



**MEDI-CLINIC**

*Private hospital group*

AUDITED RESULTS OF  
**MEDI-CLINIC CORPORATION LIMITED**  
AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 MARCH 2011

# SALIENT FEATURES

- SOLID PERFORMANCE BY ALL THREE OPERATING PLATFORMS
- RIGHTS OFFER SUCCESSFULLY CONCLUDED
- CORE HEADLINE EARNINGS INCREASED BY 27%
- CORE HEADLINE EARNINGS PER SHARE INCREASED BY 20%
- FINAL DIVIDEND PER ORDINARY SHARE MAINTAINED AT 50.0 CENTS

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
	2011 R'm	2010 R'm
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>36 929</b>	33 535
Property, equipment and vehicles	30 409	28 046
Intangible assets	5 565	5 243
Other investments and loans	712	26
Derivative financial instruments	33	–
Deferred income tax assets	210	220
<b>Current assets</b>	<b>6 608</b>	4 829
Inventories	522	481
Trade and other receivables	3 796	3 211
Current income tax assets	–	17
Investment in money market funds	723	–
Cash and cash equivalents	1 567	1 120
<b>Total assets</b>	<b>43 537</b>	38 364
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>10 560</b>	7 616
Share capital and reserves	9 489	6 650
Non-controlling interests	1 071	966
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>	<b>27 922</b>	27 898
Borrowings	20 414	20 667
Deferred income tax liabilities	4 773	4 399
Retirement benefit obligations	383	346
Provisions	182	155
Derivative financial instruments	2 170	2 331
<b>Current liabilities</b>	<b>5 055</b>	2 850
Trade and other payables	2 938	2 367
Borrowings	1 834	398
Provisions	89	30
Derivative financial instruments	48	–
Current income tax liabilities	146	55
<b>Total liabilities</b>	<b>32 977</b>	30 748
<b>Total equity and liabilities</b>	<b>43 537</b>	38 364
Net asset value per ordinary share – cents	1 517	1 181

## CONSOLIDATED INCOME STATEMENT

	2011 R'm	Increase %	2010 R'm
<b>Revenue</b>	<b>18 625</b>	9%	17 141
Cost of sales	(10 327)		(9 573)
Administration and other operating expenses	(4 112)		(3 735)
<b>Operating profit before depreciation (EBITDA)</b>	<b>4 186</b>	9%	3 833
Depreciation and amortisation	(738)		(718)
<b>Operating profit</b>	<b>3 448</b>		3 115
Other gains and losses	13		28
Income from associates	4		7
Finance income	61		41
Finance cost	(1 491)		(1 524)
<b>Profit before tax</b>	<b>2 035</b>		1 667
Income tax expense	(654)		(481)
<b>Profit for the year</b>	<b>1 381</b>		1 186
<b>Attributable to:</b>			
Equity holders of the Company	1 177		1 058
Non-controlling interests	204		128
	<b>1 381</b>		<b>1 186</b>
Earnings per ordinary share – cents			
– Basic	195.3	5%	186.1
– Diluted	186.9		176.8
Headline earnings per ordinary share – cents			
– Basic	184.2	2%	180.8
– Diluted	176.3		171.7
Core headline earnings per ordinary share – cents			
– Basic	179.6	20%	149.9
– Diluted	171.9		142.4
<b>EBITDA RECONCILIATION:</b>			
Operating profit before depreciation (EBITDA)	4 186		3 833
Adjusted for:			
Past service cost	(33)		(97)
Impairment of property and equipment	34		–
Insurance proceeds	(84)		–
<b>Core operating profit before depreciation (Core EBITDA)</b>	<b>4 103</b>	10%	3 736
<b>EARNINGS RECONCILIATION:</b>			
Profit attributable to shareholders	1 177		1 058
Re-measurements for headline earnings	(77)		(31)
Gain on sale of interest in subsidiary	–		(28)
Profit on sale of property, equipment and vehicles	(4)		(3)
Gain on rights sold	(2)		–
Gain on purchase of business acquisition	(21)		–
Impairment of property and equipment	34		–
Insurance proceeds	(84)		–
Income tax effects	10		1
<b>Headline earnings</b>	<b>1 110</b>	8%	1 028
Re-measurements for core headline earnings	(33)		(197)
Past service cost	(33)		(97)
Tax rate changes	–		(100)
Income tax effects	5		21
<b>Core headline earnings</b>	<b>1 082</b>	27%	852

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011 R'm	2010 R'm
Profit for the year	1 381	1 186
<b>Other comprehensive income</b>		
Currency translation differences	488	(1 401)
Fair value adjustment to cash flow hedges (net of tax)	246	(183)
Actuarial gains and losses	(73)	331
<b>Other comprehensive income/(loss), net of tax</b>	<b>661</b>	<b>(1 253)</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>2 042</b>	<b>(67)</b>
<b>Attributable to:</b>		
Equity holders of the Company	1 877	(88)
Non-controlling interests	165	21
	<b>2 042</b>	<b>(67)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2011 R'm	2010 R'm
<b>Opening balance</b>	<b>7 616</b>	<b>7 989</b>
Shares issued	6	–
Premium on shares issued	1 358	–
Share issue costs	(33)	–
Movement in shares held in treasury	23	15
Movement in share-based payment reserve	6	7
Minority interest acquired by the Group	(1)	(6)
Total comprehensive income/(loss) for the year.	2 042	(67)
Distributed to shareholders	(398)	(374)
Change in shareholding of subsidiaries	–	108
Cost of subsidiary rights issue	–	(1)
Distributed to non-controlling interests	(59)	(55)
<b>Closing balance</b>	<b>10 560</b>	<b>7 616</b>
<b>Comprising</b>		
Share capital	65	59
Share premium	6 066	4 741
Treasury shares	(288)	(311)
Share-based payment reserve	129	123
Foreign currency translation reserve	1 828	1 301
Hedge reserve	(2 097)	(2 343)
Retained earnings	3 786	3 080
<b>Shareholders' equity</b>	<b>9 489</b>	<b>6 650</b>
Non-controlling interests	1 071	966
<b>Total equity</b>	<b>10 560</b>	<b>7 616</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2011 R'm	2010 R'm
Cash flow from operating activities	<b>2 316</b>	1 960
Cash generated from operations	<b>4 179</b>	3 800
Net finance cost	<b>(1 368)</b>	(1 396)
Taxation paid	<b>(495)</b>	(444)
Cash flow from investment activities	<b>(2 563)</b>	(1 271)
Investment to maintain operations	<b>(645)</b>	(654)
Investment to expand operations	<b>(778)</b>	(649)
Proceeds on sale of property, equipment and vehicles	<b>24</b>	25
Insurance proceeds	<b>57</b>	–
Proceeds from other investments and loans	<b>120</b>	7
Purchases of FVTPL financial assets	<b>(688)</b>	–
Purchases of money market funds	<b>(672)</b>	–
Interest received	<b>19</b>	–
Cash flow from financing activities	<b>688</b>	(542)
Distributions to shareholders	<b>(398)</b>	(374)
Distributions to non-controlling interests	<b>(59)</b>	(55)
Proceeds from shares issued	<b>1 364</b>	–
Share issue costs	<b>(33)</b>	–
Movement in borrowings	<b>(208)</b>	(155)
Proceeds from disposal of treasury shares	<b>23</b>	15
Acquisition of non-controlling interests	<b>(1)</b>	–
Contributions by non-controlling interests	<b>–</b>	27
Net movement in cash, cash equivalents and bank overdrafts.	<b>441</b>	147
Opening balance of cash, cash equivalents and bank overdrafts	<b>967</b>	941
Exchange rate fluctuations on foreign cash	<b>39</b>	(121)
Closing balance of cash, cash equivalents and bank overdrafts	<b>1 447</b>	967
Cash and cash equivalents	<b>1 567</b>	1 120
Bank overdrafts	<b>(120)</b>	(153)
	<b>1 447</b>	967

## ADDITIONAL INFORMATION

	2011 R'm	2010 R'm
<b>Capital commitments</b>		
Southern Africa	<b>1 490</b>	867
Middle East	<b>9</b>	10
Switzerland	<b>894</b>	216
	<b>R</b>	R
<b>Exchange rates</b>		
Average Swiss franc (ZAR/CHF)	<b>7.11</b>	7.35
Closing Swiss franc (ZAR/CHF)	<b>7.42</b>	6.93
Average UAE dirham (ZAR/AED)	<b>1.96</b>	2.13
Closing UAE dirham (ZAR/AED)	<b>1.85</b>	2.00
	<b>Number</b>	Number
	<b>'000</b>	'000
<b>Shares</b>		
Number of ordinary shares in issue	<b>652 315</b>	593 014
Number of ordinary shares held in treasury	<b>(26 664)</b>	(30 145)
	<b>625 651</b>	562 869
Weighted number of ordinary shares	<b>602 467</b>	568 721
Diluted number of ordinary shares	<b>629 488</b>	598 656

In determining earnings and headline earnings per share the weighted number of ordinary shares were taken into account.

## SEGMENTAL REPORT

	2011 R'm	2011 R'm	2011 R'm	2011 R'm
	Hospital Services	Hospital Properties	Adjustments and eliminations	Total
<b>Revenue</b>				
Southern Africa	8 632	760	(760)	8 632
Middle East	1 334	57	(57)	1 334
Switzerland	8 659	1 326	(1 326)	8 659
<b>EBITDA</b>				
Southern Africa	1 150	737		1 887
Middle East	183	57		240
Switzerland	834	1 225		2 059
<b>Operating profit</b>				
Southern Africa	921	737		1 658
Middle East	107	57		164
Switzerland	527	1 099		1 626
<b>Assets</b>				
Southern Africa	4 937	6 872	(5 609)	6 200
Middle East	1 005	727		1 732
Switzerland	9 812	24 338		34 150
Corporate				1 455
<b>Liabilities</b>				
Southern Africa	2 381	3 973	(1 059)	5 295
Middle East	473	263		736
Switzerland	3 176	23 923		27 099
Corporate				4
Intersegmental liabilities				(157)
	2010 R'm	2010 R'm	2010 R'm	2010 R'm
	Hospital Services	Hospital Properties	Adjustments and eliminations	Total
<b>Revenue</b>				
Southern Africa	7 680	687	(687)	7 680
Middle East	1 126	62	(62)	1 126
Switzerland	8 335	1 330	(1 330)	8 335
<b>EBITDA</b>				
Southern Africa	985	666		1 651
Middle East	71	61		132
Switzerland	806	1 244		2 050
<b>Operating profit</b>				
Southern Africa	779	666		1 445
Middle East	(4)	61		57
Switzerland	499	1 114		1 613
<b>Assets</b>				
Southern Africa	4 495	6 048	(4 785)	5 758
Middle East	942	786		1 728
Switzerland	8 323	22 555		30 878
<b>Liabilities</b>				
Southern Africa	2 287	3 962	(931)	5 318
Middle East	468	312		780
Switzerland	2 361	22 289		24 650

We are pleased to report that the Group has maintained its consistent growth pattern.

### GROUP OVERVIEW

#### Group financial performance

The Group uses the concepts of core EBITDA, core headline earnings and core headline earnings per share as a method to provide shareholders with clear and consistent reporting. Core EBITDA, core headline earnings and core headline earnings per share are defined as reportable EBITDA, headline earnings and headline earnings per share in terms of accounting standards, excluding one-off items.

#### Trading results

Group revenue increased by 9% to R18 625m (2010: R17 141m) for the year under review. Core operating income before interest, tax, depreciation and amortisation ("core EBITDA") was 10% higher at R4 103m (2010: R3 736m). Core headline earnings rose by 27% to R1 082m (2010: R852m). Core headline earnings per ordinary share increased by 20% to 179.6 cents (2010: 149.9 cents).

The Group results include the following three one-off items:

- On 20 December 2010 a fire broke out at Constantiaberg Medi-Clinic, which caused significant damage to the hospital's theatres. As a result of the fire damage, an impairment loss to property and equipment of R34m (R25m after tax) was recognised together with insurance proceeds of R84m (R66m after tax). The impairment losses and the insurance proceeds were excluded from headline earnings.
- On 4 October 2010 the Group acquired a 100% interest in Klinik Stephanshorn. The fair value of the net assets exceeded the purchase price, resulting in the recognition of a gain on purchase of business acquisition of R21m (CHF3m). The gain is included in "Other gains and losses" on the income statement and excluded from headline earnings.
- An adjustment to the pension funds' payout ratio of Klinik St. Anna, resulting in a past service cost credit, calculated in terms of IAS 19, to the income statement of R33m (CHF4.7m) and R28m (CHF4m) after adjusting for tax. The past service cost credit was excluded from core headline earnings.

Before the abovementioned one-off adjustments, reported EBITDA increased by 9% to R4 186m (2010: R3 833m).

Excluding current and prior year re-measurements relating to core headline earnings, headline earnings rose by 8% to R1 110m (2010: R1 028m) and basic headline earnings per ordinary share increased by 2% to 184.2 cents (2010: 180.8 cents).

These results were achieved despite the continuing tough global economic conditions. The leveraging effect of the capital structure of the Group is evident through the higher core headline earnings per share growth of 20% compared to the core EBITDA growth of 10%.

The average Swiss Franc (CHF) exchange rate was R7.11 compared to R7.35 for the comparative period, which had a negative effect on the reported results, as detailed under Hirslanden's financial performance section.

#### Finance cost

Included in the finance cost is an amount of R78m (2010: R75m), which is the amortisation in respect of raising fees paid on the Group's local and offshore debt for the period under review. These amounts are amortised over the terms of the relevant loans in line with future cash payments as prescribed in IAS 39 Financial Instruments.

#### Cash flow

The Group's cash flow continued to be strong. The Group converted 102% (2010: 102%) of core EBITDA into cash generated from operations. Cash and cash equivalents increased from R1 120m at 31 March 2010 to R1 567m at year end.

#### Interest-bearing borrowings

Interest-bearing borrowings ("debt") increased from R21 065m at 31 March 2010 to R22 248m at year end, mainly as a result of the change in the closing rand/CHF exchange rate. The CHF closing exchange rate moved from R6.93 at 31 March 2010 to R7.42 at year end. It is important to note that the foreign debt of the Group's Swiss and

Middle Eastern operations, amounting to R18 491m, is matched with foreign assets in the same currencies. The foreign debt also has no recourse to the Southern African operations' assets, as stipulated by the South African Reserve Bank as well as applicable financing arrangements.

### **Dividend**

As indicated previously, the Group is moving towards a targeted dividend cover of three times based on Group headline earnings, over time. Therefore the final dividend per share is being maintained at 50.0 cents (2010: 50.0 cents).

### **The rights offer**

After deduction of expenses, the Company raised R1 331m through a rights offer that closed on 6 August 2010. The rights offer was for a total of 59 301 395 Medi-Clinic shares at a subscription price of 2 300 cents per share.

The proceeds of the rights offer will be used to finance growth opportunities available at hospitals currently owned in Switzerland. The proceeds were invested in short term money market funds, as well as in investment grade bonds, with a short-term maturity profile, to enhance the low bank interest yields. Non-Swiss denominated bonds are fully hedged by forward contracts to the Swiss Franc.

## **OPERATIONS IN SOUTHERN AFRICA**

### **MEDI-CLINIC SOUTHERN AFRICA**

#### **Financial performance**

The Southern African group revenue increased by 12% to R8 632m (2010: R7 680m) for the year under review. Core EBITDA was 11% higher at R1 837m (2010: R1 651m).

After incurring depreciation charges of R229m (2010: R206m), net finance charges of R348m (2010: R334m), taxation of R388m (2010: R326m) and deducting the interest of minority shareholders in the attributable income of the Southern African group amounting to R141m (2010: R126m), the Southern African operations contributed R731m (2010: R659m) to the core attributable income of the Group.

#### **Business performance**

The 12% revenue growth was achieved through a 2.9% increase in bed-days sold, a 7.7% increase in the average income per bed-day and 1.4% increase in other revenue. The increase in utilisation reversed the trend of many previous reporting periods in that it was more evident in surgical rather than medical cases. The increase in the average income per bed-day was driven by this positive shift towards more surgical cases with a higher income profile. The number of patients admitted increased by 1.2%, while the average length of stay increased by 1.9%.

The Southern African operations core EBITDA margin decreased slightly from 21.5% to 21.3%, mainly because of rental income which is now shown as part of revenue and which had a negative impact of 0.2% on the margin.

During the reporting period the Southern African operations spent R222m (2010: R315m) on capital projects and new equipment to enhance its business, as well as R224m (2010: R194m) on the replacement of existing equipment and R78m on the fire damage at Constantiaberg Medi-Clinic. In addition, R236m (2010: R210m) was spent on the repair and maintenance of property and equipment, charged through the income statement. For the next financial year, R599m is budgeted for capital projects and new equipment to enhance its business, R237m for the replacement of existing equipment and R254m for repairs and maintenance. Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to R43m and R65m in 2012 and 2013 respectively.

The number of licensed hospital beds increased from 7 035 to 7 103 during the year under review.

The occupancies of the new 140-bed Cape Gate Medi-Clinic in the Western Cape have been above expectations.

During the past year building projects at Constantiaberg Medi-Clinic (upgrade and new doctors consulting block), Tzaneen Medi-Clinic (27 additional beds), Marapong Medi-Clinic (upgrade), Ermelo Medi-Clinic (upgrade), Medforum Medi-Clinic (upgrade), Muelmed Medi-Clinic (upgrade of 57 beds), Wits Donald Gordon Medical Centre (upgrade of 28-bed ward) and Panorama Medi-Clinic (upgrade and a new electro-physiology laboratory) were completed.

Currently there are building projects in progress at Nelspruit Medi-Clinic (66 additional beds), Stellenbosch Medi-Clinic (10 additional beds), Kimberley Medi-Clinic (8 additional beds), Kloof Medi-Clinic (32 additional beds), Paarl Medi-Clinic (2 additional beds and 1 theatre), Welkom Medi-Clinic (36 additional beds and upgrade), Legae Medi-Clinic (4 additional beds and upgrade) and Cape Town Medi-Clinic (new doctors consulting block), which will be completed during the next year. Projects at Limpopo Medi-Clinic (60 additional beds and upgrade), Cottage



Medi-Clinic (upgrade and 14 additional beds), Louis Leipoldt Medi-Clinic (upgrade) and Hoogland Medi-Clinic (new doctors consulting block and upgrade) will be completed during the 2013 financial year.

Further projects were approved for a new hospital in Centurion (174 beds), Highveld Medi-Clinic (27 additional beds), Potchefstroom Medi-Clinic (13 additional beds), Pietermaritzburg Medi-Clinic (new cardiology unit, 80 additional beds, consulting rooms and upgrade), Otjivarongo Medi-Clinic (2 additional beds) and Windhoek Medi-Clinic (26 additional beds and consulting rooms). These projects will start during the next 12 months.

The number of licensed beds is expected to increase from 7 103 to 7 261 during the next year.

The Southern African operations' cash flow continued to be strong as it converted 111% (2010: 102%) of core EBITDA into cash generated from operations. Cash and cash equivalents increased from R486m at 31 March 2010 to R755m at year end. Over this period interest-bearing borrowings decreased from R3 871m to R3 757m.

Medi-Clinic Southern Africa continued to implement the group's transformation strategy and improved its BBBEE rating from a level 4 to a level 3 contributor.

The Minister of Finance announced during the national budget speech in February 2011 that Treasury will investigate different options to fund the proposed NHI fund and that an announcement will be made during the February 2012 budget speech. If and when any form of additional NHI tax is introduced, one would expect Treasury to apply the usual principle of phasing in the additional tax gradually over time in small incremental steps to minimise the impact on the disposable income of individuals and to allow adequate time for individuals to adjust spending patterns gradually. Furthermore, the mooted NHI payroll tax will be progressive in nature, i.e. the higher the income of an individual, the higher the percentage tax. Since the affordability of medical aid contributions is of greatest concern for low income earners, the low impact of a progressive payroll tax on these members will probably mean that medical aid membership will not be affected significantly.

The scrapping of the Reference Price List (RPL) regulations and benchmark tariffs by the High Court on 28 July 2010 does not have any direct impact on Medi-Clinic Southern Africa. The RPL tariffs have never been relevant and have never been used by the private hospital industry in South Africa. The company's involvement in the court case (together with the Hospital Association of South Africa) turned on issues of administrative law and non-compliance with the regulations. Private hospitals negotiate tariffs on an annual basis directly with medical aid schemes. This practice is in line with the prevailing competition legislation and has been in place since 2002.

The Department of Health and Council for Medical Schemes jointly published a discussion document on the Determination of Health Prices in the Private Sector at the end of October 2010. Medi-Clinic Southern Africa does not support the proposed central tariff negotiation process and is of the opinion that the proposal will have a negative impact on competition in the private hospital market. Comprehensive comments on the document were submitted before the due date of 15 January 2011.

Medi-Clinic Southern Africa supports the initiative of the Department of Health to establish an Office of Health Standards Compliance, which is the key focus area of the National Health Amendment Bill. The Bill was published on 24 January 2011 for comment by interested parties and Medi-Clinic Southern Africa made a comprehensive submission within the prescribed time frame. Medi-Clinic suggests that the Office should be independent and should focus on issues pertaining to patient safety and quality of care. The same standards should apply to both public and private sector providers.

## **OPERATIONS IN SWITZERLAND**

### **HIRSLANDEN**

#### **Financial performance**

Hirslanden's revenue increased by 4% (increased by 7% at constant foreign exchange rates) to R8 659m (CHF1 218m) (2010: R8 335m (CHF1 134m)) for the year under review. Core EBITDA was 4% higher (7% higher at constant foreign exchange rates) at R2 026m (CHF285m) (2010: R1 953m (CHF266m)).

After incurring depreciation charges of R433m (CHF61m) (2010: R437m (CHF59m)), net finance charges of R1 060m (CHF149m) (2010: R1 096m (CHF149m)) and taxation of R251m (CHF35m) (2010: R234m (CHF32m)) and income from associate of R4m (CHF1m) (2010: R7m (CHF1m)), Hirslanden contributed R286m (CHF41m) (2010: R193m (CHF27m)) to the attributable income of the Group.

## Business performance

Inpatient admissions increased by 6% during the reporting period. Although the average length of stay remained fairly constant the average income per bed-day increased by 2.4% because of a greater proportion of higher acuity cases. The trend towards higher acuity cases continued which led to a further increase in the average revenue per admission.

The core EBITDA margin of the group remained consistent at 23.4%. Hirslanden's results were achieved despite an increased historical tariff risk provision of R35m (CHF5m) which was charged to the income statement. This tariff provision relates to tariff determination differences for patients with compulsory health insurance.

During the reporting period, Hirslanden spent R312m (CHF44m) (2010: R318m (CHF43m)) on capital projects and new equipment to enhance its business as well as R323m (CHF45m) (2010: R424m (CHF58m)) on the replacement of existing equipment. In addition, R232m (CHF33m) (2010: R222m (CHF30m)) was spent on the repair and maintenance of property and equipment, charged through the income statement. For the next financial year CHF72m is budgeted for capital projects and new equipment to enhance its business, CHF53m for the replacement of existing equipment and CHF33m for repairs and maintenance. Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to CHF8m and CHF5m in 2012 and 2013 respectively.

At Klinik Hirslanden a neurology centre opened in April 2010 and a vascular centre in June 2010. At Klinik Im Park a new 3.0 tesla magnetic resonance imaging ("MRI") machine was acquired in August 2010. Planned investment in new technology, which provides for new treatment options and increased case load, includes a 3.0 tesla MRI machine at Klinik Hirslanden as well as a 1.5 tesla MRI machine at Klinik St. Anna, both to be commissioned in summer 2011.

The number of fully operational inpatient beds increased from 1 365 to 1 457 during the period under review. At Klinik St. Anna 7 new private rooms were commissioned at the beginning of April 2010. The newly acquired Klinik Stephanshorn added another 85 inpatient beds in October 2010.

The construction works at Klinik Beau-Site in Berne are on time and the new building is expected to open in the European autumn 2011. The hospital will be expanded by 23 beds to 116 beds, with 19 beds to be commissioned in 2011 and the balance in 2012. In addition, the hospital will receive an extensive upgrade while consulting rooms will also be added.

The new building at Klinik Hirslanden is also proceeding well and should be commissioned in the European spring 2013. The hospital will be expanded by 71 inpatient beds, 8 ICU beds and new consulting rooms will be added. At Klinik Bois-Cerf in Lausanne the new radiology department is expected to start operations in early 2012 and the radiotherapy department towards the end of 2012.

Hirslanden converted 94% (2010: 101%) of core EBITDA generated into cash from operations. An IAS 19 pension fund adjustment of R102m (CHF14.3m) (2010: R63m (CHF8.6m)), representing the employer contributions exceeding the current service cost, was credited to the consolidated income statement. If this IAS 19 non-cash flow pension fund credit was excluded, Hirslanden would have converted 98% of core EBITDA into cash from operations.

Cash and cash equivalents increased from R526m (CHF76m) at 31 March 2010 to R699m (CHF94m) at year end.

Interest-bearing borrowings increased from R16 673m (CHF2 406m) at 31 March 2010 to R18 083m (CHF2 437m) at year end net of capitalised debt transaction fees in rand terms mainly because of the increase in the spot rate of the rand/CHF exchange rate.

An amendment to the Swiss Health Insurance Act ("KVG") of 1 January 2009 will come into effect on 1 January 2012. The new federal Act contains three major changes: (i) the introduction of fixed fees for inpatient services based on diagnosis-related groups ("DRGs"), (ii) a new hospital financing system which re-defines the funding proportions of the cantons versus the health insurance companies, and (iii) the revision of the so-called hospital lists on which those clinics and hospitals are listed that are eligible to treat mandatorily insured patients.

One of the main intentions the federal authorities had when adopting the changes was to increase competition between hospitals. Therefore, from 1 January 2012 onwards, all listed private and public hospitals – i.e. those included in the hospital lists – will in general be treated equally in terms of financing, and thus receive funding from both cantons and health insurance companies. In addition, patients will then be able to choose any listed hospital

in Switzerland for treatment. Finally, the introduction of a uniform DRG-system for all of Switzerland ("SwissDRG") entails abolition of the former cost compensation system and the introduction of a new fixed fees for in-patient services (DRG) system.

The crux, however, is that the constitutional responsibility for the implementation of the federal Act lies with the cantons. Since the cantons operate their own hospitals, this means that the cantons are in a dual role as regulators and as providers. The federal Act only specifies that the selection of providers for the revised hospital lists needs to be based on criteria for quality and economic efficiency. Not surprisingly, the various cantons have started translating the federal Act into cantonal regulations that differ considerably from canton to canton. Moreover, the conflict of interest arising from their dual role has resulted in sometimes questionable cantonal requirements for inclusion in the hospital list, protecting the public hospitals against private sector competition.

Hirslanden is in regular contact with the health departments in the cantons where it owns hospitals. To date, no rulings on hospital lists or DRGs have been made, so it is not yet possible to assess the consequences of the Act for Hirslanden, including any quantification of the financial effect of the changes currently being implemented.

### **Acquisition of Klinik Stephanshorn**

Hirslanden acquired a 100% interest in the 85-bed Klinik Stephanshorn with effect from 4 October 2010. Klinik Stephanshorn is the largest private hospital in the canton of St Gallen and the only one in the city of St Gallen. It had always been earmarked for incorporation into the Hirslanden group because of its strategic value. Together with Hirslanden's existing 62-bed Klinik Am Rosenberg, situated nearby in Heiden, Appenzell Ausserrhoden, it significantly strengthens Hirslanden's position in Eastern Switzerland. The two hospitals complement each other and will create synergies for the current and future development of acute, specialist-orientated hospital care in Eastern Switzerland. This market still offers many growth opportunities and, in order to capitalise on the full growth potential of the transaction, further capital expenditure is planned.

The financial results of Klinik Stephanshorn have been included in the Group financial results from 4 October 2010. Klinik Stephanshorn has contributed R171m (CHF24m) of revenue and R33m (CHF4.7m) to the Group's core EBITDA.

## **OPERATIONS IN UNITED ARAB EMIRATES**

### **EMIRATES HEALTHCARE**

#### **Financial performance**

Revenue increased by 18% (29% at constant foreign exchange rates) to R1 334m (AED681m) (2010: R1 126m (AED529m)) for the year under review. EBITDA increased by 82% (97% at constant exchange rates) to R240m (AED122m) (2010: R132m (AED62m)) and the EBITDA margin increased from 11.8% to 18.0%.

After incurring depreciation charges of R76m (AED38m) (2010: R75m (AED35m)), net finance charges of R38m (AED19m) (2010: R53m (AED25m)) and the sharing of minority shareholders in the attributable income of Emirates Healthcare amounting to R63m (AED32m) (2010: R2m (AED1m)), Emirates Healthcare contributed R63m (AED33m) (2010: R2m (AED1m)) to the attributable income of the Group.

#### **Business performance**

During the reporting period inpatient admissions in the hospitals increased by 23% (2010: 41%), while hospital outpatient consultations and visits to the emergency units increased by 10% (2010: 16%). Clinic outpatient consultations increased by 21% (2010: 33%).

The upgrade project at Welcare Hospital which began in September 2010 is substantially completed.

The number of licensed hospital beds remained constant at 336 beds during the year under review.

Both The City Hospital and Welcare Hospital have now received accreditation by the prestigious USA based Joint Commission International (JCI).

During the reporting period Emirates Healthcare spent R26m (AED13m) (2010: R13m (AED6m)) on capital projects and new equipment to enhance its business as well as R20m (AED10m) (2010: R36m (AED17m)) on the replacement of existing equipment. In addition, R31m (AED16m) (2010: R28m (AED13m)) was spent on the repair and maintenance of property and equipment, charged through the income statement. For the next financial year, AED8m is budgeted for capital projects and new equipment to enhance its business, AED29m for the replacement of existing equipment and AED18m for repairs and maintenance.

On 10 October 2010 Emirates Healthcare opened Welcare Clinic Ibn Battuta, a multi-specialty clinic conveniently located in the Ibn Battuta Mall.

Before taking the acquisition of the Emaar clinics into account, Emirates Healthcare converted 100% (2010: 105%) of EBITDA generated into cash from operations. Cash and cash equivalents increased from R108m (AED54m) at 31 March 2010 to R114m (AED61m) at year end.

Interest-bearing borrowings decreased from R521m (AED261m) at 31 March 2010 to R408m (AED221m) at year end.

### **Acquisition of Emaar clinics**

Emirates Healthcare acquired the following three clinics effective from 15 January 2011: The Dubai Mall Medical Center, Meadows Clinic and Arabian Ranches Clinic. The clinics have contributed R25m (AED12.7m) of revenue and R0.5m (AED0.3m) to the Group's core EBITDA.

## **CHANGES TO THE BOARD OF DIRECTORS**

Since the release of our interim results for the six months ended 30 September 2010, there have been no changes to the Board.

## **PROSPECTS**

The Group remains uniquely positioned across three diverse international operating platforms with stable and experienced management teams in place. It continues to focus on its core business of acute care, specialist-orientated hospital services to fulfil its vision of being regarded as the most trusted and respected provider of such services by patients, doctors and funders of healthcare. The Group also continues to consolidate its collective intellectual capital and strengths with the goal of establishing an international hospital group where verifiable cost effective quality care will distinguish it from its competitors.

Regulatory issues do create uncertainties, but this has always been part and parcel of the healthcare environment. The Group commits material resources to constantly monitor the regulatory environment with a view to playing a pro-active role in decision-making and adjusting to a potentially new environment. It also conducts research on international trends and developments in this regard.

The availability of sufficient skilled medical resources in South Africa remains a challenge. Recent announcements by the government that doctor and nurse training will be increased, are most welcome.

Over the years the Group has been able to weather difficult economic and political conditions relatively well. With underlying positive factors supporting the industry in general and the Group specifically, the Group remains optimistic about its operational prospects for the next year and significant resources continue to be invested across the three operating platforms.

## **REPORTS OF THE INDEPENDENT AUDITOR**

The annual financial statements have been audited by PricewaterhouseCoopers Inc. and their unqualified audit reports on the comprehensive annual financial statements and the abridged financial statements are available for inspection at the registered office of the Company.

## BASIS OF PREPARATION

These financial results have been prepared in accordance with the recognition and measurement requirements of IFRS and the disclosure requirements of IAS 34. These financial results incorporate accounting policies that are consistent with those applied in prior years, except for the adoption of new and revised Standards and Interpretations. In the current year the Group has adopted all the new and revised Standards and Interpretations relevant to its operations on 1 April 2010. The adoption of these new and revised Standards and Interpretations has not had any significant impact on the amounts reported in the financial statements and in this abridged report.

## DIVIDEND TO SHAREHOLDERS

The board of directors declared a final cash dividend of 50.0 cents per ordinary share. In compliance with the requirements of STRATE, the following dates are applicable:

Last date to trade cum dividend	Friday, 17 June 2011
First date of trading ex dividend	Monday, 20 June 2011
Record date	Friday, 24 June 2011
Payment date	Monday, 27 June 2011

Share certificates may not be dematerialised or rematerialised from Monday, 20 June 2011 to Friday, 24 June 2011, both days inclusive.

Signed on behalf of the board of directors:

**E DE LA H HERTZOG**  
*Chairman*

**DP MEINTJES**  
*Chief Executive Officer*

Stellenbosch  
24 May 2011

**DIRECTORS:** Dr E de la H Hertzog (*Chairman*), DP Meintjes (*Chief Executive Officer*), CI Tingle (*Chief Financial Officer*), JC Cohen (*British*), Prof Dr RE Leu (*Swiss*), Dr MK Makaba, ZP Manase, KHS Pretorius, AA Raath, Dr MA Ramphela, DK Smith, CM van den Heever, Dr CA van der Merwe, Prof WL van der Merwe, MH Visser, TO Wiesinger (*German*) **SECRETARY:** GC Hattingh

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