

CEO'S MESSAGE



Dr Tan See Leng

Managing Director and Chief Executive Officer

IHH Healthcare (“IHH”) has always adopted a long-term view on delivering growth and creating long-term value in its business operations across the markets in which it operates. In 2018, we have been able to advance our work in sustainability and in the process, fortify our Company’s competitive advantage. Our ability to react to key market movements in response to geopolitical changes also puts us in a good position to safeguard the interest and returns of our stakeholders.

STRATEGIC MILESTONES IN 2018

IHH has grown significantly, while strategically investing to strengthen our position. The past year has been brisk for the business with new acquisitions in the region, positioning us for sustained growth. We continue to see growing demand for quality healthcare services, which is why we place emphasis on investing in our people and in the business.

I am pleased to report that we delivered resilient performance amidst cautious global macroeconomic growth, reflecting the underlying strength of our business and the distinct progress in

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Revenue

RM11.5 billion

EBITDA

RM2.5 billion

executing on our strategy as we position for growth in the year ahead. For the full year ended 31 December 2018, the Group's revenue increased 3% YoY to RM11.5 billion. Earnings before interest, tax, depreciation, amortisation, exchange differences and other non-operational items ("EBITDA") increased 9% YoY to RM2.5 billion. This came on the back of sustained organic growth at existing hospitals and the continuous ramp up of the two hospitals opened in March 2017. Headline profit after tax and minority interest ("PATMI") was RM627.7 million, compared to RM970.0 million in the previous corresponding year. PATMI excluding exceptional items increased 73% YoY to RM1.0 billion due to stronger operational performance and boosted by foreign exchange gains from the US Dollar denominated cash balances.

Looking at the Group's Malaysia operations, we have been able to deliver excellent patient care and achieve good

clinical outcomes, becoming the preferred hospital of choice for our patients. We witnessed strong growth performance amid the active ramp up of Pantai Hospital Manjung, Gleneagles Kota Kinabalu Hospital and Gleneagles Medini Hospital. It is encouraging to note that all three hospitals have contributed to revenue and achieved positive EBITDA. As a result of our continuous effort to focus on Centres of Excellence to carry out complex procedures within our Malaysia hospitals, we have been able to offer the highest quality of medical treatments and improve the mix of higher revenue intensity treatments.

Healthcare has been identified as a key National Economic Area to drive Malaysia towards a high-income nation by 2020. Malaysia has been receiving more than one million health travellers seeking treatments in Malaysia. Across some of our hospitals, we have seen growth in foreign medical travellers from Indonesia,

China and South Asia. We believe IHH can capitalise on the growth of medical tourism and to position itself as the preferred healthcare provider in this Asian region.

Given the increased demand for private healthcare services, the Group acquired a 100% stake in Amanjaya Specialist Centre Sdn Bhd in its efforts to boost its capacity in Sungai Petani, Kedah. This 98-bed multi-specialty hospital enables synergies with the 118-bed Pantai Hospital Sungai Petani to expand our healthcare offerings for the patients in Kedah.

Spreading our wings for our patients in Malaysia, we launched the Pantai-Gleneagles Global Liver Programme in a first-of-its-kind cross-border collaboration between Pantai Hospital Kuala Lumpur and Gleneagles Global Health City, Chennai. This collaboration allows the Group to extend its liver treatment and transplant expertise to patients through its integrated healthcare network.

CEO'S MESSAGE

Equally unrelenting is our drive to enhance service offerings in the Singapore market. Paving the way for pioneering technology in Singapore, we broke ground at Mount Elizabeth Novena Hospital for the installation of a state-of-the-art, underground proton beam therapy system. This advanced precision cancer treatment system provides a more targeted and precise treatment of tumours, leading to less severe side effects during and after treatment. Available from 2021, Mount Elizabeth Novena Hospital will be the first private hospital in Singapore and South East Asia to offer proton beam therapy to patients.

With Turkey being an important destination for medical tourism, we have been ramping up operations of our hospitals. Acibadem Altunizade Hospital, which opened in March 2017, continues to experience growth in both patient volume and number of complex procedures. Acibadem Maslak Hospital recently completed its expansion to double its bed capacity in October 2018 to cater for increasing patient demand. After the expansion, Acibadem Maslak Hospital is the largest private healthcare facility in Turkey.

Currency volatility often poses problems to any multinational company operating in Turkey. Pursuant to the shareholders' agreement in 2011, we have increased our interest in Acibadem Holdings from 60% to approximately 90%. By simplifying the shareholding structure of Acibadem Holdings, this transaction will allow IHH to further consolidate its control in the Turkish operations. At the same time, IHH will have the financial flexibility to deleverage Acibadem Holdings' balance sheet and will be in a better position to ride out the forex volatility.

In India, we consolidated the operations of Continental Hospitals and Global Hospitals acquired in 2015 and integrated them under the Gleneagles brand name to drive greater brand synergies. We achieved significant upscaling of the market through the acquisition of Fortis Healthcare ("Fortis"). This calculated move has enabled us to become the

second largest healthcare provider in India.

With the successful acquisition of Fortis with a 31.1% interest on 13 November 2018, we create a leading healthcare platform with significant future growth potential. Fortis has a high quality asset portfolio and a well-recognised brand with an extensive reach in India. Adding Fortis to the Group complements IHH's existing South India focused portfolio and provides access to a leading platform with a pan-India presence and a strong position in the North Capital Region. Fortis is also a leader in complex and innovative medical procedures with expertise in areas consistent with IHH's focus on multi-specialty tertiary and quaternary care. Fortis, via SRL Diagnostics ("SRL"), has a leading nationwide diagnostics business, an area we see as increasingly important to the future of healthcare. With that, we are excited with the IHH-Fortis partnership as a transformational opportunity for the Group. Together, we have a clear vision that IHH and Fortis will become a leading provider across South, Central Asia and Indo-China.

A qualified opinion was issued for the statutory audit of Fortis for the financial year ended 31 March 2018. The qualifications are in connection to the matters raised in the independent investigation report submitted by external lawyers to former Fortis Board on 12 June 2018 (prior to the acquisition of Fortis on 13 November 2018). Additionally, there are investigations by the Securities and Exchange Board of India ("SEBI") and the Serious Fraud Investigation Office ("SFIO"), Ministry of Corporate Affairs of India.

As a consequence of the qualifications raised in Fortis for the financial period ended 31 December 2018, IHH's audited accounts for the financial year ended 31 December 2018 will include some of these qualifications.

Based on the findings from the independent investigation report, the newly constituted Fortis Board, which consists of five IHH nominees and three independent directors, initiated specific

improvement projects to strengthen the corporate governance standards, operating processes and control environment within Fortis. These projects include revisions to the line of authority limits, changing of authorised signatories, review of financial reporting processes, assessment of secretarial documentation in regards to compliance to regulatory requirements and systems design and control enhancements. All identified and required disclosures have been recorded in the financial statements of Fortis before the acquisition by IHH in November 2018. We will also initiate a forensic audit to ascertain the extent of diversion of funds from Fortis.

Our venture in Hong Kong has begun to bear fruit. The two-year-old Gleneagles Hong Kong Hospital ("GHK") has seen EBITDA losses narrowed. This encouraging result was driven by an increased number of complex surgeries and rising average revenue per inpatient admission. I am pleased to report that outpatient and inpatient admission has continued to increase quarter-on-quarter, and we have started to see growth in the take up on fixed-priced packages. More than 1,000 doctors have been accredited, and we expect more doctors to join GHK, including Hong Kong University-seconded doctors and sessional doctors who have ramped up their caseload at the hospital. GHK continues to introduce new clinical services, maintain a strong engagement with the specialists and increasing patient volumes via various marketing programmes.

ON THE HORIZON

Despite near-term business headwinds and challenges, our core operations have remained resilient and are performing well. Our organic and inorganic growth strategies have worked positively and in the way we envisioned. As it is, IHH boasts the largest portfolio of private hospitals in the world. In addition, our network gives us an added advantage as we enjoy synergistic benefits of medical knowledge sharing and increased efficiency in managing complex cases. Around the world, patients are beginning to expect better, faster and more accurate diagnoses and treatments.

Our focus and continued investments in technology and innovation will also enable IHH to capitalise on the opportunities in the healthcare industry.

There is however, always a certain element of risk in any business. The expanded scale of operations in more countries means that the group is increasingly subject to foreign exchange risks, as is the case of Turkey. As we operate in an increasingly competitive and fragmented healthcare landscape, we also foresee rising competition from various sources, such as from the public healthcare system and from disruptive digital healthcare start-ups. We also face increased competition for trained healthcare personnel in the markets we operate. As such, we are continually looking to increase and deepen our talent bench by attracting, retaining and developing quality healthcare personnel to support our growth strategy.

Looking ahead, the Group will execute a multi-country portfolio approach to diversify its earnings base and enhance its differentiated offering via organic and inorganic growth. The Group is consolidating its market leading position through improving clinical outcomes, enhancing our service offerings, adding capacity to existing facilities and leveraging technology to increase operational efficiencies. Given the strong demand for private healthcare, our pipeline of expansion and new hospital openings is backed by our positive cash flows in our home markets. The strategy is to provide a good balance of cashflow generative markets, such as that of Singapore and Malaysia, medium-term growth momentum from Turkey and long-term growth opportunities from India and Greater China.

We are confident that our resilience will take us much further ahead, and we will be able to weather the challenging economic climate. We will continue to create value for all stakeholders by growing sustainably and prudently.

Thank you.

Dr Tan See Leng
Managing Director and
Chief Executive Officer

Forging Ahead in India with Fortis Healthcare

In November 2018, we reached a significant milestone by making further inroads into the Indian market. IHH is well aware of the near term challenges that come with this acquisition, and we would like to share with our stakeholders our plans to turn around Fortis.

Q: WHAT ARE THE SHORT-TERM STRATEGIES IN HANDLING FORTIS' EXISTING CHALLENGES?

A: There are several legacy issues within Fortis. These include financial and governance issues that are currently under investigation. One of our immediate approaches is to ensure adequate funding for the buyback of all assets of Religare Health Trust ("RHT"), a Singapore associate of Fortis, which will provide an immediate boost to Fortis EBITDA margins. The buy-back of the Indian assets from RHT was successfully completed on 15 January 2019.

IHH has also initiated a disciplined turnaround plan. This includes improving operational efficiencies and operating leverage, renegotiating some of Fortis' credit lines as well as procurement costs to leverage IHH's global procurement pricing arrangement with some of its vendors.

Q: HOW DOES IHH PLAN TO UNLOCK FORTIS' POTENTIAL FOR THE LONG TERM?

A: We are aware that the fundamentals at Fortis require strengthening. It is only with a strong foundation that we can look forward to restore its performance. We have done our due diligence and are cautiously optimistic in turning things around. First and foremost, we have reconstituted the Board with a total of eight members, three current independent directors and five additional non-executive directors nominated by IHH, to ensure the highest standards of governance.

For the mid to longer term, we will look to harness the advantages of SRL, a Fortis subsidiary that focuses on diagnostic testing. SRL plays a strategic role for Fortis and is an integral part of our strategic vision. We believe India remains a largely under-served market and there is tremendous scope to develop SRL into a lab powerhouse in India.