



Mediclinic International 2018 Full Year Trading Update

Wednesday, 18th April 2018

Trading Update

Danie Meintjes

CEO

Thank you. Good morning everybody, and thank you for joining us this morning following the release of the Mediclinic International 2018 Full Year Trading Update. With me on the call Jurgens Myburgh, our Group CFO, and also James Arnold, Head of Investor Relations in London. First of all, apologies that we started a couple of minutes late. We still had a number of people in the queue, and I think some more people will join. And then secondly, I've got a bit of a flu, so hopefully my voice will last, so just bear with me. Thirdly, let me take you through the highlights of today's announcement. I will then hand over to Jurgens to run you through the numbers, and after that we will take questions from the lines.

The demand for the provision of quality healthcare services continues to increase and is driven by factors including, as you all know, aging population, growing disease burden and new technologies. Mediclinic is the largest independent pan-EMEA private healthcare service group, with market-leading provisions across all three of our operating divisions, is well positioned to benefit from these trends. With our relentless focus on patient safety, excellent clinical performance, and sustainable and efficient operating practices, Mediclinic expects to continue to create long-term shareholder value.

If we now move on to the update of the year, at the Group level we expect to deliver adjusted financial results for the year marginally ahead of the expectations. And one of the key drivers for this is the biggest achievement, and one of the biggest achievements this year by far, has been the turnaround of the Abu Dhabi business, which provided a significant second-half contribution. That business today is very different to the one that was operating some 18 to 24 months ago. The Middle East team have done an exceptional job to integrate the previous Al Noor business with our long-established Dubai operations.

We've aligned the Abu Dhabi business to the sustainable business and operating practices that we adhere to globally. We restructured the cost base. The doctors we successfully recruited to the business are delivering high-quality clinical care and services. The new doctor remuneration programme was implemented. Staff across the business are engaged and excited to work for Mediclinic, and the refurbishment of the facilities has had a positive effect on the business in addition to the rebranding that was completed during the year. The basic plan strategy that we informed you about is clearly working, which will enhance the quality of our revenues over the long term.

As a result of all these changes and investments that we clearly set out to undertake some 18 months ago, we are now seeing the benefits as momentum in the Abu Dhabi business performance begins to accelerate. It's all the work, not forgetting, in the Middle East, and the other half of the division, our established Dubai business, again performed strongly, and we expect that to continue.

A significant piece of the positive news today is the announcement that the 182-bed Mediclinic Parkview Hospital in Dubai is now some six months ahead of schedule and is expected to open around October this year. That achievement is again a testament to the

team on the ground and the many contractors that have worked on the project. The hospital will extend the tertiary care Mediclinic delivers in Dubai, reinforcing our position as a number-one healthcare service provider in the Emirate.

The location of that hospital is significant: the rapid growing New Dubai, the area in the south of Dubai where new schools and commercial developments are being built. The hospital will provide services to a currently estimated population of 800,000 UAE nationals and expatriates living in the 10 km radius from the hospital. The hospital is located on one of the main arterial routes between Abu Dhabi and Dubai and the northern Emirates, in addition of being a key thoroughfare between the affluent areas of Jumeirah, Umm Suqeim and a number of flourishing inland new communities.

Having exceeded [inaudible] against the financial targets we set ourselves for the year in the Middle East division, achieving a near-100 basis points of improvement in the EBITDA margin, I'm extremely excited by this positive momentum in the business, and I expect it to deliver sustainable growth going forward.

If we then switch to Hirlanden, our Hirlanden division in Switzerland remains the largest private healthcare provider in the country, delivering high standards of clinical care and services to an aging and wealthy population in a mature market. I'm pleased to say that Hirlanden performed in line with expectation during the second half of the year.

In Switzerland this year, as we highlighted previously, the outpatient regulatory environment began evolving, with a number of initiatives coming into effect. The TARMED tariff reduction for outpatient treatments became effective on 1st January this year. We've therefore had three months of impact in this year's numbers, and a further nine months in the next year's numbers, before the total estimated 12-month impact of around 25 million Swiss francs will be in the base.

The out-migration of focus – out-migration of care focus in Switzerland has impacted the Hirlanden business, and the reintroduction of various lists of procedures that will only be reimbursed at outpatient tariffs or the TARMED tariffs, compared to the previously inpatient tariffs. The latter began to be phased in by the canton of Lucerne in July this year – or last year – and on 1st January, four additional cantons implemented list of procedures, including the canton of Zurich, with the government expecting to formally initiate a national framework of around six procedures from 1st January 2019. We will continue to monitor the impact of these trends in the regulatory environment, and Hirlanden will have to adapt accordingly. As such, the division continues to invest in the well known and well reported Hirlanden 2020 strategic programme as part of the strategy to adapt, whilst delivering cost savings and operational efficiencies.

Then finally, turning to Southern Africa. In Southern Africa the second half of the year was stronger than what we forecasted, and as a result, revenue growth for the year was around 5% ahead of our expectations. Once again the team did a great job on managing the costs and driving efficiencies across the business, delivering stable EBITDA margins on last year, which was around 21.2%.

As with our other divisions, Mediclinic Southern Africa is one of the leading private healthcare providers in the market, and we are proud of our reputation and the recognition we get from patients and funders alike for the exceptional quality of care and services they receive when

they visit our facilities. The division continues to invest across its infrastructure to maintain and upgrade facilities. The opportunities for growth in Southern Africa have been limited in the past by the macroeconomic environment and the stagnant medical insurance membership, but despite this we have continued to perform well and review investment options across the continuum of care, including primary, sub-acute and day clinic facilities.

We already have two day clinics, and we plan to roll out five more over the coming few years, collocated with some of our [inaudible] hospitals. We are awaiting the conclusion of the Competition Commission's reviews into our proposed acquisition of the Matlosana Medical Services three hospitals in Klerksdorp, as well as the Intercare investment in the day hospitals and sub-acute business. On that note, we also await the report – the draft report from the long-awaited Health Market Inquiry at the end of this month.

So in summary, a year full of good achievements and, despite the regulatory backdrop, many positives to look forward to in the future. That concludes my summary of the overview, and I now hand over to Jurgens to take you through the numbers.

Financial Update

Jurgens Myburgh

CFO

Thank you very much, Danie, and good morning to everyone from my side. Firstly, just to remind you that all the numbers that we're presenting today are provisional and represent the latest financial estimates, and have not been reviewed or reported on by our external auditors. And also the references we make here to amounts specifically indicated are on an adjusted basis.

On to the results. At the Group level, we expect to deliver EBITDA and earnings per – revenue EBITDA and earnings per share numbers for the year marginally ahead of expectations, as Danie mentioned earlier, for the year ended 31 March 2018, with a significant second-half improvement from the Middle East division.

Taking each division in order and finishing with the group as a whole, we start with Switzerland. As previously indicated, Hirslanden's FY18 performance was impacted by the timing of the Easter period, a subdued summer market, the continued change in insurance mix and the evolving changes in the regulatory environment. To this end we continue to minute, monitor and adapt, as Danie said earlier, our business model to the pace of regulatory change. The continued investment in Hirslanden 2020 is part of the long-term strategy to adapt to this changing environment, whilst also delivering operational efficiencies for the division over time.

The team in Switzerland has done a good job despite these challenges to deliver results in line with expectations. In this year, in FY18, Hirslanden is expected to deliver a revenue increase of around 1.8% to 1.7 billion Swiss francs, with an EBITDA margin expected to be around 18.3% reflecting the current market and regulatory trends I've mentioned, as well as the ongoing costs associated with the Hirslanden 2020 strategic project. It's worth adding that we've been pleased with the operational performance of the Linde hospital since it was acquired at the end of June last year, and it's being successfully integrated into the

Hirslanden division. Looking ahead to FY19, we expect modest revenue growth at Hirslanden as a result of the regulatory market trends more than offsetting the benefits of cost-saving efficiency, and the EBITDA margin for next year is expected to contract by around 100 basis points from the 18.3 that I referenced earlier, and targeted to improve from FY20 onwards.

Moving on to South Africa then, the revenue growth for the second half was stronger than we forecast back in November, which resulted in an expected full-year growth of around 5%. I'm pleased to say that the team continue to deliver on the efficiency gains achieved in the first six months, which has resulted in the full-year EBITDA margin expected to remain stable on last year's 31.2%. In FY19 – next year – we expect to see similar margin stability, with revenue growth forecast to come from incremental PPD[?] increases, largely as a result of the increase in productive days combined with tariff increases broadly in line with inflation.

Finally to the Middle East, which Danie's spoken about as well. I just want to echo Danie's earlier comments: we've overcome the operational challenges in the Abu Dhabi business that we faced since the combination back in 2016. The changes that we implemented in the Abu Dhabi business during the prior year to align with our established Dubai business of Mediclinic Middle East have laid the foundation, as I've said in numerous conversations, for sustainable long-term delivery.

After reaching an inflection point, the second-half revenue Middle East is expected to grow by around 6% comparatively and around 12% sequentially, which highlights the positive momentum we expected to see in the second half of the year. For the full year in 2018 we expect, therefore, revenue to increase by 1% to 3.1 billion Dirhams, in line with the guidance we gave at the start of the year. And our FY18 EBITDA margin is expected to increase by almost 100 basis points to 12.5% following the strong second-half performance.

One area we provided disclosure on previously is the receivables of the Middle East business, largely in relation to the higher-than-desired rejection rates for invoices. We've made good progress in this area and will continue to do so, and we expect to be marginally ahead of our guidance we gave at the half-year results in relation to the bad debt impairment charge for the full year. I'll update you on this when we go through the results in May.

The Middle East division is now entering a growth phase underpinned by continued performance in the established Dubai business, as Danie said; significant improvement in the Abu Dhabi business; and the opening of new facilities and upgrade projects over the coming years. Next year, FY19, the Middle East division is expected to deliver strong revenue growth in the low-double-digit percentage range, reflecting the underlying operating performance of the business and additional bed capacity coming online in the second half of the year from expected October opening of Parkview Hospital in Dubai which, as Danie mentioned, is some six months ahead of schedule.

The EBITDA margin of the existing operations in Middle East – if you like, the undisturbed business before the impact of new facilities – is expected to increase by around 250 basis points in FY19 and continue improving year on year to a targeted 20% in FY22. As a result of the early opening of the Parkview hospital and the updated schedule for the planned expansion project in Abu Dhabi, the ramp-up costs associated with these new facilities are expected to offset the margin of the existing business by around 250 basis points per annum between FY19 and FY21, reducing thereafter. This is a flatter effect than we guided to

previously, when I mentioned that FY20 was going to be the high water mark with a 400 basis points effect on margin. So this is a flatter curve and 250 basis points per annum.

The changing guidance is down to the phasing of the new facilities. This, combined with the continued underlying performance, improvement in margins of the existing business and strong revenue growth, represents a positive financial outlook for the Middle East business over the coming years.

Finally on the Middle East, a quick reminder with your model that, with the new Parkview hospital opening earlier than expected, you'll probably need to update your D&A assumptions for the Middle East from FY19 onwards.

At the Group level then, after the translation effect of current currency movement, FY18 revenues are expected to be up around 4% at £2.9 billion and adjusted EBITDA up around 3% at £0.5 billion. The adjusted earnings per share, impacted by the equity accounted share of reported profit after tax from Spire, is expected to be broadly flat on the prior year FY17, which I remind you was 29.8 pence.

You'll no doubt have noticed that we've indicated a potential impairment charge relating to the goodwill and intangible asset carrying values in Hirslanden. On this, in accordance with IFRS, the Group performs an annual review of the carrying value for goodwill and other intangible assets at a cash generating unit level. In Switzerland, the combined impact of changes in the market and regulatory environment and our increased focus on returns have impacted the recovery amount calculated with the value in use methodology that could potentially give rise to an impairment of intangible assets of between £400 and £600 million. Any potential impairment charge will be non-cash and excluded from the adjusted earnings matrix.

And then finally, the Group will adopt the new IFRS-15 accounting standard, which is revenue from contracts and customers, from 1st April 2018. The new accounting standard has implications for the Middle East division, where we expect certain operating expenses to be reclassified and set off against revenue. We'll clearly give further details on this as part of our FY 18 results on 24 May 2018.

With all of that I'll hand back to the operator so we can take some questions on the line.

Q&A

Operator: Thank you very much. If you would like to ask a question, please press *1 on your telephone keypad. Please ensure that the mute function on your phone is switched off to allow your signal to reach our equipment. Once again, it is *1 if you wish to ask a question. We have a question from Alex Comer from JP Morgan. Please go ahead.

Alex Comer (JP Morgan): Hi guys. Congratulations on the turnaround in the Middle East. A couple of quick questions from me. Just as we look forward to the next six months, obviously bringing on the Parkview hospital ahead of schedule is a positive for the business, but I would imagine you've had to accelerate your hirings. So when we look at that guidance for margin, are we looking at a reduction in the margin versus last year in the first half and then a big bounce back, or is it going to be smoother than that? Because my thinking would

be that you'd have some pressure on your first half margins, I think, in the Middle East. I think Ramadan's also in the first half this year. So that's the first question.

Secondly, you know, you talk about targeted improvement in margin in Switzerland in 2020. I was just wondering, within that improvement, how much of that is self-help? You know, can you give us some guidance on what your self-help plans are to maybe support margin, and how much of it is sort of expectation of sort of regulatory pressure sort of easing a little bit?

Danie Meintjes: Morning Alex. Danie here. So thank you; we are really proud of what was achieved in the Middle East. Thank you for that comment. Your question, just to repeat what you asked, is the hiring, now that the new hospital is opening earlier – whether that additional salary cost will put a – will be a drag on the margin compared to the previous six months. Is that correct?

Alex Comer: Well, just from a forecasting perspective, you've had a big bounce back in the last six months in the Middle East. You had a very weak sort of – or weaker first half last year. I'm just wondering, do you expect your margin in the next six months to be better or worse than you achieved in the first six months of the current financial year?

Jurgens Myburgh: Yeah, Alex, we haven't broken that out at this stage. I'll be able to give you some colour on that in May. I would say that – and you're right, there is seasonality in it. There would be cost without any revenue associated with that. So that would be ordinarily a seasonal as well as a structural drag on margins. But I can't give you more colour than that at the moment. So I'll do that in May.

Danie Meintjes: And then the second question was Switzerland – I just want to understand that one. Is the improvement in margin as we guide post-2020 – are you asking what will contribute to that mainly?

Alex Comer: Yeah, I'm just asking if you – within that guidance, have you got, you know, saving programmes yourself, or is that just on the basis of easing of regulatory pressures?

Danie Meintjes: It is mainly focused on internal focus. We've highlighted the 2020 mainly for the background just to give you some comfort. The 2020 programme, as we've explained many times, is a big reorganisation to simplify, standardise and centralise, which involves quite a number of IT projects. It's a costly exercise. To give you comfort, they've done the cut over to the new programme for the initial number of hospitals in the Zurich area and the corporate office and [inaudible] as well. And the Zurich hospitals, they did the cut over on the long weekend; all went fine. Obviously small teething problems, but we are generally satisfied. So the first indication that that big process is going – obviously, flowing from that, you do carry a certain cost in terms of running that programmes. Very costly advisers. That will fall off. That will make a contribution. Secondly, there will be a phased change of how they run the business, bring certain support structures in a more effective way to the centre and then wean off some of the cost at a hospital level. But that will be phased in. Very difficult to give you an exact number, but those will be some of the key contributors.

May I also say – and I – the regulatory change on the outmigration of care – the surgical procedures now reimbursed at a TARMED tariff. It is a flux – everything is in flux. My personal view is, and the feedback that we get also from external sources, is that price point for surgical procedures at TARMED tariffs is, I think, over the long term need to be revised.

And I'm confident, but we haven't [inaudible] in terms of absolute numbers in the guidance. But I'm positive that that can ease and get a little bit of improvement going forward just from a balancing point of view.

Jurgens, you want to add?

Jurgens Myburgh: Yeah, I think that's right. I think, Alex, what we're baking into those numbers is the ongoing discipline around OpEx, which is around personnel cost and efficiency, it's around supply cost and repairs and maintenance. So I think it's a focus on that and an ongoing focus on that, and as Danie indicated, you know, Hirslanden 2020 as well.

Alex Comer: Okay, thanks.

Jurgens Myburgh: And clearly some top line growth as well. That [inaudible] as well.

Alex Comer: Thanks guys.

Jurgens Myburgh: Thank you, Alex.

Operator: We are now taking our next question from James Vane-Tempest from Jefferies. Please go ahead.

James Vane-Tempest (Jefferies): Yes, hi, good morning. Thanks for taking my questions. And I'll just have two if I can. On Parkview, just wondering whether you can give us a sense of the opening phasing plans in terms of outpatients, which kinds of specialties will be initially, number of beds which you have licenced, and how quickly you expect those to be ramped up, please.

And then secondly, again on the Middle East business, clearly the quality of revenues you're generating now is resulting in lower provisions. But I'm just kind of curious over the midterm when you're looking at underlying margin expansion. Is part of that due to the expectation of lower provisions improving profitability? Or if you're able to kind of improve on that basis, that would be further upside. Thank you.

Danie Meintjes: Thanks James, Danie here. On your first question, Parkview, the planning at this stage, and I've indicated in the past, due to the plot size – three plots being sort of put together – the layout is such that we will have to open a certain component to offer a reasonably smooth service for the hospital. But the plan is to open 100 hospitals. As I said previously at the six months, we have started recruiting already and they have doctors already recruited. The disciplines will be – let's call it the bread-and-butter disciplines, being orthopaedics, general surgery, internal provision medicine, paediatrics, maternity – but the plan is also to do non- or invasive cardiology there. But it will not be open cardiac surgery, it will not be neurosurgery. It will be the normal run of the mill, and then with a reference into the city hospital for the high-end cancer treatment and for cardiac surgery and neurosurgery etc. So those will be the disciplines. But the team – and we are very comfortable and very proud on the progress they've made with recruitment which is, as we all know the key starting point for the success of the hospital. Does that answer your question?

The ramp up – maybe just on the ramp up. We've got it in our models. We don't share it with the market. But it is a gradual build up. And obviously, depending on that phased build up will depend how quickly we open the rest of the hospital following from there. Jurgens?

Jurgens Myburgh: I think we'll open up roughly half of the hospital on day one and then ramp up over time. But it's a phased ramp up. And I think the important point, as Danie stressed, is that we've started, you know, from a hospital manager perspective and from a physician perspective as well.

Danie Meintjes: There was proper clinical planning not to replicate the high-end disciplines and how to make sure that we don't cannibalise our existing hospitals. But due to the distance from our existing hospitals and the very location, as I spelled out in my opening remarks, we are absolutely positive about the location and the good takeoff when we open the hospital. The second question –

Jurgens Myburgh: The second point, James, on the margins going forward and the impact that that did have on the – it is – there's obviously a tailwind of that but it's not a key driver. The key driver of margins for us going forward is revenue growth and the operating leverage that that gives us. And it's revenue growth driven through a combination of volume increases that we drive through the hospitals where we have the capacity, particularly in Abu Dhabi, with doctors coming online. And improving on the quality of revenue as well, which is in line with our strategy of – our basic plan strategy. Inpatient versus outpatient, higher acuity work. So for us the cost base is a good one, it's a reasonable one. And it's about driving the revenue to be able to improve the margin over time.

James Vane-Tempest: That's great; thank you.

Operator: We are now moving to Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel (Barclays): Thank you. Good morning, gentlemen, and congrats on the release today. I've got two questions on the UAE, please. So firstly, could you please talk about the volumes that you're seeing in the Abu Dhabi business, and specifically around the Thiqa patients. How are they trending and what is the opportunity here [inaudible] at the onset of this [inaudible] or at the time of acquisition? And secondly, could you talk a bit about the cost base as you see it in the Abu Dhabi business? Is it in the – you know [inaudible] it should be. Do you still think that the cost base in Abu Dhabi is in the right place, and can you talk a bit about the operational leverage that you should see from this business in the future? Thank you.

Danie Meintjes: Yeah, I will fire away. The volume in the Thiqa business specifically, I do not have the numbers in front of me in terms of when we took the business over, but you will all recall about the co-payment and all the challenges we had around that. But if I look at numbers in front of me for Thiqa patients or inpatients, we saw a 83% increase on inpatient admissions on the Thiqa line, year on year. The second half was dramatically more – more than 100% up first half, 40% over the year, 83. So it does include the new hospital that we opened, but it's a relatively small hospital. And it's reported in the past that that hospital, the Al Jowhara, is very particularly focused towards the Thiqa patients. But yes, we saw an absolute positive trend. Can it go with the same numbers going forward at the same capacity? Very difficult to predict. I would say it should slacken off over time. But it is clear that our attractability to the full spectrum of the patients there, specifically the Thiqa, is working. And then similarly, as we reported previously, our basic plan is coming down. So activity to a certain extent less, and as David[?] always said, the same doctor seeing actually

a little bit less patients sometimes but earning significantly more due to the bias to the higher priced work. So that is working.

Jurgens Myburgh: I'll add to that and then answer your second question, Hassan, is that just to give you another data point which we'll share at year-end as well. But the – our insurance mix and the evolution of that is quite important for us. And we've spoken about our strategy of increasing our Thiqa and enhanced business and, by implication, decreasing our basic plan patients. And if you look at inpatient and outpatient activity, basic plan patients are now less than 25% of the total mix of insurance. And so obviously the inverse of that is that 75% of our work now is enhanced and Thiqa. And that's a core part of where we wanted to get to and how we wanted to continue to evolve in that business.

And that goes to the point I made earlier in response to James's question about improving the quality of revenue of the business. And that also in part goes to answering your second question around margins. As I said to James earlier, for us, we've done a lot of work on the cost base of the Abu Dhabi business. We've done a lot of work integrating or combining the two businesses and, as a result of that, we had headcount cuts, we had cost cuts. We merged the head office infrastructure. And so all of that has been done. And so, for us, the strategy here is about revenue growth through volume growth firstly, and secondly improving the quality of that revenue.

Hassan Al-Wakeel: and so – but just on the underlying business, do you expect costs to increase materially or do you believe the cost base for the underlying business is there or thereabouts?

Jurgens Myburgh: I don't expect it to increase materially, no. And that's why we say, if you look at our margins, we're saying – you know, we're expecting next year to be able to – in the underlying business – have an improvement of 250 bps in margins. So that's a reflection both of the anticipation of revenue increase on a – I would regard as reasonably stable cost base. Of course you won't have a cost base that's not increasing at all. You have a certain element of variable costs, you have your inflation increases going through. But what you see in that 250 is the operating leverage of quality of revenue over a stable cost base.

Hassan Al-Wakeel: Great. And one more, if I may, again on the UAE business. Can you comment on Airport Road? There's been quite a lot of commentary around Parkview. It would be great to get an update on Airport Road and any reasons for some of the delays there.

Danie Meintjes: Airport Road, just to remind you, we did minor refurbishing. If you go into the hospital today it looks completely different. With a strategy of getting the basic patients out, we had to get the ambience etc more in line with our clientele being the enhanced and the Thiqa. So that we've done. But when we bought the business, there was already an approved plan to extend the hospital in terms of general hospital activity, replicating certain services almost in an adjacent building. We stopped that. We addressed, we re-planned. We then came to the conclusion that we do not want to replicate services; we want to leverage on the central costs. We know that the same facilities can do more with our basic plan process. We created actually capacity to a certain extent. But with the success and our analysis of the need, we are absolutely aware of the cancer treatment need in the area and, as we announced, that addition has now been converted to a replication of almost the

[inaudible] cancer treatment component. But we had to reconfigure, we had to get the approvals, we had to negotiate with the landlord, and also the builder. All of that took time, but we are very confident that that futuristic investment is much better aligned for the local need and it will give some operational leverage because of course you will not replicate any services there. That is the background to the delays and the changes.

Hassan Al-Wakeel: Excellent. Thank you very much.

Danie Meintjes: Thanks Hassan.

Operator: Our next question comes from Hans Bostrom from Credit Suisse. Please go ahead.

Hans Bostrom (Credit Suisse): Good morning, gentlemen. Hello. Three questions for me. First, your comment on South Africa about flat membership growth in 2019. I mean, if anything I would suggest it possibly sounds a bit conservative, given the presumably brighter outlook for the South African economy. But I suppose, could you give us a sense of how much of a lag you'd expect to see between membership growth and employment growth in the market based on previous recoveries of the economy? That would be helpful to give us a sense of what type of lags we're talking about and how that might develop over the next several years and not only 2019.

Secondly, could you also give a comment – or more specific comment regarding the increased D&A that I think you, Jurgens, mentioned, relating to Parkview? How much are we talking about in 2019 in terms of increased D&A?

And thirdly, on Hirslanden, you did mention six procedures that were impacted by this change in reimbursement regime. Could you give us a sense of how significant that is in the overall business at Hirslanden at the moment, or indeed which ones this picks up? Thank you very much.

Danie Meintjes: Thanks, Hans. On South Africa, I do not dispute – I think the business environment in south Africa, the whole vibe in South Africa post the leadership change is very positive. Our President [inaudible] England is on a major drive for foreign direct investment, job creation, etc. But those are plans – I think those are policies that need to be implemented to really have an effect on the ground at the end of the day. So there are green shoots, but we are not building in optimistic blue-sky growth in terms of employment. As you rightly said, if you see the formal employment, there is a little bit of a lag factor in terms of the membership taking up. But I'm positive. I think in my own personal view, I'm more positive, more optimistic about growth in South Africa going forward. But that is in the medium term. For the immediate years that we've done the budgets and we approved going forward, I think it is unfortunately still in an environment under the previous – let's say negative economic environment that we will have to operate. But for that reason we maintain our facilities. We did add some capacity as we reported, but we are not doing major add-ons just on the hope of green shoots coming through.

But Jurgens, anything you would like to add on that?

Jurgens Myburgh: No, I think that's about right. I think – you know, Hans, it's difficult to predict when your economic growth would start adding to formal employment. It could be medium term, it could be a year to three years. And for that to then become part of the

formal employment and the medical scheme population – as Danie said, our job here is to maintain, and we have an upgrade cycle that we’re going through which is very important for this business. And we continue to invest and we continue to grow marginally. But I think very positive signs from a framework perspective for good economic growth in the medium term.

Danie Meintjes: I think that the business confidence in South Africa picks up. Wherever you go, there are positive signs people are prepared to sort of contribute etc. But don’t underestimate the value that five additional day hospitals can bring by creating capacity in your existing hospitals, getting the higher-revenue work in, and yes, you commented on the PPD days, but if you look at our revenue and the quality of revenue, and if you look at specific procedures that we focus on, I think we did pretty well under very difficult macroenvironment in South Africa. And the team here was really on the brakes with costs, and we saw the results of that. We were also positive surprised.

In terms of the D&A for the Parkview hospital –

Jurgens Myburgh: It’s about 15-20 million Dirhams.

Danie Meintjes: And then Hirslanden, the six procedures – so yeah, the indication is six procedures. We know worldwide that there’s a trend that more and more work and leading to more and more complicated work – not complicated, but a little bit more complicated work – can be done efficiently and safe in less capital-intensive environments. This is a starting point, but part of 2020, as we reported on previously, is to do a bespoke evaluation per hospital in terms of their needs, their procedures, can they convert, must we do similar in South Africa, adjacent facilities. Because the name of the game for the outpatient surgery centres will be volume. You need volume to make it work at the end of the day, otherwise you are better off doing it in your own converted environment. That need to play out. We haven’t got hard data on that, but the fixed list is what we have now. But you’ve seen, and we reported, that some of the insurance companies already applied what is implemented in some of the cantons on a national basis already. So that is the lay of the land, but we factored that into our guidance and into our business model.

Hans Bostrom: But when we talk about the six procedures, is this fully covered by that 25 million Swiss francs, or are we talking about potentially being more than that in terms of –

Danie Meintjes: The 25 million – the 25 million Swiss francs on a 12-month basis – just to be absolutely clear – are related to the historical outpatient activities. It can be radiology, it can be pathology, it can be emergency unit consultations. It can be doctors’ consultation fees for doctors that we employ like – whatever. So those are the outpatient procedures that were traditionally done in outpatient. The additional component that we are referring to that is a phased approach is work that was in the past done inpatient, at inpatient tariffs, that are now done at the TARMED tariff. And that is where I commented – I think that TARMED tariff, over time, will have to be revised. That is tariffs related to a surgical procedure that was reimbursed at an inpatient tariff in the past.

Hans Bostrom: But I presume your financial guidance would have to recognise that these previous inpatient procedures are now likely to shift outpatient and, even if it only in the short term, on lower rates. But I just want to get a sense of how significant that is in financial terms for you, because that sounds as if that is in addition to the 25 million.

Danie Meintjes: I don't have that number that I can share with you now. At the year-end results we will have clearer numbers, we will share it with you in more detail.

Jurgens Myburgh: I think the important point, Hans, is that the – as we've said, the three key components of how the business has been rolled out. Firstly we've seen the rollout in Lucerne on 1st July. Secondly we saw the rollout of the four additional cantons on 1st January. And then we've also seen some of the funders adopt us into some of the cantons as well. The important point is this: the manifestation of the outmigration of care is a combination of tariff and volume. And so a lot of what we've been talking about since November, you know, around – where our revenues are going and what the values are doing – and you can see here, you know, we break out the volume growth. I think some of that already bakes in the outmigration of care.

So to try and answer your question, it's difficult to isolate the effect of outmigration of care on the business, but at the same time we have calibrated – obviously this year is already calibrated to the extent that it's reality – but next year as well, we've baked that in. But what we're saying is this landscape is evolving and we're adapting to it. And there are two ways to adapt to this, and we have to do both. We have to, A, adjust our cost base through a combination of personnel costs, supply costs, you know, addressing and prioritising R&M, and that we do. But in addition to that we are adapting the modality of care, which is a more systemic way of approaching the long-term business here. So it's difficult to isolate but it's in the numbers. But it's evolving and we're adapting. That's how I would summarise it.

Hans Bostrom: Okay. Thank you very much.

Operator: Our next question comes from Andre Bekker from Alkan Capital[?]. Please go ahead; your line is open.

Andre Bekker: Hi guys. I just have two quick questions. The first one is on South Africa. 6.7% revenue per patient increase. Can you tell us how much of that was tariff increase and how much was a change in case mix? And the second question is with regards to receivables in the Middle East. You mentioned that you made good progress. I don't know if you could give us any guidance on the expected impairment charge for FY18. Thank you.

Jurgens Myburgh: Right. Thank you, Andre. So on the 6.7% – you know [inaudible] inflation is. It stays between 5% and 6% of that would be inflationary, and the rest would be a combination of case mix and insurance mix. So that's how that breaks up.

On the Middle East provision, we guided at the half-year a number of 90 million. And what we're saying is, we'll probably beat that margin. So kind of take your guidance from that.

Andre Bekker: Okay. Perfect. Thank you.

Jurgens Myburgh: Thank you, Andre.

Operator: We are now moving to Irina Schulenberg from Foord Asset Management. Please go ahead.

Irina Schulenberg (Foord Asset Management): Good morning gentlemen. Thank you very much for the call. I just have two quick questions: the first one is on Switzerland and the impairment. I appreciate that it's non-cash; I just want to know what change in assumptions triggered the – obviously the review of the carrying value.

And then the second question on the UAE: you've obviously given guidance that underlying business will improve by 250 bps in margin. Is that based on current financials? So in other words – because you mentioned that IFRS 15 will lead to sort of lower top line but no impact on EBITDA, which implies a theoretical improvement in margin. So when you give the 250 bps improvement in that underlying business, does that include the change in accounting standards? Thank you.

Jurgens Myburgh: It does not. So morning, Irina, firstly, and thank you for your question. So the 250 is on a – let's call it a constant IFRS basis. So what we'll do in May is we'll break that out to you and show to you what it is on a like-for-like basis. But you're onto it, because the provision in future will be offset against your revenues. So your revenues will be lower but your EBITDA will be the same. So there will be a slight margin uplift going forward. But we'll break that out for you in May and show you exactly what the effect is. But the 250 we're talking about is recorded in a stable IFRS environment.

On the impairment charge, I think, Irina, to try and summarise that, the impairment charge is – I would say it's a reflection from an accounting perspective of what we've been talking about since November of last year, which is the regulatory changes in both TARMED, outmigration of care – the impact of that on our free cash flows in the [inaudible] but also importantly, you know, the assumption in the terminal value. And so, it's – there's nothing that's new in here; it's just a reflection of the changes that we've seen happening over the year.

Irina Schulenberg: Okay, thank you.

Operator: We now have a question from Terys Maricanis[?] from [inaudible]. Please go ahead.

Terys Maricanis: Hi, congratulations on the strong results. I was just wondering if you could please give us some colour on the Middle East, the likes for likes. Are they on single-digit growth or double-digit growth? And also if you could please give us some more colour on the working capital and the receivable situation there, if you've seen an acceleration in collections. Thank you very much.

Danie Meintjes: Thank you. Terys, we – can you just – the first question – have you got it?

Jurgens Myburgh: The question you're asking – and if I'm not answering it, you're welcome to ask it again. But are you asking – what we're saying is we expect the business to grow by low – with low double digits. That's the entire business. And we don't break it out at a revenue level; we tend to do it at an EBITDA level to show you what the disturbed and undisturbed is. But we expected the business to grow at low double digits, and I think that's in the statement.

Your second question on working capital, I think – and I've said this before. The Abu Dhabi market is structurally slower in pain[?]. It's also structurally for us where we have high disallowances and – as a result of those high provisions. And also structurally for us, an area where collections are slower than any of our other territories. So that has had an impact on the collections; it has had an impact on our free cash flow conversion in the region. Having said that though, in the last couple of months of the financial year, we've been – we've seen an uptick in that and we've seen good collections. But overall, relative to where we were a

few years ago in the Dubai environment, I'd say we're slower. I should add that it's a key focus for us is to drive down the final rejection rate and to improve the collections.

Terys Maricanis: That's brilliant. Thanks a lot.

Danie Meintjes: Thanks, Terys. I'm just looking at the time. Are we scheduled to run over for a few minutes, maybe a couple of last questions?

Operator: We have no further questions at this time, Mr Meintjes.

Danie Meintjes: All right, then it concludes. Thank you all for your time and we will talk to you and update you again at the financial results in London in May. Thank you for your time and all the best. Thank you.

Jurgens Myburgh: Thank you very much.

Operator: This does conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

[END OF TRANSCRIPT]