

CEO's Message

In a year of unprecedented challenges, our people enabled us to perform resiliently. Their dedication and tenacity inspired us to overcome all adversity and give the best of ourselves.



Dr Kelvin Loh Chi-Keon
Managing Director and Chief Executive Officer

Dear Stakeholders,

Like much of the world, IHH was buffeted by the winds of COVID-19 this past year. Although the pandemic situation continues to evolve and produces uncertainty and stress in our communities as a Group, we performed resiliently amidst the challenges. Throughout 2020, we stood by our colleagues on the frontline of the pandemic battle, supported the public healthcare systems in our home and key markets, and continued delivering unrivalled care and building trust. Striding into the “next normal” ahead, we are confident we can harness synergies for our network of 80 hospitals and generate sustainable long-term growth.

A Year of Resilience and Trust

Our challenges in 2020 were on two fronts: combating a healthcare crisis and operating efficiently while maintaining excellence in our healthcare delivery. The early realisation that our usual revenue sources would be under pressure saw us adapting quickly to diversify revenue streams by expanding our service offerings, such as providing COVID-19 treatments and doing more than 1.5 million COVID-19 related tests across our network by early 2021.

We cooperated with the governments in countries where we operate to help them manage the health crisis. In Malaysia, for example, our Pantai and Gleneagles Hospitals committed 10% of our beds to treat COVID-19 patients in addition to 200 beds to assist the public healthcare system to treat non-COVID-19 patients. Through such public-private partnerships, we stayed true to a basic tenet of our Refreshed Strategy: fostering trust with our stakeholders – patients, employees, partners, investors – as well as governments.

Another important initiative was our rolling out of telemedicine across all our markets in May 2020. In this way, our patients can now enjoy faster, better, easier and more cost-effective care from the safety of their homes.

Leveraging our scale as an international healthcare network, we have also been harnessing significant synergies such as sharing IT services, talent management, global procurement and other administrative functions.

With costs bound to continue rising in the future, we have been managing our cashflow prudently and maintaining capital discipline. In 2020, we deferred all non-critical capital expenditure scheduled for the year. This included delaying the opening of a new block of our Pantai Ayer Keroh Hospital in Malacca, Malaysia and the opening of Parkway Shanghai Hospital in Shanghai, China to 2022. Consequently, we remain financially robust, with a strong cashflow and sufficient secured lines of credit to draw from should we need to do so.

While our operations were impacted by the pandemic, particularly in April and May, we saw a firm recovery from the third quarter onwards. Hospital occupancy recovered to between 50% and 65%. Revenue intensity improved in Malaysia, Turkey, India, with Turkey seeing a rise in foreign patient numbers from June 2020 as travel restrictions were eased.

We continued to see recovery across all markets and ended 2020 with resilient earnings amid the pandemic. Our Group Revenue for the full year of 2020 was down 10% year-on-year to RM13.4 billion from RM14.9 billion. Earnings before Interest, Taxes, Depreciation, Amortisation, Foreign Currency Exchanges and other non-operational items (EBITDA) decreased 13% to RM2.9 billion, compared with RM3.3 billion in 2019. Our Profit After Tax and Minority Interests (PATMI) came in at RM288.9 million, a decrease of 48% year-on-year. Excluding exceptional items, PATMI stood at RM715.3 million, a drop of 22%, year-on-year.

Across our key markets, operational performances reflect our strategy of improving locally and synergising

globally while nurturing trust and seizing opportunities to grow and create value for the long term. Please read pages 51 to 57 for more information on the operations of these markets.

Malaysia

We have been pursuing growth on an organic basis. We do this via a two-pronged strategy approach. Firstly, through our metro cluster strategy, we continue to pursue “Centres of Excellence” in our hub hospitals to deepen specialisations and to grow more efficiently. Testament to that, we completed our acquisition of Prince Court Medical Centre (PCMC) in September 2020. With PCMC added to our Malaysia’s portfolio, we now operate three hub hospitals within the Klang Valley in Kuala Lumpur. This gives us significant leverage to extract synergies to bolster our service offerings and deepen our specialities in each hub hospital. This enables us to offer improved quality of care for our patients and reach the fast-growing middle-income segments.

Secondly, we will be focusing on driving bed occupancy as well as re-engineering our services to provide treatments for common procedures at our spoke hospitals located within the suburban clusters. This will enable us to extend our reach to the rapidly growing ranks of middle class. At the same time, it delivers a higher quality of care and an improved response to the healthcare needs of the local community.

By adopting this two-pronged strategy, we can better serve the needs of the community and build greater trust between patients and payors while improving our earnings through operational efficiencies.

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We continue to focus on achieving the best clinical outcomes relative to cost which is part of our Value Driven Outcome (VDO) initiative for our patients.

When the pandemic started early last year, we reacted swiftly to respond to the healthcare needs of the country. In the beginning we helped in the health crisis by loaning public hospitals ventilators and committed 200 beds to non-COVID-19 patients decanted from public hospitals. The country's health authority also authorised Gleneagles and Pantai hospitals around Kuala Lumpur and Melaka to perform on-demand swab testing for COVID-19. When private hospitals were allowed to treat COVID-19 patients in early 2021, we also committed 10% of beds to the cause.

Through our public private partnerships, we were able to contribute to the battle against COVID-19.

Singapore

The challenges of the pandemic created more opportunities for IHH to collaborate with the Singapore government and strengthen trust in this home market. To lighten the patient load in public hospitals, we treated a number of COVID-19 patients. In January, many of our frontline colleagues sacrificed Chinese New Year celebrations with their families to do temperature screening for incoming visitors to Singapore at land and sea border checkpoints. Some colleagues from corporate functions and backend operations worked alongside nurses on the frontline to conduct swab testing while others took part in COVID-19 operations at the Community Care Facility at Singapore Expo, migrant worker dormitories, regional screening centres and swing facilities that offered short-term patient care without tying up hospital beds and other resources over a long period.

IHH, in partnership with the company Accredify, has been issuing tamper-proof digital COVID-19 test result documents for travellers taking pre-departure swab tests since November. We plan to integrate Accredify's block-chain technology into our healthcare networks in overseas markets.

In line with IHH's vision of becoming the leading healthcare services provider, we continue to focus on achieving the best clinical outcomes relative to cost as part of our VDO initiative for our patients. This is to improve the transparency of clinical outcomes and optimise costs within our private healthcare system. With VDO, we can improve the quality of care for patients whilst optimising healthcare costs. For some time now, we have been strengthening our reputation among patients in our Singapore hospitals through improving price transparency. Our Price Guarantee Procedures, enabled by an Artificial Intelligence (AI)-driven hospital bill estimating system with 80% accuracy, are an example of patients seeing greater price transparency and bill certainty for common medical procedures.

We have also embarked on the journey to move ambulatory centres outside of the hospitals. For example, we relocated the rehabilitation services out of Mount Elizabeth Novena Hospital so that the hospital can make space and focus on providing higher acuity services for our patients.

Continuing IHH's trajectory to advance our service offerings to become a "super specialisation hub", Mount Elizabeth Novena Hospital will open its Proton Beam Therapy Centre in 2022. Proton beams are used for precision cancer treatment and can kill cancer cells with far less damage to surrounding healthy tissues and other organs.

Turkey and Central and Eastern Europe

In Turkey, our hospitals supported the public healthcare system by caring for COVID-19 patients. We also boosted our capacity to process COVID-19 swab tests to help with the country's mass testing strategy. Besides working with the government to care for COVID-19 patients, our Turkey and Central and Eastern Europe Operations continued to ramp up capabilities. Acibadem Altunizade Hospital and Acibadem Maslak Hospital took such steps to better serve domestic and foreign patients even during the pandemic.

With the Group's ongoing strategy to reduce our foreign currency exposure in this region, Acibadem has significantly lowered its unhedged non-Lira debt in 2020 to 37 million euros through cross currency swaps (CCS) and prepayment of debt. This is down from 288 million euros at the end of 2019. As a result, we expect the drag on Acibadem's earnings to be greatly reduced.

Our Turkish operations will focus on growing via the cluster strategy and improving its operations. Leveraging its strong Acibadem brand, we will continue to de-risk growth by pursuing Euro-denominated revenue. Over the years, we have established a strong beachhead into the European markets with our European assets in Macedonia, Bulgaria and Netherlands, all of which have been performing well even during the challenging times of COVID-19.

Given its significant experience in tracking clinical outcomes, Acibadem is now contributing towards the Group's VDO initiative by sharing best practices and knowledge. These developments tie in with Acibadem's own continuing efforts to deepen its clinical offerings.

India

During the year, to support India's public healthcare system, our hospitals have been at the forefront of the war against COVID-19 including the treatment of many patients with low mortality risk, designation of 1,500 beds across the network and conducting laboratory testing. In April, Fortis Hospital, Bannerghatta Road brought in the Mitra robot for COVID-19 screening. Such initiatives have helped to strengthen trust between us and our local patients.

Part of IHH's Refreshed Strategy involves reviewing our portfolio and capital deployment to prioritise returns. In line with this, we entered into a share purchase agreement to divest our entire 50% equity interest in the Apollo Gleneagles Hospital joint venture in November to monetise a non-core asset and recycle capital to help us grow efficiently via our Cluster Strategy.

In 2020, we continued to drive ongoing cost optimisation and improve productivity across functions and facilities. As India is a highly regulated and competitive market, it is important for us as a Group to utilise our global scale to develop operating leverage. This will help us see reasonable cost savings play out in the short to medium term and improve margins.

In 2020, the Fortis board has given in-principle approval to change the name of the company and its subsidiaries to "Parkway" in relation to the hospital business, so as to leverage the mindshare associated with the Parkway brand. This rebranding is subject to approvals from the Supreme Courts. Once approved, we expect the initiative to enhance our goal of harnessing synergies throughout our global network.

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Greater China

Despite the onset of COVID-19, Gleneagles Hong Kong Hospital (GHK) has seen progressive growth in inpatient volume throughout 2020. The fourth quarter of 2020 proved to be the strongest quarter in revenue for GHK to date, both in terms of growth in patient volumes, and improved revenue intensity. Operational losses have been narrowing as the hospital operations continue to improve. At the end of 2020, GHK was running at an average occupancy rate of 63%, based on about 200 operational beds. We target for GHK to achieve EBITDA break-even in 2021, provided that Hong Kong does not remain in protracted lockdown.

To support the public health system in Hong Kong, GHK introduced its patient engagement mobile application, "My Gleneagles SmartHealth". It also empowered staff to back the Hong Kong government's efforts in identifying silent COVID-19 carriers in the community via the Universal Community Testing Programme. Furthermore, the hospital launched discounted all-inclusive packages and special maternity offers to help public hospital patients amid the COVID-19 outbreak.

As for China, operations have gradually recovered from the lows during COVID-19. Gleneagles Chengdu Hospital, which opened in late October 2019 has 30 operational beds as at 31 December 2020 with key specialities such as Cardiovascular, Gastrointestinal, Orthopaedics and Paediatrics. The ramping up of operations has been hampered by the COVID pandemic since January 2020. However, to make medical care more accessible and convenient to our patients, the hospital leveraged innovation to transform care for our patients by providing one-stop services on WeChat. Patients can enjoy quick access to online appointments and information about our physicians and

available medical and health services. IHH will continue to manage its cash burn rate *pari passu* to the ramp-up as we introduce more comprehensive procedures and services.

Parkway Shanghai Hospital, the construction of which was delayed due to the pandemic, is now expected to open in 2022.

China remains a high potential market as the demographic is changing and we are seeing an increasing uptake from the country's middle class for private healthcare.

Our People, Our Inspiration

The face-off with the unprecedented challenges of 2020 demonstrated our agility and ability to rebound. At the heart of this resilience are our people – colleagues on the frontline, those working behind the scenes, and our corporate and management teams. Their dedication and tenacity underpin everything we do.

Being a medical professional myself, I understand the pressures and challenges of the profession and 2020 was rife with them. I would therefore like to extend my personal thanks to each and every colleague for going beyond the call of duty and being an inspiration to us all.

Doing the right thing for patients is crucial for our business. It is with our common purpose of "Touching Lives. Transforming Care.". Underpinned by our five core values of: Putting Patients First, Integrity, Empathy, Teamwork and Excellence, and tenacity of delivering excellent healthcare that we are able to ask patients to entrust their health to us. It is with the same purpose and tenacity we have when delivering health care that we drive our business, while ensuring our operations reflect our five core values.

Adapting to the Next Normal

Currently IHH's geographical footprint gives us earning resilience as some of our key markets are on the pandemic recovery path even as others are experiencing a resurgence of COVID-19 cases. There are roll-outs of tested and approved vaccines and we have reason to believe that the health crisis might be alleviated in 2021.

To stay relevant moving into the next normal, we must align ourselves with three major trends that have started to shape our industry: healthcare being delivered digitally where possible; rising demand by healthcare consumers for greater transparency; and better public-private partnership and collaboration.

Even prior to the outbreak of COVID-19, we had already been offering more healthcare services digitally. One example is the release of two mobile apps by Parkway Pantai in Singapore in 2Q 2019: Parkway DigiHealth app for patients and Parkway DigiCare for specialist doctors. Parkway DigiHealth allows patients to book appointments and, in time, manage them while enjoying faster access to their laboratory results and medical records. Created to enhance efficiencies and allow doctors and their teams to focus fully on patient care, Parkway DigiCare gives accredited specialists quick and convenient access to Parkway related services.

The COVID-19 pandemic has no doubt accelerated the necessity for delivering healthcare digitally as patients need to get information more quickly and without visiting hospitals if possible. In response, we rolled out our telemedicine initiative across our network in May 2020 to complement our bricks-and-mortar business as well as to make receiving healthcare diagnosis and advice more convenient for patients.

It is with the same sense of purpose and tenacity we have when delivering healthcare that we drive our business, while ensuring our operations reflect our five core values of: Putting Patients First, Integrity; Empathy, Teamwork and Excellence.

Despite increasing our investment in medical technology and equipment, we are striving to keep medical cost inflation in check by leveraging our operational scale to amortise costs. We must be transparent with patients about how their money will be spent so they can better understand the value they will be getting at any price point. This action builds trust, which in turn leads to patients returning to us to address their medical concerns. Post COVID-19, the need for transparency will be greater than ever and I am pleased that IHH has taken the lead in this area, particularly in Singapore and Hong Kong.

The pandemic this past year also illustrated the importance of public and private sectors working together to deal with a health crisis. In all our home and key markets, IHH stood by the various governments in their fight against the virus in significant ways. We intend to forge more of these important partnerships in future.

As COVID-19 accelerated our efforts to innovate, leverage synergies and build platforms for growth, we now have the momentum to continue in the same direction. This means adopting disruptive technology where necessary to sharpen our medical capabilities and stay relevant to the market, as well as continuing to apply our Refreshed Strategy in our quest to become the world's most trusted healthcare services network.

Appreciation

When I took the helm as MD and CEO at IHH at the start of 2020, COVID-19 had already been detected in some countries. Throughout the year, I had the good fortune of working with remarkable colleagues to surmount various challenges and execute IHH's mission of providing exemplary care for our patients. At the same time, we were committed to optimising value for all stakeholders and building trust among them. As a team, we faced up to the problems caused by the pandemic and, despite strong unavoidable headwinds, we coped relatively well and have emerged stronger overall.

I now have the responsibility but also the privilege to steer a clear course for IHH's further development post-COVID-19. With your collaboration and continued support of my stewardship and our vision, and IHH's culture of trust and core of resilience, I am confident that IHH is advancing towards a new horizon.

Thank you.

Dr Kelvin Loh Chi-Keon
Managing Director and
Chief Executive Officer