CEO’S STATEMENT

“During the year, Hirslanden once again successfully increased both its turnover and the underlying EBITDA. In the saturated Swiss healthcare market, strong growth is only possible with a forward-looking investment strategy. At Hirslanden, this strategy includes investments in our core business at the hospitals, as well as rounding out our range of services in the outpatient sector. Hirslanden will therefore continue its transformation from being purely a hospital operator to becoming an integrated healthcare provider that offers medical services across various levels of care. The improved EBITDA is the result of increased productivity and efficiency achieved by the ongoing implementation of standardised structures and processes throughout the entire Group. In addition to our relentless focus on medical quality and patient satisfaction, improving efficiency is a key part of Hirslanden’s approach: the ongoing improvement of patient value.

Looking forward, the public policy environment creates a number of uncertainties and risks. For instance, another tariff reduction is expected in the outpatient sector. Meanwhile the shift towards outpatient treatment continues and regulations are currently being drafted to ensure that in future certain procedures are only carried out in an outpatient setting. In the canton of Zurich, a special tax on services for privately insured inpatients was fortunately rejected.

Despite these challenges and uncertainties, as the largest private medical network in Switzerland, Hirslanden is well positioned to take advantage of future opportunities for growth, and will remain a source of clinical excellence for the wider Mediclinic Group.”

KEY STATISTICS

<table>
<thead>
<tr>
<th>Number of Hospitals</th>
<th>Number of Clinics</th>
<th>Number of Beds</th>
<th>Number of Theatres</th>
<th>Number of Employees*</th>
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<tr>
<td>16</td>
<td>4</td>
<td>1,677</td>
<td>97</td>
<td>9,402</td>
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* 6,722 full-time equivalents
KEY FINANCIAL AND OPERATIONAL HIGHLIGHTS

Hirslanden accounted for 48% of the Group’s revenues (2016: 54%) and 53% of its underlying EBITDA (2016: 52%).

As at the end of the reporting period, Hirslanden operated 16 hospitals and 4 clinics with a total of 1,677 inpatient beds and 9,402 employees (6,722 full-time equivalents). It is the largest private acute care hospital group in Switzerland servicing approximately one third of inpatients treated in Swiss private hospitals.

During the period under review, revenues increased by 3% to CHF1,704m (2016: CHF1,657m). This was driven by a 1.7% growth in inpatient admissions. The reduction in both bed days sold (-0.7%) and the average length of stay (-2.3%) was offset by an increase of 3.0% in the average revenue per bed day sold. This is largely due to an increase in the average severity of cases, with an increasing number of doctors performing complex procedures at Hirslanden hospitals. Outpatient revenues increased by 9% and now contributes nearly 20% to overall Hirslanden revenues.

Underlying EBITDA increased by 5% to CHF340m (2016: CHF325m) with the underlying EBITDA margin increasing from 19.7% to 20.0% due to several productivity measures and cost savings initiatives implemented during the year and an underlying tariff provision release of CHF8m. These were offset by continued investment in Hirslanden 2020 and the ongoing shift in patient mix from semi and private to basic insured. Operating profit increased by 7% to CHF259m (2016: CHF243m). Hirslanden contributed £121m to the Group’s underlying earnings compared to £101m in the prior year.

Hirslanden invested CHF74m in expansion capital projects and new equipment and CHF89m on the replacement of existing equipment and upgrade projects as well as investments in Hirslanden 2020 and relocation of the corporate head office. In April 2016, Hirslanden Clinique Cecil in Lausanne opened a new hybrid operating theatre and an outpatient surgery unit. In August 2016, Hirslanden Klinik Aarau opened its third cardiac catheterisation laboratory. At Hirslanden Klinik St. Anna and Hirslanden Klinik Stephanshorn, two new modular operating theatres were completed in October and December 2016, respectively. Further important development projects completed included new doctors’ consulting rooms for Hirslanden Clinique La Colline, restructuring of radiology for Hirslanden Klinik Stephanshorn and restructuring of the sterilisation unit for Hirslanden Klinik Permanence. Hirslanden Klinik Im Park in Zurich opened its new outpatient surgery centre in April 2017, which includes a ward for procedures requiring short inpatient stays. Building work commenced on an expanded emergency department for Klinik Hirslanden in Zürich and there are plans for a range of other expansion projects to increase the business’ capacity.

During the year, Hirslanden increased efficiency in various areas of the business. Supply costs and labour costs were successfully reduced, while more focused management led to increased utilisation of our infrastructure. Hirslanden is focused on achieving further efficiency gains and optimisation, leveraging off the broader Group’s economies of scale to manage cost pressures.

*The patient satisfaction results of Hirslanden are not comparable with the results of Mediclinic Southern Africa and Mediclinic Middle East as the Group’s standardised Patient Experience Index has not been rolled out to Hirslanden. The results of Hirslanden are based on the ANQ (the Swiss National Association for Quality Development) satisfaction survey and relates to the number of patients who would absolutely recommend Hirslanden to family and friends.
There were a number of regulatory developments in Switzerland during the year. In April 2017, the Zurich Cantonal Parliament voted not to approve the proposed VVG levy. As part of a Cantonal budget review and cost savings initiative, the Canton had proposed a levy to be introduced based on the proportion of privately insured patients treated in listed hospitals. This complex matter went through an extended legislative process and Hirslanden engaged with the relevant public authorities to raise concerns regarding the process, equality and the impact the proposed levy would have had on the business. Hirslanden will continue to monitor developments in the canton whilst maintaining its dialogue and engagement with the relevant public authorities to ensure that it can, on a sustainable basis, deliver high-quality, cost-efficient, healthcare to patients.

The national outpatient tariff ("TARMED") is still in revision and the current tariff structure is valid until the end of the 2017 calendar year. The Swiss Federal Government has released proposed adjustments to TARMED as a transitional solution whilst healthcare providers and funders continue to negotiate and agree a revised tariff structure. The government proposal is targeting annual savings of around CHF700m across the public and private outpatient sectors. Outpatient services contribute approximately 20% of Hirslanden revenues, at around CHF300m in the period under review. Based on initial analyses of the complex proposal, the expected annualised impact on Hirslanden outpatient revenues is around CHF30m before any mitigating actions are considered. These mitigations could include improved utilisation and increased efficiencies that would help to reduce the impact of the transitional solutions proposed by the Federal Government on the underlying EBITDA margins of the business. Due to its implementation date on 1 January 2018, the impact on Hirslanden is expected to be limited in the next financial year.

**MARKET OVERVIEW**

The Swiss healthcare market is one of the best funded in the developed world and continues to grow steadily. Hirslanden is the largest medical network in Switzerland, and works effectively within a high-quality healthcare system where the population enjoys freedom of choice and high-quality services in both the public and private sector. A survey, financed by the Commonwealth Fund and conducted in eleven countries, found that 60% of respondents in Switzerland rated the Swiss functioning of the healthcare system as "good" or "very good". 66% considered the medical care provided as either "excellent" or "very good". Of the 11 countries surveyed, Switzerland had the best response.

Hirslanden’s main competitors are the public hospitals. Many of these will improve their infrastructure in the coming years. According to publicly available sources, CHF16bn is earmarked for the construction and renovation of hospital buildings.

Additional challenges include working within an environment regulated by 26 cantons that supervise and manage hospitals and ensure their funding in collaboration with the mandatory health insurance. Besides the regulation of the inpatient sector, the cantons increasingly intervene in the outpatient market by defining lists of medical interventions to be performed ambulatory or by establishing a moratorium for foreign doctors.

**OUTLOOK**

There continues to be a significant focus on the shift of basic medical treatments from the inpatient to the outpatient sector ("outmigration"). The Federal Government is preparing a framework for the outmigration of services, likely to be ready for implementation from 1 January 2018, across Switzerland. The Zurich Cantonal Parliament, in April 2017, approved an amendment to the cantonal hospital law, providing a legal basis for the cantonal government to create a list of interventions that in future should generally be treated as outpatient rather than inpatient services. The final list of interventions will be agreed following a working group review. In the Canton of Lucerne similar measures are expected to be implemented from 1 July 2017.

Hirslanden is responding to the trend of outmigration with the opening of new outpatient facilities and the creation of an integrated medical network that facilitates the access to healthcare for patients. This is also important because outpatient clinics are a well-established route for the subsequent allocation of patients to hospitals and specialists. The establishment of outpatient facilities is part of the Hirslanden 2020 strategic programme. This programme has two main goals: to increase the efficiency of the existing business by implementing standardised systems and processes; and to develop new areas of business, such as outpatient facilities. Having opened the new outpatient surgery centre at Klinik Im Park, Hirslanden will also open two new medical centres in Zurich (Seefeldstrasse) and Cham (canton of Zug) in spring 2018 and a further one at Schuppiris (canton of St. Gallen) in 2019.

Given the external environment, the investment programme within Hirslanden and the potential for increased synergies, the platform is well-positioned to maintain its status as the largest medical network in Switzerland while continuing to improve patient satisfaction and clinical outcomes.