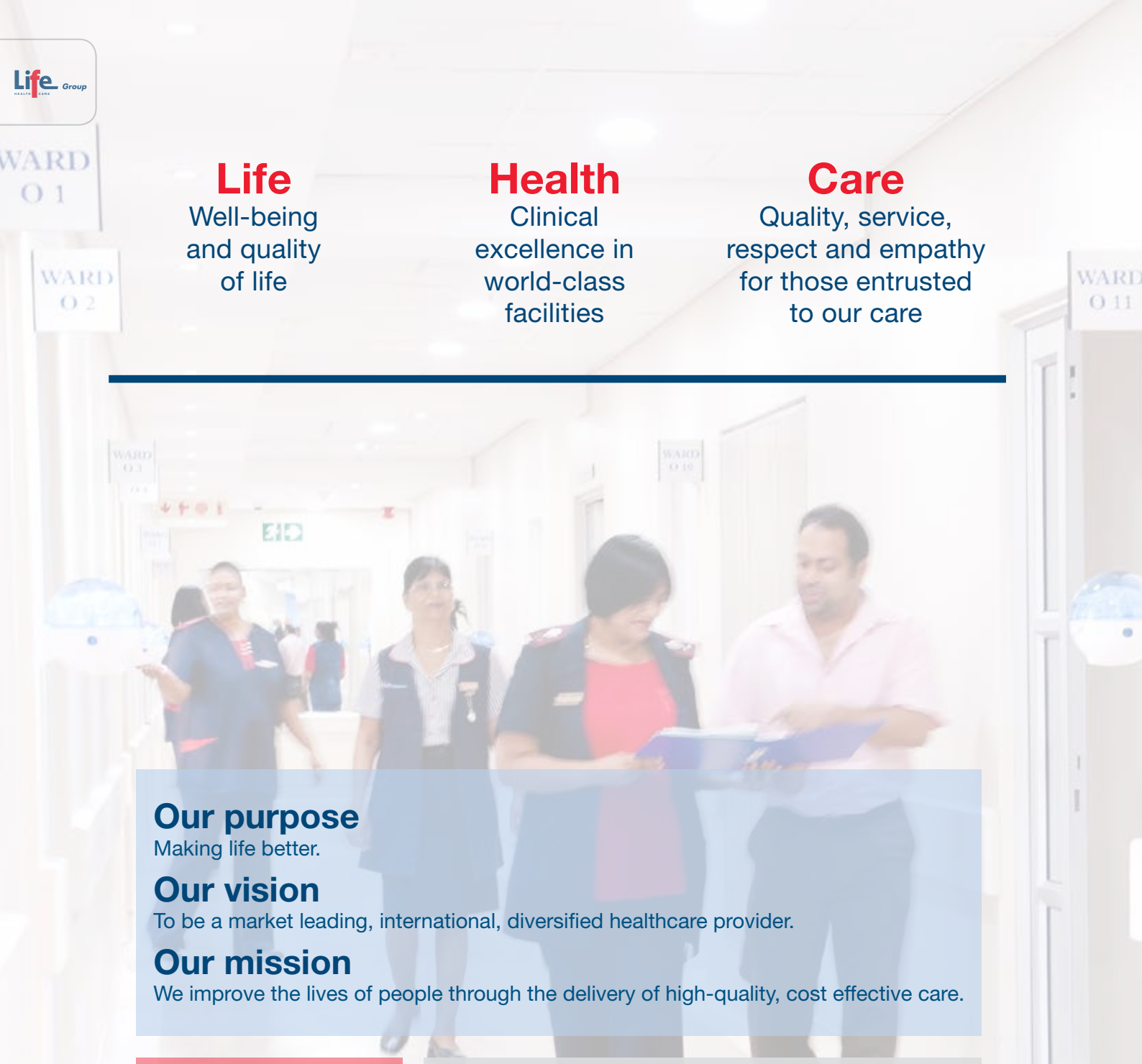
Life HEALTH CARE Group

INTEGRATED REPORT 2016

Life
Well-being and quality of life

Health
Clinical excellence in world-class facilities

Care
Quality, service, respect and empathy for those entrusted to our care



Our purpose
Making life better.

Our vision
To be a market leading, international, diversified healthcare provider.

Our mission
We improve the lives of people through the delivery of high-quality, cost effective care.

Our 5 core values

- **Passion for people**
- **Lifetime partnerships**
- **Performance pride**
- **Personal care**
- **Q^e – quality to the power of e**
  (ethics, excellence, empowerment, empathy, energy)

Life Group

Contents

Our purpose, vision and mission		**IFC**
Report overview	Scope and boundary	**2**
	Material matters	**3**
	Assurance and responsibility	**4**
Group overview	Life Healthcare as an investment	**6**
	Business model	**8**
	Organisational structure	**14**
	Geographical presence	**18**
	Statement of financial value added	**20**
Strategy and leadership reviews	Strategic direction	**22**
	Performance in numbers	**26**
	Chairman's review	**28**
	Group Chief Executive Officer's review	**32**
	Group Chief Financial Officer's review	**36**
	Seven-year performance history	**40**
Material matters and stakeholder engagement	Overview of Life Healthcare's material matters	**46**
	Stakeholder engagement	**52**
Strategic performance review	Growth	**62**
	Efficiency	**70**
	Quality	**76**
	Sustainability	**86**
Risk management and key risk analysis	Risk management	**97**
	Key risk analysis	**98**
Governance, accountability and remuneration	Governance overview	**102**
	Governance structure and board composition	**103**
	Board accountability	**108**
	Remuneration report	**121**
Independent assurance report to the directors of Life Healthcare Group Holdings Limited		**132**
Social, ethics and transformation committee report		**135**
Glossary of terms		**137**
Corporate information		**139**

Feedback

This report was compiled with information that the board and management believe is relevant and material to stakeholders, to provide them with a comprehensive view of the Group's performance. The reporting process is an ongoing journey in which the Group continually strives to improve on the quality of its reporting. Therefore, feedback is welcomed from all stakeholders and the Group invites you to contact the Company Secretary, Fazila Patel, should you have any questions.

Her information is as follows: Telephone +27 11 219 9000 or fazila.patel@lifehealthcare.co.za

Scope and boundary

Life Healthcare Group Holdings Limited (the Group or Life Healthcare), an international medical and healthcare services provider, is listed on the Johannesburg Stock Exchange (JSE). Its integrated report provides a balanced and succinct view of the Group's performance with a focus on material matters. It provides information on the key strategies of growth, efficiency, quality and sustainability as well as corporate governance and accountability processes.

This report covers all of the Group's operations in southern Africa and Poland as well as the joint venture in India.

Unless expressly stated, the information contained herein applies specifically to our southern African operations.

The report covers the financial year 1 October 2015 to 30 September 2016. Any informative and material information after 30 September 2016 was included and is identified in the report where applicable. There was no material change to the structure, ownership or products and services since the release of the Group's report for the year ended 30 September 2015[1].

For information regarding material acquisitions, refer to pages 67 and 68.

Reporting suite

Life Healthcare's reporting suite consists of the following reports:

Report	Content, frameworks and guidelines
Integrated report	Life Healthcare's primary report is aimed at the providers of financial capital. The information in this report was guided by local and international requirements. These include: • the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework (<IR> Framework); • the reporting principles contained in the King Report on Governance for South Africa 2009 (King III); • JSE Limited Listings Requirements (JSE Listings Requirements); • the South African Companies Act, 71 of 2008, as amended (Companies Act); and • International Financial Reporting Standards (IFRS). Life Healthcare also considered the Global Reporting Initiative's (GRI) revised Sustainability Reporting Guidelines (G4) in the preparation of the report. It is recommended that this report is read in conjunction with the audited annual financial statements.
Group annual financial statements	Life Healthcare's consolidated and Company financial statements in accordance with IFRS and the Companies Act.
King III compliance	The Group has disclosed its application of the King III principles in this compliance checklist.
Board and executive management members' biographies	This supplementary report details brief curricula vitae of the members of Life Healthcare's board and executive management.

[1] *Refer to the SENS announcement dated 16 November 2016 in respect of the acquisition of UK-based Alliance Medical Group Limited.*

Navigation tools

To enable easy referencing, the following icons are used throughout the report:

Refers the reader to other sections in this report.

Refers the reader to information available on various digital channels.

The following icons assist readers in understanding the movements in key performance indicators (KPIs):

Indicates a positive increase or decrease.

Indicates a negative decrease or increase.

Indicates the KPI remained the same.

To demonstrate the integration between the Group's strategy and relevant elements of the report, we utilise the following icons for our four strategic focus areas:


Growth


Efficiency


Quality


Sustainability

Material matters

The report was prepared on the basis of materiality. The process for determining these material matters and their detailed disclosure are on page 46.

Material matters are summarised below including reference to areas where significant performance information can be found on each:

Cost of care
Page 47

Specialised skills shortages
Pages 48 and 86

Government relationships
Pages 52, 58 and 66

Onerous and increasing regulation
Page 112

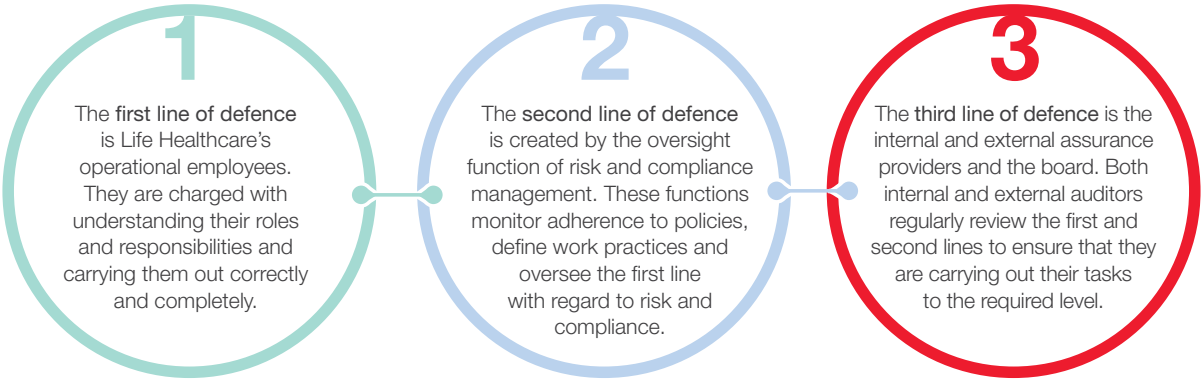
Quality of care standards
Page 49

Labour relations and employee retention
Pages 88 and 89

Growth through expansion
Page 62

Assurance and responsibility

Life Healthcare strives to achieve high standards in all disclosures within this report and to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The Group follows a combined assurance process.



This secures a collaborative and mutually responsible approach for ensuring the accuracy of data presented, while allowing for multiple stages of review and verification. Depending on the nature of the assurance required, internal departments and external entities are involved in the Group's assurance process. Refer to page 77 for information regarding the Group's quality management system and page 108 for information on internal audit.

Management reviews form a key part of the report's overall assurance. Detailed monthly reports on performance are reviewed by management and incorporated into the Group's strategic actions. The board, its committees and management were involved in finalising disclosures made in this report and assume responsibility for the information contained herein.

The summarised financial information included in this report was extracted from the audited Group annual financial statements and prepared in accordance with IFRS. The annual financial statements were independently assured by the external auditor, PricewaterhouseCoopers Inc.

A number of non-financial indicators were assured by PricewaterhouseCoopers Inc. For the selection of indicators and the audit report, please refer to page 132.

This report in its entirety was not independently assured.

Forward-looking statements

This integrated report contains forward-looking statements that, unless otherwise indicated, reflect the Group's expectations at 10 November 2016. Actual results may differ materially from the Group's expectations if known or unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. Therefore, the Group cannot guarantee that any forward-looking statement will materialise. As such, readers are cautioned not to place undue reliance on these forward-looking statements and the Group disclaims any intention and assumes no obligation to update or revise any forward-looking statement.

Board responsibility

The board, assisted by its respective committees, is ultimately responsible for overseeing the integrity and completeness of the report. After applying its collective mind to the preparation and presentation, it concluded that the report materially aligns with the IIRC's <IR> Framework.

On 10 November 2016, the board approved the 2016 integrated report taking into consideration the completeness of the material matters and the reliability of data and information presented, in line with the combined assurance process followed.

Mustaq Brey
Chairman

André Meyer
Group Chief Executive Officer

GROUP OVERVIEW

Life Healthcare as an investment

Life Healthcare offers world-class facilities, expertise and a unique focus on Health and Care, which gives more meaning to Life. Our name, Life Healthcare, embodies our beliefs.

Strong South African market positioning in a defensive industry

Refer to page 28

- A leading private hospital operator in an attractive healthcare market.
- Market share of approximately 24% private hospital beds.
- Extensive geographic network of healthcare facilities.
- Owns 79% of the 63 hospital properties from which Life Healthcare operates.
- Cost-effective provider of healthcare.
- Market leader for preferred provider agreements with medical healthcare funders.

Growth in South African complementary services, occupational health and wellness

Refer to pages 62 to 66

- A diversified healthcare service provider with an extensive and growing footprint in renal dialysis, oncology and an expanding employee wellness business.
- A prominent provider of private mental healthcare and acute rehabilitation services.
- Life Esidimeni is a longstanding healthcare public-private partnership (PPP).
- Largest provider of contracted occupational healthcare.

Expansion into fast growing international healthcare markets

Refer to pages 66 to 68

- Expanded into the Polish healthcare market through a 100% investment in Scanmed S.A. (Scanmed). Diversified portfolio of inpatient facilities including specialised cardiology, orthopaedic and ophthalmology facilities and ambulatory primary care and specialised centres.
- Diversified into the fast growing Indian healthcare market through a joint venture investment in Max Healthcare Institute Limited (Max Healthcare).
- The Group continues to explore further international expansion opportunities, including a possible third geography, in line with the growth strategy.

Good track record of shareholder wealth creation

Refer to page 44

- Solid track record of operational excellence.
- Revenue compound annual growth rate (CAGR) of 12.1% over three years.
- CAGR of 9.3% for normalised earnings before interest, tax, depreciation and amortisation (EBITDA) over three years.
- CAGR of 3.9% for normalised earnings per share (EPS) over three years.
- Net debt to normalised EBITDA of 1.67 times (2015: 1.49 times).
- High cash generation – cash generated as a percentage of EBITDA: 93.3% (2015: 95.0%).
- Strong cash distribution – CAGR of 8.2% for cash distribution over three years.

Doctors

Refer to pages 91 and 92

- A growing, highly skilled base of associated doctors and specialists – 2 850 specialists and other healthcare professionals are associated with Life Healthcare in South Africa.
- Attracted 65 doctors in the current year.

We are dedicated to:

- **Life:** well-being and quality of life.
- **Health:** clinical excellence in world-class facilities.
- **Care:** quality, service, respect and empathy for those entrusted to our care.

Focus on improving efficiencies

Refer to pages 70 to 74

- Occupancy increased from 69.6% to 72.5% over seven years including the addition of 1 064 beds over the same period.
- Contained costs of pharmaceutical products, medical devices and equipment, as well as costs of services, in challenging economic conditions.
- The ability to use the information technology (IT) system to drive standardisation, reduction in administrative costs and economies of scale.
- Proactive internal approach to cost management and containment.
- An alternative pricing model strategy that promotes improvement in margins through cost-efficiencies.
- Environmentally friendly operational upgrades are progressively reducing operational costs.
- A normalised EBITDA margin that demonstrates the Group's efficiencies:
  - An increase in the southern African business from 24.7% to 27.5% over seven years.
  - Scanmed has increased from 9.1% to 10.2% over the last two years.
  - Max Healthcare has increased from 9.9% to 10.9% over the last three years.

Clinical excellence with a focus on patient-centred care

Refer to pages 76 to 84

- Consistent track record of providing high-quality, cost-effective healthcare.
- International quality certification and benchmarking of selected practices against global health and safety, clinical and nursing best practices.
- Patient experience is tracked and reviewed frequently to improve experience year-on-year.

Robust governance

Refer to pages 102 to 120

- An experienced, independent board structure committed to continuous improvement.
- Separate southern African and Group executive committees were formed to allow continued focus on southern African operations while managing the growth in the international business.
- Compliance with the JSE Listings Requirements and Companies Act.
- Substantial compliance with King III.
- Efficient control compliance, with internal and external audits yielding no material deviations.
- ISO 27001 Information Security Management System certification since 2006.

High-calibre employees

Refer to pages 87 to 92

- Highly skilled employees who actively apply their expertise in Life Healthcare's value creation process.
- Clear organisational culture linked to the Group's vision of being a market leading, international, diversified healthcare provider.
- Employees have a vested interest in the Group's sustainability through the broad-based employee share plan.
- The top 100 senior employees have an average of 12.2 years' experience in the Group.

Business model

Life Healthcare provides quality, patient-centred healthcare and related medical services to a broad spectrum of patients.

Life Healthcare creates sustainable value by:

- providing quality, patient-centred healthcare and related medical services to a broad spectrum of patients;
- creating robust partnerships with doctors;
- developing and sustaining collaborative relationships with key funders;
- partnering with government through Life Esidimeni;
- delivering strong operational growth and international diversification;
- operating with a level of process and outcomes efficiency that differentiates Life Healthcare from its competitors;
- appropriately investing in cost-effective, innovative technologies – including environmentally friendly initiatives;
- working towards becoming an employer of choice with a focus on developing employees;
- responsibly investing in community health;
- providing a pipeline of nurses for South Africa; and
- endeavouring to be a responsible corporate citizen.

The three cornerstones of our business and our commitment to our patients are Life, Health and Care.

External environment

The Group's operating environment is affected by a number of external factors including regulatory requirements and the economic environment.

Macro regulatory requirements

The Group operates in four countries, each with specific legislative and regulatory requirements with which we comply. Some of the key regulations that impact the Group are set out on pages 112 to 113 and include regulatory requirements regarding quality of care standards and labour legislation. Where significant current and potential impacts are material, such as the Healthcare Market Inquiry (HMI) (adjacent), National Health Insurance (NHI) White Paper (refer to page 112), Protection of Personal Information Act, 4 of 2013 (POPI) (refer to page113) and government impacts in Poland (refer to page 9), these are discussed in the report.

Bed licences in South Africa

The Group's rate of expansion is highly influenced by government. The respective provincial offices of the National Department of Health are responsible for the issuing of new bed licences, a prerequisite for increasing beds in present facilities (brownfield expansion) and future facilities (greenfield expansion), making licences integral for growth enablement. The Group has pending licences for 882 beds and continuously seeks to advance engagements to improve the speed and efficiency for the turnaround of licence approvals.

Bed licences also require an annual review by the Department of Health. Annual inspections of facilities and legislated changes in compliance requirements may result in alterations to Group facilities to ensure compliance is maintained.

The Group is also affected by Department of Health and municipal sign-off periods for building plans and rezoning of properties to be developed for growth prospects.

Employing doctors in South Africa

Doctors cannot be directly employed, in a clinical practice role, by the Group in South Africa, as per the regulatory limitation in terms of the Ethical Rules of the Health Professions Council of South Africa (HPCSA). Therefore, doctors work on an associative basis within Life Healthcare's structures as valued stakeholders in our value creation process. The Group continues to benefit from the support and loyalty of doctors through continuous engagements and mutual resolution to enhance our service offerings. Refer to page 91 for further details.

Competition Commission's Healthcare Market Inquiry

The Competition Commission's HMI was launched on 6 January 2014. The Group is fully committed and supportive of the process and continues to provide submissions as required in support of the government's transformational agenda of making healthcare more affordable to the South African public. Additional submissions were made during the year and the Group also participated in technical committee interviews. Public hearings commenced in February 2016, and Life Healthcare awaits the revised timetable for the subsequent sets of hearings while monitoring the initiative for potential impacts through our risk and management structures.

We continue to view the process as an opportunity, and trust that government will take a rational stance to the potentially far-reaching effects of the inquiry. The intended publication date for findings was the end of November 2016, however the complexities of the programme have caused further delays with a revised expected completion in 2017.

Change in Poland's government

The Polish portion of our business is reliant on obtaining contracts with the National Health Fund (NFZ). A change in the leadership of Poland to a national-conservative party, Law and Justice (PiS), has altered the current dynamic of contract fees. We experienced a price reduction in the cardiology business of approximately 17.4% as of 1 July 2016 and there are further contract price changes proposed in the next 12 months. Due to the changes in contracting and the uncertainty, Life Healthcare has placed its acquisition strategy in Poland on hold and will focus on driving efficiencies and the integration of the various units in the interim. The Group still believes that Poland represents a good medium- to long-term opportunity based on the growth in demand for healthcare and the fragmented nature of the market.
Refer to page 66 for more information.

Economic environment

Economy in general

The international economy continues to grow at 3.4% in 2016, with 3.7% expected for 2017[1]. This despite the reduction in Asian market dominance, commodity price increases, inflation and significant market impacts such as the United Kingdom's withdrawal from the European Union (Brexit).

By contrast, local economic growth continues to slow, with the International Monetary Fund (IMF) revising the outlook of South Africa's GDP to 0.1% for 2016, from 1.1% earlier in the year.

The table below demonstrates the changes in the key economic indicators in the three material territories in which we operate.

	GDP			Exchange rate to the USD			CPI		
Territories	2015 USD	**Forecast for 2016 USD**	Forecasted Movement	2015 (Local currency units)[2]	**2016 (Local currency units)[3]**	Movement	2015 average %	**2016 Projected %**	Movement year on year
South Africa	313.0 billion	**266.2 billion**	16.1% ↓	12.8	**14.1**	9.7% ↓	4.6	**6.7**	2.1% ↑
Poland	474.9 billion	**473.5 billion**	0.3% ↓	3.8	**4.2**	10% ↓	(0.9)	**(0.7)**	0.2% ↓
India	2.1 trillion	**2.3 trillion**	9.0% ↑	64.2	**68.7**	6.7% ↓	5.9	**5.7**	0.2% ↓

Wage increases

Local government and other institutions in South Africa continue to approve above inflation wage increases, particularly for nurses, intensive care unit (ICU) employees and semi-skilled labour – scarce skills for which the Group competes. In the healthcare sector, this destabilises the market as it impacts on the Group's ability to attract and retain the scarce nursing skills.

The Group attempts to respond through various recruitment and retention strategies such as the Life College of Learning for nurse development, active talent management and organisational culture development. Refer to our material matters on page 46 for further details on cost of care.

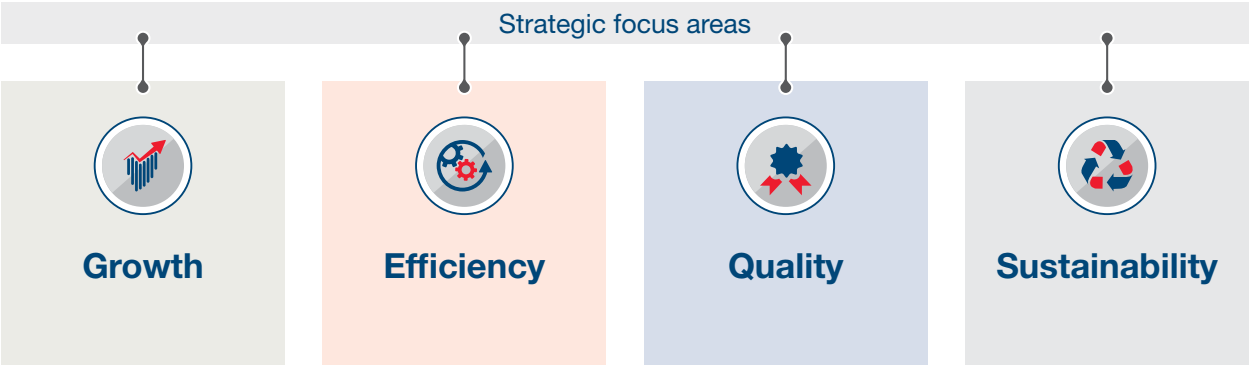
Other factors

Other factors influencing the Group's growth rate include the reducing number of medically insured lives, increasing disease burden, ageing profile of medically insured individuals and preferred network agreements with medical healthcare funders.

[1] *International Monetary Fund (IMF) expectations.*
[2] *Year average.*
[3] *As at 29 November 2016.*

Internal enablers

Life Healthcare believes that world-class healthcare can be provided by working closely with medical professionals to deliver clinical excellence, unparalleled quality, and by caring for the personal needs of patients and their families. These core values guide the Group as it works towards achieving its vision of being a market leading, international, diversified healthcare provider.



Key enablers

- 64 facilities and 8 768 beds covering seven regions in southern Africa.
- 176 beds added, 1 363 bed licences approved and 882 bed licence applications pending in southern Africa.
- Extensive geographic network of healthcare facilities in South Africa.
- Diversified into the Polish and Indian healthcare markets with scope for continued, measured strategic international acquisitions.
- Debt capacity for expansions as well as high cash generation.
- Alternative pricing model strategy that enables improvement in margins through cost-efficiencies.
- Using technology to drive standardisation, improve patient experiences, reduce administrative costs and increase economies of scale.
- State-of-the-art technology for specialised units such as oncology and renal treatments.
- International quality certification and benchmarking of selected practices against global health and safety, clinical, and nursing best practices.
- Experienced management team.
- Competitive wages and benefits for employees coupled with comprehensive training, wellness and development programmes.
- Participation in and funding of doctor training programmes with high levels of engagement.
- Environmentally conscious facilities and initiatives to lower total cost of operations.
- Upgrading and maintaining existing facilities.

For more detail on Group strategy, refer to page 22.

Life Healthcare has a market share of approximately 24% of private hospital beds in South Africa.

Value creation process

The table shows the links between Life Healthcare's strategic focus areas, business activities and the six capitals – addressing all aspects of the business to create value over the short-, medium- and long-term.

Capitals	Financial capital	Manufactured capital	Intellectual capital
	Life Healthcare's pool of funds consists of funds reinvested in the Group, revenue generated, a combination of long- and short-term loans from capital providers and equity.	The hospital facilities and general infrastructure that enable the Group to procure, deliver, and provide its services.	Intangibles comprising products, service offerings and quality standards that provide the Group's competitive advantage.
Inputs	• Revenue • Income from associates • Loans • Equity • Retained income	• Acute hospitals, acute rehabilitation and mental health buildings and occupational health clinics • Beds and hospital theatres • Oncology centres and bunkers • Specialised hospital equipment	• Background systems (including IT) and analysis models • Alternative reimbursement pricing models • Legal and statutory compliance requirements • Quality policies, procedures and standards • Formulary procurement processes • Various in-house dashboards
Core business activities and processes	*Operations* Life Healthcare's primary operations are in South Africa, with additional activities in Botswana, Poland and India. The Group's southern African operations are delivered through the hospital division and the healthcare services division. A network of 64 hospitals offers modern facilities, new technology and professional service in healthcare, acute rehabilitation, mental health, renal dialysis, oncology, occupational health and employee wellness. Further details of our organisational structure can be found on page 14, and our performance chapters (page 62 to 95) provide information on our quality standards, systems, processes, and IT developments that contribute to our competitive advantage.		
Outputs and outcomes	• Profit • Growth in cash and other reserves • Dividends paid • Appropriate management of debt and equity • Refer to page 36 for our Group Chief Financial Officer's review, which provides detail on our financial performance	• Provision of quality healthcare to patients • Number of hospital beds, oncology units and renal stations added • Improved and more efficient hospitals as a result of capital investment and environmentally focused facility upgrades	• Growth in goodwill and intangible assets • New business lines and service offerings developed • Ability to drive efficiencies throughout the business • Quality standards maintained/ improved
	2 265 653 paid patient days (2015: 2 177 833)		
Strategic focus areas	Growth, Efficiency, Quality, Sustainability	Growth, Quality, Sustainability	Growth, Efficiency, Quality, Sustainability

Human capital

The skills and experience of employees that enable the Group to implement its strategy, deliver products and services, thereby creating value for stakeholders.

Social and relationship capital

The long-term relationships cultivated with doctors, patients, suppliers, business partners and other key stakeholders. This includes the Group's reputation.

Natural capital

Natural resources used in the delivery of services.

Capitals

Inputs

- Nurses, pharmacists and other skilled employees
- Training
- Remuneration practices
- Transformation policies
- Agency agreements

- Doctor relationships
- Medical funder relationships
- Community relationships
- Government partnerships and relationships
- Supplier contracts and agreements
- Relationships with shareholders

- Water used in running facilities
- Electricity (South Africa's electricity is predominantly generated from coal power stations)
- Gas

Core business activities and processes

Employees and doctors

The Group has 19 026[1] permanent and sessional employees, such as nurses and service providers. Healthcare services and clinical treatment across the spectrum of medical disciplines are provided through partnerships with doctors. We work with over 2 850 specialists and other healthcare professionals, and while specialised skills shortages remain high we address these challenges through recruitment strategies, internal learnerships, training, effective talent management and retention strategies. For further information, refer to the sustainability chapter on page 86.

Environmental

The Group considers its environmental impact to be minimal and reports matters relating to environmental sustainability on page 93.

Outputs and outcomes

- Qualified, experienced and motivated employees
- Increase of 1% (4% excluding Life Esidimeni closures) in permanent employees and 14% (-11% excluding Life Esidimeni closures) in sessional employees
- 537 nurses graduated
- 1 060 nurses enrolled for training
- 201 learnerships

- Third-party certifications
- Partnerships developed/enhanced
- Doctor shareholding
- Patient experience and recommendation
- Reputation
- Currently non-compliant to the new B-BBEE requirements

- Emissions
- Waste and water treatment initiatives
- Lowered grid electricity reliance through solar initiatives

2 265 653 paid patient days (2015: 2 177 833)

Strategic focus areas

Quality, Sustainability

Growth, Efficiency, Quality, Sustainability

Sustainability

[1] *This includes permanent and sessional employees from our southern African and Polish operations.*

Organisational structure

Life Healthcare is one of three major private healthcare providers in South Africa and primarily serves the privately insured market, representing approximately nine million people in South Africa.

The southern African healthcare business is organised into two divisions: the hospital division and healthcare services division. International operations are located in Poland and a joint venture in India.

Hospital division: The hospital division provides services primarily to the private medically insured market. It includes the core acute care hospital business, comprising general hospital facilities of various sizes that include intensive care units (ICUs), high care units, operating theatres, emergency units, maternity units, cardiac units and paediatric units. It also includes other specialised facilities that provide either inpatient or outpatient services in the areas of acute rehabilitation, mental health, renal dialysis, and radiation and chemotherapy oncology.

- Acute hospitals
- Complementary services

Business	Facilities	Beds/stations
Hospital division		
Acute hospitals	50	8 067 beds
Complementary services		
Acute rehabilitation	7	319 beds
Mental health	7	437 beds
Renal dialysis	22	281 stations
Oncology	2	n/a

Healthcare services division: Healthcare services include the provision of acute and long-term chronic mental health and frail care services provided by Life Esidimeni through a partnership with both provincial health and social development departments. Primary, occupational healthcare and employee wellness services are provided to employer groups in commerce, industry, state owned entities and mining, through Life Employee Health Solutions[1].

- Acute and long-term hospitalisation services (public sector)
- Contracted occupational healthcare (private and public employers)
- Employee wellness

	Facilities	Beds
Life Esidimeni (public sector)	9	2 424
	Clinics	**Employees cared for**
Life Employee Health Solutions[1]	371	419 659

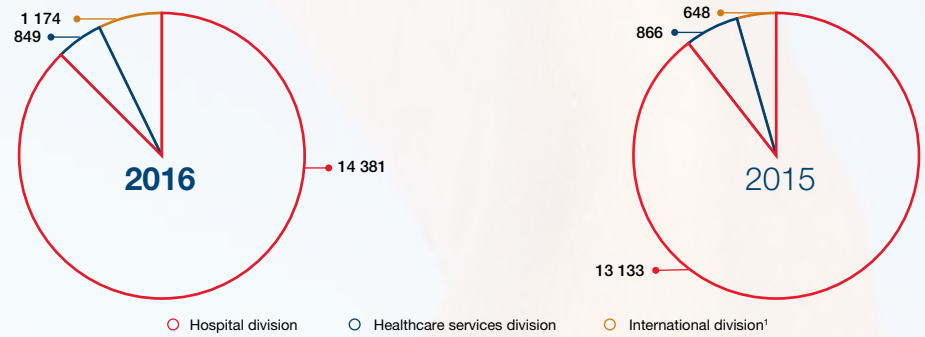
International division: Our operations in Poland are primarily greenfield developments and specialised units. India operations comprise our shareholding in a network of hospitals.

- 100% shareholding in Scanmed
- 45.95% shareholding in Max Healthcare

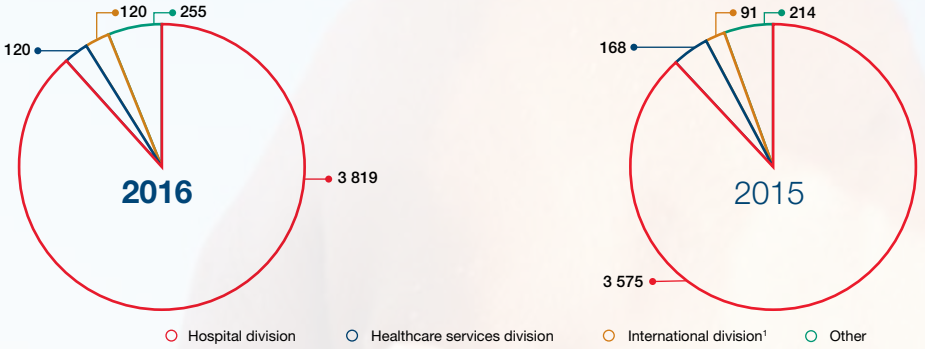
	Scanmed	Max Healthcare
Medical facilities	40	12
Beds	624	2 384

[1] *Life Employee Health Solutions is the integration of Life Occupational Health and Careways.*

Revenue (R'm)



EBITDA (R'm)



Eight functions provide support to these divisions (centralised functions mainly relate to southern African operations):

Finance focuses on financial accounting in compliance with IFRS, treasury management, taxation and Group reporting. Patient services and credit management are included under Finance and focus on streamlining business processes that focus on patient-centeredness as well as the management of clinical and financial credit risk.

Procurement drives key quality and commercial outcomes, which is made possible by expertise in supply chain management and facilities management.

Human resources drives the attraction, performance, development and retention of employees, ensuring that our hospitals and business units are staffed by suitably qualified and engaged employees in order to deliver superior service and care to our patients. Compensation and benefits as well as industrial relations are managed centrally.

Information technology (IT) manages the IT systems and digitises business-driven processes through introducing new technology solutions, in order to improve patient satisfaction, clinical outcomes and cost-efficiency.

The principles and practice of corporate governance are driven centrally and includes overseeing compliance and risk management processes as well as legal support. It is managed by the **corporate secretarial and legal department**.

The quality department focuses on three pillars – accreditation/certification, patient experience and clinical and quality outcomes.

The **funder and health policy department** is responsible for all engagement with medical healthcare funders, administrators and managed healthcare organisations. This department manages pricing, pricing models and preferred provider networks. In addition, it is responsible for the Group's responses to regulatory initiatives and representing the Group's interests at the Hospital Association of South Africa (HASA).

Clinical directorate coordinates patient care to maintain international standards of medical care. It guides doctors and clinical staff in matters related to clinical services, collaborates with stakeholders to enable the doctor engagement model, enhances clinical governance, improves clinical performance indicators and applies cost-efficiency initiatives.

An outline of Life Healthcare's facilities can be viewed at www.lifehealthcare.co.za/Hospitals/Default.aspx.

[1] *The international division's revenue and operating profit consist of Scanmed. The R4 million loss (2015: R5 million profit) associated income from Max Healthcare is not included.*

Hospital division

Acute hospitals	
Life Healthcare's acute hospitals are located in seven of South Africa's nine provinces, and neighbouring Botswana. These facilities are largely located in metropolitan areas. Facilities range from: • high-technology, multi-disciplinary hospitals offering highly specialised medical disciplines; • community hospitals; • same-day surgical centres; and • dedicated niche facilities. Life Healthcare is supported by approximately 2 850 specialists and other healthcare professionals. The Group optimises the use of hospitals by maintaining good working relationships with these professionals. This is achieved by installing the appropriate latest technology and equipment, continuous robust engagements, having effective governance processes in place, providing quality nursing care, benchmarking clinical outcomes against international best practice and by meeting the needs of patients with respect and empathy.	**50** hospitals **8 067** beds
Complementary services	
Acute rehabilitation Life Rehabilitation provides acute physical and cognitive rehabilitation for adult and paediatric patients disabled by brain or spinal trauma, stroke or other disabling injuries or conditions. It scientifically measures each rehabilitation patient's clinical outcomes and overall progress to benchmark rehabilitation units and improve patient outcomes. The functional assessment measure (FAM) is used. This is a specific measure of cognitive, behavioural, communication and community functioning, which is of importance in brain injured patients. Life Rehabilitation is the only ISO 9001:2008 certified rehabilitation network and the only official licence holder for Functional Independence Measure™ (FIM™) in South Africa.	**7** units **319** beds
Mental health Life Mental Health provides multi-disciplinary mental health to adult and adolescent patients for general psychiatric conditions and substance dependence, or other addictions associated with psychiatric disorders. The treatments offered include evidence-based drug therapy, individual psychiatric consultations and psychotherapy, group therapy and, where needed, physical therapy treatments. These holistic services are provided by a multi-disciplinary team which, depending on individual patient needs, could comprise practitioners such as psychiatrists, psychologists, occupational therapists, physiotherapists, social workers, counsellors and nurses. Life Healthcare has dedicated facilities in the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng. The Life Carstenview mental health facility (60 beds) will open in the 2017 financial year.	**7** units **437** beds
Renal dialysis Life Renal Dialysis is a specialised service dedicated to treating patients on acute and chronic renal dialysis. The Group's renal dialysis units are located in all provinces where we operate.	**22** units **281** stations
Oncology Life Healthcare continues to expand its oncology services. Life Vincent Pallotti Hospital has a technologically advanced oncology centre, offering comprehensive cancer management incorporating chemotherapy, radiotherapy (including brachytherapy and stereotactic radiotherapy) together with an extensive counselling programme. The new Life Hilton Private Hospital radiotherapy unit in KwaZulu-Natal launched successfully in the year. The project to build an oncology centre at Life Eugene Marais Hospital in Pretoria has commenced and will open in the 2017 financial year. The Group is planning on expanding its footprint further in various provinces by adding additional facilities with similar cutting edge technology. The first facility of this expansion should open during 2018.	**2** units

Healthcare services division

Life Esidimeni

Life Esidimeni (meaning "place of dignity") operates a network of care centres through a PPP with the South African government. It provides services under contract to provincial health and social development departments (Life Recovery Centres). The care facilities provide long-term clinical care to chronically ill, mental health and frail care patients from the public sector.	**9** facilities **2 424** beds

Life Employee Health Solutions

Life Employee Health Solutions are delivered through Life Occupational Health and Careways. Life Occupational Health is a provider of contracted on-site occupational and primary healthcare services to large employer groups in the commercial, industrial, mining and parastatal sectors. It operates on-site, off-site and mobile clinics throughout the country. Use of Life Occupational Health's clinics is largely driven by the requirements of the Occupational Health and Safety Act, 85 of 1993, (OHS Act) and the needs of corporate customers. Life Occupational Health contracts with corporate employers or institutions to provide a tailor-made range of services to suit their needs. Life Occupational Health was the first South African occupational healthcare organisation to achieve ISO 9001:2000 certification in January 2010, followed by ISO 9001:2008 certification. Careways was acquired in May 2015, and has enhanced the Group's service offering to include employee wellness as a service for corporate customers. It focuses on supporting healthy and balanced living for maximum productivity to employees and partners, providing service to 250 companies and institutions across both the public and private sectors.	**371** clinics **419 659** employees cared for

International division

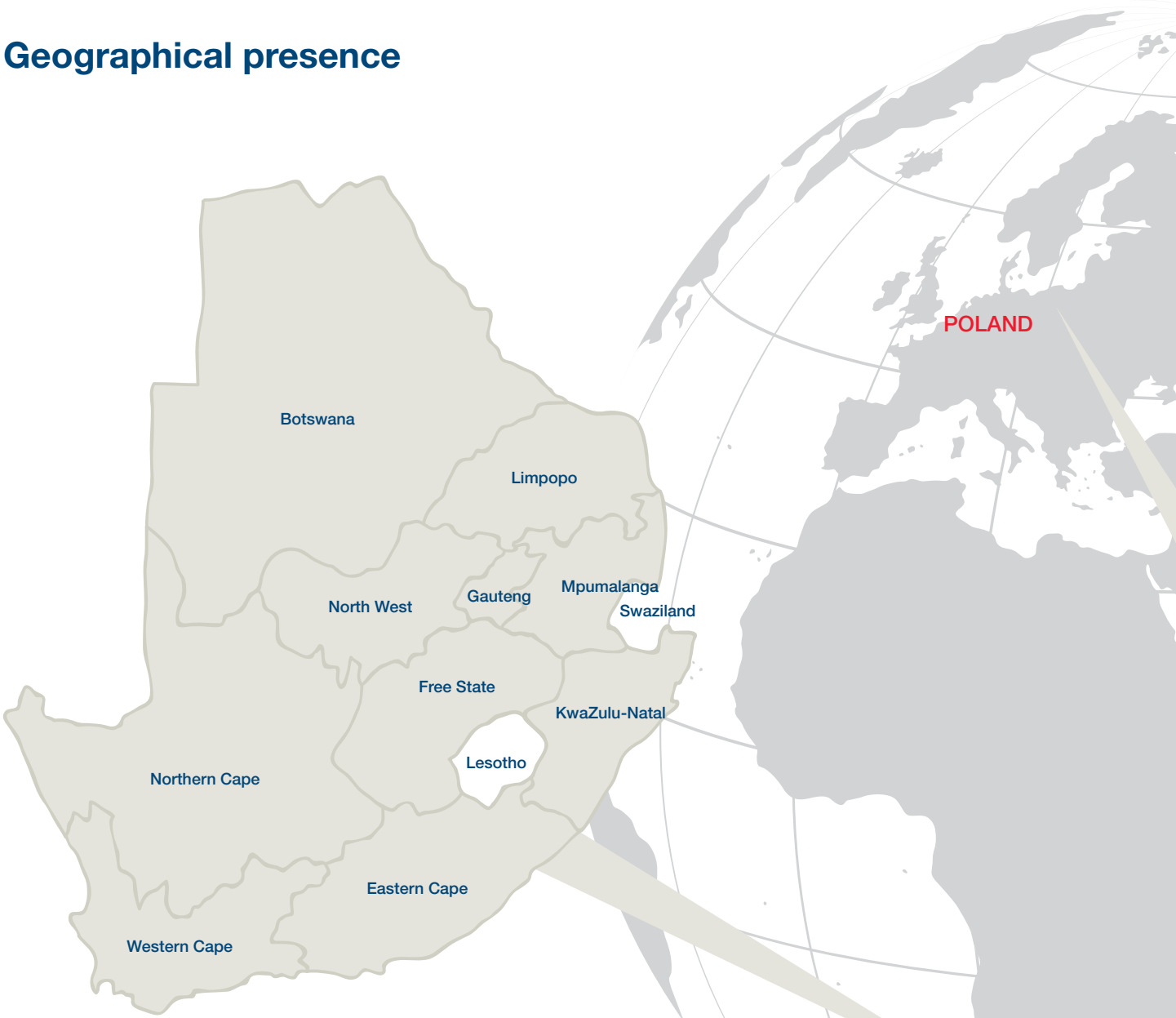
Scanmed S.A.

Scanmed is a private healthcare service provider in Poland. The Group's total investment in the business (including advances capitalised) is R2.2 billion (2015: R1.4 billion). Scanmed provides coordinated health care services, i.e. offering medical services at every stage of treatment – from primary health care, medical consultations, diagnostics, analytical tests, medical transportation and home visits. It specialises in providing medical care for private and institutional patients using public and private sources of financing. Scanmed offers its services in 43 locations spread over 25 cities in Poland. It consists of 624 beds, 12 inpatient cardiology centres and 40 medical facilities.	**40** facilities **624** beds

Max Healthcare Institute Limited

The Group has a 45.95% joint venture interest in Max Healthcare (2015: 46.25%), an acute care hospital business in India. The Group's total investment in Max Healthcare is R2.5 billion (2015: R2.2 billion). The Group does not manage Max Healthcare, but plays an active shareholder role. With 2 384 beds and 12 hospitals in Delhi-NCR, Punjab and Uttarakhand, 2 500 world-class doctors, advanced technology and state-of-the-art infrastructure, Max Healthcare is one of the leading hospital chains in India.	**12** facilities **2 384** beds

Geographical presence



Facilities in South Africa

Botswana
- Life Gaborone Private

North West
- Life Anncron
- Life La Femme
- Life Peglerae

Free State
- Life Pasteur
- Life Rosepark

Mpumalanga
- Life Cosmos
- Life Midmed
- Life Piet Retief

Gauteng
- Life Bedford Gardens
- Life Brenthurst
- Life Brooklyn Day
- Life Carstenhof
- Life Dalview
- Life Eugene Marais
- Life Faerie Glen
- Life Flora
- Life Fourways
- Genesis Maternity Clinic
- Life Glynnview
- Life Groenkloof (previously Life Little Company of Mary)
- Life New Kensington
- Life Poortview
- Life Pretoria North
- Life Riverfield
- Life Robinson Private
- Life Roseacres
- Life Springs Parkland
- Life Suikerbosrand
- Life The Glynnwood
- Life Wilgeheuwel
- Life Wilgers

Western Cape
- Life Kingsbury
- Life Orthopaedic
- Life Sports Science Orthopaedic
- Life Vincent Pallotti
- Life West Coast Private
- Life Bay View Private
- Life Knysna Private
- Life St Vincent's

Eastern Cape
- Life Beacon Bay
- Life East London Private
- Life Queenstown
- Life St Dominic's
- Life St James
- Life St Mark's
- Life St Mary's Private
- Life Hunterscraig Private
- Life Mercantile
- Life St George's
- Life Isivivana Private

KwaZulu-Natal
- Life Chatsmed Garden
- Life Empangeni Garden
- Life Entabeni
- Life Hilton Private
- Life Mount Edgecombe
- Life St Joseph's
- Life The Crompton
- Life Westville

• Hospitals and same-day surgical centres • Rehabilitation units • Mental health facilities • Specialised maternity unit

○ Scanmed offers its services in 40 medical facilities across 25 cities.

Head office: The Group's head office is situated in Johannesburg, at Oxford Manor, 21 Chaplin Road, Illovo, 2196.

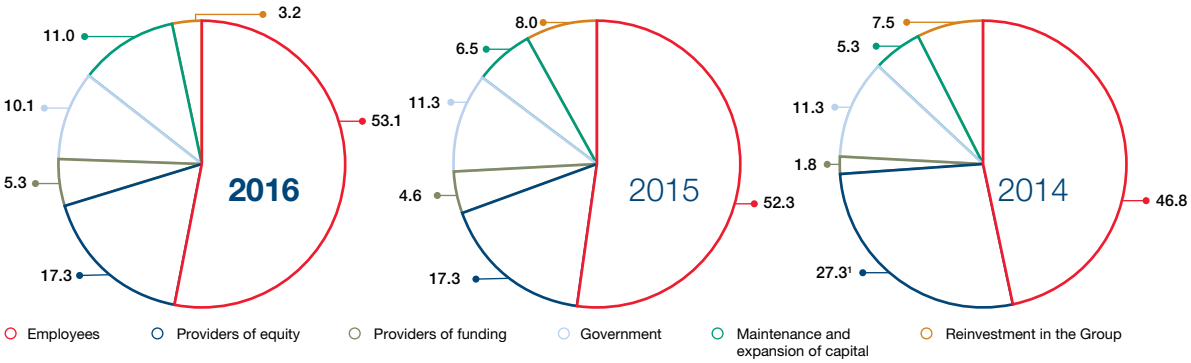
For full facility names and contact information, please refer to www.lifehealthcare.co.za

Statement of financial value added

	2016 R'm	2015 R'm	2014 R'm
Revenue	**16 404**	14 647	13 046
Less: Purchased cost of goods and services	**(6 971)**	(6 015)	(5 179)
Value added	**9 433**	8 632	7 867
Other income	**158**	163	1 116
Wealth created	**9 591**	8 795	8 983
Employees	**5 094**	4 599	4 206
Providers of equity	**1 662**	1 522	2 449[1]
Providers of funding	**509**	404	159
Government	**972**	997	1 020
Maintenance and expansion of capital	**1 045**	572	479
Reinvestment in the Group	**309**	701	670
Wealth distributed	**9 591**	8 795	8 983
Average number of employees	**19 026**	16 472	15 773
Wealth created per employee (R'000)	**504**	534	570
Weighted average number of shares (million)	**1 043**	1 037	1 037
Wealth created per share (R)	**9.19**	8.48	8.66

[1] *Includes the profit from the disinvestment in Joint Medical Holdings Limited in February 2014.*

Financial value created (%)



STRATEGY AND LEADERSHIP REVIEWS

Strategic direction

A changing external environment reinforces the need to differentiate Life Healthcare through a quality strategy driving clinical excellence with patient-centricity.

The Group's vision and values serve as the foundation that informs its strategic choices and related operational decisions. The Group performed an annual strategy review to take stock of its 2016 performance, review prevailing macroeconomic and private healthcare market trends, update the strategic choices based on its 2020 objectives and ensure alignment on key priority initiatives. This resulted in operational tweaks in line with Life Healthcare's long-term targets and the decision to review its vision, purpose and values to articulate business aspirations more clearly.

Strategic focus area	Focus statement	Unpacking the focus statement
 Growth Page 62	Continue to grow our southern African business while establishing a sizeable international business resulting in a diversification of our sources of revenue.	**Grow the southern African business** Life Healthcare seeks to be a market-leading, innovative provider of cost-effective quality healthcare through the traditional acute hospital business and its growing platform of complementary services including acute rehabilitation, mental health, renal dialysis and oncology. The Group employs a range of growth approaches that include: • Enhancing our footprint by: – Expanding facilities within existing hospitals (brownfield expansion) through adding additional beds, wards and/or operating theatres. Brownfield projects will be focused in hospitals where occupancies are high and where projects are expected to deliver good returns. – Acquiring select facilities that complement the existing geographic spread of hospitals. – Building new facilities (greenfield expansion) where there is no existing coverage. Greenfield projects have to meet set criteria including a proven need for services, desired occupancy levels and a solid doctor commitment. – Growing our complementary services business. • Developing new clinical products to diversity our service offering. **Establish a sizeable international business footprint** The Group's international expansion is focused on selected attractive markets that display supportive characteristics for the longer-term growth of the private healthcare market. Aside from operations in Poland and India, Life Healthcare continues to investigate opportunities for international growth, spearheaded by our Group executive committee. Refer to page 116 for the new executive structure. • **Poland:** Scanmed's growth strategy focuses on building a comprehensive and integrated network of healthcare facilities across key areas in the country, primarily through mergers and acquisitions. The reduction in cardiology tariffs and the uncertainty over future tariff reductions has resulted in future acquisitions being put on hold until clarity is received regarding pricing. The focus will be on driving business integration and improving efficiencies. Refer to page 66 for further details. • **India:** The Indian healthcare market remains an attractive market with strong growth expected over the next 10 years. This is driven by strong growth in the middle class and private health insurance, an ageing population which is expected to exceed 130 million people over the age of 60 by 2020, a growing disease burden and growth in medical tourism. The growth strategy for Max Healthcare is based on its vision to become an admirable institution known for service excellence, medical excellence, scientific research and medical education. The Max Healthcare growth strategy focuses on creating additional bed capacity with the aim of having over 3 100 operational beds by 2021 and implementing new lines of business such as pathology and oncology feeder centres.

This review resulted in redefining these elements as follows:

- Our purpose: Making life better.
- Our vision: To be a market leading, international, diversified healthcare provider.
- Our mission: We improve the lives of people through the delivery of high-quality, cost-effective care.

Life Healthcare has distilled four overarching strategic focus areas to guide its business activities until 2020, continuously leveraging the power of new thinking across all strategic focus areas. Performance discussions in this report are structured around these four focus areas.

2016 achievements and 2017 priorities

Grow the southern African business

2016 key achievements

- Achieved PPD growth of 4.0%.
- Successfully commissioned 125 brownfield acute beds.
- Improved the Group's renal dialysis network through the addition of 36 renal dialysis stations bringing the total stations to 281.
- Life Hilton Private Hospital averaged 59% occupancy for its first year of operations, finishing the year strongly with occupancies reaching 68% in the last quarter.
- Completed construction of Life St Vincent's mental health facility and commenced construction of Life Carstenview mental health facility.
- Opened the Life Hilton Private Hospital radiotherapy unit and expanded Life Vincent Pallotti oncology stereotactic services.
- Progressed with the integration of Careways into the Life Occupational Health business.

2017 priorities

- Prioritise brownfield projects requiring additional capacity aiming to add 115 acute beds.
- Open the 60 bed Life Carstenview mental health facility.
- Continue applying for licences in areas that will enhance Life Healthcare's footprint and deliver good growth.
- Continue to invest in facility upgrades and more advanced technology equipment.
- Commission Life Oncology at Life Eugene Marais Hospital.
- Finalise the B-BBEE trust for Life Occupational Health.
- Diversification through expansion of existing services and entry into new markets.
- Development of new products and services tailored to the affordable market and/or aimed at lowering the cost of care.

Establish a sizeable international business footprint

2016 key achievements

- Concluded the acquisition of Polska Grupa Medyczna (PGM) in Poland, for R629 million. PGM consists of:
  – five cardiac centres (125 beds); and
  – one hospital (167 beds).
- Increased our investment in Carint Scanmed to 100%.
- Max Healthcare concluded the acquisition of Max Smart, adding 225 beds.
- Improved hospital occupancy in India to 75% (2015: 73%).
- Improved Max EBITDA margins to 10.9%.

2017 priorities

- Life-sizing[1] of Poland.
- Position the Polish business to appropriately win new government contracts.
- Expansion into a third territory.
- Margin expansion through cost containment, integration and operational leverage in Poland and India.

[1] *A Life Healthcare term that defines the high-performance culture and operational values of our Group.*

Strategic focus area	Focus statement	Unpacking the focus statement
 Efficiency Page 70	Deliver cost-effective care through efficient, optimal utilisation of processes, information, technology, research, innovation and other resources.	The Group is focused on improved management of all hospital costs including cost of sales, labour and overheads. Superior service and quality necessitates operational efficiency and, to this end, various initiatives have been implemented, such as point-of-care approaches, environmentally friendly operational upgrades and increased digitised administrative tools. Information systems, advanced facilities and skilled employees are leveraged to obtain and maintain high levels of efficiency throughout the Group while allocating resources as optimally as possible. Engaging and encouraging our doctors to practice efficiently as well as engaging with ancillary service providers regarding their contribution towards affordable care, are additional focus areas.
 Quality Page 76	Deliver market-leading quality care.	Quality is the way of Life. The Group aims to maintain and improve its commitment to world-class healthcare through rigorous quality reporting and benchmarking. This includes clinical outcomes, patient satisfaction and health and safety, and employee health and safety. Life Healthcare's approach to quality remains stringent, as service quality is directly related to both sustainability and efficiency.
 Sustainability Page 86	Effectively engage with our stakeholders to ensure our long-term sustainability.	Sustainable operations internationally and locally require social, environmental and financial stability and effective stakeholder engagement. The Group recognises the importance of its licence to operate in various geographies and the stakeholders in each that directly influence its success. Life Healthcare remains focused on its sustainability goals by: • Implementing sustainable human capital strategies and practices that meet the challenges of a dynamic commercial and legislative environment. • Partnering with government and engaging in healthcare reform in South Africa. • Driving our B-BBEE strategy to harness corporate growth and development opportunities in a sustainable manner. Improving our B-BBEE rating to level 7 by September 2017. • Building partnerships with medical healthcare funders to ensure network participation, and providing preferred network products and services to meet patient and funder needs. To retain our overall share of the Healthcare market as measured by PPDs. • Building partnerships with doctors and other healthcare professionals. • Maintaining and securing new positive relationships with the new Polish government, which controls the country's national health fund – Narodowy Fundusz Zdrowia (NFZ) – and sets tariffs.

2020 strategic objectives

The strategic focus areas feed into the three 2020 strategic objectives:

1. Accelerate the transition from a South African focused acute care group to an international, diversified healthcare provider:
   - International target of between 30% and 40% of revenue and between 15% and 25% of earnings from operations abroad.
2. Evolve the Group's delivery model in South Africa to target a more diversified offering:
   - Scale up the Group's complementary service offering, including increasing our geographic presence in acute rehabilitation, mental health, renal dialysis and oncology.
   - Expand our service offering by investigating allied opportunities within the healthcare arena.

2016 achievements and 2017 priorities

2016 key achievements

- Maintained cost of sales savings through product conversions.
- Second solar installation at Life Fourways Hospital completed.
- Doctor quality and efficiency reporting programme being piloted at Life Groenkloof Hospital, aimed at appropriate management of cost of sales, length of stay and level of care.
- Continuous improvement project evaluation in progress at Life Groenkloof Hospital.

2017 priorities

- Continued leveraging of pricing negotiations through formulary compliance.
- Develop and implement select clinical pathways with direct links to product, hospital and supporting service providers' utilisation.
- Appoint clinical regional managers to drive improved efficiencies at hospitals.
- Identify hospitals with opportunities to improve efficiencies and additional areas where improvements can be made.
- Improve clinical coding accuracy through continuous training, focus and introduction of exception reports.

2016 key achievements

- Rolled out the CARE programme in full to all employees and third party service providers with regular interventions.
- Developed the clinical governance framework.
- Improved on patient experience management (PXM) scores.

2017 priorities

- Enhance patient experience in key areas such as maternity, surgical wards, paediatrics and neo-natal.
- Improve flow of patients through emergency units.
- Finalise international quality measures to be implemented and benchmarked against Life Healthcare norms.
- Extend the e-ICU pilot to more beds.

2016 key achievements

- Doctor partnership model focus including the specialist-specific consultative forums for admitting doctors.
- Employment of a Doctor Stakeholder Manager to support the attraction and retention of good quality specialists.

2017 priorities

- Actively recruit Life Healthcare/CMSA sub-specialists bursars to take up opportunities within the Group.
- Develop enhanced partnerships with admitting doctors and incorporate referring general practitioners in emergency units.
- Identify undergraduate doctors and provide early orientation to hospital private practise for specialists in training.
- Accelerate nursing bridging course take-up prior to introduction of the new qualification criteria.
- Drive and maintain a competitive B-BBEE scorecard rating to facilitate growth.
- Differentiate ourselves through a patient-centric brand strategy.
- Finalise the B-BBEE trust with 25.1% ownership in Life Occupational Health for sole purpose of funding the training of nurses.

3. Focus on increasing both performance and health of the Group with the aim of Life Healthcare being the preferred hospital group in terms of efficiency and quality healthcare services:
   - Address key enablers including quality standards, nursing efficiency, enabling technology and doctor engagement.
   - Build capabilities across operational, executive and international teams.

Performance in numbers

The indicators and statistics presented in this table provide a snapshot of the Group's performance over the last three years.

Growth focus area and financial ratios

Geographical location and indicator	2016	2015	2014
Life Healthcare (Group)			
Gross cash flow from operations as percentage of EBITDA, **target is >95%**	**93**	95	97
Net debt: normalised EBITDA (ratio), **debt covenant is <2.75**	**1.67**	1.49	0.84
Interest cover (ratio), **debt covenant is >5.0**	**8.2**	9.7	21.0
Normalised EPS (cents per share (cps))	**182.1**	177.4	173.8
Total dividend for the year (cps)	**165**	154	141[1]
Life Healthcare (southern Africa)			
Paid patient days (PPDs)[A, B]	**2 265 653**	2 177 833	2 115 254
Occupancy (%)	**72.5**	71.9	71.9
Length of stay (LOS) (days)	**3.68**	3.63	3.57
Number of healthcare facilities	**64**	63	61
Number of registered beds	**8 768**	8 647	8 418
Number of acute facilities	**50**	50	48
Number of dedicated acute rehabilitation facilities	**7**	7	7
Number of dedicated mental health facilities	**7**	6	6
Number of renal stations	**281**	245	178
Number of oncology units	**2**	1	1
Number of Life Esidimeni facilities	**9**	12	12
Number of Life Esidimeni operational beds	**2 424**	3 794	3 967
Number of Life Esidimeni PPDs	**1 122 878**	1 394 745	1 473 893
Number of Life Occupational Health clinics	**297**	286	288
Number of lives covered through the Life Occupational Health clinics	**159 685**	232 000	240 000
Number of Careways on-site clinics	**74**	79	–
Number of lives covered by Careways employee wellness	**259 974**	195 195	–
Scanmed (Poland)			
Occupancy (%)	**63**	57	50
Number of medical facilities	**40**	36	28
Number of registered beds	**624**	334	163
Number of cardiac facilities	**12**	7	–
Max Healthcare (India)			
PPDs	**602 004**	478 746	436 220
Occupancy (%)	**75**	73	77
Number of healthcare facilities	**12**	11	10
Number of operational beds	**2 384**	2 053	1 677

Efficiency focus area and financial ratios

Geographical location and indicator	2016	2015	2014
Life Healthcare (Group)			
Capital expenditure as percentage of revenue (%)	**6.2**	8.1	7.4
Maintenance capital expenditure as percentage of revenue (%)	**2.2**	1.6	1.6
Growth capital expenditure as percentage of revenue (%)	**4.0**	6.5	5.8
Effective tax rate (%)	**31.2**	28.3	22.0
Normalised EBITDA margin (%)	**26.3**	27.6	27.7
Life Healthcare (southern Africa)			
Normalised EBITDA margin (%)	**27.5**	28.3	27.9
Scanmed (Poland)			
Normalised EBITDA margin (%)	**10.2**	14.0	9.1
Max Healthcare (India)			
Normalised EBITDA margin (%)	**10.9**	9.9	9.9

Quality focus area

Geographical location and indicator	2016	2015	2014
Life Healthcare (southern Africa)			
Quality metrics			
Patient experience – inpatient (%) (target >85%)	**80.30**	80.30	80.10
Patient experience – emergency units (%) (target >80%)	**77.00**	75.40	76.30
Recommend – inpatient (%) (target >70%)	**69.40**	68.80	63.70
Recommend – emergency units (%) (target >70%)	**66.60**	64.50	61.90
Clinical indicators			
Ventilator associated pneumonia (VAP) (per 1 000 ventilator days)	**1.50**	1.17	1.91
Surgical site infections (SSI) (per 1 000 theatre cases)	**0.89**	0.58	0.76
Central line associated bloodstream infections (CLABSI) (per 1 000 central lines)	**0.73**	0.55	0.85
Catheter associated urinary tract infections (CAUTI) (per 1 000 catheter days on one line)	**0.35**	0.45	0.40
Healthcare associated infections (HAI) (per 1 000 PPDs)[2, A, B]	**0.37**	0.32	0.44
FIM™/FAM score (target is greater than 0.9)	**1.13**	1.18	1.14
Patient incident[3] rate (per 1 000 PPDs)[A, B]	**2.53**	2.66	2.88
Employee incident rate (per 200 000 labour hours)	**3.71**	4.71	4.86
Scanmed (Poland)			
Clinical indicators			
HAI (%)[5]	**0.58**	0.62	0.86
Reoperations (%)	**0.40**	0.73	0.99
Patient incidents (%)	**0.40**	0.46	–

Sustainability focus area

Geographical location and indicator	2016	2015	2014
Life Healthcare (southern Africa)			
Human capital			
Number of employees (permanent employees)	**14 269**	14 182	14 141
Number of nurses enrolled in training	**1 052**	1 165	934
African, Coloured and Indian (ACI) employees (%)	**72.2**	70.6	69.4
Scanmed (Poland)			
Number of employees	**3 651**	2 290	1 632
Max Healthcare (India)			
Number of employees	**10 117**	7 932	7 522
Environmental			
Life Healthcare (southern Africa)			
Electricity usage (kWh)[4]	**154 022 258**	151 315 836	154 968 932
Water usage (kl)[4]	**1 289 002**	1 532 192	1 916 528
Healthcare risk waste (HCRW) (kg/PPD)[A, B]	**1.73**	1.68	1.63
Scanmed (Poland)			
Electricity usage (kWh)[4]	**2 895 291**	3 555 203	446 246
Water usage (kl)[4]	**28 734**	31 424	16 503
Max Healthcare (India)			
Electricity usage (kWh)[4]	**67 512 788**	52 627 957	49 513 521
Water usage (kl)[4]	**793 454**	682 925	639 251

1 *This excludes the special dividend of 100 cps in 2014.*
2 *Healthcare associated infections (HAI): Combines all the healthcare associated infections determined according to the Centre for Disease Control (CDC) guidelines – VAP (ventilator associated pneumonia), SSI (surgical site infection), CLABSI (central line associated bloodstream infection), CAUTI (catheter associated urinary tract infection) and other infections associated with the hospital stay.*
3 *Patient incidents: Unintended or unexpected events which could have, or did, result in harm – this includes medication, falls and procedure-related incidents, behaviour, death due to unnatural causes, burns and other patient incidents and patient absconding.*
4 *These figures are based on best estimates using available information.*
5 *The calculations differ from the other areas:*
– HAI: total number of HAI/total number of patients x 100%.
A *The 2016 indicator is externally assured.*
B *The 2015 indicator is externally assured.*

Our value creation process is underpinned by sound governance, collaborative relationships, innovation and a firm commitment to patient-centred care.

Mustaq Brey
Chairman

Chairman's review

We continue to work towards achieving our 2020 strategic objectives, underpinned by our strategic pillars of growth, efficiency, quality and sustainability. We had a good financial performance for the year.

South African overview

As a country, we could be facing an economic downturn that will further hamper growth and the current political climate lends increased uncertainty to how this will be managed by government. Economic growth deteriorated from 1.1% in 2015 to 0.1% in terms of GDP coupled with a 9.7% deterioration in the rand. Together with salary pressures, this strained Life Healthcare's overall margin. The Group continues to focus on driving efficiencies within the business to mitigate such impacts. This is supported by our focus on quality, technological advancements and our patient-focused approach enhanced by initiatives such as the CARE programme.

The general economy has led to a slight decline in the number of medically insured lives with increasing private sector competition for their business. Within this environment, the Group is focused on being the hospital group of choice through our clinical outcomes, our patient-focused approach and our efficient provision of care.

The Group added 176 beds during the year (2015: 253) consisting of 125 brownfield beds and 51 mental health beds. Growth and revenue were further impacted by the non-renewal of 1 570 mental health beds as of 30 June 2016 by the Gauteng Department of Health. As a consequence of the non-renewal of the contract, the Gauteng Department of Health transferred approximately 1 500 mental health patients to non-governmental organisations. Since the transfer, 37 patients have unfortunately died. These deaths are currently being investigated by the office of the Health Ombudsman, to which we give all our support, and we expect a report out before the end of the year. The government remains a key stakeholder in our value creation process, and we aim to continue dialogue with the hope of addressing the healthcare needs of South Africans and curbing the negative sentiment associated with the private healthcare sector.

Market influence on the national credit downgrade

Life Healthcare, together with some other large private healthcare businesses, compiled a submission on the healthcare sector to aid the efforts of South African Finance Minister, Pravin Gordhan, when government engaged with the private sector for aid in averting a credit rating downgrade during the year. The submission highlighted areas where government could intervene and potentially work closer with the private healthcare sector to improve the quality of care that is delivered in the country through the public sector.

Such areas include:

The overall sentiment towards the private healthcare sector and improving perceptions	The government's negative perception of the private healthcare sector has an impact on general public perception and possibly foreign direct investment. Changing this viewpoint could be the first step in securing more trust in the sector and assist South Africa's status as an attractive investment destination.
Lifting of restrictions on key training and employment areas for doctors, nurses and specialists	The private healthcare sector would be more effectively utilised if training restrictions on the number of nurses that can be trained in private training facilities, was lifted. The private sector is already training nurses and has the necessary infrastructure in place to increase the output of qualified nurses. By allowing the private healthcare sector to train specialists, the burden on public institutions will be reduced. In addition, the need for foreign specialists would decrease and costs for specialist treatment would be driven down. The HPCSA controls the number of positions available for trainee doctors at public hospitals and this has remained largely unchanged since the 1970s. Introducing private medical schools as an alternative training ground would significantly assist in addressing the persistent shortage of doctors. The submission also indicated that an increased intake for public medical schools should be strongly considered.
Enhancing PPPs	Full PPP activation has a long implementation timeline, and more care could be provided if the government would allow private healthcare companies to assist in the delivery of certain healthcare services to public patients, reducing the wait times for certain conditions and reducing public hospital congestion.
Reviewing regulatory reforms to better leverage opportunities	The submission indicated a review of direct employment of doctors and specialists to potentially reduce the cost of care is needed (currently doctors cannot be directly employed by the Group per the regulatory limitation in terms of the Ethical Rules of HPCSA). Medical funder scheme solvency ratios' were assessed and a recommendation to change the capital approach from a fixed solvency ratio to risk-weighted capital calculation was made, citing improved cover and reduced premiums for patients as motivation.

Performance at a glance

The Group's revenue for the year increased to R16 404 million (2015: R14 647 million) and HEPS increased by 7.0%.

Southern Africa

Our acute business remains successful, adding 125 acute beds to the Group's portfolio. Our complementary business remains in high demand and effective service provision through state-of-the-art facilities further differentiates Life Healthcare from our competitors. Complementary growth remained strong as the Group added 51 beds as well as improving occupancies in mental health and acute rehabilitation. A second oncology unit was opened at Life Hilton Private Hospital, and a further 36 renal dialysis stations were opened. We intend to complete an oncology facility at Life Eugene Marais Hospital in April 2017. A fourth unit is planned for 2018 in Gauteng. The Group intends to further increase our mental health bed capacity by 60 beds and continue both greenfield and brownfield expansion.

Poland

Poland contributed R1 174 million (2015: R648 million) to the Group's revenue. A change in government has greatly affected the tariff landscape, impacting areas such as cardiology and neurosurgery, which have adversely affected our financial performance in the territory this year. Going forward, potential changes to other tariff areas and possibly the awarding of NFZ contracts may also be affected.

Alignment of operations between Poland and South Africa is set to improve post a change in management and prospects remain positive despite some uncertainty on the possible impact of the new government on the healthcare market.

India

India continues to grow, increasing beds to 2 384 (2015: 2 053), aided by the acquisition of the Max Smart Super Specialty Hospital (Max Smart) during the year. Operations continue as expected with consistent growth in an emerging market economy that features a rapidly growing middle class with increased private healthcare needs.

Refer to the Group Chief Executive Officer's review on page 32 for operational insights into the business and our performance chapters for detailed operational results for the year.

Governance and leadership

The board continues to be responsible for our strategic direction through effective leadership. The Group complies with regulations such as King III, the JSE Listings Requirements and the Companies Act and is preparing to comply with King IV post its release in November 2016. The full governance report can be found on page 102.

Mpho Nkeli joined the board on 1 October 2015, and has provided value to the Group as a member of the social, ethics and transformation committee and the remuneration and human resources committee. Her leadership and wealth of experience in human resources greatly assisted the board and the Group.

Executive committee changes

Life Healthcare has restructured its executive into a global Group executive team and a locally focused southern African executive team following a measured assessment process that took into account the Group's strategic focus areas. The board supported the Group Chief Executive Officer throughout this assessment and believes the refinement to be in the best interests of the Group.

The change in structure allows the Group to be better positioned to pursue its strategic focus of international diversification while maintaining consistent attention to local operations through the country's Executive. Lourens Bekker was appointed as the Chief Operating Officer for South Africa. Lourens has been with the Group since 1994 and brings a range of experience and skill to the position.

Poland leadership changes

There has been a significant change in the management team of Scanmed in Poland, primarily as a result of our dissatisfaction at the level of integration in the territory, which was below desired levels. Three new members were appointed to the management team including a new Chief Executive Officer, Hubert Bojdo.

NHI and HMI stance

Although the Group remains supportive of the NHI and the core intent to make healthcare more affordable, we have reservations as to the affordability of some considerations and the practical implementation of such in South Africa. The Group did provide commentary on the White Paper released by the Department of Health.

We feel that any further comment at this stage on the HMI would be premature as the inquiry is ongoing. The Group continues to monitor events for any material impacts on our operations and provides submission and information as and when required (refer to page 8 for further information). The completion of the HMI has been delayed and we expect completion in 2017.

Board focus areas for 2017

The board will specifically focus on the following matters:

- The approach to and matters emerging from the HMI. In the event that the report is finalised, the recommendations made by the panel and the potential impact on the southern African business will be assessed thoroughly.
- Transformation across the organisation and an improvement in the B-BBEE scorecard.
- Clinical outcomes in line with the objective of continuous improvement.
- International expansion opportunities in line with our growth strategy and the integration of those operations into the Group.
- The delivery of affordable healthcare.

Appreciation

The Group can reflect on another positive year of growth because of the men and women of the business who continuously strive to fulfil our purpose of making life better. My sincere thanks to my fellow board members for our robust discussions, troubleshooting sessions, advice dispensed and overall guidance in steering our path. To all our doctors, nurses, employees and service providers working tirelessly at our facilities, you have the board's appreciation for your dedication and passion. To our shareholders and all our valued stakeholders, thank you for continuing to walk our journey with us.

Mustaq Brey
Chairman

As we continue to work towards achieving our 2020 strategic objectives, our focus areas of growth, efficiency, quality and sustainability remain intact and have driven the good performance for the year.

Our focus is to create sustainable value by continuously striving to reduce the cost of care while improving the quality of the care delivered.

André Meyer
Group Chief Executive Officer

Group Chief Executive Officer's review

Overview

The Group is pleased with the operational and financial performance of our southern African business. The business adapted well to prevailing conditions, showing good growth in an attempt to meet demand in acute healthcare and complementary services, allowing the preservation of margins in a narrowing medically insured market, rich in competition. Our performance in India is in line with expectations; however, our performance in Poland has been below expectations. It is being addressed through various channels such as a management restructure and executive alignment to functionalise integration with the rest of the Group and develop operations to meet the required targets.

Operating environment

The external environments of each of our three geographies experienced different challenges and opportunities. Polish operations were materially affected by government changes, whereas in India, operations remained stable and progressive.

The general economic environment in South Africa remains strained, leading to the devaluation of the rand, job losses, lack of growth and a reducing number of medically insured lives. The latter has necessitated an increased focus on the cost of care to provide healthcare services to a highly competitive market. Funder concentration remains a challenge as more aggressive negotiations and lower increases begin to characterise the approach taken by funders. The top five administrators provide approximately 74.0% (2015: 72.4%) of our revenue.

Products and services preferred by funders and patients are becoming increasingly important, joining collaborative doctor relationships and addressing specialised skills shortages are on our list of key focus areas. Locally, uncertainty in political reforms being discussed and uncertainty on future application (such as NHI and the HMI into private healthcare) remain concerns that the Group monitors and where possible, proactively prepares for.

Growth

Southern African growth remains a key priority for the Group, with a gradual shift towards more brownfield expansions in the past year, primarily as a result of expanding our complementary services to existing facilities. The awarding of bed licences by provincial government, a precursor to bed growth and business growth, remains an area of concern as issuing slows – particularly in the Gauteng region. Despite this, the Group delivered 176 (2015: 253) new beds locally in addition to the 290 (2015: 171) and 331 (2015: 344) bed growth from Poland and India respectively. The Group has 1 363 approved unbuilt beds in South Africa as at 30 September 2016.

Our local business has experienced strong demand for acute care due to an ageing population and lifestyle diseases trends in the country. The increase in demand for mental health and oncology services presents a growth opportunity that the Group continues to leverage through technologically advanced facilities and increasing the geographic footprint of our complementary service network. In this regard, we completed construction of a mental healthcare unit in the Western Cape and will complete a second unit in Gauteng in 2017. We also added 36 renal dialysis stations to our operations. A new oncology facility at Life Hilton Private Hospital was opened as demand for advanced therapy and technology in this field continues to grow.

The acquisition of Polska Grupa Medyczna (PGM) in Poland took place in November 2015 and was funded in-country, increasing the total investment in Poland to R2.2 billion (2015: R1.4 billion). The change in government has placed pressure on tariffs and possibly the awarding of NFZ contracts in future. Many companies have found it economically unviable to operate post the election of PiS, and the Group has halted expansion plans to assess future impacts in line with our strategic focus areas and risk assessments. Other challenges experienced in the country were process integration and ineffective communication. "Life-sizing[1]" the business is yet to be attained as alignment remains a key priority.

We invested a further R320 million to fund the Max Healthcare acquisition of Max Smart in India in line with our growth strategy and have added 331 operational beds to the portfolio. Occupancy levels of 75% indicate continued stability and operations on the sub-continent continue to grow. Our investment in India to date, including the Max Smart acquisition, is R2.5 billion (2015: R2.2 billion).

Efficiency

The Group continues to apply a keen focus to managing input costs such as labour, drugs and surgical consumable items to drive efficiencies across the Group. This has resulted in significant savings, as well as the containment of prices to within CPI levels despite a difficult economic climate. The Group's total procurement spend was R10.3 billion (including IT projects) (2014: R7.1 billion). Life Healthcare intends to maintain margins by driving efficiencies characterised by cost containment and product diversification.

In terms of B-BBEE performance, the new B-BBEE codes had a negative impact on both our business and our local providers. We continue to review opportunities for advancing preferential procurement in line with our approach to transformation. We are also in the process of establishing a B-BBEE trust with 25.1% ownership in Life Occupational Health for the sole purpose of funding the training of nurses.

Refinement of our IT capabilities is a crucial efficiency driver, allowing reduced labour hours and cost of sales thereby enabling improved performance. This is achieved through initiatives such as Project Impilo which is in its final phases and will provide real-time, online management of patient processes. An integrated enterprise resource planning (ERP) system is also in development to enhance synergistic efficiencies between our geographies.

Quality

Life Healthcare's clinical excellence (iQ) and the patient experience (Q^e) are key elements of our quality offering and operational commitments, allowing us to use information obtained to drive quality, world-class care and positive patient outcomes. The Group's clinical governance and quality committee continues to gain traction in driving desired behaviour Group-wide and the clinical governance framework launched in late 2015 has been embedded. We see quality as a key differentiator in a competitive market. The marginal upward movement in some of our clinical outcomes is as a result of improved reporting and measuring of these outcomes. This increased focus on these measures demonstrates the Group's commitment to address the infection risk in healthcare facilities.

The Group is conscious of an increasing social perception that cost of care in private healthcare is high despite the market being funder and resource-driven. This is a sentiment that appears mirrored by government as per elements of the investigation in the HMI into private healthcare. There is also a heightened focus on quality by patients that is addressed through initiatives such as the CARE programme. The programme has made large strides since 2015, and is seen to be a significant driver of the increase in positive patient feedback in our comment cards and positive patient sentiment overall. Phase two of the programme began in August 2016, and is geared towards extending our values to doctors and external service providers who are key contributors to quality care.

Sustainability

The Group applied increased attention to enhancing doctor relationships and engagement. We view doctors and specialists as key stakeholders whose support in operations and product enhancement and development is essential for our continued success. The strong partnerships developed are reflected in a net growth of 65 doctors year-on-year. ICU employees, registered nurses and other specialised skill professions remain in

[1] *A Life Healthcare term that defines the high-performance culture and operational values of our Group.*

high demand, necessitating effective retention strategies and continued training and development to ensure a steady pipeline of sufficiently skilled personnel who can deliver care in line with the Group's standards.

Employment equity statistics at top management levels of the Group have been positive, with a slight decline to 33.3% (2015: 36.4%). The Group employs 10 993 people from previously disadvantaged groups, 72.7% (2015: 70.6%) of which are black.

Our employee engagements have been enhanced through the Life Achiever Awards to recognise positive employee performance. Management development and succession planning have yielded a number of internally driven projects that are enhancing our high performance culture by enriching promising employees with skills.

Our environmental management system focuses on environmental sustainability and the quality department drives this initiative throughout the Group. Life Healthcare's commitment to the environment is reflected in the 12 large high-tech hospitals that were awarded ISO 14001:2004 certification in 2015.

From an environmental perspective, the Group has reduced carbon emissions by 3.8% year-on-year and is expecting to gain further savings through photovoltaic (PV) installations such as the recently completed Life Fourways Hospital PV project with an annual electricity generation capacity of 1 Gigawatt. Our commitment to environmentally responsible operations remains steadfast despite an already low level of impact.

Vision for the future

Going forward, the Group will remain committed to local growth and profitable operations, primarily through acute and complementary healthcare offerings. Key enablers such as our quality standards, IT enhancements and improved partnering with doctors remain essential to maintaining and improving our share of the private healthcare market in South Africa.

Abroad, Life Healthcare aims to fully integrate the operations and systems of the Scanmed business with the assistance of new management and our repositioned executive structure. Organic acquisitions in line with our growth strategy are expected to continue in Max Healthcare. We also continue to assess a potential investment in an additional territory.

Appreciation

Another year of intense focus has yielded tangible rewards for the business, both financial and developmental. I extend my thanks to the board for their continued guidance and all of our executives for their dedication to Group-wide excellence and patient-centred care which supported our achievements. Your efforts have allowed us to create value for the business and a range of stakeholders in a manner that is both profitable and sustainable. To our doctors, nurses, employees and service partners, thank you for helping us to achieve success despite a range of challenges. To our shareholders and investors, thank you for continuing to support and believe in our vision.

André Meyer
Group Chief Executive Officer

We view doctors and specialists as key stakeholders whose support in operations and product enhancement and development is essential for our continued success.

Although the economic growth prospects of the country remain low and constrained with various other challenges, the Group maintains a positive outlook and still sees significant opportunity to grow and remain profitable over the long-term.

Pieter van der Westhuizen
Group Chief Financial Officer

Group Chief Financial Officer's review

Overview

The Group delivered a solid southern African operational performance, largely driven by volume growth. The change in case mix from surgical to medical resulted in a lower revenue per paid patient day (PPD) growth.

The weakening of the exchange rate increased cost pressures on cost of sales and information system licensing fees in the year. Costs were further impacted by the retrenchment costs in respect of the loss of the Life Esidimeni Gauteng mental health contracts, professional fees incurred on the HMI and increasing costs in malpractice insurance.

Poland produced a satisfactory underlying operating performance amidst negative regulatory changes on tariffs that became effective 1 July 2016.

India generated strong EBITDA growth of 29.3%, which was, however, diluted by the additional acquisition funding and transaction costs.

The Group's overall results were impacted by the impairment of R370 million of the Polish investment due to regulatory changes impacting profitability. Earnings continue to be impacted by the dilutive effect of the interest cost on the funding of the international acquisitions.

Operational review

Southern Africa

The southern Africa business added 176 beds (2015: 253), 36 renal dialysis stations and one oncology centre. Activities, as measured by PPDs, increased by 4.0% as a result of the investment in additional beds and an increase in the length of stay (LOS). The underlying disease burden and ageing medical scheme population continue to drive an increase in hospital utilisation as well as influencing the case mix.

Margins for the year declined to 27.5% (2015: 28.3%), however, key performance indicators remain strong, with weighted occupancies higher at 72.5% (2015: 71.9%).

Occupancy split between Acute and Complementary*

* *Complementary business includes mental health and acute rehabilitation in the occupancy calculation.*

Poland

Scanmed expanded its network of facilities through a number of acquisitions during the year, executing on the expansion strategy, and continuing to invest in long-term growth opportunities. The Group acquired PGM for R629 million and Carint for R103 million, which were funded from debt raised in Poland, secured by a Group guarantee.

The Group's total investment in the business is now R2.2 billion (30 September 2015: R1.4 billion).

EBITDA margins reduced to 10.2% (2015: 14.0%), due to the negative impact of reduced regulated tariffs for cardiology procedures. Cardiology accounts for approximately 45% of the Scanmed business. Further tariff reductions have been announced by the government covering orthopaedic and neurology disciplines. The Group has therefore put on hold its strategy for further investments until there is more clarity from the government in terms of its regulations and the next rounds of contracting. The Group has also changed the senior management team to enable a greater focus on cost management, driving efficiencies, as well as seconding some senior Life Healthcare management to Poland.

India

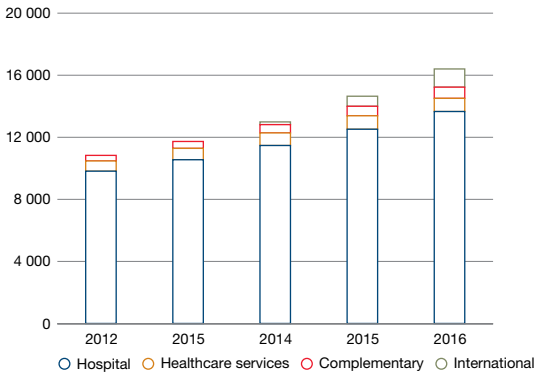
The total investment from South Africa into Max Healthcare is R2.5 billion (30 September 2015: R2.2 billion), which includes an additional R320 million invested during the year to fund the Max Smart acquisition in India by Max Healthcare. Max Healthcare added 331 beds during the period, primarily through the acquisition of Max Smart, bringing the number of operational beds to 2 384. The Indian operations reported strong growth with net revenue growing by 16.7% and EBITDA by 29.3%. The growth in revenue was driven by the addition of the 331 beds and an increase in occupancies to 75% (2015: 73%). EBITDA margins improved to 10.9% (2015: 9.9%) on the back of improved occupancies, improved speciality and channel mix and better cost control.

Our joint venture partner, Max India Limited, listed in July 2016. The share price at 30 September 2016 gives an approximate value of R5.3 billion for the Group's stake in Max Healthcare.

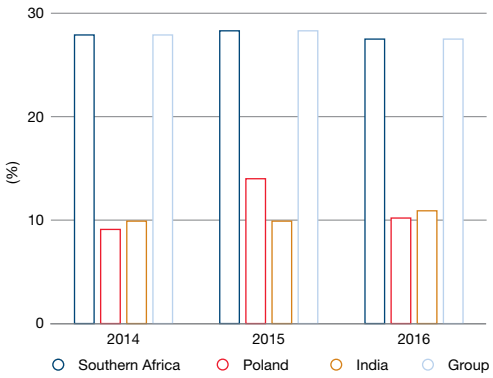
Financial performance figures

		2016 R'm	2015 R'm	% change
Revenue		**16 404**	14 647	12.0
Southern Africa	Hospital division	**14 381**	13 133	9.5
	Healthcare services	**849**	866	(2.0)
International	Hospitals	**1 174**	648	81.2
Earnings before amortisation, profit/loss on disposals, impairment of intangible assets, transaction costs and surpluses on retirement benefits		**4 314**	4 048	6.6
Southern Africa	Hospital division	**3 819**	3 575	6.8
	Healthcare services	**120**	168	(28.6)
	Other	**255**	214	19.2
International	Hospitals	**120**	91	31.9

Revenue – continuing basis (R'm)



Normalised EBITDA margin (%)



Net debt to normalised EBITDA was 1.67 times (2015: 1.49 times). This reflects the funding for the Group's 2016 capital expenditure programme, and the impact of the R763 million spent on acquisitions in Poland. The bank covenant for net debt to EBITDA is 2.75 times. The Max Healthcare investment was funded from available cash resources.

Financial performance

Area	2016 R'm	2015 R'm	% change
Normalised EBITDA[1]	**4 314**	4 048	6.6
Operating profit	**3 660**	3 496	4.7
Depreciation on property plant and equipment	**530**	445	
Amortisation of intangible assets	**147**	127	
Retirement benefit asset and post-employment medical aid	**(23)**	(20)	
Normalised EBITDA	**4 314**	4 048	6.6
Southern Africa	**4 194**	3 957	6.0
Poland	**120**	91	31.9

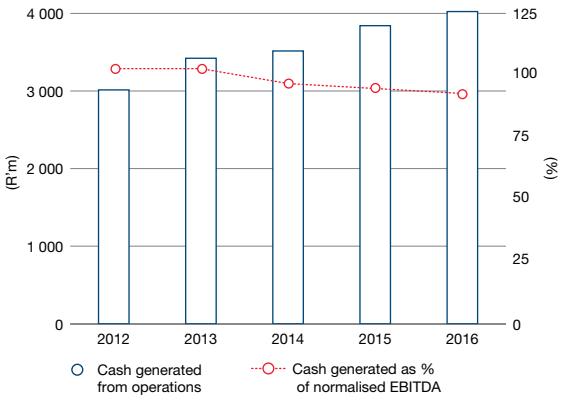
[1] *Life Healthcare defines normalised EBITDA as operating profit plus depreciation, amortisation of intangible assets, impairment of property, plant and equipment as well as excluding profit/loss and fair value adjustments on disposal of businesses, fair value adjustments, transaction costs and surpluses/deficits on retirement benefits.*

HEPS and normalised earnings per share

Area	2016 R'm	2015 R'm	% change
Profit attributable to ordinary equity holders	**1 616**	1 866	13.4
Contingent consideration released	**(109)**	(21)	
Impairment of investment	**370**	–	
Other	**22**	(5)	
Normalised earnings	**1 899**	1 840	3.3
Normalised EPS (cents)	**182.1**	177.4	2.6
Southern African operations (cents)	**208.1**	194.1	
International operations (cents)	**(1.0)**	1.8	
Funding costs/International acquisitions (cents)	**(25.0)**	(18.5)	

HEPS increased by 7.0% to 192.5 cps (2015: 179.9 cps). Earnings per share on a normalised basis, which excludes non-trading related items listed above, increased by 2.6% to 182.1 cps (2015: 177.4 cps). The difference in growth between HEPS and normalised earnings per share is as a result of the contingent consideration released in respect of Polish acquisitions.

Cash generated vs normalised EBITDA



Cash flow

After paying tax of R981 million (2015: R903 million), the Group generated R3 055 million (2015: R2 951 million) in cash from its operating activities. The Group produced strong cash flows from operations, and continues to anticipate positive free cash flow. The overall net cash flow position of the Group is negative, as a result of investing activities, primarily associated with the continuing international investment opportunities of the Group. This net cash outflow was funded through raising debt in South Africa and Poland.

Capital expenditure and investments

During the year, Life Healthcare invested R2 081 million (2015: R3 218 million), comprising capital projects of R1 013 million (2015: R1 181 million), R320 million equity injection for the funding of the acquisition of Max Smart by Max Healthcare, and R748 million in new acquisitions by Poland. This investment in the Group's facilities strengthen our service offering, and the new acquisitions are in line with the Group's focus on expanding our international footprint.

The impairment loss of R370 million recognised during the current year, relates to the Group's investment in Poland. Contingent consideration in respect of previous Poland acquisitions of R109 million (2015: R21 million) was released.

Net debt

Funding	**2016 R'm**	**Weighted average cost of debt (post-tax)**	2015 R'm	Weighted average cost of debt (post-tax)
Acquisition funding				
South African rand	**2 951**	**6.67**	3 271	6.46
Polish zloty	**773**	**3.76**	–	–
Capex funding	**1 925**	**6.06**	1 864	5.47
Poland	**181**	**3.05**	72	4.67
Property finance leases (IFRS)	**951**	**7.91**	980	7.88
Working capital	**1 030**	**6.26**	557	5.23
	7 811	**6.50**	6 744	5.76
		(pre-tax)		(pre-tax)
3 month JIBAR rate		**7.36**		6.19
Prime overdraft rate		**10.50**		9.50

Distribution

The board declared a final distribution for the year of 92 cps (2015: 86 cps), up 7.0% year-on-year. It takes the form of fully paid Life Healthcare Group Holdings Limited ordinary shares or through a cash alternative. This scrip distribution, with the election to receive the cash dividend, allows the Group to use the cash saved through the programme to support growth plans.

This further gives our shareholders the opportunity to increase their shareholding in the Group and provides flexibility for those who would prefer to receive a cash dividend. The scrip distribution will be at a discount of 2.5% of the 15-day volume weighted average share price ending on 2 December 2016.

Dividend (cps)

Year	Total dividend per share	% growth
2012	105	
2013	126	20.0
2014	141	11.9
2015	154	9.2
2016	165	7.1

Pieter van der Westhuizen
Group Chief Financial Officer

Seven-year performance history

Group statement of comprehensive income

	CAGR since 2010 %	2016 R'm	2015 R'm	2014 R'm	2013 R'm	2012 R'm	2011 R'm	2010 R'm
Revenue	11.0	**16 404**	14 647	13 046	11 834	10 930	9 805	8 778
Operating profit	12.0	**3 660**	3 496	3 150	2 878	2 486	2 137	1 853
Normalised EBITDA[1]	12.2	**4 314**	4 048	3 611	3 337	2 912	2 544	2 168
Net finance cost	7.4	**(502)**	(404)	(215)	(202)	(215)	(199)	(327)
Share of associate's net profit after tax	(34.7)	**8**	14	39	70	90	118	103
Profit before tax	9.7	**2 864**	3 112	3 973	2 764	2 392	2 089	1 640
Profit for the year	15.4	**1 970**	2 228	3 098	2 004	1 729	1 492	835
Ordinary equity holders of the parent	16.0	**1 616**	1 866	2 774	1 711	1 482	1 287	664
Non-controlling interest	12.9	**354**	362	324	293	247	205	171
Normalised EBITDA[1]	12.2	**4 314**	4 048	3 611	3 337	2 912	2 544	2 168
Operating profit	12.0	**3 660**	3 496	3 150	2 878	2 486	2 137	1 853
Profit on disposal of property, plant and equipment		**–**	–	–	(4)	(9)	–	–
Depreciation on property, plant and equipment		**530**	445	355	354	318	299	263
Amortisation on intangible assets[2]		**147**	127	122	116	124	110	122
Employee Trust accelerate charge[3]		**–**	–	–	–	–	–	36
Retirement benefit asset and post-employment medical aid		**(23)**	(20)	(16)	(7)	(7)	(2)	(106)

[1] *Life Healthcare defines normalised EBITDA as operating profit plus depreciation, amortisation of intangible assets, impairment of property, plant and equipment as well as excluding profit/loss and fair value adjustments on disposal of businesses, fair value adjustments, transaction costs and surpluses/deficits on retirement benefits.*

[2] *Amortisation of intangibles arose on the intangible assets recognised during the leverage buy-out business combination in 2005, and the acquisition of Middelburg Hospitaal Beperk as a subsidiary.*

[3] *The IPO constituted a liquidity event for the Employee Trust and the unamortised future cost of R36 million had to be recognised in terms of IFRS 2 during 2010.*

Group statement of financial position

	2016 R'm	2015 R'm	2014 R'm	2013 R'm	2012 R'm	2011 R'm	2010 R'm
ASSETS							
Non-current assets							
Property, plant and equipment	**7 752**	7 101	5 901	4 517	4 008	3 753	3 258
Intangible assets	**3 196**	2 964	2 318	2 084	2 181	2 296	2 220
Investment in associates and joint ventures	**2 548**	2 311	828	1 178	1 098	287	285
Employee benefit assets[4]	**433**	394	376	337	252	215	213
Other non-current assets	**466**	382	263	220	169	157	152
Total non-current assets	**14 395**	13 152	9 686	8 336	7 708	6 708	6 128
Current assets							
Cash and cash equivalents	**604**	812	422	297	244	400	482
Trade and other receivables	**2 133**	1 640	1 330	1 098	1 034	1 092	993
Inventories	**318**	271	240	214	198	193	185
Other current assets	**47**	48	121	11	4	8	19
Total current assets	**3 102**	2 771	2 113	1 620	1 480	1 693	1 679
Total assets	**17 497**	15 923	11 799	9 956	9 188	8 401	7 807
EQUITY AND LIABILITIES							
Capital and reserves	**5 486**	5 168	4 792	4 525	3 941	3 518	2 849
Non-controlling interest	**1 312**	1 280	1 108	1 081	936	866	666
Total shareholders' equity	**6 798**	6 448	5 900	5 606	4 877	4 384	3 515
Non-current liabilities							
Interest-bearing borrowings	**5 469**	5 263	2 344	1 657	1 929	1 565	2 024
Deferred tax liabilities	**547**	520	438	388	352	368	376
Other non-current liabilities	**95**	69	85	66	75	56	76
Total non-current liabilities	**6 111**	5 852	2 867	2 111	2 356	1 989	2 476
Current liabilities							
Bank overdraft	**1 030**	557	155	233	–	–	–
Trade and other payables	**2 217**	2 125	1 866	1 501	1 440	1 450	1 303
Interest-bearing borrowings	**1 312**	924	1 007	452	460	460	450
Other current liabilities	**29**	17	4	53	55	118	63
Total current liabilities	**4 588**	3 623	3 032	2 239	1 955	2 028	1 816
Total equity and liabilities	**17 497**	15 923	11 799	9 956	9 188	8 401	7 807

[4] *The Group operates a number of retirement benefit plans, but all new employees can only join either a defined contribution pension fund or a provident fund. New employees do have the option at inception to elect dual fund membership where their contribution is paid into the provident fund and the Company's contribution is paid into the defined contribution pension fund.*

Group statement of cash flows

	2016 R'm	2015 R'm	2014 R'm	2013 R'm	2012 R'm	2011 R'm	2010 R'm
Cash operating profit	**4 544**	4 198	3 769	3 514	3 067	2 567	2 284
Changes in working capital	**(520)**	(356)	(253)	(92)	(26)	(5)	(50)
Cash generated from operations	**4 024**	3 842	3 516	3 422	3 041	2 562	2 234
Interest received	**12**	12	22	14	22	37	41
Income tax paid	**(981)**	(903)	(980)	(804)	(748)	(617)	(396)
Net cash inflow from operating activities	**3 055**	2 951	2 558	2 632	2 315	1 982	1 879
Net cash outflow from investing activities – investments to expand	**(1 715)**	(2 984)	(1 270)	(717)	(1 312)	(633)	(684)
Net cash outflow from investing activities – investments to maintain	**(366)**	(234)	(210)	(111)	(105)	(144)	(93)
Net cash inflow from investing activities – disposals	**15**	–	1 369	5	63	8	26
Net cash inflow from investing activities – other	**14**	–	13	42	85	81	55
Net cash (outflow)/inflow from financing activities	**(1 677)**	222	(2 288)	(2 031)	(1 204)	(1 415)	(829)
Net (decrease)/increase in cash and cash equivalents	**(674)**	(45)	172	(180)	(158)	(121)	354
Cash and cash equivalents – beginning of the year	**255**	267	64	244	400	482	101
Cash balances acquired through business combination	**56**	20	23	–	2	39	27
Effect of foreign currency movement	**(63)**	13	8	–	–	–	–
Cash and cash equivalents – end of the year	**(426)**	255	267	64	244	400	482

Business performance and metrics

	2016	2015	2014	2013	2012	2011	2010
Number of registered beds[5, 6]	**8 768**	8 647	8 418	8 279	8 227	7 916	7 669
Paid patient days[6]	**2 265 653**	2 177 833	2 115 254	2 074 551	2 020 864	1 903 951	1 806 730
Occupancy (%)[6, 7]	**72.5**	71.9	71.9	71.7	71.2	71.0	69.6
Length of stay[6]	**3.68**	3.63	3.57	3.50	3.45	3.34	3.27
Financial ratios							
Normalised EBITDA margin (%)	**26.3**	27.6	27.7	28.2	26.7	26.0	24.8
Tax rate excluding secondary tax on companies (%)	**31.2**	28.3	22.0	27.5	26.9	25.7	27.5
Effective tax rate (%)	**31.2**	28.3	22.0	27.5	27.7	28.6	49.1
Debtors' days[6]	**37**	31	31	31	30	31	33
Stock cover (days)[6]	**25.6**	24.6	24.1	24.3	25.5	24.6	24.3
Current ratio (:1)	**0.95**	1.03	1.04	0.91	0.99	1.08	1.23
Quick ratio (:1)	**0.85**	0.93	0.92	0.79	0.86	0.96	1.09
Gearing net of cash (%)	**53.1**	46.9	33.3	26.5	30.3	25.3	33.3
Total debt (R'm)	**6 781**	6 187	3 351	2 109	2 389	2 025	2 474
Net debt (R'm)	**7 207**	5 932	3 084	2 045	2 145	1 625	1 992
Interest bearing debt (R'm)[8]	**5 830**	5 207	2 490	1 515	1 876	1 478	1 900
Debt related to finance leases raised in terms of IAS 17[9]	**951**	980	861	594	513	546	574
Net debt: normalised EBITDA	**1.67**	1.49	0.84	0.63	0.73	0.66	0.92
Interest cover	**8.2**	9.7	21.0	13.4	12.1	10.9	5.7
Return on net assets (RONA) (%)	**25.9**	31.4	55.0	46.0	45.2	41.3	26.5

[5] *Life Hilton Private Hospital opened in September 2015 and Genesis Clinic was acquired in March 2015. In March 2014 Life Sandton Surgical Centre closed. Life St Joseph's, Life Piet Retief Hospital and Life Poortview opened in November 2011, December 2011 and May 2012 respectively. Life Grey Monument management agreement concluded during October 2011 and Life Birchmed was disposed of in March 2012. Life acquired the majority shareholding in Middelburg Hospital in August 2011. Life Beacon Bay Hospital and Life Orthopaedic Hospital opened in November 2009. Life also acquired Life Bay View Private Hospital in Mossel Bay in June 2010.*

[6] *Metrics for South African operations.*

[7] *Occupancy is measured based on the weighted number of available beds during the period, and takes acquisitions and expansions during the year on a proportionate basis into account.*

[8] *The investment in Max Healthcare was funded through the issue of preference shares to the value of R820 million during 2012. The debt negotiated in 2005 was refinanced in May 2010 reducing interest costs, increasing flexibility in respect of future funding and extending the debt term.*

[9] *IAS 17 requires lessees at the commencement of the lease term, to recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to their fair value of the leased property.*

Shareholder returns

	2016	2015	2014	2013	2012	2011	2010
Earnings per share (cents)	**154.9**	179.9	267.5	164.8	142.5	123.6	64.5
Diluted earnings per share (cents)	**154.4**	179.2	266.7	164.7	142.4	123.6	64.5
Headline earnings per share (cents)	**192.5**	179.9	177.8	164.8	139.5	119.5	63.5
Diluted headline earnings per share (cents)	**191.9**	179.2	177.3	164.7	139.2	119.5	63.5
Normalised earnings per share from continuing operations (cents)	**182.1**	177.4	168.6	150.6	131.3	109.7	85.1
Normalised earnings per share from continuing operations excluding amortisation (cents)	**186.2**	186.2	176.7	158.7	139.4	117.3	93.7
Weighted average number of shares in issue (million)	**1 043**	1 037	1 037	1 038	1 040	1 042	1 030
Weighted average number of shares for diluted earnings per share (million)	**1 047**	1 041	1 040	1 039	1 041	1 042	1 030
Total number of shares in issue (million)	**1 058**	1 042	1 042	1 042	1 042	1 042	1 042
Distributions per share (cents)	**165.0**	154.0	141.0	126.0	105.0	85.0	52.0
Net asset value per share (cents)	**518.5**	495.9	459.8	434.2	378.2	337.5	273.3
Normalised earnings (R'm)	**1 899**	1 840	1 748	1 563	1 365	1 143	877
Profit attributable to ordinary equity holders	**1 616**	1 866	2 774	1 711	1 482	1 287	664
Adjustments (net of tax):							
Businesses disposed/closed	**–**	–	(54)	(120)	(103)	(100)	(77)
Contingent consideration released	**(109)**	(21)	–	–	–	–	–
Employee trust accelerated charge	**–**	–	–	–	–	–	36
Fair value gain on foreign exchange hedge	**–**	(1)	(40)	–	–	–	–
Gain on derecognition of finance lease liability	**–**	–	–	(16)	–	–	–
Impairment of investment	**370**	–	–	–	–	54	–
Listing cost	**–**	–	–	–	–	–	17
Loss/(gain) on remeasuring of fair value of equity interest before business combination	**23**	–	–	–	3	(92)	–
Profit on disposal of investment in associate	**–**	–	(929)	–	–	–	–
Retirement fund (included in employee benefit expenses)	**(3)**	(4)	(7)	(7)	–	–	–
Retirement funds	**(16)**	(15)	(11)	(5)	(5)	(2)	(76)
STC on listing	**–**	–	–	–	–	–	322
Transaction costs	**12**	15	16	–	–	–	–
Other	**6**	–	(1)	–	(12)	(4)	(9)

Market indicators

	2016	2015	2014	2013	2012	2011	2010
Market price – high per share (R)	**40.48**	46.67	47.81	38.55	35.70	19.30	14.59
Market price – low per share (R)	**29.53**	34.32	34.66	29.76	18.50	14.00	12.83
Market price – year end (R) per share	**37.87**	35.00	44.54	35.74	31.75	19.30	14.44
Market capitalisation – year end (R'm)	**40 066**	36 477	46 420	37 249	33 090	20 115	15 050
Number of shares traded (million)[10]	**1 047**	870	724	789	1 001	1 100	n/a
Value of shares traded (R'm)[10]	**38 433**	34 755	29 422	27 025	26 253	18 130	n/a
Price:earnings ratio	**24.46**	19.46	16.65	21.07	22.08	15.62	22.39

[10] *Life Healthcare listed on the JSE on 10 June 2010 and therefore a full year's number and value of shares traded is not available for 2010.*

MATERIAL MATTERS AND STAKEHOLDER ENGAGEMENT

Overview of Life Healthcare's material matters

Life Healthcare defines a material matter as an item that has a direct or indirect impact on its ability to create, preserve or erode financial, economic, environmental and social value for the Group and its stakeholders. In determining these material matters, a variety of internal and external influencers were taken into account including strategy, the board agenda, management reports, stakeholder expectations (page 54) and the key risk analysis (page 98).

The material matters, which will have an impact on the Group until at least 2020, build on those identified in 2015, focusing on the risks and opportunities inherent to each. There have been no significant changes in the matters identified as being material to Life Healthcare.

The material matters and their associated risks and opportunities are summarised in the table below. Life Healthcare responds to these matters through the execution of its strategy.

- Strategic direction – page 22
- Growth – page 62
- Efficiency – page 70
- Quality – page 76
- Sustainability – page 86

Material matter	Associated risks and opportunities	Strategic focus area and affected stakeholder
Cost of care	Various factors have an impact on the Group's ability to provide affordable cost of care to patients: • The persistently slow South African economic growth results in a slowdown in employment which negatively affects medical healthcare funder (medical aid) membership growth. This, in turn, influences the volume of patients accessing private healthcare, with numbers appearing to plateau. This leads to increased competition by healthcare providers for the limited market of medically insured lives, often through product variations or discounting which applies pressure to margins. • Added to this is the government's continued drive to reduce healthcare costs for all South Africans in various forms, the most notable being the Competition Commission's HMI. The Group supports the principle and is prepared to contribute towards mutually beneficial solutions for all stakeholders involved. Refer to page 8 for details. • There is pressure on the affordability of the southern African private medical insurance market. This may result in existing members buying down their medical insurance options or abstaining from using medical insurance for longer periods. • Approximately 74% of patients on medical insurance are not channelled to particular hospitals; instead, they choose the hospital or hospital group for service, making patient attraction a growing focus industry-wide as the medically insured market begins to slow in numbers.	*Strategic focus area*  *Affected stakeholder group* • Patients • Medical healthcare funders • Government • Shareholders, investors, and financiers • Doctors • Suppliers

Material matter
Cost of care continued

Associated risks and opportunities	Strategic focus area and affected stakeholder
• Funders reimburse over 95% of the Group's revenue, and preferred network agreements continue to promote increased competition from healthcare providers, often leading to discounting in order to maintain patient volumes. Funder-preferred products and services are becoming a distinguishing factor to help build long-term relationships. • The consolidation of funders in South Africa increases the ability of funders to negotiate lower tariff increases. This has a negative impact on the Group in terms of acute profitability. • Labour cost is the Group's largest expense, accounting for approximately 60% of total overheads, and a key cost driver. Specialised and highly skilled healthcare professionals are a scarce resource in high demand from other healthcare providers as well as the public healthcare sector. The public healthcare sector is the biggest employer of nurses and therefore the Group remuneration levels are greatly affected by the wage increases provided by the South African government in order to remain competitive. Historically, these have been above inflation and as a result, the Group has consistently needed to settle at higher wage rates to retain and attract skilled employees. Lack of specialised nurses, registered nurses and doctors are the most significant cost of care impacts. • International exposure, in the form of the South African rand's deterioration against key foreign currencies, impacts the cost of imported necessities such as surgical consumables. Growing the business internationally has aided in mitigating rand currency devaluation, yet presents its own challenges in terms of operational alignment. • The increase in onerous regulations is routinely accompanied by increased costs to achieve compliance, particularly in the Group's case, because it operates in multiple countries with different requirements. • With the change in the medical/surgical mix, it is important to be in a position to flex our nursing staffing levels to meet the needs of the patient. This will contribute not only to improved efficiencies, but also to improved patient care. The cost of care also has an impact on the Group's profitability and growth, but there are opportunities to reduce the cost of care. As our mission is to improve the lives of people through the delivery of high-quality, cost-effective care, we remain committed to managing cost of care as best as possible. One of the key opportunities to reduce the cost of care is innovation through improved information systems, which enhances the quality of care and the Group's reputation at the same time. Another is improved partnerships with doctors to provide quality services while reducing the cost of care, in line with the cost of care themes inherent to matters such as government reforms, the NHI and HMI.	

New mental health facility at Life St Vincent's.

Material matter: Specialised skills shortages

Associated risks and opportunities	Strategic focus area and affected stakeholder
Specialised skills shortages affect a broad range of matters, such as the quality and cost of care and growth of the Group. There is a general shortage of specialist doctors in South Africa compared to international norms. This shortage is not as evident in the Group's other geographical areas, however, the shortage of qualified personnel is expected to grow in Poland. South Africa has a general shortage of pharmacists, specialist nurses, registered nurses, specialised ICU employees and other healthcare professionals that may adversely impact service delivery. The availability of these skills is also critical for greenfield and brownfield expansion in South Africa and will remain a concern as the market continues to grow. Through the Life College of Learning, the Group's registered higher education institution, it has the opportunity to train nurses according to its requirements and also applies a range of internal training programmes to bolster the existing workforce. The supply of registered nurses is enhanced by exchange programmes with Max Healthcare to bring registered nurses to South Africa. Skills development and training remains a key opportunity for the Group, despite the high time and expense trade-off between paying for experienced skills immediately and training personnel internally over a longer period. The Group uses both approaches to maintain a pipeline of skilled people for various operational needs. Bursaries and sponsorships to other learning institutions are also techniques employed to enrich and train potential employees. The Group is exploring the opportunity to leverage skills and knowledge transfers from facilities in Poland and India to South Africa, specifically in areas such as oncology (India), gynaecology and cardiology (Poland).	*Strategic focus area* Sustainability *Affected stakeholder group* • Employees • Government • Doctors

Material matter: Government relationships

The governments in our countries of operation are key stakeholders for Life Healthcare. Governmental impact ranges from originating laws and regulations to which the Group must comply (see the material matter of onerous and increasing regulations), to issuing licences to operate in South Africa and being the main source of revenue in Poland. The Group has sought to sustain positive interaction with the South African national Department of Health and its provincial counterparts with the aim of attaining the best possible outcomes for all stakeholders, especially the public. Refer to page 52 for stakeholder engagement information. The impact of the Competition Commission's HMI into the private healthcare market dynamics in South Africa can only be assessed once its recommendations have been released. Refer to page 8 for further details on the HMI. The Life Esidimeni PPP in South Africa is directly affected by government policies and spending, as the number of beds increases or decreases accordingly, and ultimately impacts profitability. The cancellation of contracts during the year had a negative impact on the Group's revenue. The Group maintains a pipeline of approved bed licences by submitting applications through critical provincial government relationships before the construction of new facilities commence. Building plans for greenfield expansion and by association, more beds, require approval and the promulgated regulations R158 of 1980. Regulations[1] govern how hospitals operate. In Poland, dramatic reforms have been instituted, influencing a range of healthcare tariffs, most notably for cardiology in which the Group has a large acquisition-based stake in the country.	*Strategic focus area* Growth *Affected stakeholder group* • Government

[1] *Regulations pertaining to control of private hospitals covering licensing control, minimum physical requirements and minimum operational standards. Some provinces, for example the Western Cape, have additional requirements.*

Material matter	Associated risks and opportunities	Strategic focus area and affected stakeholder
Onerous and increasing regulations	The healthcare industry in South Africa is subject to a number of regulations, including the National Health Act, 61 of 2003 (of which the amendment dealing with core standards forms part), the Occupational Health and Safety Act, 85 of 1993, the Labour Relations Act, 66 of 1995, the Broad-Based Black Economic Empowerment Act, 53 of 2013 (B-BBEE Act), Protection of Personal Information Act, 4 of 2013 (POPI) and a number of environmental laws. These regulations relate to matters such as licences, conduct of operations, security of medical records, occupational health and safety, quality standards and certain categories of pricing. The impact of NHI is currently unclear. The Group responded to the government's White Paper during the year and, although there is fundamental agreement, there is discomfort on application and approach. Refer to page 112 for further details. Life Healthcare's rating relating to the new B-BBEE codes has dropped significantly and the Group is non-compliant. The challenge is in the areas of skills development and enterprise and supplier development, despite meeting several of the requirements of the scorecard. This is being actively addressed through various initiatives. Refer page 72 for further details. The regulatory environment affects the cost and quality of care, growth of the Group, and can also have an impact on information systems and security. Non-compliance may lead to penalties or withdrawal of the licence to operate, and holds reputational risk for the Group. The onerous and increasing regulatory environment may make market entry and operation more difficult.	*Strategic focus area* Quality Sustainability *Affected stakeholder group* • Government
Quality of care standards	Quality of care standards are the cornerstone of Life Healthcare's value creation. The care provided to patients must meet internally set quality standards that compare with international benchmarks. Maintaining and improving the quality of care is integral to the Group's values and to building strong relationships with key stakeholders such as government, funders, patients and doctors. Adverse events could potentially cause harm to patients and affect the Group's reputation. The Office of Health Standards Compliance also inspects health care institutions, ensuring that they comply with stringent standards of providing quality health care. Quality of care is guided and impacted by a variety of factors, including: • government required standards and practices; • Life Healthcare's policies, procedures and standards; • environmental health and safety requirements; • skilled personnel shortages (pharmacists and nurses); • specialised doctor shortages; and • innovation in information systems and security. The Group continues to identify various opportunities to improve the quality of care and there are initiatives in place to identify and implement these improvements. This includes further integrating automated processes into operations.	*Strategic focus area* Quality *Affected stakeholder group* • Patients • Employees • Medical healthcare funders • Government • Doctors

Material matter	Associated risks and opportunities	Strategic focus area and affected stakeholder
Labour relations and employee retention	Labour relations and employee retention are important for any entity, more so in an industry with shortages in key skills needed for a sustainable business operation. High wage increases affect the affordability of healthcare, and the shortage of skilled employees affects the quality of care. Life Healthcare competes with the public healthcare sector for these skills and is therefore affected if public sector employees receive increases that are higher than inflation (see the cost of care material matter). Various initiatives are in place for training some cohorts of health care personnel, employee recruitment, talent management and retention, especially for nurses and pharmacists. The Group also continues to explore methods of engaging with its employees and providing recognition, over and above remunerated incentives.	*Strategic focus area* Quality, Sustainability *Affected stakeholder group* • Employees • Doctors
Growth through expansion	Life Healthcare's focus on growth is currently through expansion in southern Africa, Poland and India. Recruitment and retention of skilled personnel and doctors is an integral part of this process. The challenge – and opportunity – lies in improving the Group's skills and experience in these environments while retaining focus on operations. Each geographical location has its own set of risks and opportunities and there are prospects for leveraging different areas of skills and experience to enhance the overall standard and success of the Group. Each geographical location has to deliver on its return on investment and contribute positively to the profitability and sustainability of the Group.	*Strategic focus area* Growth *Affected stakeholder group* • Shareholders, investors and financiers

Our mission is to improve the lives of people through the delivery of high-quality, cost-effective care – we remain committed to managing cost of care as best as possible.

Stakeholder engagement

Establishing and maintaining effective stakeholder relations are not only essential to sustaining the growth of Life Healthcare's business, but also an essential component of sound governance.

Engagement objectives

Life Healthcare actively engages with a range of stakeholders through a formalised stakeholder framework. The board is kept abreast of any material stakeholder issues directly and through its social, ethics and transformation committee. Refer to page 104 for further detail regarding this committee.

The Group's stakeholder engagement strategy is informed by our five core values and the following objectives:

- Position Life Healthcare as a diversified leader in healthcare both locally and internationally.
- Manage the Group's reputation.
- Build investor confidence in the Group.
- Position Life Healthcare as the preferred hospital group for doctors, patients and employees.

We seek to engage with our stakeholders through the most effective media and communication channels available. Increased attention has been applied to include social media in our communication mix to bolster a comprehensive social media strategy for this digital age.

Stakeholder overview

Enabling

Government

- Ongoing interaction with all tiers of the Department of Health and Department of Social Development at an executive level.
- Continued compliance with laws and regulations set by government with proactive alignment to its transformation agenda in the form of recruitment and training practices and B-BBEE compliance.
- Liaising with government health departments directly and through, among others, HASA and the Social Compact Forum and Public Health Enhancement Fund.
- Participation in government forums and priority projects.

Industry and regulatory bodies

- Primary interactions take place through HASA.
- Engagement takes the form of regulatory inputs, litigation, and stakeholder engagement on general health policy matters.

Shareholders, investors and financiers

- Continued interaction with local and foreign shareholders through interim results and annual results road shows, attending select local and international investor conferences, ad hoc one-on-one meetings and engagements.
- General communications through telephonic channels, web-based engagements, emails, interim and annual reports, and Stock Exchange News Service (SENS) announcements.

Input into value creation

Employees

- Consultative forums assist in providing open communication and constructive dialogue.
- Employee-specific interim and annual results communications.
- Comprehensive induction programme.
- Employee perception surveys.
- Employee engagement sessions to provide employees the opportunity to engage with management and raise issues.
- Regular communication and meetings.
- Monthly employee tabloid and weekly online news updates.
- Recognition and reward programmes such as the Life Achiever Awards.

Doctors

- Hospital managers facilitate open communication with doctors on a daily basis.
- Chief Operating Officer – South Africa (COO) doctor consultative forums.
- Hospital-based medical advisory committees.
- Doctor and specialists surveys conducted.
- Engagement with doctors in quality drives, cost of sales projects and development of clinical pathways in the interests of sound clinical outcomes and cost-efficiency.
- Quarterly online newsletters for Group doctors to keep them informed and encourage feedback.
- Ongoing training initiatives, event hosting and clinical support/supervision.

Suppliers

- Ongoing interaction with suppliers in reviewing and renewing contracts and procurement initiatives.
- Regular meetings and negotiations with strategic supply partners.
- Life Healthcare's code of conduct and ethics is made available to all employees and suppliers.

Value creation output

Patients

- Paper-based comment cards (275 000 cards received annually) and various measurement tools such as patient experience management (PXM) and post-discharge surveys, including to emergency unit and rehabilitation patients.
- Corporate monitoring of complaints and actions taken through the customer relationship management system.
- Customer services communication channel.
- Digital media such as Life Healthcare contact us website feature and social media.
- Print media such as brochures and information leaflets. This includes Life magazine, published specifically for patients.

Medical healthcare funders (medical administrators)

- Ongoing interaction and feedback regarding use, pricing, contracts and preferred network agreements.
- Communicate clinical and quality excellence and patient satisfaction scores with funders.

Responding to stakeholder expectations

Effective communication is founded on informed insights into the specific needs and perceptions of each stakeholder group.

The stakeholders, their expectations and the link to the Group's strategic focus areas are set out in the table below.

Patients

Stakeholder group and key expectations

- Positive hospital experience.
- Ease of admission, billing and discharge procedures.
- Timeous and efficient service.
- Quality nursing and pharmacy care.
- Internationally based clinical best practice promoting quality care and improved patient outcomes.
- Low infection rates and medication errors.
- Sensitivity to cultural and religious requirements.
- Access to multi-disciplinary health services through a wide geographic spread.
- Access to affordable private healthcare through medical healthcare funders who have contracted with Life Healthcare in preferred network agreements.
- Access to professional teams.

Key response strategies

Efficiency	• To evolve the Group's IT system so that it is more patient-centred, focused on automation, speed and process integration. • Leveraging off IT advancements to allow more time for nursing.
Quality	• Maintaining excellence in quality and clinical governance. • Facilitating quality nursing and pharmacy standards. • A patient-centred approach to a positive hospital experience which is measured and monitored. • Patient engagement through improved communication.
Sustainability	• CARE programme training for our employees to improve the quality of engagements with patients. • Promoting access to, and affordability of healthcare.

Employees

Stakeholder group and key expectations

- Competitive levels of remuneration and benefit packages.
- Employment security.
- Reward and recognition for high-quality performance.
- Training and personal development.
- Fair labour practices with equal opportunity in a non-discriminatory workplace.
- A structured, ethical working environment.
- Access to an employee wellness programme.
- Right to freedom of association.
- A work environment focused on safety and minimising of occupational risks.
- Employee engagement.

Key response strategies

Quality	• Creating an environment conducive to employee safety and health.
Sustainability	• Recruitment and retention of skills including the existing employee retention schemes. • Ongoing training and development with increased focus on talent management to nurture employees' career aspirations. • Accelerating transformation at identified levels in the business structure. • A credible performance management system focusing employees on performance standards. • A comprehensive employee wellness offering. • Tertiary bursary scheme for employees and bursaries for their children. • Additional incentives and employee benefits (such as employee share ownership plans, long-term incentive plans for senior employees, retirement plan assistance and maternity benefits). • Zero tolerance for discrimination. • A confidential guidance and support hotline provides an independent facility for employees to report fraud or any form of malpractice. • Assessing relationships through our employee perception survey.

Doctors

Stakeholder group and key expectations

- High-quality and efficient support in the form of nurses and support employees.
- Competitive, high-quality and well maintained hospital facilities.
- Latest technology and equipment.
- Participation in medical advisory committees.
- Access to high-quality consulting rooms.
- Potential for business growth and operational support.
- Access to patients through preferred network agreements.
- Investment opportunities within the Group.
- Access to multi-disciplinary health services.

Key response strategies

Growth	• Attracting and retaining new doctors to cater for future expansion. A doctor recruitment and retention strategy is in place. • New product offerings to allow for an increased range of patient access. • The Group is the largest participant in network deals which channel patients to doctors.
Efficiency	• Doctors play a strong consultative role through participation in medical advisory committees and/or hospital boards.
Quality	• Ensuring superior doctor support through excellence in nursing, administration and infrastructure. • Clinical directorate supports doctors and managers to safeguard professional conduct. • The doctor quality and efficiency reporting programme, including benchmarking of performance of doctors per specialty, is in pilot phase. • Offering best healthcare facilities and technology and keeping abreast of technological healthcare advances. • Engaging with doctors through specialised seminars. • COO ad hoc forums and other meetings. • Implementing proven clinical interventions and measuring compliance to international evidence-based best practices.
Sustainability	• Maintaining strong doctor relations and minimising doctor turnover. • Retaining and attracting doctors by re-investing in local business through improved infrastructure and equipment at facilities. • Supporting the Colleges of Medicine of South Africa (CMSA) for the training of sub-specialists. • Exploring improvements to retention and recruitment procedures. • Creating collaborative working environments with various doctor bodies and societies as well as the HPCSA.

Suppliers

Stakeholder group and key expectations

- The impact of reducing hospital costs to accommodate affordability of healthcare, on suppliers' results.
- Dealing with suppliers in an ethical and fair manner.
- Negotiations with suppliers built on mutual respect and a fair pricing structure.

Key response strategies

Efficiency	• Fair procurement practices based on integrity and timeous delivery and transparent tender processes. • Understanding of, and respect for, suppliers. • Well-structured B-BBEE procurement policy with guidelines for transforming the supplier base.
Quality	• Making well-evaluated product investments and adding value to operations, and ultimately to shareholders.

Medical healthcare funders (medical administrators)

Stakeholder group and key expectations

- Provision of cost-effective medical services.
- Dealing with medical healthcare funders in an ethical and fair manner.
- Negotiations with funders built on mutual respect and fair pricing structures.
- Implementation of the alternative reimbursing model (ARM) pricing strategies.
- Efficient interaction with case management, billing and payment.
- Reputation for providing clinical excellence to their members.
- Meeting members' expectations with regards to patient experience.
- Implementation of on-site case management.
- The control of fraud, abuse and inappropriate admissions.

Key response strategies

Efficiency	• Continue developing the ARM pricing strategy to ensure efficient pricing and sharing of savings with medical healthcare funders. • Utilising the ARM pricing strategy to drive preferred network deals to enhance hospital occupancies. • Innovation in electronic communication regarding case management to assist in driving efficiencies and faster payment. • Implementation of efficiency programmes to drive down costs for medical healthcare funders and patients.
Quality	• Sharing quality statistics and information with funders.

Government

Stakeholder group and key expectations

- Compliance with laws and regulations.
- Providing access to cost-effective healthcare.
- Supporting government service delivery.
- Reflecting the demographics of the country and aligning to transformation imperatives.
- Assisting in addressing critical skills shortages in the industry.
- Assisting in the development of appropriate healthcare regulation.

Key response strategies

Growth	• A strategic approach for engaging with government is in place to facilitate the efficient processing of hospital licences and government business, through promoting a collegial working relationship with government.
Quality	• Engaging in information sharing and best clinical and administrative practices. • Facilitating and maintaining close interaction with government on healthcare regulatory matters and strategy. • Quality long-term healthcare service delivery through Life Esidimeni (PPP).
Sustainability	• Contributing to skills training through the PPP and the Life College of Learning (a registered higher education institution). • An employment equity plan is in place to drive transformation. • Policies are in place to ensure no discrimination occurs on the basis of age, gender, race or any other differentiating factors. • Working towards improving the Group's B-BBEE status, including the establishment of a B-BBEE trust with 25.1% ownership in Life Occupational Health for the sole purpose of funding the training of nurses.

Industry and regulatory bodies

Stakeholder group and key expectations

Compliance with laws and regulations.

Key response strategies

Sustainability	• Compliance with laws and regulations. • Where identified, proactive investigation of industry impacting regulations to establish the Group positioning and reduce the lead time for compliance.

Shareholders, investors and financiers

Stakeholder group and key expectations

- Ability to grow the southern African market and deliver returns from Polish and Indian operations with sustained growth and financial stability in the long-term.
- Maintain a focus on the southern African operations while operating internationally.
- Maintain a high dividend payout ratio.
- Succession of management expertise with a record of solid results.
- Strong corporate and clinical governance to safeguard business.
- Commitment to provision of quality and cost-effective healthcare.
- Clear and transparent communication of the Group's strategy and results.
- Environmental sustainability.

Key response strategies

Growth

Efficiency

Quality

Sustainability

- Clear communication and continued interaction with local and international investors regarding:
  - local and international growth strategies and performance;
  - Group governance;
  - efficiency, quality and sustainability strategies and performance;
  - financial performance; and
  - the southern African, Polish and Indian healthcare environments.
- Adaptation of our executive committee to cater for local and international focus.

STRATEGIC PERFORMANCE REVIEW

1 GROWTH

Our aim is to grow our South African business, establish a sizeable international business and diversify our sources of revenue.

Highlights

- PPD growth of 4.0%.
- Good complementary growth.
- Strong mental health growth.
- Added 176 beds.
- Retained a good occupancy rate.
- Life Hilton Private Hospital has had a good performance to date.

Challenges

- Obtaining licences for brownfield expansion and mental health.
- Slowing in number of medically insured lives.
- Loss of Life Esidimeni beds and the impact thereof.
- The impact of the economic environment on Life Occupational Health.
- Number of medical cases continues to grow at a faster rate than surgical cases.
- Funder pricing and awarding of network deals under pressure.

Key performance indicators and statistics for growth

KPI and statistics	2016	2015	Year-on-year trend
Life Healthcare (southern Africa)			
PPDs[1, A, B]	**2 265 653**	2 177 833	↑
Occupancy (%)	**72.5**	71.9	↑
LOS (days)	**3.68**	3.63	↑
Number of healthcare facilities	**64**	63	↑
Number of registered beds	**8 768**	8 647	↑
Number of acute facilities	**50**	50	↔
Number of dedicated acute rehabilitation facilities	**7**	7	↔
Number of dedicated mental health facilities	**7**	6	↑
Number of renal stations	**281**	245	↑
Number of oncology units	**2**	1	↑
Number of Life Esidimeni facilities	**9**	12	↓
Number of Life Esidimeni beds	**2 424**	3 794	↓
Number of Life Esidimeni PPDs	**1 122 878**	1 394 745	↓
Number of Life Occupational Health clinics	**297**	286	↑
Number of lives covered through the Life Occupational Health clinics	**159 685**	232 000	↓
Number of Careways on-site clinics	**74**	79	↓
Number of lives covered by Careways employee wellness	**259 974**	195 195	↑
Scanmed (Poland)			
Occupancy (%)	**63**	57	↑
Number of medical facilities	**40**	36	↑
Number of registered beds	**624**	334	↑
Number of cardiac facilities	**12**	7	↑
Max Healthcare (India)			
PPDs	**602 004**	478 746	↑
Occupancy (%)	**75**	73	↑
Number of healthcare facilities	**12**	11	↑
Number of operational beds	**2 384**	2 053	↑

[1] *Paid patient day (PPD): A unit in a system of accounting used by healthcare facilities and healthcare planners. Each day represents a unit of time during which the services of the institution or facility are used by a patient.*

[A] *The 2016 indicator is externally assured.*

[B] *The 2015 indicator is externally assured.*

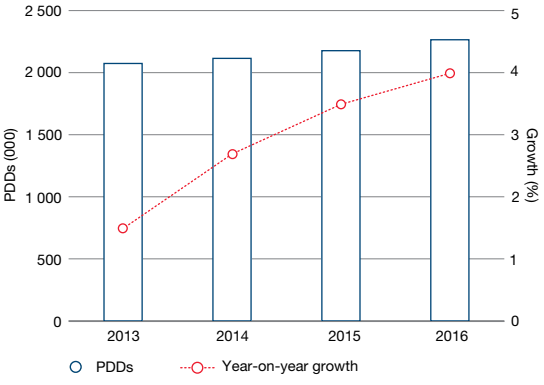
Detail of the Group's growth performance follows according to Life Healthcare's organisational structure:

Hospital division | Healthcare services division | International division

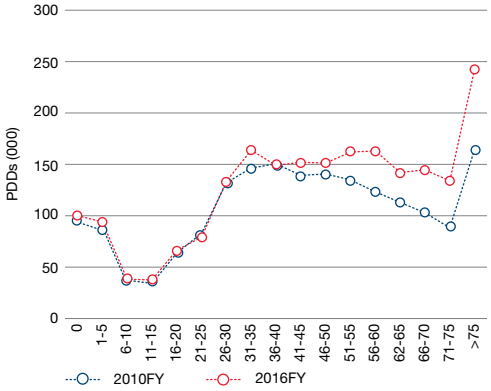
Hospital division

Paid patient days

PDD growth (000)



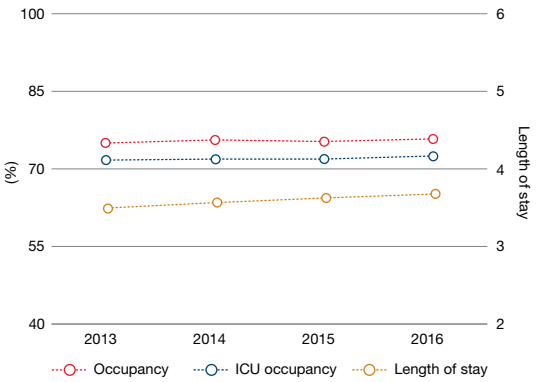
Impact of ageing



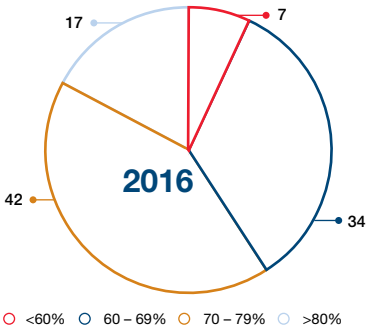
PPD growth for the year is 4.0% (2015: 3.5%), primarily due to increased bed capacity and an increase in length of stay statistics.

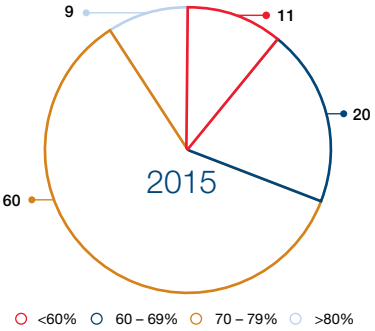
Occupancy and length of stay

Group occupancy (%)



Bed occupancy split (%)





Occupancy refers to the number of beds in the Group utilised by patients, while length of stay (LOS) refers to the average amount of time spent in the hospital per patient visit.

Occupancy levels improved to 72.5% (2015: 71.9%) despite the increase in bed numbers and the decreasing pool of medically insured lives. LOS has increased across the southern African operations to 3.68 days (2015: 3.63)

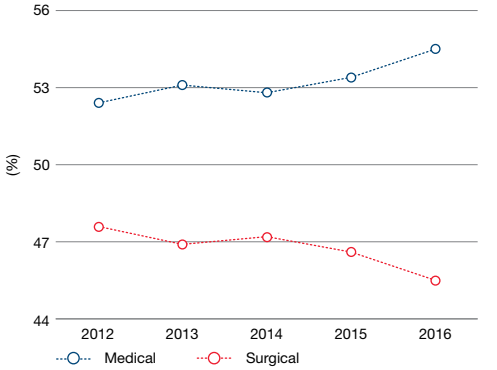
LOS is an important measurement as it provides insight into the profile of the patient population and disease burden, which appear to be increasing with an ageing population that has a slower recovery rate when being hospitalised.

Acute case mix changes

In terms of LOS, the Group continues to experience a mix change where medical PPDs are growing faster than surgical PPDs. For the first time, the Group delivered more medical PPDs than surgical PPDs, evidenced by the lower surgical admission rate of 47.8% (2015: 49.0%). This directly impacted the LOS statistic, despite the Group's expectation that efficient technology and medication available in the sector would continue to aid healthcare providers in reducing the LOS required for surgical cases year-on-year.

The phenomenon is being investigated further and the leading contributor to this trend is likely a combination of an ageing medical aid population and increased disease burden resulting in a growth in medical cases. The Group continues to experience increasing pressure from medical healthcare funders to transfer patients to sub-acute and surgical rehabilitation facilities post-completion of surgical procedures, but continues to consider patient care as paramount.

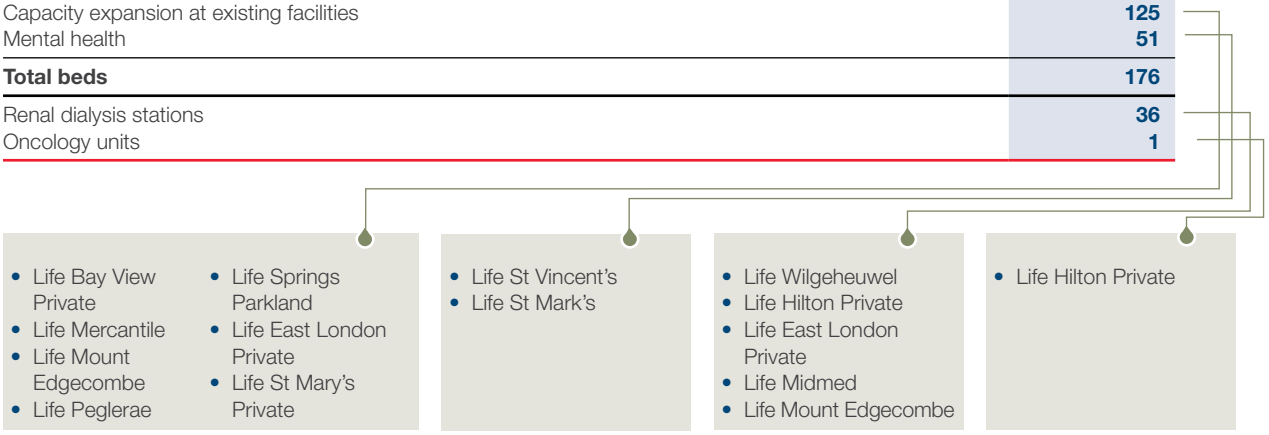
Total medical/surgical split (incl. complementary services) as % of PPDs



Acute and complementary growth

Life Healthcare has a focused South African growth strategy that includes brownfield and greenfield expansion as well as growth in complementary services in South Africa. Complementary services have generally shown positive growth, although acute rehabilitation continues to experience some challenges.

Category	Total beds 2016
Capacity expansion at existing facilities	125
Mental health	51
Total beds	**176**
Renal dialysis stations	36
Oncology units	1



The southern African operations experienced growth in capacity by 176 beds (2015: 253 beds). The reduction in numbers directly correlates to increased difficulty in obtaining bed licences in line with the Group's expansion plans. Bed licences approved in the year remained stable at 254 beds (2015: 254).

Mental health

Mental health facilities are experiencing higher utilisation (2.6% increase in occupancy since 2015) as stigmatisation of mental health reduces and more people seek treatment. This is reflected in activity growth of 3.97% against last year. However, a shortage of psychiatrists nationally and lack of licence approvals are adversely affecting intended expansion plans.

Renal dialysis

Our renal division continues to grow with the addition of 36 new dialysis stations across the southern African business, despite an initial forecast of 50. The administrative, IT and process challenges being experienced in this sector of the business are being addressed through the updating of systems and processes. Pricing pressures are being responded to through active negotiations with medical healthcare funders.

Oncology

Pricing remains a key area of concern for oncology as the specialised nature of treatment is perceived to be offered at a premium to patients and funders, leading to the use of competitors in some cases. Despite this, market demand remains high, and the Group is recognised for providing technology and treatment of a world-class standard. The development of facilities at Life Vincent Pallotti Hospital, Life Hilton Private Hospital and currently Life Eugene Marais Hospital, have allowed the Group to enhance its competitive advantage in this field, but the challenge remains the erecting of facilities at a rate that is fast enough to take advantage of current and expected demand levels. The Group believes such demand will continue based on the need for stereotactic radiation therapy with high-end equipment that identifies and targets cancer cells without damaging adjacent tissues/cells, such as the technology available at all the Life Oncology centres. This technology will ensure far better clinical outcomes and recovery time for patients.

Acute rehabilitation

While progress on revenue recovery actions is ongoing, acute rehabilitation is still impacted by greater competition from sub-acute units, referral patterns from doctors and a slowdown in Compensation for Occupational Injuries and Diseases Act (COID) work. Growth remains limited by the approval of bed licences as the lead time for approval has long-term effects. The low rate of approvals for a two-year period manifested in the low forecasts for the 2017 year. The main challenge is to address funder pressure to reduce length of stay and the referral of patients to sub-acute facilities instead, while maintaining high and appropriate treatment quality for patients.

Acute and complementary pipeline

Life Healthcare has a steady pipeline of beds forecast through 882 (2015: 852) pending applications and approved growth being fairly close to expectations.

Category	Forecast 2017	Applications pending
Capacity expansion at existing acute facilities	115	224
New acute facilities	–	138
Capacity expansion at existing mental health/acute rehabilitation facilities	21	55
New mental health/acute rehabilitation facilities	60	465
Total	**196**	**882**

The 622 (2015: 484) approved beds for capacity expansion in existing acute facilities are higher than those gained last year, with 224 (2015: 272) pending applications, marginally lower than the year before.

Life Healthcare views brownfield expansion as a key growth contributor and continues to purchase land and properties adjacent to existing facilities to streamline such expansions. Mental health growth and acute rehabilitation facility growth remain key to maintaining the differentiated service offerings of the Group and have a projection of 81 beds in 2017, compared to 102 beds forecast for this year.

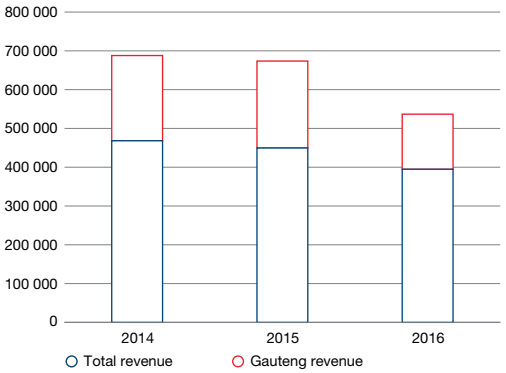
Healthcare services division

The Healthcare services division has underperformed, relative to last year, and to budget due to the loss of the Gauteng contracts in Life Esidimeni and pressure on the occupational health business driven by a slowdown in the economy.

The loss of the Gauteng Life Esidimeni mental health contract negatively affected Life Esidimeni. This development announced in October 2015 has been a significant disappointment to the Group, which continues to engage positively with government. The contract loss stems from government's different approach to mental health services and a less favourable perspective of the private healthcare industry on the whole. This development equates to a loss of approximately 83% of our Gauteng revenue and has led to the downsizing of approximately 450 staff. Facilities such as those in Randfontein and Witpoort have been repurposed for rehabilitation services operated by the Department of Social Development to ensure that they continue to provide value to surrounding communities. Upcoming three- and four-year contract renewals with government are being carefully considered to position the Group favourably.

Life Occupational Health was negatively affected by challenging economic trading conditions with the loss of a number of contracts due to the liquidation or closure of client sites. This affected both the market base and margins. Approximately 30% of the operations in this business comes from the mining sector, which experienced minimal

Life Esidimeni revenue (R'000)



growth in a difficult market. The Mining Charter requires a 26% black-ownership level, which is being addressed. As part of a restructuring the Group is introducing a B-BBEE trust that is funded by the Group to award training bursaries for nurses, majority of which will be black. Regions not particularly dependent on mining continue to operate well and further growth is expected in 2017.

Our wellness business, Careways, experienced a positive year due to improved management and increased demand. The number of lives covered increased by 8.8% (2015: 3.1%). However, new growth was experienced at lower margins resulting in overall pressure on margins. Increased focus will be placed on growing access to supplier and customer bases to further develop the business. The number of on-site clinics decreased to 74 (2015: 79).

The Group is integrating the Occupational Health and Careways businesses into one offering as demanded by its customers. The business is being rebranded as Life Employee Health Solutions. The Group seeks to reposition Life Employee Health Solutions and expand the business to close geographical gaps in its footprint while retaining customers and improving margins.

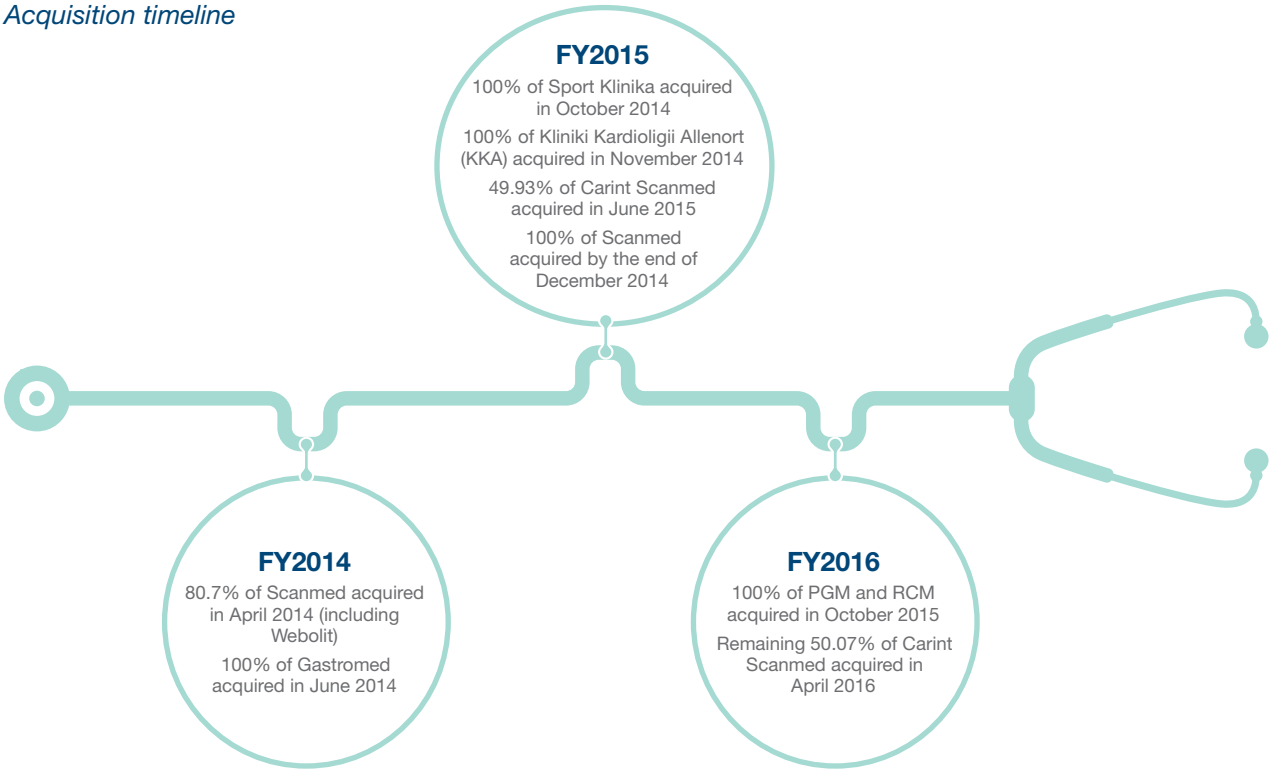
International division

Scanmed

The Group has maintained a view of growth and consolidation in this fragmented market for the year, but the resultant impact of the change in government has compelled a review of how to approach this going forward.

The Polish business is reliant on obtaining contracts with the NFZ operated by government. The ruling PiS announced drastic reforms to tariffs effective from 1 July 2016, particularly surrounding neurosurgery, orthopaedics and cardiology. The biggest impact can be seen in the area of cardiology, in which the Group has significant interests in Poland. The reductions instituted led to a 17.4% market pricing cut, which necessitated a hold on expansion activities until assessments are complete. NFZ contract renewals will take place in June 2017, and the Group is ensuring that it is well-placed in this regard.

Acquisition timeline



Growth

Category	2016	2015	2014
Beds	**624**	334	163
Cardiac units	**12**	7	–
Medical facilities	**40**	36	28

During the year, the Group completed the acquisition of PGM for an in-country funded R629 million, adding five cardiac centres and a hospital to the portfolio, which equate to 292 new beds. It also acquired 25% of its subsidiary Raciborskie Centrum Medyczne (RCM), 100% shares in Multimedycyna and a hospital property in Lublin. These acquisitions drove the bed increases and were supported by the Scanmed cardiology business increasing its bed base from 85 to 108, and Sport Klinika adding an additional 14 beds in the year.

Scanmed revenue

Source	2016 PLN million	2015 PLN million
NFZ	**229.1**	129.7
Private	**81.3**	66.8

Revenue growth was supported by acquisitions and the growth in existing NFZ contracts.

The Group will also continue to focus on improving margins through driving efficiencies, integration of newly acquired businesses and aligning to our best operating practices.

Max Healthcare

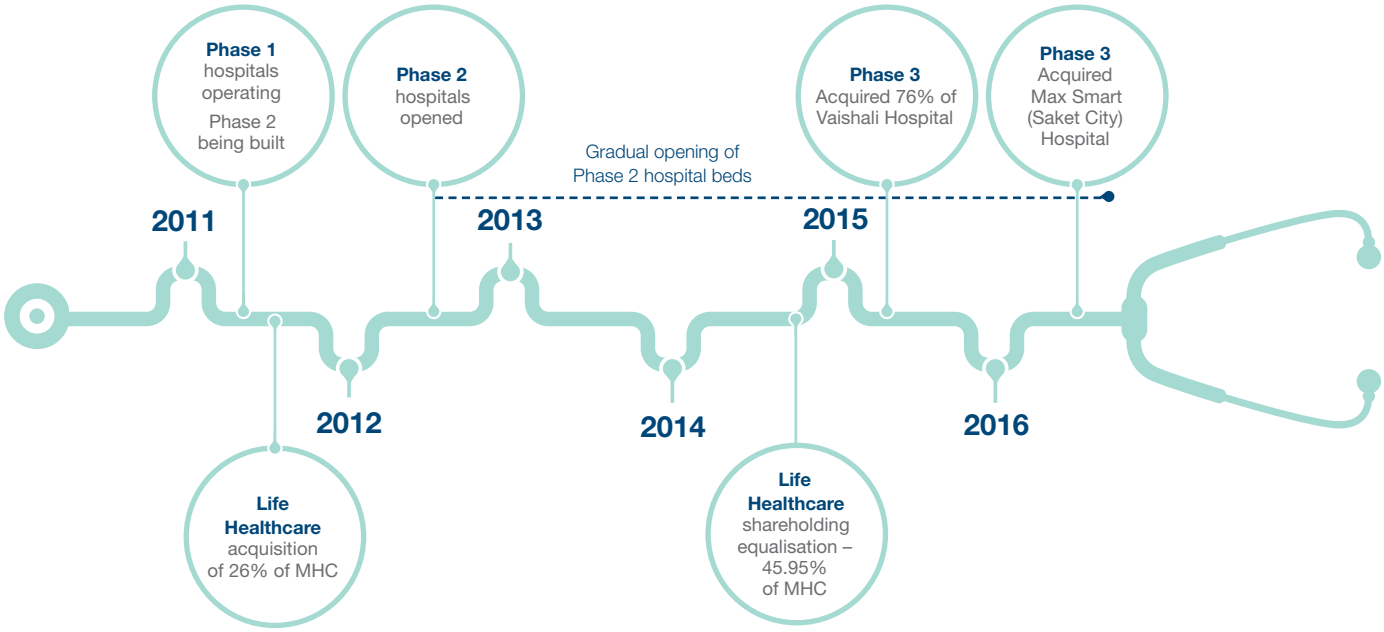
The Group has a 45.95% (2015: 46.25%) shareholding in Max Healthcare. The Indian healthcare sector is expected to grow from a US$102 billion market in 2015 to around US$280 billion by 2020, primarily due to the fast growing middle class, medical tourism and increased medical insurance penetration in the market. The India portion of our business continues to provide strong revenue and EBITDA growth (refer to page 37 for further financial details).

Max Healthcare has 2 384 operational beds (2015: 2 053 operational beds) and the total investment from South Africa is R2.5 billion (2015: R2.2 billion). This includes the additional R320 million invested in 2016 to complete the Max Smart acquisition to obtain a 51% equity shareholding of the business. Of the 331 operational beds added in the year, 225 beds were from the Max Smart acquisition (formerly referred to as Saket City).

Max Smart is a developing medical hub and aims to be the largest med-city in the centre of South Delhi with a centralised laboratory, ICU and ER. The development will be completed in 2023 and the state-of-the-art facility will feature seven centres of excellence including oncology, neurosciences, transplants and cardiac sciences. These facilities will further differentiate it as a market leader in private healthcare in India.

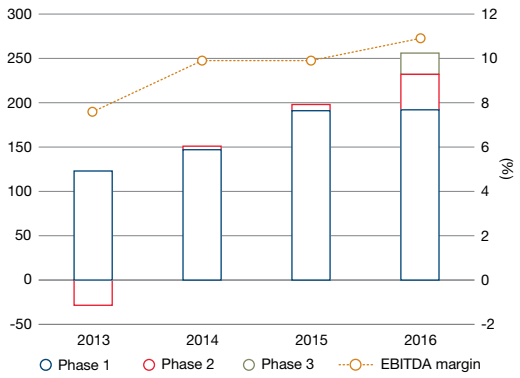
Max Healthcare's future focus will remain the increase of revenue through increasing the number of operational beds while improving operational efficiencies.

Acquisition and hospital rollout timeline



Category	Bed capacity	**Operational beds 2016**	Operational beds 2015	Operational beds 2014	**Occupancy % 2016**	Occupancy % 2015
Total phase 1	1 125	**1 122**	1 095	1 079	**78**	76
Total phase 2	872	**769**	698	598	**72**	69
Total phase 3	504	**493**	260	–	**72**	67
Combined total	2 501	**2 384**	2 053	1 677	**75**	73

EBITDA: 12 months to September (Rs Crore)



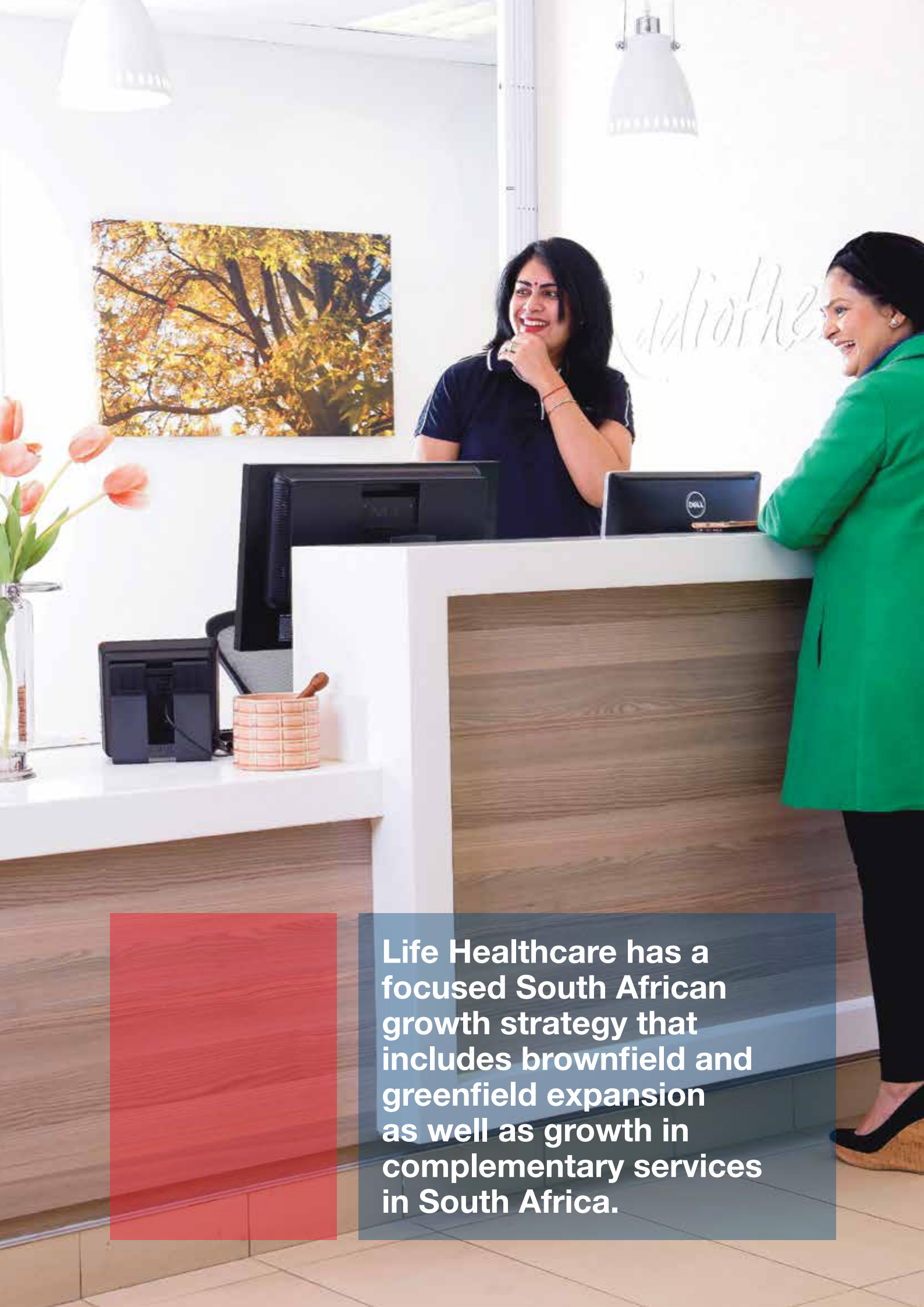
Max Healthcare has grown its operational beds, excluding the phase 3 facilities, by 98 beds and at the same time increased its occupancy levels.

The business improved its EBITDA margin and it is pleasing that the focus on overhead and revenue mix projects are starting to show results. The Indian operations will continue to focus on increasing the operational beds, focus on the channel mix for revenue and reduce overheads in the ensuing year.

Outlook

Life Healthcare is placing increased attention on new medically insured lives, products and services to facilitate growth in a highly competitive sector. The Group's already diversified service offerings, such as acute rehabilitation and mental health, remain a competitive advantage. The exploration of long-term contracts with major schemes continues to be investigated.

The Group continues to explore expansion opportunities into new international markets with a view to grow complementary services.



Life Healthcare has a focused South African growth strategy that includes brownfield and greenfield expansion as well as growth in complementary services in South Africa.

2 EFFICIENCY

The Group remains committed to deliver cost effective care through efficient, optimal utilisation of processes, information, technology, research, innovation and other resources.

The Group continues to place focus on operating efficiently in a market with increasing cost pressures and challenges to market share, exploring alternative healthcare products and delivery models while improving operational efficiency.

Highlights

- Good procurement performance contained cost.
- Implemented efficiency reports for doctors and hospitals.

Challenges

- B-BBEE and Exempted Micro Enterprises (EME) resource pools, as well as the impact of the new B-BBEE codes.
- Persistently high employee and input costs.
- Pricing pressure from medical healthcare funders.
- Lower margins experienced in Life Occupational Health.
- Exchange rates impact on cost of sales and equipment purchases.

Key performance indicators and statistics for efficiency

Geographical location and indicator	2016	2015	Year-on-year trend
Life Healthcare (Group)			
Capital expenditure as percentage of revenue (%)	**6.2**	8.1	↓
– Maintenance capital expenditure as percentage of revenue (%)	**2.2**	1.6	↑
– Growth capital expenditure as percentage of revenue (%)	**4.0**	6.5	↓
Effective tax rate (%)	**31.2**	28.3	↑
Normalised EBITDA margin (%)	**26.3**	27.6	↓
Life Healthcare (southern Africa)			
Normalised EBITDA margin (%)	**27.5**	28.3	↓
Scanmed (Poland)			
Normalised EBITDA margin (%)	**10.2**	14.0	↓
Max Healthcare (India)			
Normalised EBITDA margin (%)	**10.9**	9.9	↑

For the performance discussion regarding the KPIs above, refer to the Group Chief Financial Officer's review on page 36.

Cost management and business efficiency drivers

Life Healthcare uses a procurement strategy to effectively manage stockholding, rationalise suppliers and contain cost of sales and services. The formulary and standardisation process in use has provided efficiency advantages for over 16 years, based on the leveraging of the Group's spend from reputable suppliers who become a formulary or preferred supplier.

The Group partnered with a third party to use web-based technology to streamline and improve the tender process. This enabled Life Healthcare to focus and deliver on a larger pool of tenders. The improvement of purchasing compliance procedures have allowed the Group's catalogue base for products to expand while improving its capital expenditure turnaround times. A strict compliance approach to a limited pool of products has further improved cost containment.

The Group continues to explore integration and synergistic efficiencies between its geographies, the most recent progress being the development of a comprehensive product database in conjunction with external consultants. This database enhanced the identification of common purchasing trends, providing data for leveraging opportunities in future.

Despite the economic climate, the Group continued to deliver significant savings and contained prices to within CPI. This contributed positively towards the Group's gross contribution and operating EBITDA achievements. Formulary compliance contributed to containing prices and maintaining positive margins.

In addition, proactive management of catering and cleaning services continued to deliver well above 80% patient satisfaction. Despite these victories, the environment remains strained from a cost containment perspective, largely because of higher living and minimum wage requirements by essential employees and rationalised low cost product offerings to remain competitive.

Procurement spend

Life Healthcare's total procurement spend was R10.4 billion (2015: R7.1 billion) with R3.8 billion (2015: R3.6 billion) spent on pharmaceutical products and R4.1 billion (2015: R3.5 billion) spent on medical equipment, services and consumables. 60% (2015: 60%) of the Group's procurement spend is exposed to exchange rate volatility. The Group has 1 200 suppliers (2015: 524) and the top four spend categories include surgical consumables, pharmaceuticals, services and nursing agencies.

Life Healthcare's procurement function has two divisions – pharmaceutical procurement and group procurement. Pharmaceutical procurement is responsible for surgical consumable and pharmaceutical products, and the 2016 cost increase was within CPI levels. The cost increase for group procurement (equipment, services and non-pharmaceutical) was also within CPI levels, despite the considerable devaluation of the rand, which negatively impacts Life Healthcare's ability to maximise pricing negotiations.

Sectoral determination is the salary rate applied per sector for outsourced service providers such as security, cleaning or catering services. Government sets the single exit prices (SEP) for medicine costs which prevent sales at rates higher than the SEP.

Alternative reimbursement model

The Group's alternative reimbursement model (ARM) covers approximately 65% of the acute hospitalisation revenue through fixed fees, per diems and diagnosis-related grouper. Life Healthcare has more than 13 years of hospital billing information that is used to validate ARMs. Substantial resources have been invested in analysis and reporting to ensure risks taken under the alternative reimbursement contracts are managed appropriately throughout the business, and enable operations to take advantage of opportunities offered by these arrangements. We continue to develop the ARM pricing strategy to ensure efficient pricing and sharing of savings with funders.

Refer to pages 53 and 57 to review our relationships with funders in the stakeholder engagement section.

Broad-based black economic empowerment

Responsible corporate citizenship as envisaged by King III implies an ethical relationship between the company and the society in which it operates. In that context, a robust broad-based black economic empowerment (B-BBEE) approach is the right thing to do. Life Healthcare embraces the principles of B-BBEE and is actively engaged in supporting the participation of previously disadvantaged South Africans in the mainstream of the economy.

While good progress has been made and pockets of excellence across the business exist, the implementation of the newly gazetted Codes of Good Practice with stringent points resulted in a significant drop of our B-BBEE status, in particular in skills development and enterprise and supplier development. A number of gaps have been identified and our revised strategy is designed to address these and ensure alignment with the four strategic focus areas of growth, efficiency, quality and sustainability.

Our objective is to restore Life Healthcare's B-BBEE scorecard to Level 5 by 2020.

Ownership

An evaluation of the underlying investors in Life Healthcare was undertaken to determine the extent to which black economic interest and voting rights, as well as black female economic interest and voting rights, flow through mandated investments as defined in the Codes of Good Practice. These are as follows:

Voting rights deemed to be held by black people on a flow through basis	10.86%
Voting rights deemed to be held by black women on a flow through basis	5.43%
Economic interest deemed to be held by black people on a flow through basis	7.92%
Economic interest deemed to be held by black women on a flow through basis	4.10%

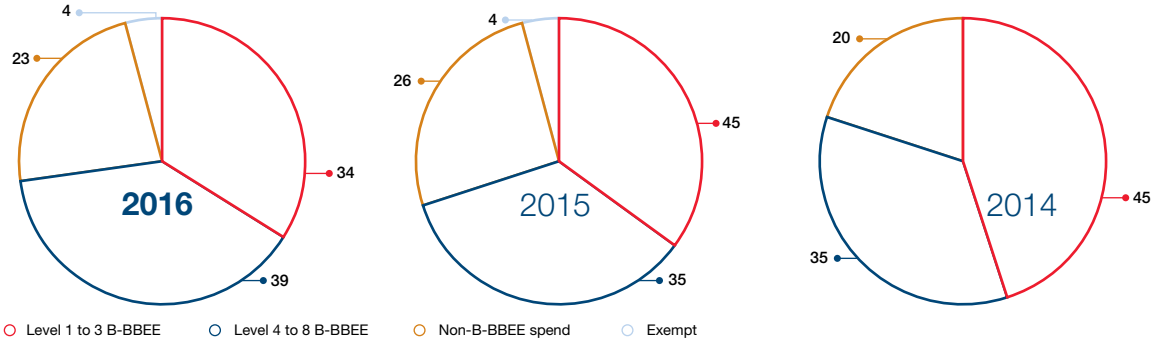
The Group is in the process of establishing a B-BBEE trust with 25.1% ownership in Life Occupational Health with the sole purpose of funding the training of nurses.

Enterprise and supplier development (ESD)

We recognise the contribution Life Healthcare can make to enterprise and supplier development and the benefit it will have. Our ESD policy will contribute towards the sustainability strategy and assist in procurement activities.

We are in the process of implementing a robust ESD solution that drives real, meaningful transformation to small and medium enterprises and qualifying small enterprises, and provides a real solution to key challenges faced in the country. The intention is to start incentivising performance in the supply chain in a manner that transforms, enhances and nurtures these relationships whilst generating long-term returns and benefits.

B-BBEE procurement spend (%)



The trend in procurement spend has remained largely unchanged year-on-year, as the Group's efforts to develop skills and resources bases endures. That said, the effect of the new B-BBEE codes was significant and negative on both Life Healthcare business and its local providers. International suppliers have begun to provide products directly, and not through agencies as in the past. This has further eroded the Group's scorecard.

Although a limited pool of suppliers for medical equipment and surgical consumables remains the main challenge, we continue to review opportunities for advancing preferential procurement. Identified B-BBEE and EME suppliers are supported and coached on the Group's tender process. This assists them developing the ability to build capacity to deliver products and services that can comply with the Group's stringent governance and quality requirements.

Training

Life Healthcare spent approximately R115 million (2015: R136 million) on training. 295 learners were enrolled in the categories of nursing, pharmacy and technical and vocational education training learnerships.

The focus for the next year is on:

- increasing the training spend on black males in non-clinical roles;
- training of black disabled people; and
- increasing the number of unemployed learners at the workplace.

Employment equity

The opportunities to address both race and gender demographics to further advance the employment equity profile of the Group exists. The focus is on the recruitment, development and retention of African males and females, coloured males and females in clinical roles, and the recruitment of African males and coloured males in non-clinical roles.

Refer to page 87 for information on the Group's internal transformation efforts.

Socio-economic development

Our corporate social investment activities are aligned with the definition of socio-economic development in the Codes of Good Practice.

The Group's corporate social responsibility programmes contributed to meaningful and sustainable projects in communities in which we serve through various initiatives, including:

- Life Healthcare Foundation;
- Life Sizanani;
- Public Health Enhancement Fund (PHEF);
- Life/CMSA specialists and sub-specialist bursaries;
- pro-deo surgery; and
- employee dependants' tertiary education bursaries.

Refer to page 95 for more information on the Group's corporate social responsibility.

Information technology

The Group believes that nurturing a culture of ongoing innovation is critical to the long-term success of its business. Through the improvement of the IT function, patients, doctors and employees can benefit from increased quality and efficiency. IT plays an integral role in enabling the strategic objectives of the Group, and influences future strategic positioning through efficiency and automation, delivering value to the business and all of its stakeholders. Its IT capabilities are evolving past the traditional administrative functions, to the clinical domains.

Information technology governance

The board is responsible for overseeing the Group's IT governance and management, and for implementing the structures, processes and mechanisms to execute the IT governance framework.

Life Healthcare's board has delegated management of IT to the Group Chief Executive Officer. All IT risks are managed by the board risk committee, while the board is responsible for matters of IT security and strategy.

Life Healthcare's Run and Change methodology is overseen by the Group IT steering committee. This committee includes the Group Chief Executive Officer, Group Information Officer, Group Chief Financial Officer and the Chief Operating Officer – SA. Run processes are defined by Information Security Management System (ISMS) (ISO 27001), and change initiatives are either Agile or Waterfall, based on the complexity of the initiative. All projects were delivered with less than 10% variance on the final intended outcomes.

The Group again achieved international ISO 27001 ISMS certification after an internal and external audit to verify its level of compliance. The implementation findings and recommendations from the review were included on the Group's risk register, and will be monitored by the IT steering committee. The ISO journey facilitates ongoing review of all control processes related to IT security within the business environment.

Within the ISMS framework, the following IT governance is managed:

- Information security, management and privacy
- IT risk management
- Disaster recovery
- IT legislation
- IT audit

Scanmed's approach to information technology is focused on improving the operational efficiency with special focus on medical activities and business support. The system is based on ISO 27001 ISMS. An internal audit was performed covering IT, cybersecurity and resilience. The results of the audit are reviewed by the IT steering committee and Scanmed management. The first IT steering committee meeting were held this year, in line with Group requirements.

Scanmed is in the process of implementing electronic medical records in all businesses to comply with latest legal requirements, and integrate business technologies. Alignment to Life Healthcare's IT competencies and standards are ongoing.

India's IT oversight and responsibility continues to be managed by the Max Healthcare board.

IT projects

The Group continued its projects to develop its local competencies and effectiveness in a challenging economic market. Capital expenditure of R97 million (2015: R45 million) was invested in IT systems and applications with overall IT performance goals achieved for the year.

Material IT projects linked to the Group's growth and efficiency strategy include:

Programme/area	Detail
Project Impilo	This major re-engineering programme to improve IT efficiencies is ongoing for Module 5 (e-theatre billing module) as well as the additional Module 6 (e-ward billing module). This technological enhancement allows real-time and online management of processes, assisting with operational efficiency. Examples include real-time billing process (including pre-planning for pre-booked theatre cases and removal of manual charge sheets, among others) resulting in the removal of administrative inefficiencies and increased nursing time for patient care. Development processes and quality assurance for the project are complete. The final phase of replacing the Group's legacy system is the replacement of the billing engine. This is in progress and will be completed by the end of the 2017 calendar year.
Global ERP system	The Group's ERP system is designed to enhance integration of our global operations and synergistic abilities while maintaining a world-class hospital information system. After launching the project in 2015, progress continues on track for first release in 2017.
Business optimised POPI solution	All requirements for the solution have been finalised, and the Group is assessing the integration required in its systems. These requirements are substantial, spanning multiple dimensions, touching all aspects of Group IT systems. The Information Regulator is a new position that has been created by POPI and was filled at the end of the financial year. The focus will now be on integrating the solution.
e-ICU	The pilot programme for the Group's e-ICU began in May 2016, at Life The Glynnwood Hospital. The programme is designed to improve efficiency by using advanced algorithms to predict patient outcomes and assist doctors using a cloud computing platform. Further integration may be pursued after testing, with hopes to implement the programme at two hospitals by the end of 2017, if the testing meets the business case requirements.
Employee Health Solutions clinic management	The Life Occupational Health clinic management system (developing an automated paperless system for the clinics) and replacement of the Careways iCare management system for a more effective solution, continue to gain traction in their exploration to enhance Group efficiencies.
Express check-in	Express check-in is a shared vision between Life Healthcare and Discovery to create a differentiated patient experience. There are two aspects to the project: Patient Portal (online pre-admission) and Express check-in (kiosk). The pilot was launched at Life Fourways Hospital in September 2016, and is currently only available to Discovery Health members. The Patient Portal provides a Discovery member/patient with the ability to complete an online pre-admission via the Internet at their own convenience. Once the pre-admission is successfully completed, a one-time pin will be provided by Life Healthcare, which will be used to admit the patient at the kiosk situated in the hospitals' admissions area. A dedicated concierge will complete the admissions process by collecting the patient, finalising the relevant paperwork and directing the patient to the ward. Once the pilot has been approved, rollouts to further hospitals will be planned.

Outlook

A key future focus area remains the integration of system developments to boost efficiency and compliance to regulation (specifically the POPI Act).

The Group believes that nurturing a culture of ongoing innovation is critical to the long-term success of its business.

3 QUALITY

Quality is an integral component of both Life Healthcare's value creation process and the subsequent competitive advantage gained from operating its business in line with this strategic focus area.

Quality is entrenched throughout the Group through its focus on clinical excellence (iQ), to ensure patients receive world-class clinical care, and the patient experience (Qᵉ), addressing patient outcomes as well as the needs of patients and their families.

To Life Healthcare, quality is not simply a measurement of performance, but a cultural approach that defines the way in which the Group conducts business.

Highlights

- Positive impact of the CARE programme across the business.
- Proactive quality reporting evolutions to enhance comparability.
- Maintained ISO 9001 certification.
- ISO 14001:2004 certification awarded for 12 large high-tech hospitals.

Challenges

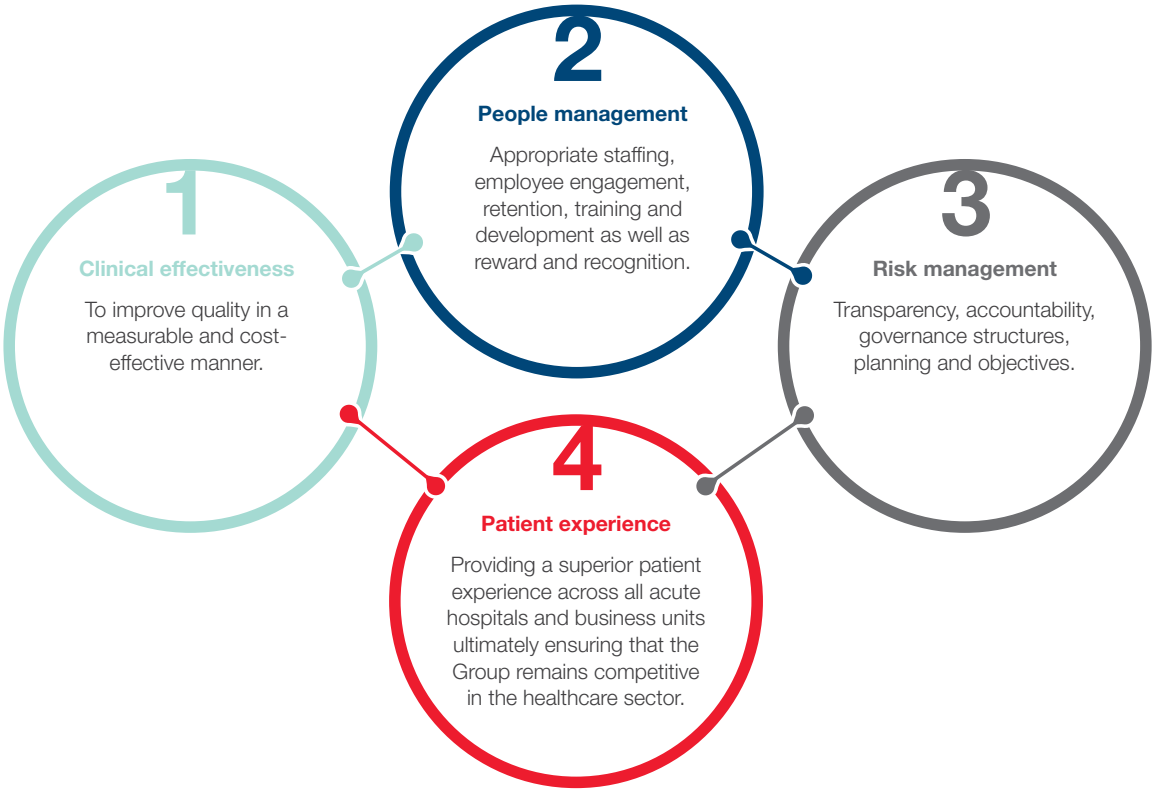
- Some quality indicators declined.
- Challenging regulatory requirements.

Clinical governance and quality management system

Clinical governance is an umbrella term for key components used to improve quality and create an environment where excellent clinical care will flourish. This is supported by an integrated clinical governance and quality committee chaired by the Group Chief Executive Officer. The committee was formed in August 2015, with the purpose of:

- providing a focus on clinical governance, quality and patient safety issues;
- overseeing clinical performance; and
- ensuring action is taken on, among others, clinical issues, patient feedback and major reportable incidents.

These activities are underpinned by four pillars of accountability:



In addition to driving desired behaviour, Life Healthcare's integrated quality management system (QMS) ensures compliance with legal requirements, industry standards, internal Group requirements and all aspects of services within the business as a cross-functional mechanism. The quality management processes have a positive impact on employees and patients by improving management processes and patients' hospital experience. Key focus areas are health and safety of our employees and patients and clinical outcomes. Management's KPIs are linked to objectives to ensure that operational accountability is linked to the strategic focus area in a practical manner.

This approach allows the Group to take accountability for continuous improvement, and clinical objectives and targets are benchmarked as closely as possible to international best practice and its competitors on an annual basis. Internal quality audits are performed annually to assess compliance with legal requirements from an occupational health and safety, environment and quality perspective, as well as the human capital requirements (e.g. Basic Conditions of Employment Act, 75 of 1997), industry requirements and that of Life Healthcare.

Locally, an integration plan directs the assimilation of the QMS throughout the southern African businesses. The Group began the process of aligning key quality and clinical indicators for the purposes of external reporting. This will be applied further during the next financial year.

From a quality perspective, the international businesses operate within their own governance jurisdiction. However, further integration and alignment of quality methodology and strategy is intended for operations in Poland. The Group's intent is to ultimately standardise and link measurement of performance metrics to allow clear like-for-like comparison across all its operations. The process of aligning reporting on eight common indicators across Scanmed and Max Healthcare operations is under way.

Scanmed QMS

Scanmed utilises a QMS which focuses on medical standards through a process based approach. The QMS is certified according to the requirements of the following international standards:

- ISO 9001:2008 – Quality management
- ISO 14001:2004 – Environmental management
- ISO 22000:2005 – Food safety management

- ISO/EIC 27001:2013 – Information security management
- PN-N 18001:2004 – Occupational Health and Safety

The QMS is verified and validated by the results of cyclical internal and external audits and also by implementation of a monthly system of monitoring and measurement of processes.

The Group monitors and records quality performance.

Incident management and monitoring

Medication incidents, patient falls and hospital-acquired infections remain the highest risk areas for healthcare internationally. Life Healthcare monitors all incidents and collects data on an ongoing basis, setting objectives and measuring against these objectives. Outcomes of poorly performing hospitals are investigated and solutions implemented jointly between local hospitals and Group head office.

Wherever possible, preventative action is implemented to mitigate risks at hospital and Group level. This proactive approach to the management and mitigation of risks takes place at the start of each financial year when the performance will be reviewed and targets agreed, allowing hospitals to focus on implementing control measures to reduce the likelihood of incidents occurring over the 12-month period. Assessments take place at hospital, department and unit levels.

Trends are monitored and reported on every quarter through quality review meetings. When incidents do occur, a root-cause analysis is conducted by an incident investigation team and, thereafter, necessary corrective action taken. The Group believes the robustness of the QMS and its processes contributed to a comprehensive management system which is risk focused to drive the reduction in patient incidents through preventative action, among other improvements.

National Health Amendment Act

Life Healthcare continues to engage positively with the National Department of Health – through HASA – on the National Health Amendment Act. The act seeks to use the National Department of Health Core Standards as an assessment tool to drive standards across public and private hospital providers. These standards are considered during the process of setting internal standards and integrated into the Life Healthcare internal quality management system. Audits against these core standards take place during the internal quality audits of all the Group's hospitals, and all relevant functions integrated key requirements of the core standards into their processes and the internal quality audit tool. The tool is reviewed annually.

Quality audits

Approach

The internal quality audit methodology and quality audit tool have been revised for the year. The revision is in line with the updated ISO 9001:2015 standard. The revised ISO standard places increased focus on leadership involvement, risk-based and process approaches which enable the delivery of the quality strategic focus area, while mitigating the Group's most significant risks.

Assessment areas for quality audits extend across all functional areas, including environmental management. The Group's ISO certification partner audits a selection of hospitals annually, to ensure that it retains its ISO 9001:2008 quality management certification, as has been the case for the past 10 years. This certification incorporates all acute hospitals, acute rehabilitation and mental health facilities and, more recently, the Life College of Learning.

Internal audits

To ensure hospitals are adequately prepared for an external audit, an internal team of specialists reviews the sample hospitals' results for high-risk processes, and management self-audits prior to the external audit. This approach allows the Group's hospitals to correct performance where necessary ahead of external scrutiny and improve quality to patients and hospital stakeholders on an ongoing basis.

Although no internal audits in terms of quality indicators were performed, Life Healthcare has traditionally conducted an internal review of the processes and systems of certain non-financial indicators every year.

A number of non-financial indicators were assured by PricewaterhouseCoopers Inc in 2015 and 2016. For the selection of indicators and the audit report, please refer to page 132.

ISO 14001:2004

The environmental and climate change management forum, which reports to the social, ethics and transformation committee, provides a platform for information sharing and driving environmental projects that will reduce the impact of our organisation on the environment. It ensures consolidated sustainability reporting while driving the Group's strategy for reduction and managing carbon emissions, among other areas. In December 2015, 12 large high-tech hospitals were awarded an ISO 14001:2004 environmental management certification, but the requirements of environmental management have been implemented throughout the Group.

For further environmental information, refer to page 93.

Independent market survey by medical healthcare funders

Globally, patient experience has become pivotal in terms of assessing the perceived quality levels of a hospital. It is also the source of a great deal of reputational positioning by patients and an indication of preferred service providers for medical care. Locally, a leading funder continues to publish the results of a member survey of experience and satisfaction at private hospitals nationally, which aids in establishing benchmarks of quality perception. Life Healthcare expects these initiatives to be expanded to include clinical outcomes reporting in future.

Although these results could be viewed as subjective, first-hand patient feedback provides valuable information on patient experience, from which actions to address underperformance can be taken. Life Healthcare has been performing a post discharge survey since 2013 (Q^e – patient experience) to continuously obtain feedback on which to base further patient-centred action. Such information has informed our CARE programme focus areas, for example.

Industry benchmarking

While it is challenging to benchmark the Group's indicators regarding incidents against international published outcomes based on output metrics, it is aligned on other measures such as HAI, bundle compliance, infection rates, and acute myocardial infarction (AMI). This will be aligned with Vermont Oxford Network (VON) outputs in the future.

When the Group publishes condition specific readmission rates and mortality rates in the near future, these will be aligned with international methodology. This proactive preparation is based on an expectation that the Competition Commission findings may drive the publication of a common set of indicators across the private sector. Work is underway through HASA, where an independent body has been contracted to assess the indicators currently reported across the private networks, and the indicator methodology or definitions, in order to bring about a common framework.

Key performance indicators and statistics for quality

The quality reporting system provides data by hospital and by region, from which Group statistics are gathered.

Geographical location and indicator	2016 target	2016	2015	Year-on-year trend
Life Healthcare (southern Africa)				
Quality metrics				
Patient experience – inpatient (%)	**>=80%**	**80.30**	80.30	↔
Patient experience – emergency units (%)	**>=75%**	**77.0**	75.40	↑
Recommend – inpatient (%)	**>=70%**	**69.40**	68.80	↑
Recommend – emergency units (%)	**>=65%**	**66.60**	64.50	↑
Clinical indicators				
Patient incident[2] rate (per 1 000 PPDs)[A, B]	**2.95**	**2.53**	2.66	↓
Employee incident rate (per 200 000 labour hours)	**5.13**	**3.71**	4.71	↓
VAP (per 1 000 ventilator days)	**1.86**	**1.50**	1.17	↑
SSI (per 1 000 theatre cases)	**0.74**	**0.89**	0.58	↑
CLABSI (per 1 000 central lines)	**0.82**	**0.73**	0.55	↑
CAUTI (per 1 000 catheter days on one line)	**0.42**	**0.35**	0.45	↓
HAI (per 1 000 PPDs)[1, A, B]	**0.41**	**0.37**	0.32	↑
FIM™/FAM score	**>=0.90**	**1.13**	1.18	↓
Scanmed (Poland)				
Clinical indicators				
HAI (%)[3]	**0.53**	**0.58**	0.62	↓
Reoperations (%)		**0.40**	0.73	↓
Patient incidents (%)		**0.40**	0.46	↓

[1] *Healthcare associated infections (HAI): Combines all the healthcare associated infections determined according to the Centre for Disease Control (CDC) guidelines – VAP (ventilator associated pneumonia), SSI (surgical site infection), CLABSI (central line associated bloodstream infection), CAUTI (catheter associated urinary tract infection) and other infections associated with the hospital stay.*

[2] *Patient incidents: Unintended or unexpected events which could have or did result, in harm – this includes medication, falls and procedure-related incidents, behaviour, death due to unnatural causes, burns and other patient incidents and patient absconding.*

[3] *The calculations differ from the other areas:*
– HAI: total number of HAI/total number of patients x 100%.

[A] *The 2016 indicator is externally assured.*

[B] *The 2015 indicator is externally assured.*

The southern African component of this scorecard touches on three important areas of healthcare delivery: the Group's patients and their experience of its facilities; the health and safety of employees, patients and customers; and the generally positive impact Life Healthcare has produced in terms of clinical outcomes. The Group applied additional focus to hospitals with poor reporting records to ensure maximum reporting across its network, rather than implementing stretch targets this year.

The patient experience metrics, which include recommend scores, were up against the Group's goals of 80.0 for inpatient and 75.0 for emergency units from 2015. This, together with feedback received from the mystery patient initiative[1] for example, necessitated the further integration of the CARE programme in order to improve patient experience scores. The increase in patient experience metrics as well as anecdotal feedback received from patients, indicate positive progress as a result of the programme. In addition, priority one complaints – the most serious complaints – decreased by 45% year-on-year.

[1] *The mystery patient initiative operated for a portion of 2015. Patients at facilities supplied quality-based opinions and feedback on their hospital experiences without the knowledge of hospital employees – supplying fairly unbiased, authentic quality data.*

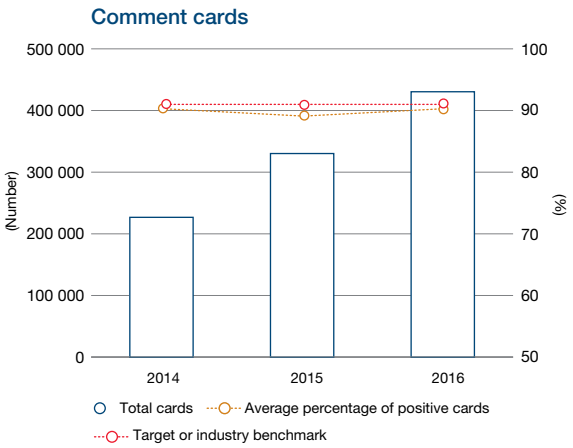
Quality performance

Q^e – Patient experience

A patient-centred approach is core to Life Healthcare's QMS, and it gains further insight into patients' hospital stay through patient experience management (PXM).

Through this process, information is obtained from patients after they are discharged from acute hospitals, the emergency units or rehabilitation facilities. The feedback allows patients to rate their entire hospital experience, including the care received from nurses and doctors, the management of their pain, medication administration and discharge. The Group also has a manual comment card process through which it manages positive and negative comments.

Hospitals receive these patient experience reports monthly in order to manage reward and recognition at hospital level, and targets negative areas where corrective action is required.



Year-on-year, the Group continues to receive highly favourable feedback (average of 89.9% of positive cards over the last three years). Patients' perceptions of quality are measured on the Group's scorecard through patient experience and recommend scores. To measure progress, comment card categories include priority one complaints such as employee courtesy, communication, time-related issues, and doctor-patient interactions. The decrease in negative responses is attributed to the effectiveness of the CARE programme.

Life Healthcare continues to provide patients with numerous feedback channels (including email, the contact us function on the website, and PXM) which are managed through the customer relationship management system.

CARE programme

Implemented in October 2015, the programme's aim is to give all Life Healthcare employees, management, students, partners, doctors and service providers the tools and behaviours to ensure they continue or start engaging with the patients in a more thoughtful and professional manner, thereby improving the overall patient experience across all identified touchpoints in our facilities and business units. Phase one of the CARE programme is on the verge of completion with approximately 14 300 permanent employees (including Life Healthcare, Life Occupational Health and Life Esidimeni) trained. Phase two has been designed specifically for the Life Healthcare service providers (approximately 5 000) and includes catering, cleaning, security, coffee shop, gardening and grounds.

This phase intends to give all outsourced staff an in-depth look at the key behaviours required to engage with patients in a more thoughtful manner. Official rollout of the phase commenced in October 2016.

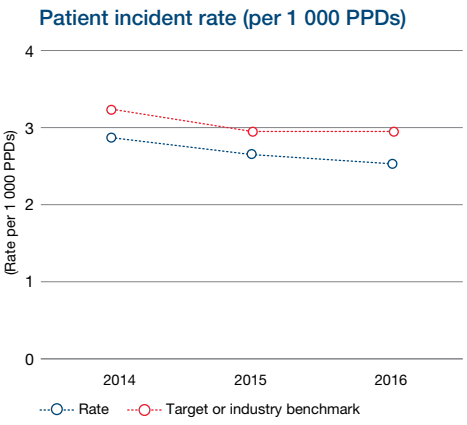
Evidence of the effectiveness of CARE is reflected in the improvement of the Group's PXM scores, improved funder member experience scores, reduction in overall number of complaints received, improvement in positive comments in the last year and anecdotal patient feedback.

Clinical performance

Patient health and safety

Every patient-related incident in the Group is reported, and investigations are conducted by trained incident investigators to determine the root cause. Incident statistics are monitored for trends on a quarterly basis and, should significant trends develop, corrective action reports are raised to correct incidents and curb recurrence. Lessons learnt are communicated by means of Q-learnings, and steps are taken to prevent similar incidents in other units.

Life Healthcare focuses on the reporting and mitigation of all incidents, with additional focus on four key patient risk areas: patient falling incidents, patient medication incidents, patients acquiring pressure ulcers while in the Group's care and procedure-related incidents. Pressure ulcer reporting is now isolated from procedure-related incidents. This is due to an increasing prevalence trend that necessitated closer management. The overall patient incident rate is measured as a ratio of the number of incidents per 1 000 PPDs.



The Group has shown a decrease in the occurrence of incidents in the four key patient risk areas mentioned. The total number of incidents year-on-year has reduced as a result of increased focus on performance, while the patient falling incident rate declined to 2.53 (2015: 2.66) per 1 000 PPDs. The Group's nursing function is revisiting the patient falling prevention programme with international best practice guidelines to curb the trend and drive improvement. Focused efforts such as these, have resulted in a drop in procedure-related incidents from 0.59 to 0.45 over the last two years.

The Medication Indicator Audit (MIA) process is a set of indicators that focuses specifically on the prevention of medication errors from prescription, administration and evaluation of side effects. The process was started in 2015, and has positively influenced the reduction of patient medication incidents from 1.23 to 1.12 with a high impact across the acute hospital network. The Group is also considering a review of its medication standard policy and procedure against international best practice guidelines to improve future effectiveness.

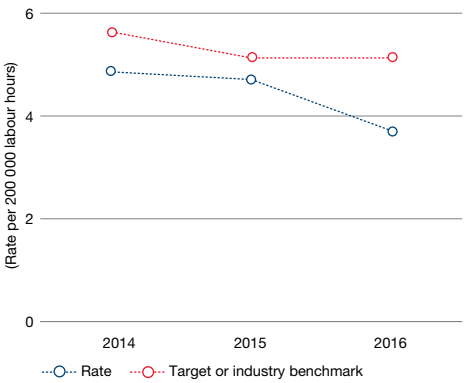
Employee health and safety

In addition to complying with the OHS Act and COID, Life Healthcare encourages employees to be actively involved in occupational health and safety through its quality processes.

All new employees receive quality, safety and health and environment induction. In addition, employees participate as health and safety representatives and are involved in monthly health and safety committee meetings in line with OHS Act requirements. Potentially hazardous conditions are identified and reported on throughout the alert process.

The Group reports on all employee incidents, which include the key risks areas of employee needle-stick injuries, employee falls, employee mobility incidents, occupational health-related incidents (injury on duty), infection-related incidents and exposure to body fluids. A hazardous biological agents (HBA) risk assessment is conducted every second year (as required by the OHS Act), focusing on the identification of risks and mitigation of these top risks for employees and relevant service providers.

Employee incident rate (per 200 000 labour hours)

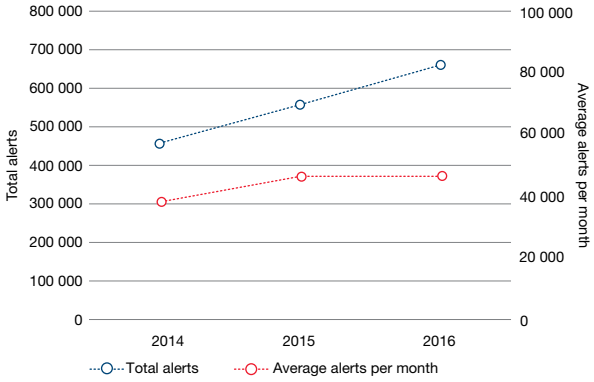


All significant employee risk areas are below 2015 levels and are showing a reduction in both number and rate. There has been a drop in the rate of incidents reported over the two years, which is primarily attributable to continuous employee engagement.

Clinical alerts

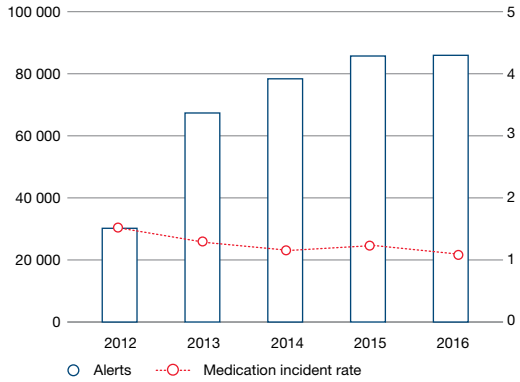
Alerts are an internal preventative measure raised at hospital level. They are used to raise awareness of possible incidents (near misses) of any unsafe condition or act before they occur, allowing for preventative action. This applies to both people and property.

Alerts on average per year



The 18.5% increase in alerts year-on-year serves as evidence of increased awareness of potential dangers and threats. These allow for increased preventative action to reduce the likelihood of incidents and ultimately harm to both patients and employees.

Alerts and medication incident rate



The Group developed alerts and medication incident rate reporting across the most significant patient incident categories. To date, Life Healthcare noted an inverse relationship between alerts and incidents (a reduction in incidents with the concurrent increase in alerts), indicating a positive impact of the awareness of alert activities and the effectiveness of mitigating action.

Clinical infections

The overall Group infection rate year-on-year shows consistent improvement. Infection prevention and control bundles are in place with the aim of reducing infections, and are a structured way of improving care processes. They comprise a small, straightforward set of evidence-based practices that, when performed collectively and reliably, improve patient outcomes and reduce HAI.

HAI consists of:

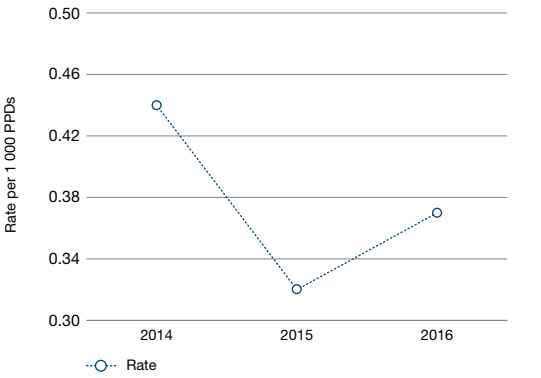
- ventilator associated pneumonia (VAP);
- surgical site infections (SSI);
- central line associated blood stream infections (CLABSI);
- catheter associated urinary tract infections (CAUTI); and
- a number of other hospital acquired infections as per the Centre of Disease Control (CDC).

Measures such as a FIM™/FAM score (weekly assessment of patients' function, while in an acute rehabilitation facility) and MHQ14 (patient reported feedback in a mental health facility) are also considered.

However, for the Group, HAI is considered the most material measure as proactive management of infections in this area reduce the highest risks in ICUs.

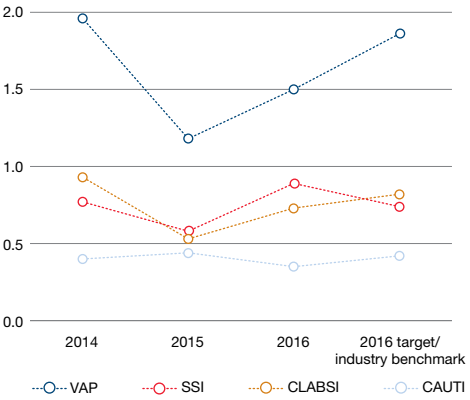
Workshops, campaigns and continuous professional development (CPD) ensure focus on mitigating and responding to our most significant health and safety and clinical risks.

Healthcare associated infections year-on-year



The decline in infection rates over the last three years is attributed to the corrective action taken to reduce rates through initiatives prescribed by the Group's clinical governance structures.

VAP, SSI, CLABSI and CAUTI incident rates



The performance of the HAI metrics above have increased since 2015 (0.32 to 0.37 per 1 000 PPDs). However, the Group remains within the goal for HAI rate (0.41). The increases are a result of:

- application of the ICNet electronic surveillance system which is expected to expose previously undetected infections;
- increased focus on zero reporting hospitals;
- enhanced training on the 2016 CDC infection criteria with more robust time frames;
- introduction of monthly tracking and reporting on all SSI infection re-admissions; and
- heightened awareness and improved reporting.

FIM™ efficiency (change in FIM™/FAM score) have remained stable at 1.13 (2015: 1.18) against the target of >0.9 while MHQ efficiency capture rate compliance has increased to 82.2% (2015: 79.3%) against the target of >=85%. MHQ14 efficiency has improved to 2.84 (2015: 2.6) against the target of >2.25.

Additional clinical outcome initiatives

Antimicrobial stewardship

The Life Healthcare antimicrobial stewardship (AMS) programme has grown for a consecutive year, with 48 facilities consistently reporting their results. Multidisciplinary AMS committees consisting of healthcare professionals of various disciplines have been established at hospital level. The total number of patients assessed for AMS bundle compliance has improved by 26% compared to FY15. AMS bundle compliance has consistently exceeded the target of 85%. Doctor acceptance of AMS interventions has been maintained above the target of 80%.

CONTINUOUS IMPROVEMENT

Life Healthcare has embarked upon a continuous improvement proof of concept project. Continuous improvement, as a strategic focus, is a requirement in the world of healthcare, and is set to grow in future. The improvement of clinical outcomes, as a result of superior patient experience, has become a minimum standard. Within the Group, continuous improvement has largely been directed at improving both quality and clinical outcomes, namely patient experience, patient and employee health and safety, and the Group's various clinical initiatives or programmes focused on improving patient outcomes.

The objective of this project is to develop an improvement strategy and methodology (including tools and techniques that are easy to use and implement across all levels) in order to equip employees and stakeholders with the appropriate means to bring about positive change – in terms of clinical outcomes and patient experience. This is in line with keeping quality and the patient at the centre of the Group's activities.

A proof of concept is under way at Life Groenkloof Hospital to test and review improvement techniques which could be incorporated into the Group continuous improvement strategy and methodology. The proof of concept requires that an internal cross-functional team works with hospital management, doctors and external improvement experts to mentor the proof of concept team. Should the proof of concept be accepted as evidence that the continuous improvement strategy and methodology is effective, national implementation of continuous improvement will be driven by the Group with a cross-functional approach, similar to the approach used for the CARE programme.

SPOTLIGHT ON CLEANLINESS

The SOC (Spotlight on Cleanliness) introduced on the Group's scorecard this year is intended to aid its focus on microscopic cleanliness of patient care areas, with specific reference to 20 high-touch areas such as door handles, bed rails and drip stands. SOC is a focus under CDC internationally and, for the next financial year, Life Healthcare will be extending this initiative to include operating theatres in addition to being applied throughout its hospital units. SOC is measured on a monthly basis and reported on quarterly by an infection prevention specialist at each hospital. This information is shared with departments internally and with outsourced services (specifically cleaning companies), to improve cleanliness and reduce the risk of infections.

Scanmed clinical indicators

Scanmed analysed detection and recording methods of nosocomial infections[1]. Indicators of hospital infections recorded thus far could be inflated due to a lack of adequate identification of infections when patients are admitted to a hospital. Therefore, there were changes to the procedures for admission of the patient with special emphasis on admission to the ICU. Patients suspected of being infected are given microbiological testing. Continuous training of employees on infection prevention takes place.

Accreditation by the Polish Minister of Health obliges all hospitals to periodically monitor and analyse the following areas of functioning of the hospitals:

- Reoperations: the decrease in reoperations is as a result of an updated and modified programme to prevent hospital infections as well as more experienced medical and surgical staff.
- Readmission: there has been an increase in readmissions due to the change in the patients' profile on more complicated medical cases. This is reflective in the increase in patient over 65 years of age as well as the increase in emergency admissions.
- Extended stays.
- Deaths and perioperative (surgery-related) deaths.
- HAI: the decrease is attributable to the updated and modified programme to prevent hospital infections, increased preventative staff training and the early identification of infections upon admission.
- Untoward incidents.
- Resuscitation effectiveness: has seen a decline due to the change in the patients' profile and the admission of patients in emergency situations, who are in poor health conditions.
- Bedsores.
- Side-effects related to blood products.
- Side-effects of medical treatment.

[1] *To be classified as a nosocomial infection, the patient needs to have been admitted for reasons other than the infection.*

Quality is not simply a measurement of performance, it is a cultural approach that defines the way the Group conducts business.

4 SUSTAINABILITY

Life Healthcare's long-term sustainability is built on relationships and operations that take into account the environment in which it operates, and its impact upon it.

The Group seeks to be more than just a sustainable business, but a good corporate citizen and employer of choice.

The Group includes human capital, labour relations and environmental matters under sustainability. This chapter is further subdivided to distinguish the human and environmental components.

Refer to page 52 for more information on stakeholder engagement.

Highlights

- Improved relationships with and recruitment of doctors.
- Leadership succession management and development.
- Nursing training with 831 basic students, 89 post-basic and 37 operating department assistants.

Challenges

- Scarce skills shortage (doctors, pharmacists and specialised nurses) persists.
- High dependence on agency employees.
- Integration of Poland.

Key performance indicators and statistics for human capital

Geographical location and indicator	2016	2015	Year-on-year trend
Life Healthcare (southern Africa)			
Number of employees (permanent employees)	**14 269**	14 182	↑
Number of nurses enrolled in training	**1 052**	1 165	↓
ACI employees (%)	**72.2**	70.6	↑
Scanmed (Poland)			
Number of employees	**3 651**	2 290	↑
Max Healthcare (India)			
Number of employees	**10 117**	7 932	↑

Human capital and relationships

To provide high-quality care, effective employee relationships are vital. The Group continues to attract and retain a highly skilled, talented and passionate group of people who all aspire to contribute towards its purpose of making life better. Life Healthcare's association with doctors is a vital element of its service provision, and strides to engage more effectively with doctors are starting to provide the desired impact on the business. The Group continues to enhance its employee value proposition through branding and an environment of development and high performance with specific focus on talent management at all levels.

Life Healthcare's Polish and Indian operations continue to operate with independent human resource functions.

The Group complies with all applicable local legislation (for example, in South Africa, the Basic Conditions of Employment Act, Labour Relations Act, Employment Equity Act and Skills Development Act) and is committed to supporting transformation and the enhancement of health professionals.

Southern African headcount

Category	2016	2015	2014
Administrative employees	**2 930**	2 879	2 772
Nursing personnel	**9 166**	9 180	9 338
Pharmacy employees	**334**	323	317
Rehabilitation employees	**224**	258	278
Services employees	**1 379**	1 316	1 233
Other	**236**	226	203
Total permanent	**14 269**	14 182	14 141
Temporary personnel[1]	**1 106**	1 285	1 106
Total employees	**15 375**	15 467	15 247

Overall, there has been no large-scale movement in the Group's headcount year-on-year. Its employee turnover rate has reduced to 14.1% (2015: 17.0%), excluding retrenchments and Section 197 transfers. This is mainly as a result of improved maternity benefits for a largely female workforce (83% female) and a culture of development with flexible additional retirement plan offerings.

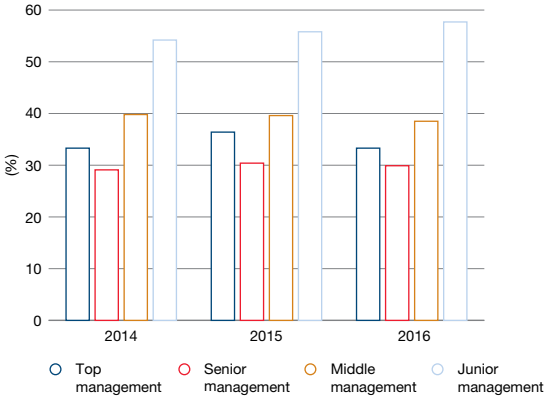
The turnover rate is further addressed through training and the recently developed talent management framework for the Group, including talent management strategies for specific functions, such as nursing and pharmacy employees.

Transformation and cultural diversity

Life Healthcare seeks to treat all employees equitably and with respect. The Group uses an employment equity plan that is determined on a national basis in consultation with executive management, the national transformation committee and consultative forums in the hospitals. This proactive process is overseen by the Life Healthcare board through the social, ethics and transformation committee. Policies are in place to ensure that merit is viewed as paramount and no discrimination occurs on the basis of age, gender, race or any other differentiating factors.

Providing appropriate tools for development and fair reward for service are pillars of the Group's approach to employment equity. Refer to page 72 for information regarding B-BBEE.

Employment equity in the management bands

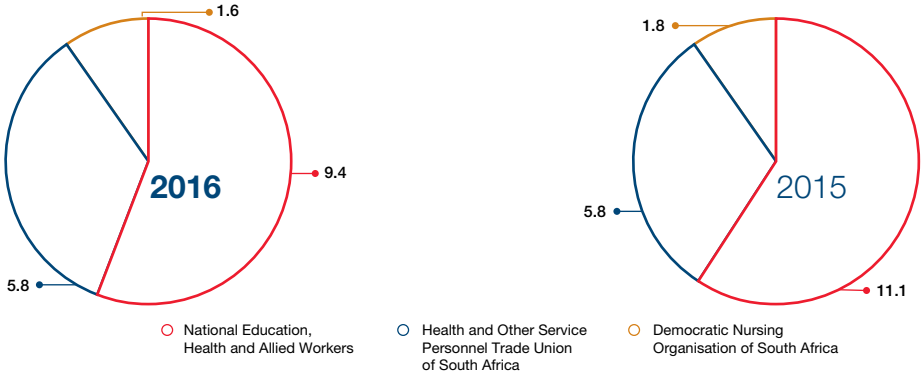


[1] *Includes sessional hourly paid staff, and excludes agency staff.*

As a result of changes to the Group's executive structure during 2016, top management ACI representation declined by 3% to 33% while senior and middle management ACI representation remained constant. In line with the Group's transformation aspirations, the focus for 2017 will be on senior and middle management representation.

The percentage of women in the Group remained high at 83% (2015: 84%). Of the executives and managers (middle management and above) 58% are female and three of the Group's nine independent directors are women. There was a decrease in the number of people with disabilities to 101 during the year (2015: 102).

Southern Africa trade union affiliation (%)



Labour relations

The Group experienced a stable year in the highly sensitive area of labour relations due to constructive engagements and wage negotiations. This was supported by continuous monitoring and union education in the form of consultative forums to discuss needs and processes of both stakeholders. There were sporadic labour incidences at our Shiluvana Hospital as a result of community interference on the management of the unit. This, however, was managed well and had insignificant impact on the rest of the business. Overall unionisation levels have decreased to 17.9% (2015: 19.7%). Although unionisation in KwaZulu-Natal showed a significant increase from 2014 to 2015, unionisation decreased by 0.8% in 2016 to 41.7% (2015: 42.5%).

Employee engagement

Life Achiever Awards

The flagship Life Achiever Awards was successfully launched in 2016 to recognise quality performance by employees. Monthly and quarterly award winners compete for an annual award at an October ceremony. This recognition programme had a positive impact on employee engagement and has been effective in further embedding a high-performance culture along with the CARE programme.

CARE programme

The focus area for the Group remains the improvement of performance through behaviour. Refer to page 80 for further detail. The Group has since included this as part of its induction programme for employees.

Employee perception survey

No employee perception survey was performed in the year. It will be performed again in February 2017, and is in the process of being adapted from its two-year approach. The updated survey will feature additional focus on employee engagement and culture assessment to the perception scores allowing tracking and measurement of both metrics to determine focus areas for improvements. The Group views development and alignment as part of its broader employee strategy and has allowed more time to finalise the programme to ensure efficiency.

Employee wellness

The Careways employee wellness programme usage across the Group is 17.9% (against an industry benchmark of 9.4%). Both managers and employees trust the service and they are making positive use of this productivity facing offering. The HR and Careways teams are currently working on a more holistic and integrated employee wellness model for the Group. The expected benefits are:

- Enhancing individual and organisational performance for optimising a culture of care.
- Improving poor performance and coaching managers towards people management excellence.
- Fostering the development of interpersonal skills and resilience.
- Enhancing employee engagement and a positive organisational culture.

- Contributing to the employee value proposition by being positioned as a programme promoting work-life integration.
- Reducing costs related to health and wellness issues.
- Maximising returns by centrally managing all wellness service providers.

Research accreditation

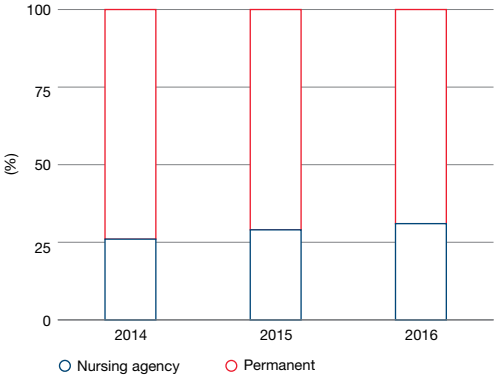
The Group's research and ethics committee has recently been accredited by the National Health Research Ethics Committee of South Africa. This allows employees to conduct research for their formal studies and ad hoc research that benefits the Group.

Healthcare professionals – recruitment, retention and development

Nurse recruitment, retention and training

Nurses are an integral part of the business and a direct representation of the Group to patients, influencing the care the Group provides, its reputation and the functioning of the business. Hospital nursing employees are permanently employed, with agency nurses making up the deficit required for operations where and when required.

Ratio of permanent to agency nursing employees (%)



Locally, the competition for skilled nurses remains high, specifically those with expertise in ICU and neonatal areas. A number of initiatives are in place to create a pipeline of nurses available to the business and to lower the turnover rate.

The use of agencies to address the shortage of permanent employees escalates periodically. The flexible staffing component is well managed to remain around 30%. The seven agencies used by the Group are all accredited and managed regionally, especially in terms of quality of care and the competencies of employees. The Group continues to have high reliance on agency employees as a result of employee preferences on work times (most nurses prefer to avoid night-shift work) and its encouragement of flexible hours for young mothers caring for their families. This year, the Group encouraged the inclusion of retired nurses to be contracted for limited hours to provide experience in terms of clinical supervision and maintenance of standards.

The annualised nurse turnover rate for southern Africa has been 19% (2015: 27%) for registered nurses and 20% (2015: 24%) for qualified specialist nurses. This is being addressed through training, recruitment and retention strategies and:

- bursaries for nursing employees to upgrade their qualifications;
- CPD programme for all nurses;
- research opportunities for graduate nurses; and
- presentation at conferences and through professional engagement.

The attraction, retention and development of qualified registered nurses remains a priority.

Nurses in training

Nurse category	2016	2015	2014
Auxiliary nurses	–	–	67
Enrolled nurses	236	493	433
Enrolled registered nurses	604	605	316
Specialist nurses (ICU, high care, theatre)	89	103	72

The South African Nursing Council (SANC) is currently phasing out auxiliary nursing and enrolled nurses courses. This is leading to a decrease in the number of nurses trained in the enrolled category with no training for auxiliary nurses. The decrease in the number of enrolled nurses is also due to no new intake in 2016 as this is a legacy qualification. In order to increase the number of registered nurses, Life Healthcare will do two intakes in 2017 of the bridging programme, up to the maximum accredited capacity. The bridging programme will be phased out in 2019.

The shortage of specialised nurses is specifically addressed through the recruitment of graduates and training through the accredited Life College of Learning that is providing new courses and innovative content to meet modern business needs. Another initiative is the training of experienced nurses to operate in specialised areas. This has led to a 12.9% growth in ICU qualified nurses, which is a competitive advantage.

The Group's retention strategy for nurses is essential to maintaining this vital human capital component and includes reward and recognition, educational opportunities, career progression and research. Training takes place in a formal and in-service format and is supported by a CPD programme that commenced in 2013, allowing all nurses to receive four training interventions annually.

Nurses from Max Healthcare are periodically seconded to southern Africa. In addition, the Group recruits nurses directly from India. Currently, 27 nurses are seconded from Max Healthcare with a further 65 in the pipeline. The Group has also recruited 130 Indian nurses directly who are currently employed in South Africa. An additional 312 directly recruited Indian nurses are in the pipeline.

Student training

Student education level

	Gender		Race				Total	Total
	Female	Male	African	Indian	Coloured	White	2016	2015
Basic	778	62	476	88	178	98	**840**	1 236
Post-basic	81	8	62	14	4	9	**89**	103
Operating department assistants (ODA)	24	13	23	1	1	12	**37**	55

The Life College of Learning has seen 10 000 students complete their training through one of the seven learning centres and four classrooms in South Africa. Currently, 1 052 students are registered with 37 students (2015: 55) studying towards a three-year operating department assistant diploma in health sciences.

During the year, 181 employee bursaries (2015: 135) were granted to encourage further studies in the scarce skills required, 110 of which are for registered nurses trained at other tertiary institutions, and 57 students are sponsored for basic nursing degrees.

For further information on the training of nurses, refer to page 89.

Pharmacists

Pharmacists make a commercial and a quality/clinical contribution in Life Healthcare and play a key role in the delivery of cost-effective care through efficient procurement and supply processes to optimise resource utilisation. Life Healthcare's pharmacists play an integral part in guiding and evaluating patient treatment, making interventions when appropriate to improve quality care provided to each patient. The number of pharmacy employees remained fairly static at 339 (2015: 323) with 153 (2015: 145) pharmacists (excluding pharmacy managers).

South Africa only has half the World Health Organisation's recommended number of pharmacists for every 100 000 citizens and the lack of skills at this level, due primarily to inadequate training capacity at universities, is well recognised in the industry. A lack of formal structured interventions by government or the professional body and significant barriers to employing pharmacists from overseas requires internal solutions to mitigate components of the skills shortage.

To this end Life Healthcare has:

- Introduced a clinical pharmacy programme and added two new positions, a clinical practice pharmacist and a clinical pharmacist, to offer an alternative career path for pharmacists with a more clinical interest. The Group now has 33 clinical practice pharmacists across 27 hospitals.
- Commenced a Pharmacy Manager Development Programme with a review of existing talent to identify high potential pharmacists interested in pharmacy management, while developing candidates through a structured programme to accelerate readiness for management positions in pharmacy and other key hospital areas.
- Reinforced its structured pharmacist intern programme building strong industry visibility. The programme is aimed at provision of a positive internship experience for pharmacist graduates to attract them to return after completion of their community service. There are 22 interns in our hospitals this year and 24 are placed for 2017.
- Increased the number of pharmacist's assistants in training (66, compared to 56 in 2015) to improve the ratio of pharmacist's assistants to pharmacists and introduced the new cadre of pharmacy mid-level workers (pharmacy technicians) for their traineeship in identified hospitals.
- 64 of the Group's pharmacists are registered as tutors with the South African Pharmacy Council across the 44 Group pharmacies registered for training.
- Introduced a pharmacy preceptor programme in collaboration with the pharmacy department of a leading university, allowing experienced pharmacists in the Group to mentor fourth year students during a structured work experience placement.
- Continued online continuous education (CE) modules for all pharmacy employees. The content of the modules supports the standardisation and rationalisation process to reduce cost of care, as well as operational topics underpinning hospital system changes and antimicrobial stewardship. A total of 2 000 training interventions across five CE modules were completed this year.

The Group will continue to augment its pharmacist recruitment and retention initiatives to further mitigate the risk of this skills shortage, and looks forward to the finalisation of the pharmacy technician qualification and scope of practice to allow effective integration of these mid-level workers into the business.

Management development and succession

Leadership is integral to spearheading the high-performance culture that the Group seeks to continuously develop. This year's focus was on succession management at executive and senior management level, spurred primarily by the global diversity of the business which necessitated an adaptation to the executive structure for local and international roles. Life Healthcare has a Group-wide succession management programme and numerous leadership development programmes in place:

- **Senior leadership development programme:** Executive and senior management leadership programmes will be implemented in the next year.

There is a clear organisational culture that is linked to the Group's vision of being a market leading, international, diversified healthcare provider.

- **Unit manager programme:** Group-wide roll-out was completed in 2015, and this programme is now being delivered on a needs basis.
- **iLEAP senior hospital management programme:** The programme continues to promote technical and management skills development through hospital simulations for emerging managers and high-potential nurses and pharmacists within the Group. A total of 206 managers have been enrolled in the programme for 2016. Further roll-out is planned for 2017.
- **Junior management development programme:** Aimed at first line managers and supervisors, this programme promotes development during the succession planning process.
- **Functional management development programmes:** Further management development programmes for specific functions, such as the nursing leadership series, a coaching programme for nurse managers. The Group also implemented the STYL.com programme (shadowing and training young leaders), with approximately 95 young leaders who have gone through a mentoring process and managed the ward e-billing project[1].

Scanmed human capital

Scanmed employs 3 651 (2015: 2 290) employees, 2 789 (2015: 1 076) of which are permanent. Civil contracts decreased to 748 (2015: 766). It operates in a similar manner to the southern African business.

Following the change in Scanmed management in July 2016, the business structure changed and necessitated a review of the approach taken towards human resources (HR).

Presently, the following are focus areas:

- Analysis of available and required resources in all Scanmed companies.
- Assessment and implementation of best HR practice.
- Review of employee remuneration and implementation of salaries grid.
- Establishment and implementation of long-term development programmes and career paths.

Full integration and alignment of human capital processes remain the target for the Group, allowing remuneration, reward and performance to be managed in the same manner throughout its operations. Challenges of integration are primarily linked to difficulty in communication and the integration is a key focus area for the Group.

Max Healthcare human capital

A total of 10 117 (2015: 7 932) people are employed at Max Healthcare and the Group continues to benefit from training programmes that allow Indian nurses to work in its southern African operations for a 24-month period, providing care to patients locally with a naturally sensitive approach. The Group continues its efforts to curb a high nurse turnover rate that is primarily a result of nurses seeking offshore opportunities post training and development, through a retention plan for skilled and high-value employees, regular engagement activities and comprehensive medical benefits. Specialised doctors remain a critical shortage. The government environment that relates to doctor employment is a challenge.

Doctors

The Group has an association with approximately 2 850 specialists and other healthcare professionals, reflecting the strong relationships being formed with new doctors while retaining the bulk of its current complement with a net increase of 65 doctors. Strategically, the doctor partnership model is a key driver of this lowered rate, as it focuses on engagements while the Group intensifies efforts to engage with doctors as partners, not just as clients.

Engagement evolution

Life Healthcare's existing doctor recruitment strategies are becoming more aggressive, with additional retention strategies being applied to maintain and improve levels. The Group has identified a key position to enhance relationships with these key stakeholders, and has appointed a Doctor Stakeholder Manager. The role will be key in managing supply for demand in hospitals across the southern African business. The digitisation of the doctors' needs list, allowing a Group-wide registry, real-time capturing and more thorough comparison of doctor needs, as opposed to the traditional hard copy approach, will support the supply/demand management.

The Group's expanding doctor base continues to support its current networks well. Regular engagement with doctors ensures an understanding of their specific needs and ultimately aids in the retention of their patients and the expansion of their base.

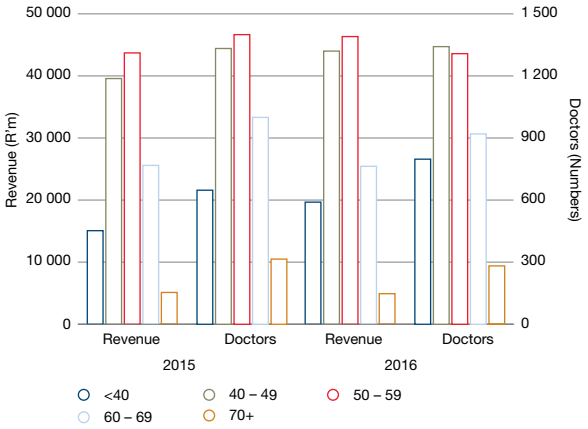
Various forms of engagement have taken place focusing on enhanced clinical pathways and outcomes measures.

The doctor quality and efficiency reporting programme is being explored to improve quality. This flagship programme allows the benchmarking of performance of doctors per speciality to rank their performance against that of peers, and is being piloted at Life Groenkloof

[1] *A project which introduced the MultiTouch solution to the ward environment. This facilitates moving towards a paperless process, providing the real-time functionality necessary for recording consumption of ward stock, equipment, gasses and fees.*

Hospital. The Group also facilitates a Chief Operating Officer ad hoc forum, allowing specialists to meet and discuss matters of joint interest linked to any clinical concerns. Real engagement on clinical products is a further benefit, allowing operational input into product developments.

Doctors' age profile (R'm)/Number



The average age of our doctors is 51 years, which presents mixed opportunities and challenges ranging from lowered productivity in some cases to security of income based on the positive reputational influence in others. The Group's approach remains the retention of key skilled specialists and doctors while recruiting and aiding the introduction of new and younger doctors to reduce the average age statistic.

Challenges

Two key concerns for the Group remain the dysfunctional recruitment of doctors by the HPCSA, where the Group continues to engage on preferred and improved techniques. The other is the increasing cost of obstetric and neurology insurance that led to a heightened withdrawal rate of practicing specialists and doctors. The Group is engaging with the South African Society of Obstetricians and Gynaecologists (SASOG) in an attempt to address the near uninsurable rates as a result of a high legislative risk area of healthcare.

Legally, the Group cannot collaborate with other medical service providers to streamline the inconsistent measurement of safety aspects, and thus views its internal quality system to be essential in maintaining standards and improving statistics in this area and all others.

Environmentally friendly operational upgrades are progressively reducing operational costs.

Key performance indicators and statistics for environmental sustainability

Geographical location and indicator	2016	2015	Year-on-year trend
Life Healthcare (southern Africa)			
Electricity usage (kWh)	**154 022 258**	151 315 836	↑
Water usage (kl)	**1 289 002**	1 532 192	↓
HCRW (Kg/PPD)[A, B]	**1.73**	1.68	↑
Scanmed (Poland)			
Electricity usage (kWh)	**2 895 291**	3 555 203	↓
Water usage (kl)	**28 734**	31 424	↓
Max Healthcare (India)			
Electricity usage (kWh)	**67 512 788**	52 627 957	↑
Water usage (kl)	**793 454**	682 925	↑

[A] *The 2016 indicator is externally assured.*
[B] *The 2015 indicator is externally assured.*

Environmental sustainability

As part of quality service delivery, Life Healthcare is committed to conserving the environment and limiting harmful impacts of operations, despite the Group's low environment impact status. It recognises the need to manage the consumption of natural resources in a sustainable manner, conserve energy and water, and recycle to reduce carbon emissions in line with international best practice via its environmental management system (EMS) and quality management system (QMS).

The Group's environmental policy focuses on reducing its footprint. The environmental and climate change forum decides on matters related to external reporting and certification requirements and progress on mitigating environmental impact and sustainability data reporting. The forum reports to the social, ethics and transformation committee biannually for decision-making.

The Group actively seeks to comply with all applicable environmental legislation, including:

- National Building Regulations and Standards Act, 103 of 1997
- National Environmental Management Act, 107 of 1998 (NEMA)
- Air Quality Act, 39 of 2004
- Waste Act, 59 of 2008
- Water Act, 36 of 1998
- National Energy Act, 34 of 2008

Progress has been made with the Group's ISO 14001:2004 certification post the awarding of 12 large high-tech hospitals in 2015 – it has now identified 15 medium sized hospitals for certification in 2017, based on the revised ISO 14001:2015 standard.

Environmental initiatives and improvements in southern Africa

Programme	Detail
Carbon emissions	The Group has reduced its carbon footprint by 9.4% since 2012, and saved 6 012 tonnes of CO_2 in the 2016 financial year. Its performance across two metrics used to gauge CO_2 efficiency remains high: CO_2/R'm is at R1 098.62, a 19% change since 2015. A long-term emission target of 10% was set to be achieved over five years (2012 – 2017) for Scope 2 emissions, and will only include Life Healthcare acute hospitals in southern Africa. The Group achieved a 8.6% reduction of carbon over the period 2012 to 2016 and will continue with a downward trend due to projects such as Life Fourways Hospital's solar project (PV) and the results of phase 3 of the heat pump project. **Carbon footprint for Eskom energy used** CO_2 (tonnes): **158 643** (2016); 164 655 (2015); 169 684 (2014); 169 146 (2013); 173 584 (2012)
Electricity	Electricity supply across the country remains volatile. All southern African operations are equipped with back-up generators and a fail-safe generator that allows facilities to operate without grid supplied power for a limited period. Energy-efficient projects such as solar and heat pump programmes assist in reducing consumption levels to further decrease the natural impact and operational costs associated with electricity consumption. Total consumption for the year reduced by 2.55% from 69.86 kWh/PPD in 2015 to 68.08 kWh/PPD in 2016. The Group is exploring the possibility of extending generator back-up facilities to cover all aspects of the hospitals' operations, including external service providers on-site, such as radiology, pathology laboratories or doctors' consulting suites. The security of supply is the main rationale for the investigation.
Solar power	After initiating the solar electricity project at Life Anncron Hospital in 2014 with the installation of 1 711 photovoltaic (PV) solar panels, the facility reduced its electricity consumption significantly year-on-year, providing 737 546 kWh and CO_2 savings of 759.67 tonnes per annum. The estimated savings for the year is R0.8 million. The 580 kilowatt peak[1] (kWp) Life Fourways Hospital PV project commenced in May 2016. The project was commissioned on 1 October 2016 and has started producing an average of 2.7 MWh per day. The Group expects an annual generation of 1 Gigawatt from what will be the second-largest hospital PV installation in the world, with 3 400 panels.
Water	Water shedding or shortages are mainly related to government maintained infrastructure issues and the Group continues to ensure adequate water storage capacity at its facilities to reduce the impact of water outages on operations and ultimately, on the patient. Life Healthcare performed a Group-wide survey in 2016 to establish our water back-up status and identified the need to continue increasing its storage capacity in line with international trends, to 24-hour back-ups per site. The expansion project was completed in September 2016. The Group's water consumption for the year reduced by 21.1% from a 0.71 kl/PPD to 0.56 kl/PPD in 2016.
Heat pumps and occupancy sensors	The Group's reduction target for electricity use is 10% over a five-year period (2012 – 2017) and the installation of heat pumps (which started in 2012) has been pivotal to the progress made. The third phase of the installation was completed in September 2016, adding an additional 15 hospitals to the list. Life Healthcare anticipates a further saving of 1 495 403 kWh per annum. National roll-out planned for the year is yet to be implemented for occupancy sensors. At present, only Life Healthcare's Head Office features lighting and occupancy technology, achieving a 39% energy saving.
Others	Hydrogen fuel cell technology was investigated and has been deemed too costly for the Group, with a return on investment period in excess of 25 years. Further investigation is unnecessary. Instead, the Group has centralised its metering system, which enables the real-time tracking of energy and water consumption. Management of consumption resulted in energy and water savings at most of its facilities. Similar sized facilities are now monitored and compared to one another and reliable data results allow the Group to validate municipal accounts and challenge discrepancies once identified.

Environmental initiatives and improvements in Scanmed

An environmental management system based on ISO 14001:2004 is in use and environmental aspects which have a significant impact on the environment are monitored. Overall, electricity and water usage declined as a result of initiatives such as "Be ECO" which promotes responsible use of resources, and the use of energy efficient aerated taps and LED lighting for example.

Outlook

Focus for the future remains on furthering energy and water savings through continued investment in green technologies while using sustainable building materials that will comply with SANS 10400 for brownfield expansions and greenfield growth. By applying these principles, Life Healthcare will further reduce its carbon footprint in line with its 2020 strategy for sustainability metrics.

[1] *Term used to define the maximum generation capability of the PV system.*

CORPORATE SOCIAL RESPONSIBILITY

Life Healthcare's corporate social responsibility (CSI) programmes continue to provide value to the communities in which it operates and in which its employees reside, through contributions and programmes that drive sustainable change, health (community upliftment and healthcare) and education (training and research) projects.

A total financial contribution of R68.9 million was allocated to CSI (2015: R76.8 million) and going forward, Life Healthcare will focus on channelling funds towards Group created initiatives.

Socio-economic development is one of five elements in the revised B-BBEE scorecard, and as such the CSI steering committee has been incorporated in the B-BBEE steering committee chaired by the Group Chief Executive Officer, reporting into the social ethics and transformation committee.

The table highlights some of the Group's key projects and initiatives:

CSI (foundation spend)	The Group established the Life Healthcare Foundation in 2007 to channel and expand the Group's CSI, focusing on registered non-governmental organisations (NGOs) and not-for-profit organisations (NPOs). The foundation's focus reflects the Group's purpose of making life better. The Group has built relationships or partnered with a number of NGOs, supporting specialists, suppliers, academic institutions and the Department of Health to add impetus to the foundation's various initiatives.
Public Health Enhancement Fund (PHEF)	This collaboration between the National Department of Health and 23 private healthcare companies aims to leverage funds within the private sector to maximise benefits for priority projects. Life Healthcare participates in the Social Compact Forum pledging a fixed annual contribution over an initial period of three years in order to collaborate on strengthening the public health system. Ultimately, it is envisaged that this institutional engagement will assist in shaping a better future healthcare system for South Africa. The initial projects funded by the PHEF have been targeted at building human capital to address the challenge of HIV and Aids, and to develop leadership capacity within the public health system. The funding formula for the PHEF requires 0.75% of net profit after tax for participation in the fund and it links the contribution to the social economic development pillar of the B-BBEE Act. The cumulative value contributed is R26 million (2015: R26 million). There are 74 undergraduate medical students in the programme, most of whom were from previously disadvantaged backgrounds. The Group did not contribute to the fund in 2016, but will do so next year.
Pro-deo (reduced or no cost to patient)	Patients who cannot afford to pay their bills receive reduced accounts or free services, especially for visits to the emergency units. Patients are treated irrespective of their ability to pay and referred for further management thereafter.
Move it – Moving Matters	An age appropriate curriculum-based intervention programme for children at primary and high school level that promotes physical activity to aid the youth at various schools in attaining their development goals. The programme began in 2014, with annual contributions that will total R2.8 million by 2017. R855 000 was contributed in 2016.
Life Healthcare/CMSA sub-specialist bursaries	The Group committed R78 million over six years (2013 – 2019) in order to sponsor doctor sub-specialist training, which takes between two and three years to complete. Since 2013, a total of 20 sub-specialists have benefited from the bursary.

RISK MANAGEMENT AND KEY RISK ANALYSIS

Risk management

Ultimate responsibility for the governance of risk rests with the board, supported by the risk committee. The committee ensures that the Group implements an effective risk policy and plan for risk management to enhance Life Healthcare's ability to achieve its strategic objectives. The responsibility for the implementation of risk management policies and processes rests with line management and employees.

Life Healthcare has developed an enterprise risk management strategy and framework to provide executive management and the board with reasonable assurance that the Group's risks are being appropriately identified, assessed and managed. The enterprise risk management strategy and framework were developed in accordance with the King III Code of Corporate Governance and are aligned to ISO 31000 international standards on risk management. The risk management processes are aligned with the Group's values and strategic focus areas. They are an integral component of the business process structure.

The board and risk committee confirm that they are satisfied that there are adequate, ongoing risk management processes in place, providing reasonable assurance that key risks are identified, evaluated and managed.

The Group uses a combined assurance model for the identification, prioritisation, assessment, mitigation and monitoring of operational, financial and business risks. The model aims to embrace the tasks of internal audit, risk and management reviews and specialised audits that test and validate the internal control environment. Internal audit and the executives responsible for implementing control processes take responsibility for providing the necessary assurance that controls are implemented and maintained.

Refer to page 4 for an overview of the combined assurance model.

Embedding risk management processes in day-to-day operations ensures that the Group is better equipped to identify events affecting its objectives and to manage risks in ways that are consistent with its strategy. The Group Risk Manager engages with key executives and senior management both locally and internationally to identify risks. Southern Africa risks together with Scanmed risks are incorporated into the Group risk register whilst the risk report of Max Healthcare is submitted to the Group annually. The risks are analysed, evaluated and ranked according to the level of risk exposure taking into account its impact and likelihood. For each risk, the Group determines a desired risk ranking by considering the risk appetite and risk tolerance. Appropriate action plans ensure that significant risks are reduced to acceptable levels. Life Healthcare's key risks are closely aligned with the material matters.

Key risk analysis

This section should be read in conjunction with the material matters section on pages 46 to 50. The likelihood of each risk is indicated, and rated on a scale of 1 – 5, with 1 indicating that there is a rare possibility of its occurrence and 5 indicating that it is almost certain to occur. In scoring impact, the anticipated outcome of the risk is rated from 1 – 5, with 5 indicating a more serious impact and 1 indicating a negligible impact.

Top risks

	Risk description and link to material matters	A summary of the risk mitigation and references to further information
1	*Doctor shortages* There is a general shortage of specialist doctors in the South African healthcare market, which may have an impact on the Group's growth prospects. The Group does not directly employ doctors, hence they may terminate their association with the Group at any time. In addition, the age profile of doctors in the country is worsening, with an increasing average age of practitioners. The Group is experiencing a particular shortage in the recruitment of neurosurgeons, cardiologists, obstetricians, gynaecologist and orthopaedic surgeons. *Related material matters* • Specialised skills shortages • Quality of care standards	A recruitment and retention strategy is in place. The Group is re-investing in local business by improving infrastructure and equipment at facilities. • Sustainability (doctors), page 91. • Responding to stakeholder expectations (doctors), page 56. The Group is exploring the opportunity to leverage skills and knowledge transfers from facilities in Poland and India to South Africa.
2	*Medical healthcare funder consolidation and growth of funder networks* Price determination based on the concentration of medical healthcare funders is an area of concern. Growth of restricted option networks and the ability of the Group to participate in the network and maintain existing networks remains a risk. *Related material matters* • Cost of care	An appropriate pricing strategy with a focus on input costs is in place. The Group focuses on maintaining good relations with funders, particularly top tier and network partners, as well as recruiting doctors who service the restricted network patients. • Responding to stakeholder expectations (medical healthcare funders), page 57. • Efficiency (alternative reimbursement model), page 71.

	Risk description and link to material matters	A summary of the risk mitigation and references to further information
3	*International growth* The size and complexity of international transactions, the lack of an in-depth understanding of the specific international targets healthcare market and potential political and country risks associated with the target geography. There is a risk that international growth projects business case forecasts will not be achieved. *Related material matter* • Growth through expansion	Investments are managed by senior management and follow a detailed governance process, including due diligence, as well as executive, investment committee and Board approval as per the Group's policy. Post-investment reviews against business case for all material investments are undertaken. • Refer to the investment committee, page 104.
4	*Local growth* New complementary service lines create additional clinical and reputational risks, and can result in loss of revenue from existing service lines. There is risk that new business models or complementary service lines of business forecasts are not achieved. *Related material matter* • Growth through expansion	Potential investments and new lines of business are reviewed by the growth committee and approved by the Executive. Post-investment reviews against business case for all material investments are undertaken. The growth of the renal dialysis business forms a key part of the Group's strategy. • Refer to the growth strategy, page 62.
5	*Government licence approvals* The South African Department of Health's licensing and approval process may restrict the Group's growth. *Related material matters* • Cost of care • Government relationships • Onerous and increasing regulations • Quality of care standards	Establish a close working relationship with key institutions to advocate for the necessity of obtaining license approvals. The Group continues to advocate for a consistent, transparent and timeous licensing framework. • External environment (bed licences), page 8. • Responding to stakeholder expectations (government), page 58. • Chairman's review (NHI and HMI stance), page 30. • Governance, accountability and remuneration (key regulations), page 112.
6	*Regulatory environment* The healthcare industry is subject to a number of national and provincial regulations, including the Labour Relations Act, B-BBEE Act, POPI Act, the National Health Act (including the amendment dealing with core standards) and a vast number of environmental laws. *Related material matter* • Onerous and increasing regulations • Quality of care standards	Proactively monitor and provide input where possible in any new proposed legislation, in the interest of all stakeholders, particularly the patients. This includes Group and industry research and analysis to assist in the debate regarding any proposed legislative initiatives. • External environment (macro regulatory requirements), page 8. • Governance, accountability and remuneration (key regulations), page 112.

	Risk description and link to material matters	A summary of the risk mitigation and references to further information
7	*Skilled personnel shortages – pharmacists and nurses* South Africa has a general shortage of pharmacists, specialised and registered nurses and other healthcare professionals, which impacts on the Group's service delivery and ability to grow. *Related material matters* • Specialised skilled shortages • Labour relations and employee retention	Broad based employee share scheme is in place together with improved remuneration and maternity benefits to attract and retain employees. Nurse training (through the Life College of Learning) is in place, and the Group currently trains 1 324 nurses. The Group has increased its intake of nurses from India and is exploring other geographies to source nurses. Graduate recruitment has increased by attending career fares at universities and promoting awareness about nursing as a career. Projects were carried out aimed at reducing employee turnover. Turnover trends of the employee categories are monitored and response strategies are formulated when unacceptable trends emerge. • Responding to stakeholder expectations (employees), page 55. • Sustainability (healthcare professionals), page 89.
8	*IT security, disaster recovery and IT implementation projects* In the event of a disaster, there is a risk of inaccurate interfacing between integrated systems that may be difficult to reconcile. There is a risk that the Group's information and data may be corrupted or compromised due to intrusion by hackers. There is an implementation risk on IT projects. *Related material matter* • Cost of care	The IT department performs risk assessments regularly and carries out disaster recovery tests twice per year. IT security controls are in place and appropriate firewalls and anti-virus software are in place. Penetration tests and vulnerability assessments are performed on a regular basis. • Information Technology, page 73.
9	*Medical negligence and reputation risk* South Africa is experiencing growing instances of litigation and medical negligence, some of these may arise from actual lapses. Adverse events could affect patients and the Group's reputation. *Related material matter* • Quality of care standards	A Quality Management System (QMS) is employed to ensure quality healthcare is provided. QMS is underpinned by ISO 9001 standards, which set out specific requirements for managing quality and promoting compliance with procedures, thereby creating a culture of error prevention and continuous improvement. Insurance is in place for medical negligence claims and doctors are required to take out doctor medical negligence insurance. A clinical risk register is prepared which details of the summons for the last three insurance years. An analysis detailing trends in clinical risks is performed and clinical interventions are developed to mitigate the clinical risk going forward. A media strategy in place on how to deal with adverse complaints brought through the media. Media training is provided to the Executive to ensure key messages are presented to the media factually and in a transparent manner. • Quality, page 76.

GOVERNANCE, ACCOUNTABILITY AND REMUNERATION

Governance overview

Life Healthcare is led by the board of directors that provides leadership and strategic direction to the Group. The board is cognisant of the role that corporate governance plays in the delivery of sustainable growth and strives to maintain and develop an ethical environment that delivers value to the Group's shareholders and stakeholders. The board is committed to the principles and practice of good corporate governance, as recommended in King III, and considers these as integral to the discharging of its abilities. The principles of King IV are being investigated to ensure proactive adoption and integration in line with the Group's business principles of honesty, transparency, integrity, discipline and accountability.

Highlights

- Following consultations with major shareholders and a number of policy iterations tabled at board meetings, the remuneration policy recommended by the board was approved by shareholders at the 2016 annual general meeting, after being rejected at the 2015 meeting.
- The restructuring of the Group's executive to allow an optimal structure that focuses on the Group's international diversification strategy while ensuring consistent focus on, and growth of, the southern African business.
- The board has increased its focus on information technology (IT) to leverage greater efficiencies.

Challenges the board focused on

- Improving the focus on transformation and the Group's B-BBEE rating.
- The reduction in tariffs for cardiology and neurosurgery procedures in Poland and the consequent impairment.
- The integration of the Polish operations in terms of its governance structures.
- Emerging themes from the Healthcare Market Inquiry.
- Cost of care and healthcare trends.
- Succession planning at senior and executive management levels.

Update on 2016 board focus areas

Focus area	Progress during 2016
Performance of the southern African business	The southern African operations experienced good activity growth with an overall PPD growth of 4.0%. Refer to the Group Chief Executive Officer and Group Chief Financial Officer reports on page 32 and 36 respectively.
Diversifying the earnings through international business expansion	Scanmed acquired 100% of PGM and 25% of its subsidiary RCM. The board also approved the acquisition of Saket City Hospital by Max Healthcare Institute Limited, adding 225 beds with the right to further expansion.
Quality improvement to positively impact clinical and quality outcomes	There has been an improvement in the Group's patient experience management (PXM) scores. With improved monitoring, some metrics have worsened. The Group has shown a decrease in the occurrence of patient incidents in the four key patient risk areas. The overall Group infection rate year-on-year shows consistent improvement.

Refer to the Chairman's review on page 28 for the 2017 board focus areas.

Changes to board members

- Mpho Elizabeth Nkeli was appointed as an independent non-executive director of the Group with effect from 1 October 2015. She was also appointed as a member of the social, ethics and transformation committee, and the remuneration and human resources committee with effect from 12 November 2015.
- Joel Netshitenzhe stepped down as a member of the social, ethics and transformation committee with effect from 12 November 2015 based on a prior agreement to serve on the committee as an interim measure until a new board member was appointed.

Governance structure and board composition

The board continues to be responsible for our strategic direction through effective leadership.

Governance structure

The board sets the strategic objectives of the Group, determines investment policy and performance criteria, and delegates the detailed planning and implementation of policies to management in accordance with the appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

It considers issues of strategic direction, significant acquisitions and disposals, and approves major capital expenditure, financial statements and matters having a material effect. Board members are encouraged to debate and challenge issues in an atmosphere of mutual respect and cooperation.

The role of the board is regulated in a formal board charter, which defines its authority and power. In accordance with its charter, the responsibilities of the board include:

- acting as a focal point for and custodian of corporate governance;
- identifying key performance and risk areas;
- ensuring the Group's strategy will result in sustainable outcomes;
- considering sustainability as a business opportunity that guides strategy formulation;
- approving the Group's strategy and annual business plans;
- ensuring that the Group's ethics are effectively managed;
- the governance of risk;
- overseeing IT governance;
- assessing the impact of the Group's business operations on the environment; and
- approving and adopting Group policies, programmes and procedures in relation to safety, health, economic, social and environmental impacts, and remuneration and benefits.

Life Healthcare has a unitary board of directors and various board sub-committees as shown in the diagram that follows.

While retaining overall accountability, the board has delegated authority to the Group Chief Executive Officer to run the day-to-day affairs of the Group. The Group Chief Executive Officer is supported by the group executive management committee. The board also created sub-committees to enable it to discharge its duties and responsibilities properly and to fulfil its decision-making process effectively. Each committee acts with appropriate terms of reference. Board committees may take independent professional advice at the Group's expense when necessary.

BOARD

As the highest decision making body of the Group, the board is accountable for the sustainable and ethical operations of Life Healthcare through sound governance practices in line with the principles of King III.

AUDIT COMMITTEE

Constituted as a statutory committee in terms of section 94 of the Companies Act. It has an independent role with accountability to both the board and shareholders.

The overall function of the committee is to:

- assist the directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes;
- ensure that the preparation of the integrated report and fairly presented financial statements are in compliance with all applicable legal and regulatory requirements and accounting standards;
- discharge statutory duties for all subsidiaries of the Group which do not have their own audit committee; and
- monitor the activities of the other audit and/or governance committees within the Group.

The report from this committee is detailed on page 4 of the annual financial statement.

RISK COMMITTEE

The role of the committee is to assist the board to ensure that:

- the Group has implemented an effective policy and plan for risk management that will enhance the Group's ability to achieve its strategic objective; and
- the disclosure regarding risk is comprehensive, timely and relevant.

NOMINATIONS COMMITTEE

Assists the board to ensure that:

- the board has the appropriate composition for it to execute its duties effectively;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors take place; and
- formal succession plans for the board, Chairman of the board, Group Chief Executive Officer and Group Chief Financial Officer appointments are in place.

While devising criteria for board membership and board positions, the nominations committee determines and recommends changes to the board and any adjustments required regarding the Group's governance policies and practices. The committee identifies, evaluates and nominates candidates to fill vacancies for executive, non-executive and independent directors of the Group for approval by the board, and also recommends the number of directors on the board and the various committee structures.

INVESTMENT COMMITTEE

The committee evaluates investment proposals and makes appropriate recommendations to the board on annual budget parameters and capital expenditure for the Group.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

Assists the board to ensure that the Group has a clearly articulated remuneration philosophy and that:

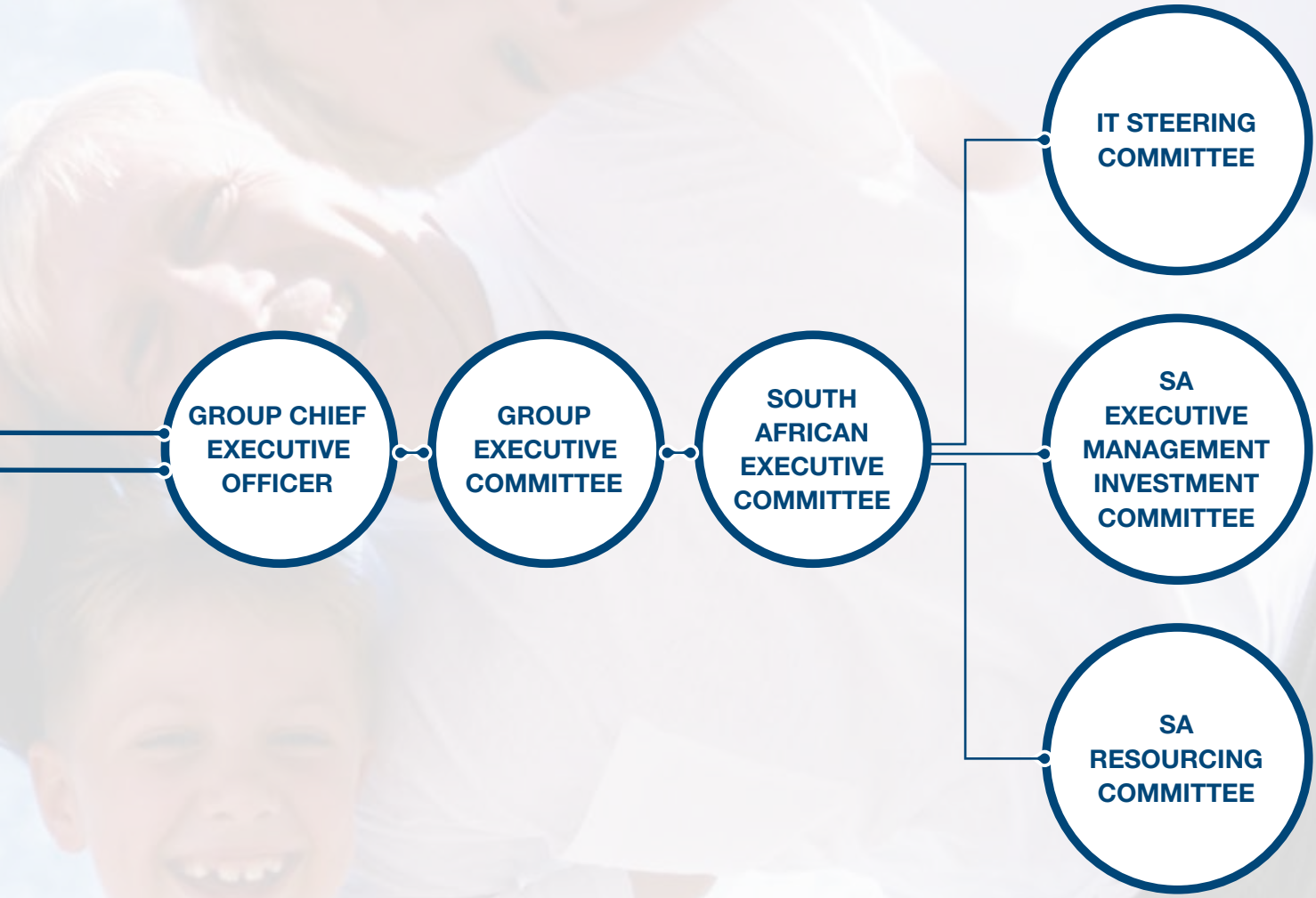
- the design and implementation of remuneration structures are consistent, fair, legally compliant and equitable;
- employees and executives are fairly remunerated; and
- the disclosure of non-executive director and executive director remuneration is accurate and transparent.

SOCIAL, ETHICS AND TRANS-FORMATION COMMITTEE

The social, ethics and transformation committee is constituted as a statutory committee in terms of section 72(4)(a) of the Companies Act.

The main purpose of this committee is monitoring the Group's actions and impacts on the environment, consumers, employees, communities and other stakeholders whilst maintaining the highest level of good corporate citizenship.

The report from this committee is detailed on pages 135 and 136.



Updated executive structure

In line with maintaining local focus while enabling international diversification, the board revised the executive structure of the Group. Refer to the Chairman's review on page 28 for details. The organogram of the current structure is on page 116.

Board composition

The composition of the board reflects an appropriate balance between the executive and non-executive directors. A brief biography of each director is available online at www.lifehealthcare.co.za.

Board composition as at 30 September 2016

Board of directors

1
Non-executive director
MA Brey

8
Independent non-executive directors
PJ Golesworthy
Prof ME Jacobs
LM Mojela
JK Netshitenzhe
Dr MP Ngatane
GC Solomon
RT Vice
M Nkeli

2
Executive directors
A Meyer
PP van der Westhuizen

Board skills, experience and diversity

Experience
- Healthcare sector
- Mergers and acquisitions
- Leadership roles
- Human resources
- Governance of risk management
- International business experience
- Procurement

Skills
- Finance
- General business
- Strategy
- Medical

Tenure on the Group's board

< 3 years	3 – 5 years
4	1
5 – 9 years	> 9 years
3	3

Gender diversity

Male	Female
73%	27%

Equity diversity

ACI[1]	White
55%	45%

[1] *African, Coloured and Indian*

Power, control, support and appointments

Mustaq Brey, a non-executive director, is the Chairman of the board. In accordance with King III, Peter Golesworthy is the lead independent non-executive director. André Meyer, an executive director, is the Group Chief Executive Officer. The roles of Chairman and Group Chief Executive Officer are separate and there is a clearly outlined division of responsibilities.

In compliance with JSE Listings Requirements, non-executive directors do not participate in any share incentive or option scheme of the Group.

The board ensures that no individual has unfettered powers of decision-making and authority, and that shareholder interests are protected. The board considers that there is an appropriate balance of knowledge, expertise and collective experience among the non-executive directors. The non-executive directors are considered to have the skills and experience to have objective judgement on issues of strategy, resources, transformation, diversity and employment equity, standards of conduct, evaluation of results and economic, social and environmental policies.

At the Group's expense, directors are entitled to seek independent professional advice to further their duties. All directors have access to the Company Secretary, who is responsible for ensuring Group compliance with applicable legislation and procedures.

Any new appointments to the board involve a formal and transparent process and are a matter of consideration for the full board, assisted by the nominations committee.

The board recently approved a board diversity policy. Their policy will apply to the appointment of new directors and will be taken into account for purposes of succession planning for the board. In making recommendation to the board on the appointment of a board member, the nominations committee will make the recommendation on merit and will consider candidates against objective criteria having due regard to the benefits of diversity, including gender, and the contribution that the candidate will bring to the board. In this regard, there is an ongoing commitment from the board to strengthen female representation on the board, and preference will be given to female candidates who meet the criteria. The memorandum of incorporation stipulates that one-third of the board members will retire from office at the annual general meeting and will be eligible for re-election. The directors to retire are those who have been in office longest since their last election or appointment. The Group Chief Executive Officer and Group Chief Financial Officer are included in determining the rotation of retiring directors.

Effective control is exercised through the Group Chief Executive Officer, who is accountable to the board through regular reports. Senior executives have access to board meetings as and when necessary to apprise the directors of important events and to develop and implement strategy. This encourages communication and cooperation between the directors and executive management.

Directors' attendance at board and sub-committee meetings

The board meets quarterly and on an ad hoc basis to consider specific issues as needed. The board and management meet annually to review strategy and agree on focus areas. Where directors are unable to attend board meetings for any reason, every effort is made to communicate their comments regarding the agenda and general items.

	Board	Audit committee	Remuneration and human resources committee	Nominations committee	Risk committee	Social, ethics and transformation committee	Investment committee	Director to be elected or re-elected
Number of meetings held	**5**	**4**	**3**	**2**	**3**	**3**	**9**	
Chairman								
MA Brey[1]	5			1			9	
Independent non-executive directors								
PJ Golesworthy	5	4		2	2		9	
Prof ME Jacobs	5		3		3			X
LM Mojela	4	4	3	2		3		
JK Netshitenzhe	5				3	1**		X
Dr MP Ngatane	4			1		3		
M Nkeli	4		2*			2*		
GC Solomon	5	4	3				9	
RT Vice	5	4	3				9	X
Executive directors								
A Meyer	5				3	3	9	
PP van der Westhuizen	5				3		9	

[1] *Non-executive director – attends all the board sub-committee meetings as an invitee where he is not a member.*

* *Appointed to the remuneration and human resources and social, ethics and transformation committees on 12 November 2015.*

** *Stepped down as a member of the social, ethics and transformation committee on 12 November 2015 as he agreed to serve on the committee as an interim measure until a new board member was appointed.*

Board accountability

Code of ethics

The board is responsible for ensuring that management embeds a culture of ethical conduct and sets the values by which the Group abides. As such, Life Healthcare's code of ethics (the code) commits employees to the highest standards of integrity, ethics and business conduct. In living the values, the Group has earned a reputation in the industry for fairness and ethical behaviour in all its business dealings and processes.

The code is available at www.lifehealthcare.co.za.

Allegiance to the code is the starting point from which employees draw guidance for behaviour within the Group. The code sets out policies and procedures to be followed in all aspects of professional, clinical and business dealings, and establishes a set of standards. It guides employees in their behaviour towards supporting medical professionals, patients, customers, suppliers, shareholders, co-workers and the communities in which the Group operates. The code also extends to safety, health, security, conflicts of interest, environmental issues and human rights. While common sense, good judgement and conscience apply in managing a difficult or uncertain situation, the code assists in detailing the standards and priorities within the Group.

A confidential guidance and support hotline, operated by an international accounting firm, provides an independent facility for employees to report fraud or any form of malpractice. A policy of non-retaliation protects and encourages people wishing to share their concerns. The Group maintains a zero-tolerance approach to fraud. Executives and line management are responsible for implementing procedures against fraud and corruption.

In tandem with the code, individuals from Life Healthcare are represented on the South African Nursing Council, and the Professional Conduct committee that monitors professional misconduct within the nursing profession. Professional employees are encouraged to become members of their professional associations.

The ethical standards of the Group, as stipulated in the code, are monitored to track achievement. In the case of non-compliance, appropriate disciplinary action is taken as Life Healthcare responds to offences and aims to prevent recurrence. New employees are familiarised with the guiding principles contained in the code as part of their induction. The code is presented to the social, ethics and transformation committee annually where relevant updates are discussed and submitted to the board for approval. No material changes to the code were made in 2016.

Internal controls

Management maintains accounting records, and has developed systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements. The board delegates responsibility for the adequacy and operation of these systems to the Group Chief Executive Officer. These records and systems are designed to safeguard assets and minimise fraud. The systems of internal control are based on established organisational structures, such as written policies and procedures, which include budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts.

The Group has a key operational processes checklist, and has assigned responsibilities for controls in the processes to relevant employees. Compliance is tested by internal and external audit reviews.

Internal audit

Internal audit is an independent appraisal function. It examines and evaluates the Group's activities and the appropriateness, adequacy and efficiency of the systems of internal control and resultant business risks. In terms of the audit committee terms of reference, the Group Internal Audit Manager reports to the audit committee and has unrestricted access to its chairman, the Chairman of the board and the Group Chief Executive Officer.

Audit plans are formulated based on the assessment of the Group's key risks. Every assignment is accompanied by a detailed report to management, which includes recommendations for improvement. Significant business risks and weaknesses in the operating and financial control systems are highlighted and brought to the attention of the audit committee, senior management and external auditors. The audit work plan is presented in advance and approved by the audit committee.

The internal audit department is responsible for managing the investigation of reported incidents and informing the audit committee of the results. Employees, doctors and suppliers can report suspected irregularities anonymously to an independent service provider. These reports are also investigated by internal audit and reported on at the audit committee and the social, ethics and transformation committee.

Induction and training of directors

It is important that directors are kept up to date with their duties and changes in the Group. On appointment, new directors are briefed on their fiduciary duties and responsibilities by executive management. The nominations committee approved an induction policy which includes the reading material to be provided to new directors as well as the required exposure to the business. The policy is reviewed annually by the nominations committee. In addition, new directors receive information on JSE Limited Listings Requirements, King III, Companies Act and obligations they have to comply with. The Group Company Secretary assists the Chairman with the induction of directors.

Directors are informed of relevant new legislation and changing commercial risks that affect the Group. Board training sessions are linked to board meetings.

Independence and conflicts of interest

The Group's nominations committee is responsible for assessing the independence of the Group's directors on an annual basis. Independence is determined according to the definitions in King III, which also takes into account the number of years a director has served on the board. The board also determines whether directors are independent in terms of character and judgement. The board was satisfied that all its independent non-executive directors met its independence criteria for the 2016 financial year.

Directors are required to avoid a situation where they may have a direct or indirect interest that conflicts with the Group's interests. A conflicts of interest policy is included in the code of conduct and ensures that directors disclose conflicts of interest at every meeting in terms of section 75 of the Companies Act. Directors present an updated list of their directorships and interests to the Company Secretary on an annual basis, or when a change has occurred.

Succession planning

Succession planning is important in ensuring continuity and maintaining the correct mix of expertise on the board. The nominations committee continually assesses the board and its sub-committees' composition. This year, the nominations committee suggested that targets should be set to guide the succession planning process based on the need to appropriately refresh the thinking and skill set of the board in the future. The targets are in respect of the maximum number of directors, non-executive directors and independent non-executive directors, as well as board diversity, including the gender split. The ultimate aim of the board is to have an equal balance of male and female board members. The nominations committee recommended a board diversity policy to the board, which the board adopted.

The board is satisfied with the current board composition for the year under review.

Board evaluation

The prior year's internal board assessment identified three key focus areas:

Focus area	Progress in 2016
The role of the board in stakeholder engagement needs to be more clearly defined.	• The board approved a stakeholder engagement framework in November 2015, which will be reviewed periodically. • The involvement of the board in consideration of the responses to the HMI and NHI in particular has enabled it to contribute to stakeholder engagement.
The board's desire to interact more broadly across the organisation to gain a better understanding of the operations.	• One board meeting per annum takes place at a Group hospital. The meeting is then followed by a hospital tour where board members have the opportunity to engage with employees. The board strategy session also takes place at a Group hospital. • Members of executive management have the opportunity to present relevant issues at board meetings.
The implementation of succession planning for the board going forward.	• At the nominations committee meeting held on 21 October 2015, it was agreed that there was a need for appropriate succession planning for the board as a whole, taking into account the average age, MOI required retirements in the next two to three years, and the importance of refreshing the skills set as a whole. • It was agreed that it was important that this be appropriately planned for, with the relevant skills being brought on to the board before vacancies arose in order to ensure a smooth succession. • The chairman and the lead independent director commenced the process by gaining an understanding of the intentions of individual board members with regard to their service and thereafter a refresh of the board skills analysis was undertaken. The review also provided an opportunity for an analysis of the board generally with the objective of ensuring that its composition and skills set is appropriate.

The internal 2016 evaluation was conducted through questionnaire-based assessments under the auspices of the nominations committee. Overall, the board and sub-committees were found to be operating effectively.

Similar issues to those raised in 2015 were again highlighted. Whilst progress was made on these issues during 2016, further efforts will be made in 2017 to ensure that substantial progress is made.

External evaluations are conducted every three years and the next evaluation will be performed in 2017.

Group Company Secretary

The role of Fazila Patel as Group Company Secretary is to guide the board in its duties and responsibilities, keeping directors abreast of relevant changes in legislation and governance best practices. She works with the board to ensure compliance with Group policies and procedures, applicable statutes, regulations and King III.

She plays an active role in the Group's corporate governance process and ensures that the proceedings and affairs of the directorate, the Group and, where appropriate, shareholders are properly administered. The Group Company Secretary also oversees the induction of new directors. She is kept apprised of directors' dealings in Life Healthcare's shares and ensures that the appropriate disclosures are made in accordance with the JSE Limited Listings Requirements.

In line with King III and paragraph 3.84(i) and (j) of the JSE Limited Listings Requirements, the board assessed the competence, qualifications and experience of the Company Secretary through a formal evaluation process conducted under the auspices of the nominations committee. Following the assessment, the board is of the view that she has the requisite qualifications and expertise to effectively discharge her duties. Fazila Patel's qualifications and biography are online at www.lifehealthcare.co.za.

The board also considered whether the Group Company Secretary maintains an arm's length relationship with the board, and concluded that an arm's length relationship is maintained. In this regard, the board took into account that the Group Company Secretary is not a director, nor is she related to or connected to any of the directors that could result in a conflict of interest.

Board sub-committees

Each sub-committee is chaired by an independent non-executive director. Certain executives are required to attend sub-committee meetings by invitation. External auditors attend the audit committee meetings.

Refer to page 107 for meeting attendance.

The sub-committees report back to the board at every board meeting and the minutes of the sub-committee meetings are tabled for noting. Where the minutes are not available, the chairman of the sub-committee provides verbal feedback and the minutes are then tabled for noting at a subsequent board meeting.

The role of the board sub-committees is formalised by terms of reference which define their authority and scope. All sub-committee terms of reference were reviewed and amended where relevant. The amendments are highlighted in the table on page 111. There were no changes in key terms of reference for board sub-committee's in 2016 unless stated.

Audit committee

Composition

Chairman:
- Peter Golesworthy

Members
- Louisa Mojela
- Garth Solomon
- Royden Vice

Key focus areas in 2016:
- Review of all aspects of financial reporting.
- Internal and external audit planning and outcomes, including outsourcing of the IT internal audit to EY and Poland internal audit to Deloitte.
- Financial statement optimisation project.
- Integration of the financial systems of Scanmed and governance.
- SAP ERP project.
- Legislative and regulatory compliance and assurance.
- Poland impairment calculation.

Risk committee

Composition

Chairman:
- Joel Netshitenzhe

Members
- Peter Golesworthy
- Prof Marian Jacobs
- André Meyer
- Pieter van der Westhuizen

Key focus areas in 2016:
- IT governance and risks.
- HMI.
- Compliance with legislation.
- Quality.
- Approval of the risk policy, risk management framework, risk appetite and risk tolerance.

Nominations committee

Composition

Chairman:

- Peter Golesworthy

Members

- Mustaq Brey
- Louisa Mojela
- Dr Malefetsane Ngatane

Key changes to terms of reference in 2016:

The terms of reference were amended to make provision for the committee to assess the performance of the Group Chief Executive Officer.

Key focus areas in 2016:

- Succession planning for the board.
- Board diversity policy.

Investment committee

Composition

Chairman:

- Garth Solomon

Members

- Mustaq Brey
- Peter Golesworthy
- Royden Vice
- André Meyer
- Pieter van der Westhuizen

Key focus areas in 2016:

- Post investment analysis of local and international acquisitions and the five-year forecast.
- The Group's overall investment strategy.
- B-BBEE scorecard and the ownership element.
- Efficient funding options for the Group.
- Potential acquisition opportunities in South Africa, Poland and India.

Remuneration and human resources committee

Composition

Chairman:

- Royden Vice

Members

- Prof Marian Jacobs
- Louisa Mojela
- Mpho Nkeli
- Garth Solomon

Key focus areas in 2016:

- Restructure of the Group and South African executive.
- Succession planning for executive and senior managers.
- Further revisions to the Group's remuneration policy.

Social, ethics and transformation committee

Composition

Chairman:

- Louisa Mojela

Members

- Joel Netshitenzhe*
- Dr Malefetsane Ngatane
- Mpho Nkeli
- André Meyer
- Dr Nilesh Patel

** Stepped down as a member on 12 November 2015*

Key focus areas in 2016:

- CSI initiatives.
- HMI.
- POPI gap analysis.
- B-BBEE scorecard.
- Transformation and skills development.

Codes, regulations and compliance

The board is responsible for the Group's compliance with applicable laws, rules, codes and standards. Compliance is an integral part of the Group's culture in ensuring the achievement of its strategy. The Group's board has delegated the implementation of an effective compliance framework to management. The Group complies with various codes and regulations such as the Companies Act, the JSE Limited Listings Requirements and King III.

Statement of compliance with King III

The board is satisfied that Life Healthcare complied with the majority of the King III recommendations. The two main areas of non-compliance relate to:

- Not all sustainability reporting and disclosures are independently assured, which is an area where the Group does not fully apply King III. The board is satisfied that the combined assurance process followed provides sufficient assurance over the accuracy and completeness of the integrated report. The board will periodically assess whether additional external assurance is required. Refer to page 4 for the assurance approach relating to the integrated report.
- The Chairman of the board is not an independent non-executive director. In accordance with King III, a lead independent non-executive director has been appointed.

The King III compliance register can be found on the Group's website www.lifehealthcare.co.za.

Key regulations

The table below lists the key regulations that impact Life Healthcare, and the Group's response:

National Health Act's Office of Health Standards Compliance	The Minister of Health intends to set norms and standards for quality, in terms of the National Health Act, 61 of 2003. These norms and standards will be aligned with the norms and standards for health establishments as published by the Office of Health Standards Compliance. The draft norms and standards were published for comment in March 2015. Life Healthcare has reviewed the documents and presented its comments to HASA. HASA attorneys have prepared the consolidated version incorporating the various groups' feedback for submission to the Minister. HASA has submitted collective comments on the regulations and these highlight many issues contained in the regulations that currently apply equally to public and private facilities despite the significant differences in operating practices and regulatory frameworks.
National Health Insurance (NHI)	South Africa's National Department of Health released the White Paper on National Health Insurance (NHI) on 10 December 2015. The Group submitted its response to the NHI White Paper in May 2016 with a position that fundamentally supports the principle of all South Africans having access to affordable, comprehensive quality healthcare services, but one that questions the approach of the NHI policy in its current form. Life Healthcare's view is that the NHI fails to address the critical issues required to ensure universal health coverage, namely, developing a well-run and functioning public sector, improving management skills and addressing the shortage of healthcare professionals. Additionally, even with a conservative funding estimate of R110 billion a year, in 2010 prices, we believe that the NHI proposal is unaffordable (by 2010 prices, it is estimated that the level of public spending would need to increase to approximately 6.2% of gross domestic product (GDP) by 2025/2026, compared to 4% of GDP in 2015/2016) and is unlikely to be implemented by 2025 as scheduled. Life Healthcare remains supportive of the government's desire to ensure a stronger healthcare system and looks forward to continued engagement on ways to collaborate and provide constructive input into the direction of the reform agenda more broadly.
Free State Licensing Regulations	The Free State Department of Health published regulations in August 2014 on the licensing framework for private hospitals. Life Healthcare submitted comments relating to the premature inclusion of the National Health Act section 36 criteria (certificate of need), and certain inappropriate anomalies and conditions that exist within this Act. Final regulations were published in September 2014 with no major changes to the draft regulations. This resulted in Life Healthcare challenging the Department, through HASA, in the Free State High Court. The matter was heard on 25 July 2016 and judgement was reserved.

Protection of Personal Information Act (POPI)	POPI was promulgated in November 2013 with the commencement date still to be identified. The Act protects the personal information collected and processed by organisations and will impact how personal information held by the Group is dealt with – in relation to employees, patients, doctors and suppliers. Life Healthcare has formed a working group that conducted a gap analysis to highlight areas where additional controls and actions were required to ensure full compliance with POPI. Deloitte was appointed to perform a verification of the gap analysis and assisted in the development of an implementation road map which was presented to the POPI Steering Committee on 1 June 2016. Workshops with each business area, including executives and teams, were held to discuss the actions proposed for implementation. These actions are monitored on an ongoing basis. The appointment of a privacy officer for the Group is underway.
Labour Relations Amendment Act	Changes to the Labour Relations Act became effective on 1 January 2015, and the impact of the changes in legislation is being addressed as legal precedent develops. The amendment introduced significant changes to the regulation of non-standard forms of employment (part-time), namely temporary employment services (agency staff), employees on fixed term employment contracts and sessional employees. In order to align with emerging precedent, the Group has made some amendments to the way in which it contracts with temporary employees.
Proposed amendments to the Medical Schemes Act (MSA)	The proposed amendments attempt to introduce certain limitations on prescribed minimum benefits which is not currently the case under the MSA. In addition, the section also attempts to make prices charged by medical professionals dependent on a 2006 NHRPL tariff that was ruled unlawful by the courts during previous HASA litigation. Life Healthcare has submitted comments on these proposed amendments, through HASA, wherein it challenges the basis of the proposed amendments as unlawful.

Other reporting requirements

Insider trading	Life Healthcare observes a closed period from the end of the accounting period to the announcement of the interim or annual results, and when otherwise required in terms of the listings requirements. During this time, no employee or director who might be in possession of unpublished price-sensitive information may deal, either directly or indirectly, in the shares of the company. Comprehensive guidelines on how to comply with insider trading restrictions and how to deal with analysts are provided in the insider trading policy.
Going concern	The board considers and assesses the Group's going concern basis in the preparation of the annual and interim financial statements. In addition, the solvency and liquidity requirements per the Companies Act are considered. The board is satisfied that the Group will continue as a going concern into the foreseeable future.
Material litigation	During the financial year, the Group was not involved in any material litigation or arbitration proceedings nor are the directors aware of any pending or threatened legal issues, which may have a material impact on the Group's financial position. Institutions in the healthcare sector are subject to patient lawsuits and the directors are of the opinion that the Group has sufficient insurance to mitigate financial risk.
Political party contributions	In line with the code of ethics, employees may not make any direct or indirect political contribution on behalf of the Group unless authorised by the board. This includes contributions to candidates, office holders and political parties. No political party contributions were made in the current financial year (2015: nil).
IT governance	Refer to page 73.

Board of directors and executive management

Board of directors

MA (Mustaq) Brey (62)
Chairman (non-executive director)
South African – BCompt (Hons), CA(SA)

A (André) Meyer (50)
Group Chief Executive Officer
South African

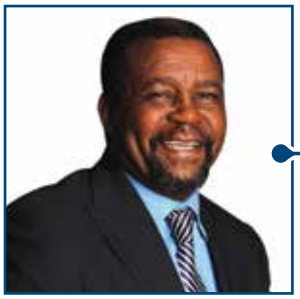
PP (Pieter) van der Westhuizen (45)
Group Chief Financial Officer
South African – BCom (Acc), CA(SA)

PJ (Peter) Golesworthy (58)
Lead independent non-executive director
British – BA (Hons) (first class), Accountancy Studies, CA

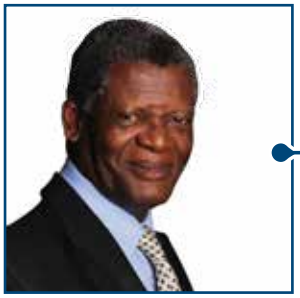
Prof ME (Marian) Jacobs (68)
Independent non-executive director
South African – MBChB (UCT), Diploma in Community Medicine (UCT), Fellowship of the College of South Africa (with paediatrics)

Refer to the supplementary report, board and executive management members' biographies, for their detailed curriculum vitae. It is available at www.lifehealthcare.co.za.

LM (Louisa) Mojela (60)
Independent non-executive director
South African – BCom (National University of Lesotho (NUL))



JK (Joel) Netshitenzhe (59)
Independent non-executive director
South African – MSc (University of London, School of Oriental and African Studies (SOAS)), Postgraduate Diploma in Economic Principles, Diploma in Political Science



Dr MP (Malefetsane) Ngatane (62)
Independent non-executive director
South African – BSc, MBChB, FCOG

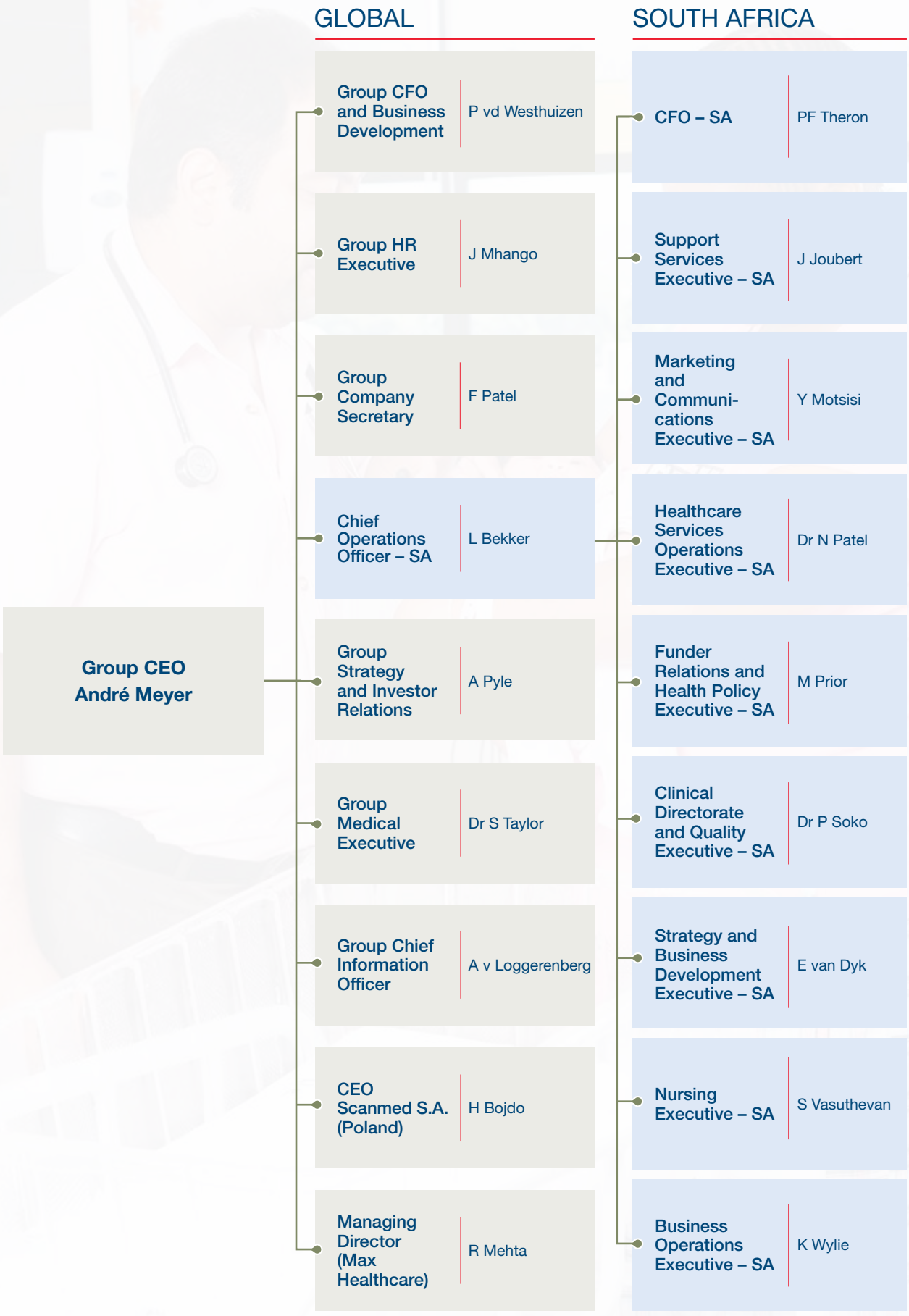
ME (Mpho) Nkeli (51)
Independent non-executive director
South African – BSc Environmental Science, MBA

GC (Garth) Solomon (49)
Independent non-executive director
South African – BCom, BCompt (Hons), CA(SA)

RT (Royden) Vice (69)
Independent non-executive director
South African – BCom, CA(SA)

Group and South Africa executive management

The diagram details the executive structure as at 30 June 2016



Members of executive management

Refer to the supplementary report, board and executive management members' biographies, for their detailed curricula vitae. It is available at www.lifehealthcare.co.za.

André Meyer
Group Chief Executive Officer
Refer board of directors.

Pieter van der Westhuizen
Group Chief Financial Officer
Refer board of directors.

Lourens Bekker (57)
Chief Operating Officer – SA
Hons Industrial Psychology

Juliet Mhango (42)
Group Human Resources Executive
BA (Wits University); Master of Business Leadership (Unisa SBL)

Fazila Patel (48)
Group Company Secretary
BA, LLB, Cert Programme in Corporate Governance

Members of executive management continued

Adam Pyle (50)
Group Strategy and Investor Relations Executive
BCom LLB

Dr Steve Taylor (59)
Group Medical Executive
MBChB (UCT), FFCH (CMSA), MMed (UCT)

Anton van Loggerenberg (47)
Group Chief Information Officer
MSc (Pretoria), MBA (UK)

Hubert Bojdo (43)
Chief Executive Officer: Scanmed S.A.
Masters in Economics, PhD studies
Licensed stock exchange broker and licensed tax advisor

Rajit Mehta (54)
Max Healthcare, Managing Director
MBA (Personnel Management and Industrial Relations)

Francois Theron (45)
Chief Financial Officer – SA
CA(SA)

Janette Joubert (56)
Support Services Executive – SA
DipPharm

Yvonne Motsisi (53)
Marketing and Communications Executive – SA
BA (Social Sciences) (University of Lesotho),
BA (Honours) (University of Zimbabwe),
MA (Industrial Relations) (University of Sydney),
MBA (University of Canberra)

Dr Nilesh Patel (47)
Healthcare Services Operations Executive – SA
MBChB, MPhil (cum laude)

Matthew Prior (45)
Funder Relations and Health Policy Executive – SA
CA(SA)

Members of executive management continued

Dr Paul Soko (45)
Clinical Directorate and Quality Executive – SA
MBChB (UKZN), FC Paed (SA), MPhil Economic Policy (Stellenbosch)

Elzette van Dyk (40)
Strategy and Business Development Executive – SA
CA(SA)

Dr Sharon Vasuthevan (58)
Nursing Executive – SA
BCur, BCur Honours, MSc, PhD

Kurt Wylie (43)
Business Operations Executive – SA
BCompt CA(SA) Hons

The below executive management members have subsequently left the Group.

Denis Scheublé (62) (Retired as COE – Coastal and assumed a consulting role with effect from 1 July 2016)
Chief Operating Executive – Coastal
Advanced Diploma in Personnel Management (IPM), DPLR (SBL Unisa)

Joanna Szyman (39) (Resigned: 30 June 2016)
Scanmed S.A., Chief Executive Officer
MA (business ethics), PGDip (commercial law; personnel and organisational management; healthcare management)

Jonathan Lowick (46) (Resigned: 31 January 2016)
Group Executive: Business Development and International
BCom, HDip (Acc), CA(SA), Advanced Cert in Taxation

Remuneration report

Driving high performance through competitive remuneration

Dear shareholder

I am pleased to present the remuneration report for Life Healthcare. Our objective is to enhance the reporting and disclosure of remuneration for executive directors and non-executive directors and to advise on the outcomes of remuneration against policy.

In terms of King III and sound governance principles, this report will be put to a non-binding shareholder vote at the annual general meeting, to be held in January 2017.

The Company continued to engage with shareholders resulting in, inter alia, revisions to its long-term incentive plan. More information can be found in this report.

Leveraging the Group's strategic focus areas in so far as growth, quality, efficiency and sustainability are concerned, requires strongly committed and appropriately incentivised management and employees. We strive for alignment of risk and reward with shareholders. The Group competes for specialised skills in a competitive labour market and constantly seeks creative ways to attract and retain skills. This takes place within the context of an increasing demand for healthcare services without a corresponding increase in the talent pool. We endeavour to design and calibrate our executive directors' and prescribed officers' remuneration to reflect this, while ensuring that the payment of variable compensation achieves key organisational objectives.

This has been a challenging year due to:

- the Company's inability to match the increase in remuneration offered by key players in the market such as the State;
- continued slow economic growth;
- increased global mobility resulting in a migration of key skills;
- a limited talent pool of clinical skills in South Africa; and
- challenges faced in the education sector.

The Group's human resources strategy delivered a sound value proposition to employees, and employee retention is the best that it has been in the past decade. Our employee reward and recognition initiative was developed to ensure a holistic, broader application of recognition to all levels in the Company. It recognises individual and Group performance that is beyond expectation and drives correct behaviour.

Royden Vice
Chairman: remuneration and human resources committee

Remuneration philosophy

The objective of the Group's remuneration strategy is to enable the Group to attract and retain key talent, and to motivate and reward employees appropriately to ensure the achievement of key organisational objectives.

Business objectives, market competitiveness, employee growth and development, the retention of scarce and specialised skills, and legislative compliance inform the remuneration philosophy.

Our remuneration strategy aims to:

- align management's interests with those of shareholders;
- encourage innovation and progress;
- offer organisational support aligned to the vision and direction of the Group's goals and strategy;
- be flexible in order to adapt and change as the business responds to market forces; and
- continually monitor its efficacy to ensure the unique needs of the employee and Group are being met.

The Group acknowledges that focused management and employee attention to business objectives is a critical success factor for sustained long-term value creation for shareholders. To this end, the Group's remuneration strategy aims to attract and retain the talent required to give effect to these objectives.

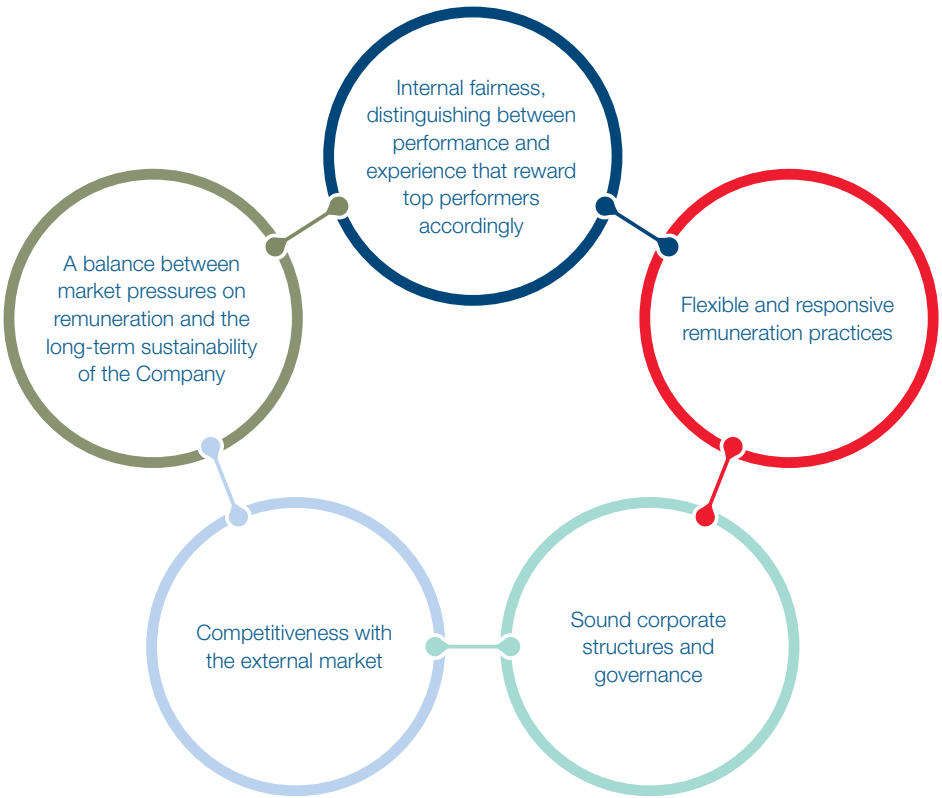
Remuneration structure

The Group targets a mix of remuneration elements to align reward strategy to its stated objectives.

The following aspects are considered in the delivery of a compelling value proposition to employees:

- Job evaluation/job sizing
- Design and implementation of remuneration structures based on a unique mix of remuneration elements specific to Life Healthcare
- Development of integrated performance management systems
- Bonus, incentive and employee ownership plans
- Non-monetary rewards
- Software/administrative systems to support the remuneration strategy

At a practical level, the Group strives for:

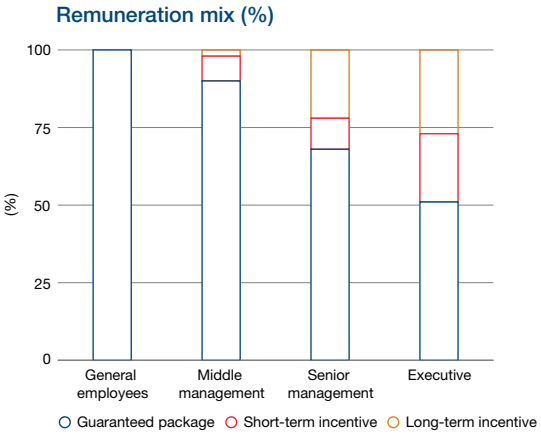


Total cost-to-company (remuneration) is communicated to employees on engagement and annually during the salary review process.

Superior performance and quality are key drivers in the Group. We incentivise management at every level through a rigorous goal-setting process that aligns the need for consistent improvement in profitability with the longer-term ambition to be a market-leading, international, diversified healthcare provider.

To ensure a pay for performance link, short and long-term incentives constitute a high percentage (29% to 52%) of total on-target remuneration for senior management, which is directly linked to these drivers, while junior employees receive performance-linked increases.

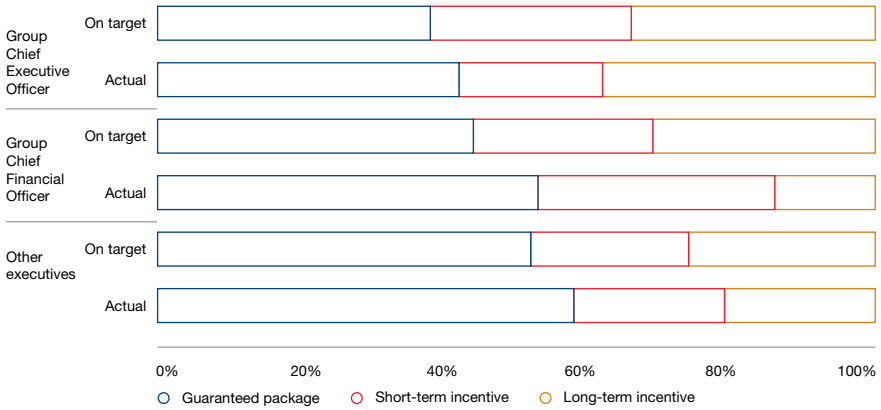
On-target remuneration in Life Healthcare is structured as follows:



The Group offers senior employees a combination of guaranteed remuneration and short and long-term incentives. Short-term incentives are paid to employees in middle management and higher grades who have line of sight to business objectives. Targets are stretched to encourage superior performance. Senior managers who have a more strategic focus participate in the Group's long-term incentive scheme to ensure the long-term sustainability of the Group and alignment with shareholders' interests.

Scanmed S.A., a wholly owned subsidiary in Poland, has a similar remuneration offering to Life Healthcare, i.e. guaranteed remuneration and short and long-term incentive plans. The Group commissioned an international survey house to establish benchmark management salaries for similar-sized companies in the Polish market. The combined remuneration offering creates strong alignment to the Scanmed company financial performance.

The actual remuneration mix for executives in Life Healthcare versus on-target reward is illustrated below:



Note:
LTIP actual payments are based on 2013 allocations that vested in January 2016, except for the Group Chief Executive Officer whose date of appointment was 1 March 2014, thus on-target figures are reflected for illustrative purposes.

Executive employment contracts are generally subject to a three-month notice period and a subsequent six-month restraint of trade.

Guaranteed remuneration

Base salary	• Attraction and retention of key employees. • Internal and external equity. • Rewarding individual performance.
Benefits	• External market competitiveness. • Integrated approach towards wellness, driving employee effectiveness and engagement.
Allowances	• Compliance with legislation. • Key focus on attraction and retention of clinical skills. • Specialist allowances are paid to specialised employees to recognise skills and incentivise and retain employees. Higher premiums are paid to qualified employees to heighten professionalism and Group excellence. • Other variable allowances are paid for additional services rendered.
Guaranteed package	• Salaries are benchmarked against healthcare market data.

The Group conducts appropriate peer group benchmarking of remuneration. We participate in a number of salary surveys to substantiate remuneration data. Our remuneration structure is benchmarked at the market median, but adjusted where market imperfections exist. Individual pay rates per job are influenced by market rates for such roles and current pay rates in the Group. In instances where specific roles are difficult to retain or attract, a premium is applied. Individual salaries are benchmarked internally and externally to ensure fairness. The salary structure is reviewed during October and adjusted with effect from 1 January each year. The performance level of employees is a key factor in determining employees' respective increases.

An average increase of 5.0% in guaranteed package was granted to the executives in the 2016 salary review, which was lower than the average increase granted to salaried employees. A market comparison of executive salaries was conducted during 2016, and the remuneration and human resources committee board approved a further adjustment to the Group Chief Financial Officer's salary to align with salaries of similar roles in the market.

Employee benefits

The benefits that form part of total cost to company include the following:

Retirement funds	The Company operates two defined contribution retirement funds: • The Life Healthcare Provident Fund (LHC Provident Fund) • The Life Healthcare DC Pension Fund (LHC DC Pension Fund) In addition, the Company operates two defined benefit funds which have been closed to new membership since 1996. The Life Healthcare DB Pension Fund provides retirement benefits for 127 active members and 248 pensioners, while the Lifecare Group Holdings Pension Fund provides benefits to 16 active members and approximately 125 pensioners. The Company-supported retirement funds offer Group life cover and disability benefits to members. Permanent disability and death are covered by lump sum payments which are underwritten by an insurer. The standard cover for new employees is three times annual salary for each of death and disability cover. Some historical anomalies to this standard cover exist.
Medical aid	It is a condition of employment for permanent employees earning above R6 000 per month to belong to a Company-supported medical aid, unless membership of a spouse's medical aid can be proven. Membership of a principal member, spouse and two children is subsidised by the Company. The Company participates in the open medical scheme market and offers the full range of Bonitas and Discovery Health medical aid options. In addition, medical aid membership is voluntary for employees who earn below the threshold level referred to above. However, the Company will, in instances where employees opt not to join a medical aid, procure a primary health benefit for such employees. This benefit covers, via a bespoke network, doctors' consultations, medication and a certain number of prescribed minimum benefits.
Other benefits	All other benefits are industry benchmarked and are granted on the basis that they aid employee retention and/or provide an efficient work environment for the employee. Such benefits are priced and form part of the annual salary review mandate process.

Short-term incentives

Short-term incentives

- Aligned with Group and business unit performance.
- Individual performance, which includes transformation and quality.
- Rewards performance against targets.

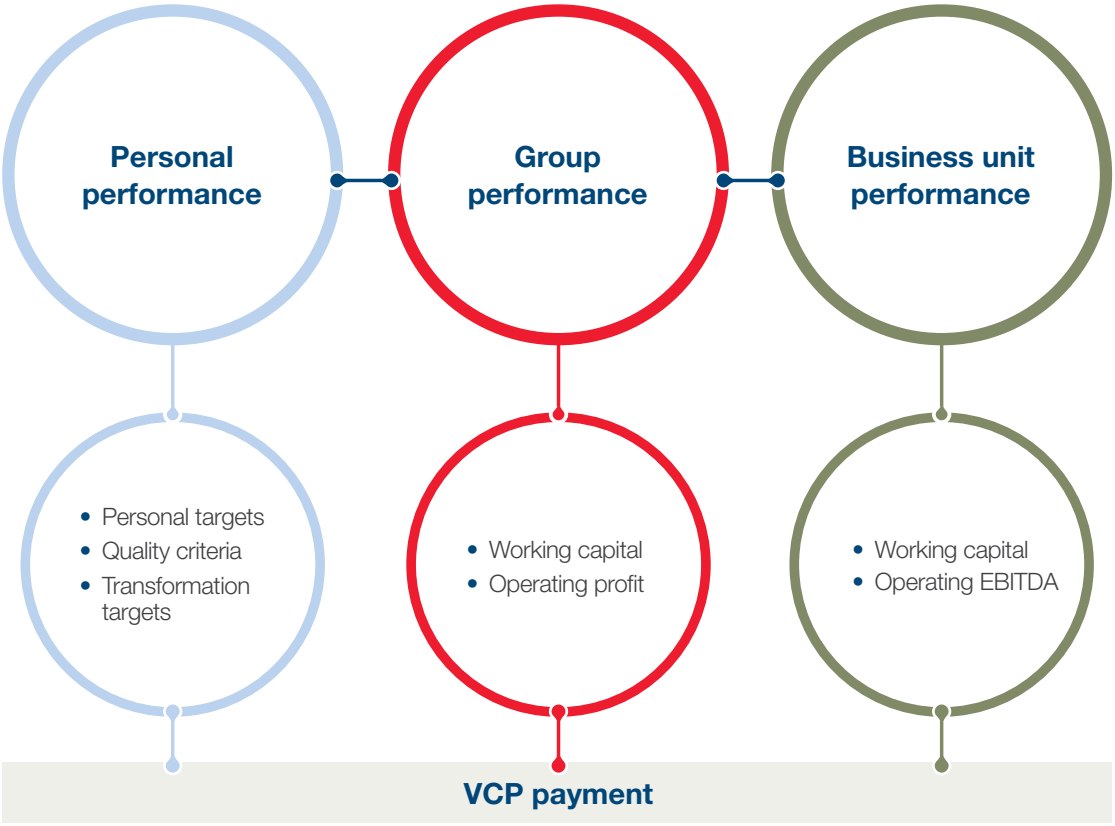
The Group believes in the value that appropriate performance-driven awards can add to its successful operation. We subscribe to the philosophy that substantial benefit can be derived from defining appropriately weighted quantitative and qualitative measures, linked to variable compensation. The Group's variable compensation plan (VCP) is a short-term reward scheme, assessed and paid on a bi-annual basis, to reward and retain senior managers who have line of sight and contribute to the profitability of the business.

The Group recognises the importance of measuring progress to ensure that programmes implemented are valuable and progressive, and to highlight areas of weakness that need special focus.

Life Healthcare variable compensation plan:

a) Components of the variable compensation plan

Payments under the VCP are based on personal and financial performance (which is either business unit performance, or a combination of Group and business unit performance).



Note: Specific detail applicable to Group CEO financial measures are reflected below, and are not illustrated in the above diagram.

Both Group and business unit financial scores are quantitative and prescriptive in nature, while the personal rating is more qualitative and discretionary and requires the Group Chief Executive Officer's final input for governance purposes.

- Group performance is measured against operating profit and working capital targets.
- Business unit performance is the financial performance of the operational manager's specific business unit(s) for which he/she is responsible. This target has a higher weighting than the other two criteria because managers have greater line of sight on these results. This measure is apportioned into varying weighted criteria that are measured against agreed targets. The criteria include operating EBITDA and working capital.
- Personal performance is a more subjective measurement and includes overall performance of the individual in carrying out his/her job requirements, transformation and quality outputs.

The weighting between the VCP components are as follows:

VCP measures (%)

Enabling senior management: Management in a supportive role with financial/Group responsibility.

Enabling function middle management: Management fulfils a supportive role to business results.

Operational business unit managers: Management has greater line of sight to its business unit's financial results.

Operational regional managers: Management has regional responsibility with greater influence on Group financial results.

***** The Group Chief Executive Officer financial and personal measures comprise the following key performance areas:***

Financial	*Group*	*Group normalised earnings per share against budget*
		Group return on equity
	Southern Africa	*EBITDA delivered against budget*
		Free cash flow against budget
	Poland	*EBITDA delivered against budget*
		Improvement of EBITDA margin
Personal	*Group*	*Total growth in current and new business including complementary services*
		A number of strategic objectives aimed at improving growth, efficiency, quality and sustainability

b) On-target and maximum payments

The level of potential reward has been industry benchmarked and directly influences total remuneration. A targeted percentage, ranging from 10% to 72.5% of salary (maximum reward 12.6% to 144.3% of salary), represents a theoretical on-target reward, should the targeted objectives be met, which escalate as responsibility increases. However, actual reward may exceed this percentage if targets are exceeded. Maximum rewards are as follows:

- Group performance – Capped at 225% of on-target remuneration
- Business unit performance – Capped at 225% of on-target remuneration
- Personal performance criteria – Capped at 120% of on-target remuneration

The Group emphasises pay for performance and business and/or personal performance below a set threshold will result in non-payment of incentives.

c) 2015/2016 short-term incentive (STI) outcomes

The following payments were made to executive directors, following the Group's results:

Executive director		Weighted achievement against performance targets %	Payment made to executive director R'000
Group CEO: A Meyer			
Financial goals	Financial measures including as detailed in point a) above.	50	1 146
Personal rating	Achieved personal targets set	100	1 337
Total annual STI payment		65	2 483
Group CFO: P van der Westhuizen			
Financial goals	Normalised profit Cash flow	107	1 033
Personal rating	Exceeded personal objectives	120	771
Total annual STI payment		112	1 804

Scanmed short-term incentive scheme (Poland):

Short-term variable compensation is paid to the management board of Scanmed and allocations are based on seniority. Payment is made every six months and is based on the following targeted reward:

Measures	Weighting	
	Chief Financial Officer	Management team
Financial goals*	70%	50%
Personal performance	30%	50%

* *The minimum threshold for the achievement of financial goals was not met and therefore no payment in respect of this key performance area was made.*

Long-term incentive plan

Long-term incentives

- Direct alignment with shareholders' interests by making the award conditional upon the achievement of targets.
- Awards are made annually to eligible managers.
- Scheme reviewed annually to ensure its continuous alignment to strategic goals.
- Recently extended to senior management of Scanmed (recently acquired Poland company).

Purpose

The purpose of the long-term incentive plan (LTIP) is to motivate and reward executives and senior managers who are able to influence the long-term performance and sustainability of the Group. This is done by rewarding participants on the basis of Group performance against key long-term measures.

The aim of the plan is:

- to provide a long-term financial incentive to maximise a collective contribution to the Group's continued growth and prosperity;
- to allow managers to share in the growth of the Group;
- to align managers' interests with those of the Group's shareholders; and
- to assist with the recruitment and motivation of managers of the Group.

The scheme design:

The LTIP is a notional performance share plan for all senior managers and executives. The notional value of the performance shares is linked to the Company's share price. Allocations are made annually.

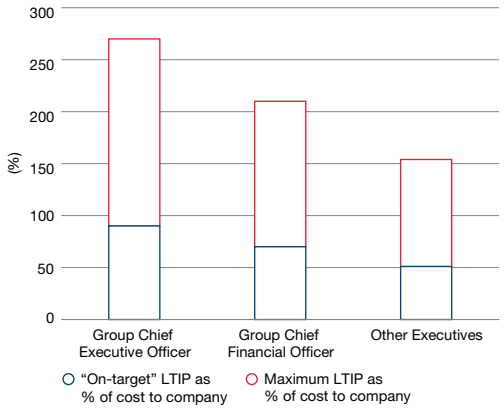
a) Allocation levels and maximum vesting

The value of the award is set to realise a targeted percentage payment of guaranteed package when vesting, assuming targeted performance levels are achieved. The quantum of reward increases with seniority and is market benchmarked.

The value of the performance shares will be determined by the listed share price of the company, using a 30-day volume weighted average traded price (VWAP).

The maximum vesting for the Group Chief Executive Officer, Group Chief Financial Officer, executive directors and prescribed officers is as follows:

LTIP allocation levels and maximum vesting



b) Performance/retention modifier

The allocation of performance shares can be enhanced via a performance/retention modifier to retain key high-performing individuals with no allocation for poor performance, while the allocation for top performance may be enhanced up to 130% of on-target allocations.

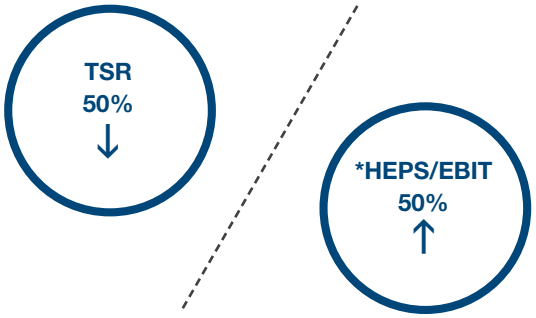
c) Vesting and settlement

All units vest at the end of the third year and the cash value is determined. The after-tax value is used to purchase Life Healthcare shares on the open market, which are delivered to participants.

d) Performance measures

Two performance measures apply, namely total shareholder return (TSR) and earnings before interest and tax (EBIT). These performance measures also apply to the 2016 allocations.

However, to align closer with shareholder interests, the Group Chief Executive Officer and Group Chief Financial Officer earnings will be measured on headline earnings per share (HEPS) in place of EBIT for future LTIP allocations, while EBIT will be retained for the other scheme participants.



* *Group Chief Executive Officer and Group Chief Financial Officer*

Measure	Rationale	Reward threshold	On-target performance	Maximum performance
TSR **50%**	Key external indicator ensuring alignment with shareholders' interest.	Below 50th percentile = no payment	60th percentile	80th percentile = 200% award
EBIT **50%**	A key internal indicator of the underlying profit performance of the Group, reflecting both revenue and costs.	Below CPI + 1% = No payment	CPI + 4%	CPI + 8% = 200% award
OR HEPS (Group Chief Executive Officer/ Group Chief Financial Officer) **50%**	A key indicator of the effective disclosure of the profits and losses of a company in a given trading period.			

- **Total shareholder return**
  The target TSR is set as relative to a comparator group of 27 listed companies, which are similar in size and investor profile. The comparator group excludes banks, telecommunications and resources, but includes direct competitors in the private healthcare market. On vesting, the actual TSR will be compared to the TSR of the comparator group. This determines the modifier for the number of performance shares vesting.

$$\textbf{TSR \%} = \left[\frac{\text{Ending share price minus initial share price (plus all dividends received)}}{\text{Initial share price}} \right]$$

  The target thresholds are set at date of allocation of units and vesting only occurs, starting at median performance. The multiplier for the performance shares will be on a sliding scale from 0% to 200% for each performance measure, thus complete outperformance in comparison to the comparator group results in 200% award.

- **EBIT/HEPS for Group Chief Executive Officer and Group Chief Financial Officer (future measurement)**
  The internal financial measure of EBIT is the absolute performance measure that will be used to modify the value of the performance shares vesting. This measure will be set relative to inflation (CPI).

  The target thresholds are set at date of allocation of units and no vesting occurs under **CPI + 1%**.

LTIP allocations made to the executive directors for 2015 and 2016 are as follows:

The initial allocation was made on 1 September 2015, however, all subsequent allocations will be made on 1 January and will vest three years after allocation.

	Allocation date	Value of performance shares at allocation	Vesting date	Performance share strike price	Total number of performance shares allocated
Group Chief Executive Officer	September 2015	R4 018 183	31 August 2018	R37.1436	108 180
	January 2016	R4 146 551	31 December 2019	R34.578	119 916
Group Chief Financial Officer	September 2015	R1 601 859	31 August 2018	R37.1436	43 126
	January 2016	R1 404 563	31 December 2019	R34.578	40 620

The Life Healthcare 2009 long-term incentive scheme – historical allocations

There are currently four years' active long-term incentive awards from the LTIP 2009 Scheme – this scheme was replaced in 2015. No further allocations in respect of this scheme will be made.

The allocations have gone through the initial three-year vesting period. The Group Chief Executive Officer and Group Chief Financial Officer elected to invest their payment into Company shares for a further restriction period. The Company committed to match the co-investment in equivalent shares.

Executive	Allocation date	Initial three-year vesting date	Total restricted shares held in Trust	Strike price	Final vesting date
Group Chief Executive Officer	January 2014	2017	** To be purchased in February 2017		31 January 2019
Group Chief Financial Officer	January 2011	2014	23 156	R38.7219	31 January 2017
	January 2012	2015	16 261	R42.6579	31 January 2017
	January 2013	2016	18 947	R31.6642	31 January 2018
	January 2014	2017	** To be purchased in February 2017		31 January 2019

*** Below are the estimated rand value payments based on the unaudited year-end results for January 2014 allocations, which will be used to purchase restricted shares on the open market in 2017 (restricted for two years).*

Executive	*Employee co-investment*	*Company matched shares*	*Total amount to be invested in Life Healthcare shares*
Group Chief Executive Officer	*R585 995*	*R993 212*	*R1 579 207*
Group Chief Financial Officer	*R212 658*	*R360 437*	*R573 095*

Employee share plan

An employee share ownership plan was implemented via a trust that was established to facilitate employees' direct equity ownership in the Company.

Commencing in 2012, the Company funded, via a trust, the purchase of shares to the value of R50 million per annum for the benefit of employees. The trust holds the shares and confers "rights" to shares to employees. Permanent employees belonging to specified Company retirement funds and with one year's service at date of grant are eligible to rights. The rights have been equally distributed to all qualifying employees.

The objectives of the plan are to incentivise and retain employees. To fulfil these objectives, certain conditions need to be attained by the employees to transfer these rights into actual shares:

- Employees need to remain in the employ of the Company for seven years to obtain the full quota of their rights.
- Employees need to continue to perform to acceptable standards.

Dividends start to flow to employees from the onset of the plan.

Shares are transferred from the trust to the employee after five years as follows:

- 25% of the allocated rights transfer to the employee in year five.
- 25% of the allocated rights transfer to the employee in year six.
- 50% of the allocated rights transfer to the employee in year seven.

Employees who resign or are dismissed during the duration of the scheme will lose their rights to any shares, and their rights will be distributed equally among the remaining employees. Thus, the number of rights will increase by the time of transfer of shares to remaining employees. Good leavers, for example, those who are retrenched or retire, will have the proportionate number of shares they hold at the time of termination transferred into their name and paid out to them, less tax and costs. They will no longer participate in the employee share plan.

The Company will continue to acquire a number of shares on an annual basis to ensure that the opportunity is granted to new employees and the objectives of the plan are continuously achieved. Each allocation will be managed separately and will vest according to the same criteria.

The efficacy of the plan is proving advantageous as employee turnover for the qualifying participants has reduced substantially.

A participant from the onset thus has 762.65 rights to shares as at 1 July 2016.

Non-executive directors' remuneration

The fees in respect of non-executive directors are reviewed on an annual basis and independent survey house data is used for benchmarking purposes. Fees are paid as a combination of a retainer and a fee per meeting to ensure alignment with the emerging market practice and Company culture.

Independent assurance report to the directors of Life Healthcare Group Holdings Limited

We have been engaged by the directors of Life Healthcare Group Holdings Limited (the Company or Life Healthcare) to perform an independent limited assurance engagement in respect of selected sustainability Information reported in the Company's Integrated Report for the year ending 30 September 2016 (the Report). This report is produced in accordance with the terms of our contract with the Company dated 20 October 2016.

Independence, quality control and expertise

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement was conducted by a multi-disciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

Scope and subject matter

The following subject matter in the Report was selected for an expression of limited assurance:

a) Healthcare risk waste generated – HCRW kg/PPD (pages 27 and 93)

b) Total patient incident rate – per 1 000 PPDs (pages 27and 79)

c) Healthcare associated infection rate – per 1 000 PPDs (pages 27 and 79)

d) Paid patient days – PPDs (pages 26, 43 and 63)

We refer to this information as the Selected Sustainability Information.

We have carried out work on the data reported for 30 September 2016 only and have not performed any procedures with respect to earlier periods, except where specifically indicated, or any other elements included in the 2016 Integrated Report and, therefore, do not express any conclusion thereon. We have not performed work in respect of future projections and targets.

Respective responsibilities of the directors and PricewaterhouseCoopers Inc.

The directors are responsible for the selection, preparation and presentation of the Selected Sustainability Information in accordance with the criteria set out in the Company's internally defined procedures set out on pages 26, 27, 63 and 93 of the Report referred to as the Reporting Criteria. The directors are also responsible for designing, implementing and maintaining internal controls as the directors determine is necessary to enable the preparation of the Selected Sustainability Information that is free from material misstatements, whether due to fraud or error.

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that Selected Sustainability Information has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This report, including the conclusion, has been prepared solely for the directors of the Company as a body, to assist the directors in reporting on the Company's sustainable development performance and activities. We permit the disclosure of this report within the Report for the year ended 30 September 2016, to enable the directors to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and the Company for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Assurance work performed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits and Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and that we plan and perform the assurance engagement to obtain limited assurance on the Selected Sustainability Information as per the terms of our engagement.

Our work included examination, on a test basis, of evidence relevant to the Selected Sustainability Information. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the Selected Sustainability Information. We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient

evidence on which to base our conclusion in respect of the Selected Sustainability Information.

Our limited assurance procedures primarily comprised:

- obtaining an understanding of the systems used to generate, aggregate and report the Selected Sustainability Information;
- conducting interviews with management at Life Healthcare's offices;
- applying the assurance criteria in evaluating the data generation and reporting processes;
- performing walkthroughs;
- testing the accuracy of data reported on a sample basis for limited assurance;
- reviewing the consolidation of the data at Life Healthcare's offices to obtain an understanding of the consistency of the reporting;
- analysing and obtaining explanations for deviations in performance trends; and
- reviewing the consistency between the Selected Sustainability Information and related statements in Life Healthcare's Integrated Report.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000 (Revised). Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement, and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the Selected Sustainability Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of the Selected Sustainability Information in order to design procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Report in the context of the internally defined procedures set out on pages 26, 27, 63 and 93.

Conclusion

Based on the results of our limited assurance procedures nothing has come to our attention that causes us to believe that the Selected Sustainability Information for the year ended 30 September 2016, has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Other matters

The maintenance and integrity of the Life Healthcare's website is the responsibility of Life Healthcare's directors. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the Report or our independent assurance report that may have occurred since the initial date of presentation on the Life Healthcare's website.

PricewaterhouseCoopers Inc.
Registered Auditor
Director: Jayne Mammatt

2 Eglin Road, Sunninghill, Johannesburg, 2157
8 December 2016

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

Social, ethics and transformation committee report

The social, ethics and transformation committee assists the board with monitoring the Group's actions and impacts on the environment, consumers, employees, communities and other stakeholders, while maintaining the highest level of good corporate citizenship.

The chairman of the committee presents the following report to shareholders for the 2016 financial year, in accordance with the requirements of the Companies Act.

Committee composition

The committee comprises five members:

- LM Mojela (chairman – independent non-executive director);
- JK Netshitenzhe (independent non-executive director) stepped down as a member of the committee on 12 November 2015, as he agreed to serve on the committee as an interim measure until a new board member was appointed;
- Dr MP Ngatane (independent non-executive director);
- ME Nkeli (independent non-executive director) appointed on 12 November 2015;
- A Meyer (Group CEO – executive director); and
- Dr NK Patel (Healthcare Services Operations Executive – SA, non-voting member).

Invitees at committee meetings include the:

- Marketing and Communications Executive – SA, who is responsible for, inter alia, B-BBEE and CSI;
- Group Human Resources Executive;
- Funder Relations and Health Policy Executive – SA;
- general legal counsel;
- Head of Internal Audit;
- Support Services Executive – SA who is responsible for, inter alia, procurement and environmental sustainability, as it relates to energy saving projects and healthcare risk waste; and
- Clinical Directorate and Quality Executive – SA, who is responsible for, inter alia, the implementation of the environmental management system (EMS), certification against ISO 14001, the quality management system (QMS), and certification against ISO 9001, which drives process-specific legal compliance, patient quality and employee health and safety.

All members of management are experts on each of the disciplines or areas falling within the mandate of the committee, as specified in regulation 43(5) of the Companies Act. The Chairman of the board is a standing invitee.

The committee operates in accordance with formal terms of reference, which are reviewed annually by the board in terms of the annual work-plan approved by the committee

The committee met three times during the year under review, and the proceedings of each meeting were reported to the board; presentations made at the committee are also included in the board packs.

Responsibilities

The committee has a duty to:

- monitor the social, economic, governance and environmental activities of the Group;
- bring matters relating to these activities to the attention of the board, as appropriate; and
- report annually to shareholders on the matters within the scope of its responsibilities.

Functioning

Key issues addressed by the committee included the following:

- The requests for information from the Healthcare Market Inquiry panel and key themes emerging from the first set of hearings. The commitment to the panel that Life Healthcare would move towards publishing its quality data on a hospital-specific basis was noted by the committee, and progress in this regard will be monitored going forward.
- Energy saving initiatives, such as:
  - heat pumps at a number of hospitals, and the related efficiencies achieved;
  - green building technology used in the design and build of the new Life Hilton Private Hospital, which was built with the underlying philosophy of Green by Design – the project was commended by the committee, and
  - savings realised from the installation of solar at Life Anncron Hospital and Life Fourways Hospital.
- Utilising hydroclave technology as an alternative to outsourced incineration of healthcare risk waste (HCRW). After successful installation and commissioning, HCRW is being treated at the pilot site. This was the first successful delisting of HCRW in South Africa for this technology. However, on assessment of the project, it was found that it will not be economically viable to proceed with treating waste on site due to the exorbitant cost of the odour-eliminating chemicals, which had not been anticipated. The trial installation at Life Wilgeheuwel Hospital will therefore be decommissioned and removed from the hospital grounds.
- Water back-up at the hospitals to ensure that a 24-hour back-up is available at each hospital. Water saving strategies and the introduction of initiatives to reduce the amount of water utilised as well as the reusability of water, where possible.
- Implementation of the Environmental Management System (EMS) to reduce environmental risks as well as

monitoring the impact. The committee received reports on environmental training, communication and staff awareness and the introduction of the *Green Life* and *Environmental News* publications to increase staff awareness, with respect to sustainable environmental practices.

- Progress reports from the Environment and Climate Change Forum that consists of representatives from both quality and engineering.
- Review of developments in ethics management, which includes a dedicated anonymous hotline for tip-offs.
- Regulatory developments relating to the B-BBEE Act and the monitoring of management's efforts to improve the Group's B-BBEE rating. The committee encouraged management to expedite the progress being made to achieve compliance with the B-BBEE Codes of Good Governance.
- Monitoring of the impact of the Group's CSI spend.
- Review of the Group's compliance with the Competition Act, National Health Act, advertising and public relations, and the Consumer Protection Act. The gap analysis conducted by Deloitte, in respect of POPI was presented, and the committee will monitor the Group's progress going forward in addressing the gaps.
- Consideration of the Group's submission in response to the NHI white paper.
- Review of the Group's plans with regard to compliance with the Labour Relations Amendment Act, POPI and the Employment Equity Act.
- Review of the Group's transformation strategy, transformation initiatives and employment equity.
- Review of the Group's procurement policies including preferential procurement.

Conclusion

The committee is satisfied that it has fulfilled its duties during the year under review.

LM Mojela
Chairman
11 November 2016

Glossary of terms

ACI	African, Coloured and Indian
AMI	Acute myocardial infarction
AMS	Antimicrobial stewardship
ARM	Alternative reimbursement model
B-BBEE	Broad-based black economic empowerment
B-BBEE Act	Broad-Based Black Economic Empowerment Act
Brexit	United Kingdom's withdrawal from the European Union
CAGR	Compound annual growth rate
CAUTI	Catheter associated urinary tract infections
CDC	Centre for Disease Control and Prevention
CE	Continuous education
CGU	Cash-generating unit
CLABSI	Central line associated bloodstream infections
CMSA	Colleges of Medicine South Africa
Companies Act	The South African Companies Act, 71 of 2008 (as amended)
CO_2	Carbon dioxide
COID	Compensation for Occupational Injuries and Diseases
COO	Chief Operating Officer
CPD	Continuous professional development
CPI	Consumer Price Index
cps	Cents per share
CSI	Corporate social investment
CSR	Corporate social responsibility
Current ratio	Current assets/current liabilities
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest taxation depreciation and amortisation
EME	Exempted Micro Enterprises
EMS	Environmental management system
EPS	Earnings per share/employee perception survey
ERP	Enterprise resource planning
ESD	Enterprise and supplier development
FAM	Functional assessment measure
FIM™	Functional independent measure™
G4	Sustainability Reporting Guidelines
GDP	Gross domestic product
Gearing net of cash	Total liabilities – (cash and cash equivalents)/(shareholders' equity + total liabilities)
GRI	Global Reporting Initiative
HAI	Healthcare associated infections
HASA	Hospital Association of South Africa
HBA	Hazardous biological agents
HCRW	Healthcare risk waste
HEPS	Headline earnings per share
HIV	Human immunodeficiency virus
HMI	Healthcare Market Inquiry
HPCSA	Health Professions Council of South Africa
HR	Human resources
ICU	Intensive care unit
IFRS	International Financial Reporting Standards
IIRC	International integrated Reporting Council
IMF	International Monetary Fund
IPO	Initial Public Offering
iQ	Life Healthcare's clinical excellence
ISMS	Information Security Management System
ISO	International Standards Organisation
<IR> Framework	Integrated Reporting Framework
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	King Report on Governance for South Africa 2009
KPIs	Key performance indicators
KKA	Kliniki Kardioligii Allenort
kWp	Kilowatt peak
LED	Light emitting diodes
LHC DC Pension Fund	The Life Healthcare DC Pension Fund
LHC Provident Fund	The Life Healthcare Provident Fund
LOS	Length of stay
LTIP	Long-term incentive plan
Max Healthcare	Max Healthcare Institute Limited
Max Smart	Max Smart Super Specialty Hospital
MHC	Max Healthcare
MHQ14	Patient reported feedback in a mental health facility
MIA	Medication Indicator Audit
MSA	Medical Schemes Act
NEMA	National Environmental Management Act
NFZ	National Health Fund (Poland)
NGO	Non-governmental organisation

NHI	National Health Insurance
Normalised EBITDA	Earnings before interest, taxation, depreciation and amortisation (defined as operating profit plus depreciation, amortisation of intangibles, impairment of goodwill and excluding profit/loss on disposal of business/property and surpluses/deficits on retirement benefits)
NPO	Not-for-profit organisation
ODA	Operating department assistant
OHS Act	Occupational Health and Safety Act
Patient incidents	Unintended or unexpected events which could have, or did, result in harm – this includes medication, falls and procedure-related incidents, behaviour, death due to unnatural causes, burns and other patient incidents and patient absconding
PGM	Polska Grupa Medyczna
PHEF	Public Health Enhancement Fund
PiS	Poland national-conservative party, Law and Justice
POPI	Protection of Personal Information Act
PPD	Paid patient day
PPE	Property, plant and equipment
PPP	Public-private partnerships
PV	Photovoltaic
PXM	Patient experience management

Q_e	The patient experience
QMS	Quality management system
Quick ratio	Current assets – inventories/current liabilities
RCM	Raciborskie Centrum Medyczne
RONA	Return on net assets = Profit after tax/ (PPE + net working capital)
SANC	South African Nursing Council
SASOG	South African Society of Obstetricians and Gynaecologists
Scanmed	Scanmed S.A.
SENS	Stock Exchange News Service
SEP	Single exit prices
SOC	Spotlight on cleanliness
SSI	Surgical site infection
STI	Short-term incentive
The Group or Life Healthcare	Life Healthcare Group Holdings Limited
TSR	Total shareholder return
VAP	Ventilator associated pneumonia
VCP	Variable compensation plan
VON	Vermont Oxford Network
VWAP	Volume Weighted Average Price
WIBOR	Warsaw Interbank Offered Rate

Corporate information

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Fazila Patel

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