused on the acute care, specialist-orientated, multi-disciplinary hospitals. But by saying that, you are also aware that we are slowly migrating up and down the care continuum. We are involved in outpatient facilities, day care facilities, some step-down, and we are definitely

investigating that. We believe there is a good business reason that we must get more integrated in terms of related businesses.

Vision

In terms of the platforms that we operate, we've got leading market positions: either the first, second or the third in terms of size provided. And in those markets, our vision very simply: we want to be respected internationally but we want to be preferred locally. And there's a lot in those words. We acknowledge that it's a neighbourhood business and in the areas that we serve, we want to be 'per hospital' the preferred hospital for the patients and the supporting clinicians.

Purpose

The purpose of our business? We want to enhance the quality of life, and that is our core focus in terms of the patient needs. What I refer to many times is we, to a certain extent, sell hope – hope for a better quality life, hope for less pain, hope for a longer life. And for that reason, we will very seriously keep our focus on the patient needs.

Strategic themes

In terms of the strategic themes that you will see come out and is repeated throughout the presentation, the 'Patients First' that we've highlighted so many times: improving quality, safety and efficiency in terms of what we do. We want to continue to grow and invest in our business, and we are long-term orientated.

Diversified Global Footprint

In terms of the diversified footprint that we have, you will note from the top row there, indicating capacity. It might be small on the screen there but if you look at the hospitals, if you look at the beds, South Africa still dominated. But if you look at the revenue-EBITDA, well-diversified over our geographical platforms.

Strategic Themes

Patients First

In terms of the international themes just at a high level, 'Patients First,' as I've highlighted, clinical performance is very much in the spotlight for us. You might have noticed that we recently appointed new Board members. Amongst those, Dr Felicity Harvey, here in London, with a very strong clinical background; she's also serving on our Clinical Performance Committee. And we are committed in rolling out an oversight of the clinical performance, what we call 'Board to Ward.' We are rolling out similar clinical performance – committees at the platform levels. In South Africa, we appointed two external clinical experts – professors from two leading medical schools – and there's a real big focus in terms of that.

In terms of the patient experience, you should be aware of our Press Ganey Patient Experience Index that is now standardised for the Group, rolled out over all the platforms, including the Al Noor business or the ex-Al Noor business. And we are quite proud on the progress that we've done, and I'll cover some more of that when I get into the Operational Overview.

In terms of the integrated, coordinated approach, just one word: it all has to do of getting the doctors involved. The operational business approach is different in the different platforms, in the Middle East where we employ the doctors compared to the other side of the spectrum in

South Africa. And the approach there is to really get the doctors involved in terms of the care delivery process. And in South Africa, where we have the highest challenge, very good progress made.

Improving efficiencies

In terms of efficiencies, our standard mantra there is 'simplify, standardise and centralise' in terms of support disciplines. That is what we are busy doing. You are aware of the Hirslanden 2020 project – I'll elaborate a little bit later. So per platform, that is our approach. And then by doing that, you create the capacity and the ability to roll up to a central point, where you can leverage on your international footprint and the know-how that we've built up centrally.

In terms of IT and procurement we've made very progress, and I'll elaborate a little bit later on that as well.

Investing in our assets

We keep on investing in our investments on our assets, but not only assets; we make huge investments in our IT platforms. The standardised SAP rolled out over the Group is a big investment. We also recently approved, and we're busy rolling out a standardised Electronic Medical Record in the Middle East, which will stand us in good stead. So we will invest to improve the quality of the business.

Investing in our employees

In terms of the employees, maybe just one comment: an engaged workforce is very important for us. And we've told you about the Gallup survey that we standardised over the Group in all the platforms. We've done the survey for the second year, we're busy with the third survey at the moment and good to report that in all platforms, we saw an improvement year on year. And interesting and noteworthy that in the Middle East, where we had huge business disruption when we combined the businesses, the improvement was the highest there and actually the highest compared to the other two platforms as well.

Results Highlights

Interim dividend

Coming to the results, that is a high level overview. Jurgens will elaborate and unpack that in detail – maybe just to highlight that the interim dividend maintained at £0.032 per share.

Switzerland

In terms of a summary of the business operation, in Switzerland we saw lower volume. It was a subdued summer, we had Easter timing differences year on year, leading to a lower margin.

Southern Africa

Similar in South Africa: lower patient activity, there were less business days, more public holidays and the Easter weekend that moved. But despite that, they maintained margin and the team there did extremely well.

Middle East

Middle East: strong turnaround in the Abu Dhabi business. We saw the Thiqa numbers that came through, Al Jowhara's open. So overall, very happy with the performance at the Middle East. Dubai is still performing very strongly.

Spire (UK)

And then Spire, in line with expectations for the first six months. Obviously, the impact of the provision for the litigation case, that's £27.6 million that Jurgens will unpack a little bit further.

That is a high level overview. I'll now hand over to Jurgens to unpack the numbers.

Financial Review

Jurgens Myburgh

Chief Financial Officer, Mediclinic International plc

Underlying Consolidated Income Statement

Thank you Danie, good morning everyone. Turning our attention to the Financial Review, and here I am on page 10 of the presentation. Just to reiterate, these numbers are largely presented on an underlying basis, but I will point out the material adjustments made from the reported numbers as we go along.

Revenues

So starting with our revenues, we are up 10% in pound terms and flat year on year when expressed in constant currency terms. Our basket of currencies strengthened by 10% against the pound compared to the prior year's six-month period with the rand ironically being the clear out-performer at 15%. With the recent strengthening of the sterling, we are seeing that trend beginning to reverse.

Revenues were impacted by lower volumes in Switzerland and South Africa, as well as the first half of last year's base effect in the Middle East that we're comparing to with these latest results, having previously articulated the changes we've made to the Abu Dhabi business.

Underlying EBITDA was up 5% in pounds and down 5% in constant currency terms. The effect of the lower revenues on EBITDA and the margin was partially offset by the cost containment initiatives in Southern Africa as well as Switzerland. The comparative reduction in costs in the Middle East was unfortunately more than offset by the lower revenues, which we will discuss in more detail.

As Danie mentioned in the introduction, we continue to invest not only in our people and our infrastructure, but also in our IT. And this has increased our D&A charge for the year.

Not included in the underlying number that you see here is the large portion of accelerated amortisation of £23 million relating to the re-branding of the Al Noor facilities to Mediclinic. This brand is now fully amortised.

Net finance costs were in line with last year, with normalised effects of tax rate increased to 24% due to the lower contribution from the Middle East and a higher contribution from Southern Africa, which has a corporate tax rate of 28%. Income from associates decreased

significantly due to the lower reported profit from Spire, primarily impacted by a provisioning amount – a provision amounting to £27.6 million for the potential cost of a settlement relating to civil litigation. Excluding this provision, our underlying earnings per share would have been £0.122. I'll show those in more detail in a minute.

We've maintained our interim dividend at £0.032 per share, which is a 28% pay-out ratio to underlying earnings in line with our dividend policy of 25-30%.

Group Revenue Analysis

Over the page on 11, looking at the revenue analysis in more detail, you'll see here the effect that especially the rand's strength had on reported earnings.

Hirslanden

Starting with Switzerland though, the revenues were impacted by low volumes in the first half due to Easter holidays and seasonality. Linde contributed CHF16 million to the revenues in the first half included from 1st July. So excluding Linde and in constant currency, revenues were down approximately 2% in Switzerland year on year.

Southern Africa

In Southern Africa, revenues grew 4% in local currency terms, due to the volume declines caused by a continued weak microeconomic environment, Easter and other holidays, and also funding interventions.

Middle East

Middle East revenues were down 5% in constant currency but on a like-for-like basis, excluding the units that we've either sold or closed down, revenue was down 1% in the Middle East.

Revenue Bridge

Over the page on 12, this – the analysis on this page backs out the currency movements, so you can clearly see the operational revenue growth as well the impact of Abu Dhabi on the half-year. The revenue shortfall in Abu Dhabi is due to the disposals mentioned before, as well as business and operational alignment, which includes the basic planned strategy, regulatory changes and increased competition in the region.

Underlying EBITDA Analysis

On page 13, a similar analysis that we had for revenue earlier, this time on EBITDA. And the analysis of the underlying EBITDA shows good operational leverage in Southern Africa, offset by shortfalls in Switzerland and the Middle East. The integration benefits in the Middle East helped to reduce the impact of lower revenues on the margin of the business. Future revenue improvement in this region in the Middle East is expected to have a levered, positive effect on margins.

Underlying EPS Bridge

On page 14, as I mentioned earlier, we've not adjusted our underlying numbers for the provision that Spire raised in respect of settlement costs relating to civil litigation. So from an accounting perspective, we incorporate the Spire reported earnings. We've equity-accounted their reported numbers.

However, just to provide an indication of what this would look like if we excluded the provision, you'll see here that the negative contribution from Spire year over year would have reduced by 0.9 of a pence, taking our underlying earnings to £0.0122 per share.

Group Balance Sheet Summary

Looking at the balance sheet, firstly the currency effect here goes the other way. The spot rates are all weaker compared to yearend by approximately 5%. The asset base was increased by the Linde acquisition and ongoing investment in infrastructure across all our divisions. On the liability side, we continue to advocate responsible leverage both in terms of the costs and refinancing risk relating there too. We're delighted with the refinance of our Swiss debt extending the repayment by at least six years and reducing the margin by 25 basis points on a like-for-like basis.

As part of the half-year closing, an impairment test was performed on our equity investment in Spire, updated for the guidance announced by Spire in September 2017 and other key assumptions. As a result, an impairment charge of £109 million was recorded against the carrying value of our investment in Spire.

Group Cash Flow Summary

On page 16, we continue to have strong cash flow from our operating units and importantly, continue to fund organic and inorganic expansion in our operations through generated or available cash resources or facilities.

Group Capital Expenditure

Looking then at CAPEX, our capital discipline remains a key focus for the Group. Due to lower revenues and operating cash flows in Southern Africa and Switzerland, we've adjusted at least the timing of our capital expenditure.

In the Middle East, the Parkview Hospital in Dubai is on schedule. But due to the timing of capital spend on a couple of other projects, the estimated FY18 spend is lower compared to the original budget we showed you in May.

Overall this year, we're budgeting to spend around 60% of our CAPEX on expansion across the Group. Importantly though, we continue to invest on a returns-oriented basis, also evaluating projects post-completion to measure their outcomes and success.

Hirslanden Financial Overview

Then looking each platform in turn and starting with Switzerland – Hirslanden on page 18: revenues were flat in Swiss francs, incorporating the CHF16 million contribution that I mentioned earlier from Linde in the first half.

Outpatient revenues, in line with the theme of outmigration of care and our Hirslanden 2020 strategy, grew by 6%. Outpatient revenues now represent some 19% of total Hirslanden revenues.

The lower revenues directly impacted margins, offset by cost-saving initiatives that were implemented from June onwards that should help margins in the second half. Cash conversion remains strong. And going forward, we expect modest revenue growth, given already high occupancy rates, stable beds and the impact of two Easter periods in this financial year. The full-year margin will be impacted, as we mentioned, in May by the

TARMED tariff reduction from 1st January, outmigration of care, two Easter periods, the costs relating to Hirslanden 2020 and the Linde acquisition, partially offset by ongoing efficiency gains.

And just on TARMED, the TARMED outpatient tariff reductions, based on analysis of a complex proposal, we previously announced an annualised impact on Hirslanden outpatient revenue estimated at CHF30 million. After mitigating actions, including improved utilisation and increased efficiencies, we now expect the annualised impact on underlying EBITDA to be around CHF25 million on an annualised basis. And that will come in from 1st January of next year.

Southern Africa Financial Overview

Turning then to Southern Africa, bed days sold declined by 3.3%. The day-case contribution to revenue continued to decline as well as the outmigration of care model evolves. This feeds into our day surgery strategy of which we already have two facilities with another five in the pipeline.

Revenue per bed day was up 7.7% due to inflation and mix change. Cost-saving initiatives that include headcount freezes and improved staff utilisation contributed to an improved EBITDA margin, whilst cash conversion remains strong.

Going forward, we expect revenue growth at around 4% for the full year due to the challenging macroeconomic environment, the competition to our facilities and funding interventions as well as Easter periods, and a broadly stable underlying margin at around 21%.

Middle East Financial Overview

Finally then in the Middle East, Dubai continued to perform strongly with revenues growing by approximately 7% in the half year, reflecting the ramp-up benefit from North Wing, which opened in September 2016. This was offset by a decline in Abu Dhabi against a challenging base in the first half of the last financial year.

Encouragingly, we've seen a significant improvement in Thiqa volumes in the first half, and Danie will show that as well on this financial year compared to the comparative period. And we expect a continued improvement in the quality of revenue going forward through initiatives, including our Basic Plan strategy, which is basically to migrate and reduce our exposure to Basic Plan patients, and also our investment in high acuity inpatient services.

Depreciation and amortisation declined on an underlying basis due to the normal amortisation for the Al Noor brand names that's in the base, whilst depreciation increased due to investment in assets. Cash conversion in the region remained strong.

And going forward, we expect Dubai to continue to perform well, despite the competitive landscape, and a gradual improvement in Abu Dhabi over the next couple of years. This aggregates to a marginal improvement in revenue and underlying EBITDA growth for the full year. In the medium term in this region, we expect an improvement in underlying EBITDA margins over time, offset by ramp-up costs associated with opening new facilities ranging from 100 to 400 basis points in terms of the effect on margin, which now includes the Western Region Hospital as well, with the peak of that effect in FY20.

And with that, I'll hand over to Danie for the Operational Review.

Operational Review

Danie Meintjes

Chief Executive Officer, Mediclinic International plc

Operations Hirslanden

Thank you, Jurgens. I don't want to repeat what was already said. Just at a high level, if we look at each of the operating platforms, starting with Hirslanden. Hirslanden now with 17 hospitals after the acquisition of the Linde Hospital in Biel that we referred to – it makes it the largest private hospital group in Switzerland. But it's a competitive, mature market where we compete directly with the cantonal and the government delivery system. But it's a wealthy, ageing population, and we deliver high-end clinical quality in that region. Cost is obviously a high focus area, so efficiencies – very important for us. We recently took our Chief Operating Officer, Daniel Liedtke, from Switzerland for a two-week, intense study tour in South Africa to transfer some concepts and knowledge from South Africa to him. I'm very excited about it.

We've mentioned the Hirslanden 2010 project consisting of two components. The first one is the outpatient facilities that we started with – you saw good growth in our outpatient activity. But it also includes finding a bespoke, specific solution for the out-migration of the day care cases that Jurgens referred to. It is coming at a lower tariff, and we need to find the most appropriate way of addressing those in each one of – in our hospitals.

We mentioned the lower activity during the summer, and you can see it in the occupation graphs there, TARMED well covered, and then the outmigration that we referred to as well.

Operations Southern Africa

In terms of South Africa, we maintain our leading position. Some of you might be aware of the top 20 hospitals survey done by Discovery. They used Press Ganey as well – one component of that. And we are very proud to have, out of the 20, eight Mediclinic hospitals, despite that fact that we have less hospitals than the two listed competitors. They only had two each in that list whilst we had eight, so I think that is a feather in the cap of the local team.

Difficult macro environment, high unemployment, but despite that, very encouraging to see that the Medical Aid membership, still very stable – about 8.9 million members.

Outmigration of care is a worldwide phenomenon; we acknowledge that. We've made the decision to participate in that. We've opened the two day facilities in South Africa – very happy with the performance. And we are on track with the rolling out of five further such day clinics.

The regulatory changes, Health Market Inquiry and the NHM – the National Health Insurance: no new news; it's still ongoing. We don't factor anything in coming out of those that'll impact on our business in the immediate future, but we participate a lot of management time, a lot of money's spent on it. And you can be assured that we're on top of that but it's dragging on, unfortunately.

Again, intervention[?], lower activity but we maintained margin – Jurgens referred to that – a quick reaction from our management in South Africa freezing some positions. I've mentioned to some people outside South Africa, we have the ability to do it maybe quicker than other

areas because we have a high component of a nursing agency that we own in-house. It's easier to match your underlying activity with your nurse levels at the hospital level.

Operations Middle East

The Middle East: well positioned to participate in the growth; we're quite excited about the possibilities there. You know that we have done a lot of work over the last six months in terms of rebranding, re-basing the business, bringing a lot of new doctors in. I'm very confident, and I'm very happy to report that those measures are paying dividends now. We see a comeback.

The Thiqa patients, if you look at those graphs at the bottom right there: a big uptake in our Thiqa patients, more than 40%. The Al Jowhara Hospital that is rebranded under Mediclinics as Mediclinic Al Jowhara: ahead of budget doing extremely well. 60% of the activity in that hospital are Thiqa patients, confirming that there's a support for the brand and well supported by the locals.

I've mentioned about the investment in technology, so the rebranding and the new Electronic Medical Record, we've started with a rollout. It will be a multi-year project, but we will see great benefits from it not only from a quality point of view, but also from a cost point of view and a patient experience. It will basically mean that any patient entering the Mediclinic service at any point, clinic or hospital, will have access to all the clinical records available to all the doctors. And we're looking forward to that.

The new Parkview Hospital in the southern side of Dubai: ahead-of-project plan. And although it is only one hospital, if you look at the current capacity in that region, once completed, it will add a 25% capacity to our hospital inpatient beds. Obviously, as Jurgens referred to it, there will a start-up cost impacting on it. And as I mentioned earlier on: the realignment behind us now, the team all together under one management team, the Gallup survey very positive, and I think we are very well positioned going forward in the Middle East.

Summary and Outlook

In conclusion, the long-term demand for quality healthcare services is growing. It's robust, it's underpinned by the ageing population, growing disease burden and technological innovation. And we believe we are well positioned to benefit from that. We will keep the strategy on 'Patients First.' Affordability of healthcare is the biggest strength for the industry, and for that reason we will stay and remain focused on all areas where we can improve efficiencies. And then positive to report that the current trading in the second half of this year across all three of our operating divisions, in line with expectations. And for that reason, our guidance remains unchanged.

That concludes the presentation. We will start with the Q&A taking it from the floor here, and then we will hand over to the operator for those on the lines. Questions, comments, remarks.

Q&A

Speaker: Morning, guys. How should we think about the shifting mix towards, say, away from basic? Are you actively winding down the basic exposure? So on net, you know, that decline will eat into overall growth in the UAE or in Abu Dhabi. Or is that business going to stay stable and wind down naturally because you are growing the rest of it?

Danie Meintjes: It's a combination. First of all in our, let's say, higher quality facilities like the Airport Road, we deliberately moved all the basic patients out of the main building in a separate building so we still see them. If you look at the Al Ain region, the mix is different there so we can't just wish them away. So there will be a gradual move. But from an operational, practical point of view, if a doctor is busy and in high demand, we would deliberately work to fill his day with the enhanced and the Thiqa patients instead of the basic patients. Because those tariffs are really low, and that is not the core of our business. So we don't just shut the door; it will be a gradual move. And it will differ between hospitals and facilities.

Speaker: Okay, thank you. And then Jurgens, could you clarify the guidance around 100 to 400 basis points margin pressure over time from the greenfields, just how we should think about that stagger?

Jurgens Myburgh: Yes. As I said, the 100 to 400, the 400 is in FY20. That's the peak of the ramp-up costs. So just to take a step back, if I may, I remind you that in the Middle East, we also employ the doctors, so the ramp-up cost in respect of a hospital is significantly higher than you would – in other territories. And so as a result of that, the impact on our margins, because of the higher cost base, is much higher.

So the peak is in FY20. It ramps up to there and then – you know, so when I said the range is between 100 to 400, it starts at the 100 and peaks at the 400, and then tapers down.

Speaker: So do you know when we expect that to start?

Jurgens Myburgh: It starts as from next year. I mean there's already – we're already spending money on Parkview, but the ramp up will start next year.

Danie Meintjes: We already appointed the hospital director for that hospital. It will be an internal transfer so his cost will start to be allocated to that project to start with all the operational alignment, recruitment, etc. We do not intend to open that hospital at full capacity. Unfortunately, due to the layout of the land, we had to build the full infrastructure. But we will not equip the full hospital for the full capacity; we will do that as we progress. And key planning will be what clinical disciplines will we have? And it will be not be the high end like neurosurgery, cardiac surgery; it will be still at the City Hospital. It will be more the supplementary services. And where we can, we will try to move busy doctors to have some momentum in the hospital from day one from our existing facilities.

Jurgens Myburgh: We'll break that out for you in future years so you can see the steady state and then the impact of ramp-up.

Danie Meintjes: Comments, questions further on the floor? Otherwise, can we ask the operator, do we have any questions coming over the lines? You can just state your name.

Operator: Yes, actually I have a question. It's from Hans Boström. Please go ahead.

Danie Meintjes: Good day.

Hans Boström (Credit Suisse): Good morning, gentlemen. I'm following up on the question on UAE. Could you give us a sense of how this fits in with the general trend on margin improvement? Obviously, you gave a very specific guidance related to the pressure from capacity increases. But we have got the sense that margins will improve healthily in the

second half of the year, and one imagines that's a momentum that will continue into FY19. If you wouldn't mind giving some form of sense of how the margin in 2020 would compare with your previous guidance of 20% EBITDA margin, which was given at the time of the Al Noor acquisition.

And secondly, could you also give us an update of the phasing of the capacity expansion in the UAE in terms of maybe bed numbers over the next two to three years? That would be helpful.

And my final question relates to your refinancing in Swiss francs. Could you just remind us what are the debt covenants overall on this debt or indeed any other debt – but I presume this is the main part of the debt for the Group – particularly in the context of your preliminary offer, of course, by a healthcare group? Thank you.

Danie Meintjes: Thank you, Hans. The line wasn't that clear. Can we start with your last question, the refinancing detail?

Jurgens Myburgh: Okay, I'll do that. So, Hans, as you know, I think we've stated numerous times before that our debt in each of our platforms are platform-specific. So, and it's ring-fenced to that particular platform with no cross guarantees, no cross defaults. So each platform has its own debt in its own currency, the same currency as the underlying operating cash flows, which is very important for us that we don't take that ethics risk.

The second point is each of them have their own covenants, and these covenants, they roll off the tongue quite quickly, you know, the debt to EBITDA. But it takes pages and pages to define these things. So we don't break out the covenants in here, other than to say that we believe – someone's trying to pass me, there's a hooter in the background. We have sufficient headroom to our existing covenants. And this goes back to the point of responsible leverage, managing the costs of that debt as well as managing the refinance risk of it.

So, the refinance in Switzerland, as I mentioned, we're delighted with. It's reduced the margin by 25 basis points. And it's pushed out the debt by six years at least and also increased the total debt available, and all of that within a comfortable headroom of our covenants.

Danie Meintjes: Does that cover the refinance?

Hans Boström: Could I follow up from – sorry, could I follow from that? Does this mean that you have to refinance – sorry, that you have to finance any debt[?] [inaudible] off-care[?] balance sheet? Is that how the whole basis for the offer would be funded?

Jurgens Myburgh: Hans, I'm not going to comment on that. It's – that's – the refinance we started – as you know these things take time – we started months and months ago. And I wouldn't necessarily relate it to you.

Danie Meintjes: If we can go to the capacity, Hans. Was your question more specific capacity growth in the Middle East?

Hans Boström: Yes, because that's obviously where capacity is moving the fastest.

Danie Meintjes: Yeah. I think the key capacity on the second last page of the annex is the new hospital that'll open the fourth quarter of 2019, 188 beds. And we break it down there in terms of the beds. As I've mentioned, it will not be opened in full capacity from day one;

there will be a phased approach. And depending on the growth, we will open the rest of the hospital.

The other capacity that we are busy creating is the – let's call it the North Wing of the Abu Dhabi – of the Airport Road Hospital, which will replicate what we've done at the North Wing of City Hospital but excluding day surgery and the related services. It'll be a dedicated, comprehensive cancer unit. There's a huge demand for it. They already do chemotherapy. But the other related treatments for cancer – which is a growing disease burden in the Middle East – that is what we will repeat there, or replicate there. The opening date of that, I haven't got it in my mind now, it is about a year and a half.

Jurgens Myburgh: The Parkview?

Danie Meintjes: No, no. North Wing's – Airport Road.

Jurgens Myburgh: Airport Road, no, it's not scheduled yet.

Danie Meintjes: Yeah, I haven't got a hard date for you, but also Q4 FY19. We also approved a very small hospital in the Western Region. It is the oil area – a lot of locals and people working on the oil fields. We do have two very small outpatient facilities there, not in a good state. And the idea is to build – it'll be the owner, the sponsor who will build it and the owner, we will just rent it – to build a small hospital, collapse the two clinics into this hospital with minor procedures to be done there; the rest to be referred to Abu Dhabi. That is also approved, and they will start with that soon. That is the key developments there; nothing further to add.

Jurgens Myburgh: On the Middle East margin, Hans, you know, what we had guided previously was a gradual improvement in margins in the region. And what I said this morning is there's an improvement margins offset by the development costs. So, the Dubai margins continue to do really well. The initiatives that we're implementing in Abu Dhabi to improve the quality of revenue is expected to improve the margin as well. But we're still guiding towards the gradual improvement in our margins because of the ramp-up associated with the new builds that Danie just detailed.

Danie Meintjes: Can I just highlight, we really took a lot of cost out of that business. We referred to you earlier on about 800, 900 people that we took out of the business, and the cost base of that business reduced significantly. So if we get the revenue, I don't foresee any major obstacle of cost base. So the margin will benefit from them.

Further questions on the lines?

Operator: Our next question is from [inaudible].

Speaker: Hi gents, how's it going? Just two questions, please. Just on Switzerland, I just want to confirm, Jurgens, did you say ex-Linde, the Swiss revenue was down 2%, if I heard correctly?

And then just on Dubai – I know you don't disclose it, but do we assume the Dubai margin is still sort of very much intact in terms of what Mediclinic used to do there, when it used to disclose it, obviously, as just that business? Is it still around the 20% level?

Jurgens Myburgh: We don't break out the – by margin. And for a particular reason, that the operation is now truly integrated, you know, with head office costs and all the rest of it.

So I truly cannot – you know, I can tell you what the individual clusters are doing, and they are maintaining their margins. But we don't break out Dubai anymore, we don't report on it in that way. We report on it by cluster within the region, and then by region in its totality.

Your point on Switzerland, yes, that's correct. So Linde contributed CHF16 million to the first half. And so if you are to exclude that, that means revenue's down just under 2% for the first six months, which is in line with what you see in the volumes as well.

Speaker: Yeah. So I mean, given that, I mean, how do you think we should be actually thinking about sort of organic growth nowadays in Switzerland, you know? And what sort of CAPEX do you think you need to sustain that level? I mean, is a 3% revenue growth that you've been doing for quite some time, is that realistic going forward?

Jurgens Myburgh: It's a fair question. I mean, in our guidance, we still talk about modest revenue growth. If you do the numbers, you'd say – you'd see that's a big 'ask' in the second half, which is exactly what we're targeting. And so yeah, the first half – April was a poor month and so was June. April had Easter in it, and the rest of the months were not just good enough to be able to catch up to that. We don't think – in fact, we're reasonably convinced that we haven't lost market share in that region. And so that's why we're maintaining where we are for the full year.

Speaker: Okay, thank you gents.

Danie Meintjes: Thank you. Next question.

Operator: The next question is from [inaudible]. Please go ahead.

Speaker: Good morning, Jurgens. Just a couple of questions, I'll start off with South Africa. Maybe if you could just comment on PPD growth post the H1 results? And then I know sort relative to Netcare and Life, Mediclinic's been less pronounced in terms of active case management, if you could comment on that. And then, I'll move on to other regions.

Danie Meintjes: Okay. In terms of patient growth, I think we gave you the numbers there; it was down slightly. Going forward, difficult to predict, but there's no reason that we believe there's any extraordinary impact. If we compare to Life and Netcare, they gave some update that they are seeing slight uptake in the second half. We do not create any additional capacity in the next six months, so you can't expect new capacity coming on. Jurgens, anything else to add?

Jurgens Myburgh: No, we've said that, you know, we're seeing current trading in line with expectations, but we don't report on exactly what the volumes are doing now.

Speaker: Okay, great. And the interest in terms of Switzerland, obviously, it's positive guidance that the impact of [inaudible] has been reduced to CHF25 million versus the CHF30 million. Is there more scope for that?

And then the second question on Hirslanden, in terms of the 2020 plan, can you give any sort of impact or guidance on what you think that'll flow through onto the margin?

Danie Meintjes: Yeah, I'm going to disappoint you not to give you a hard number for 2020. What I can say is there is an additional cost for 2020 whilst you roll out because you must understand that we replicate some of the work done at a hospital level at the central level first. Then you will take away, but the net effect is positive. The first rollout of the

standardised SAP system will start in April next year. They're busy testing all the links and the connectivity and reconciliations etc. So that's starting out, and it's on time. It'll start in April and then rolled out until 2020 – that is the name '2020' – and we will see a net positive of that.

But over and above that, we will have a much better, richer database of data to manage the business better, because you will have inter-hospital comparisons possible. We will get data from a central point, as we do currently for South Africa and the Middle East, to utilise our central warehouse and analytical capacity in Stellenbosch to really assist management in terms of managing the business better and do comparisons. So that'll be the end result of that. And the net cost of running and maintaining your IT systems will be lower.

Jurgens Myburgh: On TARMED, [inaudible], obviously, we work as hard as we can to reduce that impact. And we have updated – there's no further update to that at the moment. We would continue to look, annualise and do whatever we can, but the number where we are is our best estimate at the moment.

Speaker: Okay, great. And then just turning to the Middle East – [inaudible] – but it's quite nice to see that there's disclosure again for inpatients and outpatients for the Middle East business. Are you able to share the FY17 numbers because you obviously just closed the H1?

And then just secondly, are you able to – I know the answer is probably 'no' – but are you able to give a contribution of EBITDA on Dubai versus Abu Dhabi in the H1 numbers?

Jurgens Myburgh: Your answer to your second question is correct. It goes back to my earlier point that it really is an integrated business, and so we're not able even to break that out. If I can get back to you on the in- and outpatients, I mean, if the data's available I'm happy to share it with you.

Speaker: Okay. Then maybe just asking that question in another way in terms of the Dubai business, I mean, if you look at the business historically, has the pricing environment got materially worse? Has volume sort of – your growth outlook for the business changed much? And the last question, has cost inflation been much different than it has been in previous years?

Danie Meintjes: In terms of Dubai, I can comfortably say that price pressure is not different now than what it was before. The business created capacity with the North Wing. We've told you that we lost some doctors from Welcare Hospital to the City Hospital when we combined the cancer unit, and they're busy filling that up. But the hospital – the business grew, and cost is well under control. And as Jurgens said earlier per operational unit, no impact on margin negatively to whatever reason.

But you should not underestimate the complexity where we have two businesses that had two corporate offices, two IT systems, two senior management teams allocated to the income of separate businesses. Now we have a combined central cost running that whole business, and we don't split that out pro rata, per business unit or revenue. So we just cannot give you that EBITDA or margin difference between the two with a central cost. We can exclude it per unit but not on a combined basis.

Speaker: Yeah, great. And then – the line's been pretty bad, so excuse me if this was on earlier.

Danie Meintjes: Sure.

Speaker: Just in terms of the cost-saving programmes and productivity initiatives that are likely to boost or support margins in SA and Hirslanden H2, could you comment a little bit more about that?

Danie Meintjes: In SA, I think we break it out by saying that it is mainly a focus on staff utilisation at an operational level. You might be aware that we invested in a proper time and attendance system, integrated nurse planning system in South Africa. We predetermined the activity levels that'll be needed per acuity level in advance to have a much better, proper match for your underlying demand with your nursing staff. That is well embedded, very good control over leave management, and those contribute. But over and above that, also a step or a close-down or a freeze on any positions growing at the corporate that is not really necessary at that stage. So that was mainly the focus.

And in Switzerland, a similar focus – if we are criticised, maybe they started a little bit late. For that reason, we brought Daniel Liedtke over to South Africa to work with Wimpie and the team there as well. We also brought Tarek from the Middle East there as a matter of fact. So it is mainly on the staff cost.

The procurement development in the Swiss region is making very good progress. The parallel imports from Germany, our central activity to really create a culture of getting the best price irrespective is starting to pay dividends.

Speaker: Okay great, thanks very much.

Operator: Our next question is from Mark Hammond[?]. Please go ahead.

Speaker: Who's that?

Mark Hammond: Good morning, gents. Two questions on Switzerland first. First, if you can give us an idea about the patient mix. [Inaudible], it was 45% were basic. Has it moved more towards the basic segment?

The second question is on CAPEX in Switzerland. Given the, let's say, the subdued revenue growth, what kind of CAPEX can we expect in Switzerland?

And then moving on to the UAE, can you give us an update on the refurbishment of Khalifa Street Hospital. We haven't talked about it at all. And I saw that the disposal of outpatient clinics continued in H1 2018; we went from 22 toward the end of last year to 15. Is there a target, outpatient clinics, to reach? And why removing completely this strategy of [inaudible] model that you also have in Dubai, especially that Abu Dhabi is a multi-city emirate?

Danie Meintjes: Okay, I'll start with the disposal. When we acquired the business, they had quite a number of really low-end, 'focussed on the basic-insured' clinics in more industrial areas, plus some other areas that does not support our strategic business plan. We disposed of those. So we are not doing away with anything comparable in terms of proper outpatient facilities feeding into the hospitals. At the moment, Jurgens, only two more to be disposed.

Jurgens Myburgh: Three.

Danie Meintjes: Three. Three more that we are going to close or sell, then we're at the end of that. So, we're finalising on that. And it is not changing any of our tactics or our strategy. So it's those that are really not supporting our key business.

In terms of the refurbishment of Khalifa Street, they are busy. I'm not sure whether the contractors are on board, but they've finalised the plans; they had to get approval. There is civil defence, and the fire departments need to approve as soon as you change in a building. That is going on, but the plan's approved, the capital allocated to tackle the first and the mezzanine floor of the Khalifa Street Hospital, so that is as planned. I can't give you an exact date when they will start, but they're busy with the preparation work.

Mark Hammond: On that – sorry – just on that point, how much capital do you think you're going to allocate for the Khalifa Street Hospital? And once they start, what's the timeline it's going to take in your opinion?

Danie Meintjes: The capital I haven't got here. There was an amount –

Jurgens Myburgh: I haven't worked that out.

Danie Meintjes: Have you got it there, James?

James[?]: No.

Danie Meintjes: We can come back to you. It's not a major amount; it's more refurbishing, just do a layout change, change the area that was the restaurant, the connection to the front area, the new door etc. It's not a big amount, but we can give you the amount.

And the timeline will be, I presume – I haven't got it in front of me – will be around about 12 to 18 months max.

Jurgens Myburgh: Correct, yes.

Operator: Our next question is from –

Jurgens Myburgh: I don't think we answered the Swiss question.

Danie Meintjes: There was a Swiss question in terms of ...?

Jurgens Myburgh: Two questions there: the first one was on insurance mix, and my comment there is we are acutely aware of the insurance mix change. And the team are obviously working on that. We do anticipate and typically would see a higher insured mix, you know, in the second half of the financial year.

On CAPEX, you would see on page 17 of the presentation, on a constant currency basis, i.e. like-for-like, the Swiss CAPEX is down about 12% year over year. You know, so we have dialled that back.

Danie Meintjes: Next question? James, how are we doing for time? Any further questions?

Operator: Our next question is from James Vane-Tempest.

James Vane-Tempest (Jefferies International): Yes, hi. It's James Vane-Tempest from Jefferies. Thanks for taking for questions. I just have two, if I can please. Firstly on Dubai, you mention in the release, 'DRG coming July 2018.' Just wondering how you expect this to impact pricing and your Dubai business? Because my understanding is with utilisation already quite high, it could be challenging to mitigate any pricing pressure, if that comes.

And then secondly related to TARMED, you talk about new proposals from 1st January 2019, how some inpatient procedures may be classified as outpatients. Although the details may be uncertain, is this included in the CHF25 million impact, or could there be a potential

disproportion impact? My understanding is your business has shifted somewhat to focus more on day cases to improve utilisation. Thank you.

Danie Meintjes: Alright, if I can start with the TARMED and the outpatient or the migration to day facilities or out of the hospitals, it's two issues. The TARMED is a classification of the service lines and the tariff related to that. They're still negotiating, all the stakeholders not in agreement, the government intervened. And on the list that they will implement on 1st January, that is the way we came to the conclusion of the final CHF25 million.

The outmigration and the national approach, there is a list of six procedures that they agreed on, on a national basis that should be done on an outpatient basis. Maybe just to give you perspective: inpatients subsidised by government cantonal money flowing in for the basic component, around about 45%. TARMED outpatients: no subsidy from the cantonal side. So it's a different fund that pay for that.

So the TARMED tariff structure is not subsidised by the cantonal government or taxes, and the specifications are six minor procedures, but there are caveats. If a patient is old, co-morbidity, some clinical risks, then they can still be done on an inpatient basis. If they do not have that, they can still be done on an inpatient basis, but it will be on a lower tariff, it will be on a TARMED tariff.

And similar to what we see in South Africa and other parts of the world, the outmigration makes sense if you can create lower capital facilities – a lower overrun or overheads where you run it five days a week, seven to seven typically – to service those still at a margin but at a lower price. The key challenge will be, is if we have capacity that we create by the out-movement of the lower complex surgery, whether you will have the need of higher acuity cases to backfill that. Because if we do it, we are in a plus-plus position, and that will be the key focus for the management.

Anything you would like to add? Then Dubai DRG?

Jurgens Myburgh: I mean, there's no update. I mean, we understand your point. We – and also when it will be implemented, we don't anticipate at this state a significant change. But we'll certainly update, you know, once we have clarity on exactly what the DRG environment's like.

Danie Meintjes: Maybe just two comments. The DRG proposal in Dubai will not be an input cost-based determination; it will be based on the existing costs. It will be a system that'll give more transparency of prices, we acknowledge that. But on the positive side, the government of Dubai is really engaging with the private sector, and our management team are very engaged, influencing, sharing, etc.

Impact: difficult to predict at this stage. Personally, I don't foresee a major change from implementation. With more transparency, more data, there will be focused on certain areas but not a big water-cliff effect once introduced.

James Vane-Tempest: That's great, thanks.

Danie Meintjes: Maybe a last question?

Operator: The next question is from Roy Campbell.

Danie Meintjes: We'll come back to you. Roy?

Roy Campbell (Morgan Stanley RMB): Good morning. Yeah, good morning, can you hear me?

Danie Meintjes: Yes, we can.

Roy Campbell: Actually two questions, please. Can you please remind us of the background behind the [inaudible] are you expecting more in the second half and why that's not provided for upfront?

And the second question is if we have to go back to the FY17 results, you said several of the weaknesses in the South African market was due to – from a macro perspective. And now you've given an indication that there is [inaudible] intervention that's come through. So have you seen more of that, and [inaudible]? Thank you, very much.

Danie Meintjes: Roy, the line is very bad. I couldn't figure it out. Maybe Jurgens got some of it? Just repeat the question you heard.

Jurgens Myburgh: The second question is about the South African volumes.

Danie Meintjes: Okay.

Jurgens Myburgh: And we mentioned the weaker macroeconomic, and we also referenced funding interventions. And what is meant by funding interventions.

Danie Meintjes: If that is the question, what is meant by funding intervention, I think the first one is if they change the benefits structure, then it does have an impact. And if I can use a practical example, you are all well aware of GEMS, one of the big schemes serving the government employees. They had an enrolment policy where people could definitely select against the fund. Join the fund, claim benefits, go off again, have preconditions, lady pregnant, join a month before the delivery, get the full benefits. That cost them a lot of money, and obviously created work for the private sector. They changed that in line with all the Medical Aid schemes.

The further intervention, which we referred to earlier on that we are not aware of actively in our hospitals, but there are talks specifically in KwaZulu-Natal where they introduced oversight at the hospital in terms of preadmissions, managing the patient actively from a Medical Aid point of view. We are not aware of that, it's definitely not happening in our hospitals. If there is behind the scenes, before the patient's enter our system, between the doctor and the Medical Aid, approvals that is more tough at this stage, we will not be aware of it but that is also a possibility.

Jurgens Myburgh: Roy, I'm sorry, I didn't get your first question at all, if you don't mind repeating that.

Roy Campbell: Okay, I'll try. You've got a R46 million impairment on trade receivables in the Middle East. Can you just give us the background on that impairment and, you know, if you're expecting more in the second half, why hasn't that not been provided upfront?

Jurgens Myburgh: Okay, yes. So in the Middle East and in particular in the Abu Dhabi business, Doman[?] is a 70% fund and revenue partner of ours. I referenced it at the full year results, the revenue management cycle, which has to do with your coding, your bidding and your collection. We took a view at yearend, we provided. It was a large provision.

This year, we disappointingly continued to have a large provision. The government is slow in paying. Our final rejection rates have come down in Abu Dhabi, but they're not nearly where we want them to be. So we have to continue to provide, you know, to make sure that we're comfortable with our provisions against those debtors.

So the first half of this year, the provision – the charge through the P&L was exactly the same as the first half last year. For the full year, we expect – and we're [inaudible] the numbers – we expect the full year to be lower, i.e. the second half number to be lower than last year's second half number. We continue to work extremely hard with them on this and would hope for good outcomes on our reconciliations of prior years. And we also saw a bit of an increase in our final rejection rate in the Dubai area as well, which is something again that we're very focused on and looking to manage down actively.

So this has – in my view, there are two things here. There's the past, you know, of the business that we acquired and that we've looked to address and redress, and provided against. And then there's the new revenue that still carries a high final rejection rate that we have to manage and manage down, and work with the funders, that we're able to do that. So that's where we are at the moment.

Danie Meintjes: Just to say, collection is a very high focus. I spoke to David Hadley last night; he's personally involved. He had meetings with Doman yesterday himself, and they're making progress, but we will report when we have the numbers. So, they're really focusing on it. Can we take the last question from the floor here, we had a hand here?

Speaker: Sorry, just to – sorry, go back to the issue and apologies for harping on it. But the Middle East margin outlook, I mean, if you're guiding for a 400 base point drag from greenfields in 2020 and a gradual improvement in the overall margin, I guess you're saying that organically there's a sort of 600 to 700 basis points of organic marginal expansion over the next three years. That's my interpretation of a marginal – sorry, I think your wording's 'gradual' – margin improvement. Is that correct?

Jurgens Myburgh: We use the terminology gradual. I'm not going to – if you don't mind, you know, we don't go into the detail of exactly that. But over time, over the four to five-year period, we're referencing a gradual improvement. So, you know, the years might be different in between, but we're referencing gradual improvement over that period. FY20's clearly an outlier because of the two big facilities opening in FY19. So that would be an outlier, and that's the 400 basis points that I referenced.

Speaker: But is there no way that you can put a number on it? Because a 100 basis points swing in your Middle East margin is massively sort of impactful on earnings.

Jurgens Myburgh: What we'll do is, as I said, we'll update you as we go along, and we'll make sure we break that out to give you as much visibility as possible closer to the time. Because again, we're talking about projects that are two years out, so we would be as transparent as we can about breaking that down for you.

Speaker: Okay, thanks.

Jurgens Myburgh: Okay.

Danie Meintjes: Right, I think that concludes it. Thank you all for your interest and time. I wish you well, thank you.

[END OF TRANSCRIPT]