The Board believes that effective risk management and internal control systems underpin a successful business and are integral to realising the Group’s overall objective of delivering value to its shareholders. The Board is ultimately responsible for monitoring and reviewing the effectiveness of these systems and reporting on its review in the Annual Report. The Board has delegated to the Audit and Risk Committee the tasks of evaluating the Group’s risk management procedures, assessing the effectiveness of the internal controls and monitoring the integrity of the Group’s reporting, but maintains strong and regular oversight of the outcome of the Audit and Risk Committee’s work.

**RISK MANAGEMENT**

The objective of risk management in the Group is to identify and assess important and emerging risks. To this end, the Group has established an Enterprise-wide Risk Management (“ERM”) policy which follows the international Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) framework and is aligned to the Group’s operations and strategy. The Group ERM framework defines the risk appetite, risk management objectives, methodology, risk identification, assessment and treatment processes and the responsibilities of the various risk management role-players in the Group. The ERM policy is embedded in the Group’s daily management and operational processes. It provides a robust structure within which management can operate and which directors can oversee without stifling the core activities of the business. The policy reinforces a strong risk management culture within the Group by setting the tone and acting as the starting point for all components of risk management and internal control. It is subject to annual review, and any amendments are submitted to the Audit and Risk Committee for approval. In accordance with the recommendations of the Financial Reporting Council’s UK Code on Corporate Governance and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Board annually reviews the Group’s principal risks and ERM policy and processes, taking account of the Audit and Risk Committee’s recommendations and assessment.

An ERM software application supports the Group’s risk management process in all three operating divisions. The Group’s principal risk items (grouped by category, business process and strategic priorities), the movement in risk during the financial year, and key measures taken to mitigate these risks, are listed in the table below.

**PRINCIPAL RISKS**

<table>
<thead>
<tr>
<th>PRINCIPAL RISK</th>
<th>MOVEMENT IN 2018</th>
<th>DESCRIPTION OF RISK</th>
<th>MITIGATION OF RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and business environment risk</td>
<td>↑</td>
<td>Economic growth in Switzerland and in South Africa continued to be weak, resulting in increased risk exposure.</td>
<td>• Systems to monitor developments in the economic and business environment of trends and early-warning indicators • Proactive monitoring and negotiation by Group’s funder relations departments • Focus on quality and continuum of care to reinforce the Company’s position</td>
</tr>
<tr>
<td>Business investment and acquisition risks</td>
<td>↓</td>
<td>The investments and governance processes were strengthened during the year.</td>
<td>• Strategic planning processes • Due diligence processes • Investment mandates • Board oversight • Post-acquisition management processes</td>
</tr>
<tr>
<td>PRINCIPAL RISK</td>
<td>MOVEMENT IN 2018</td>
<td>DESCRIPTION OF RISK</td>
<td>MITIGATION OF RISK</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------</td>
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</tr>
</tbody>
</table>
| Competition    |                  | The risk relates to the uncertainty created by the existence of competitors or the emergence of new competitors with their own strategies. The risk includes the outmigration of care, partly driven by further technological developments and the development of alternative care models. | • Proactive monitoring  
• Strategic planning processes  
• Quality and value of care processes |
| Availability and cost of capital (including financing and liquidity risk) | | These risks involve the cost, terms and availability of capital to finance strategic expansion opportunities and/or the refinancing or restructuring of existing debt which has been affected by prevailing capital market conditions. | • Long-term planning of capital requirements and cash-flow forecasting  
• Scrutiny of cash-generating capacity within the Group  
• Proactive and long-term agreements with banks and other funders relating to funding facilities  
• Monitoring compliance with requirements of debt covenants  
• Further details on capital risk management and the Group’s borrowings are contained in the annual financial statements |
| Operational and credit risks | | The risk exposure was reduced following the successful integration of the Al Noor business. Credit risk is the risk of loss due to a funder’s inability to pay the outstanding balance owing, default by banks and/or other deposit-taking institutions, or the inability to recover outstanding amounts due from patients. | • Preservation of a sound internal financial control environment  
• Effective operational risk management processes  
• Extensive combined assurance processes  
• Monitoring operations through key performance indicators (“KPIs”)  
• Continuous enhancement of operational efficiency and cost reduction  
• Regulated minimum solvency requirements for funders  
• Monitoring approved funders  
• Treasury policy  
• Executive and board level oversight |
<table>
<thead>
<tr>
<th>PRINCIPAL RISK</th>
<th>MOVEMENT IN 2018</th>
<th>DESCRIPTION OF RISK</th>
<th>MITIGATION OF RISK</th>
</tr>
</thead>
</table>
| Quality and stability of operational services risk | ➤ The operational services risk did not change significantly and remained stable throughout the year. | The risk refers to the quality of service and the stability of the operations. It includes but is not limited to:  
  • incidents of poor service or incidents where operational management fails to respond effectively to complaints;  
  • operational interruptions which refers to any disruption of the facility and may include the threat of disrupted power or water supply; and  
  • fire and allied perils causing damage or business interruption. | • Patient satisfaction surveys (internal and external)  
  • Complaints monitoring  
  • Training programmes  
  • Supervising service levels  
  • Emergency backup power generation  
  • Emergency planning  
  • Plans to deal with disasters  
  • Extensive fire-fighting and detection systems, including comprehensive maintenance processes  
  • Comprehensive insurance to deal with financial impact of potential disasters |
| Information systems security and availability risk | ➤ The increased risk relates to the continued external threats arising from cyberattack. | Information systems security risk (including cyber risk) relates to unauthorised access to information systems, failure of data integrity and confidentiality. Availability risk relates to instances where systems are not available for use by its intended users.  
  Project delivery risk, closely associated with information systems risk, refers to issues or occurrences that could potentially interfere with completion of projects, including scope, timeliness and appropriateness of delivery. | • Comprehensive information systems logical access, change and physical access controls  
  • Disaster recovery planning  
  • System design and architecture  
  • Group ICT Security Committee  
  • Experienced project management teams  
  • Proactive monitoring and oversight |
| Regulatory and compliance risk | ➤ The increased risk relates to the introduction of new regulations which includes TARMED (Tariff System for Outpatient Medical Services) in Switzerland and the EU General Data Protection Regulation ("GDPR"). | The risk involves adverse changes in laws and regulations impacting the Group or failure to comply with laws and regulations which may result in losses, fines, prosecution or damage to reputation.  
  The risk includes ethical and governance risks that refer to the unexpected negative consequences of unethical actions or the failure of the control and oversight mechanisms which were designed and implemented to uphold the ethical standards and controls of the organisation. | • Proactive engagement strategies with stakeholders  
  • Health policy units created to conduct research and provide strategic input into reform processes  
  • Active industry participation across all divisions  
  • Company Secretarial and/ or Legal departments support operational management, monitor regulatory developments and, where necessary, obtain expert legal advice for the effective implementation of compliance initiatives  
  • Compliance risks identified and assessed as part of compliance management processes  
  • Visible ethical leadership  
  • Monitoring and investigation of incidents reported on the ethics line  
  • Executive and Board level oversight |
### Risk of availability, recruitment and retention of skilled resources and medical practitioners

<table>
<thead>
<tr>
<th>PRINCIPAL RISK</th>
<th>MOVEMENT IN 2018</th>
<th>DESCRIPTION OF RISK</th>
<th>MITIGATION OF RISK</th>
</tr>
</thead>
</table>
| Risk of availability, recruitment and retention of skilled resources and medical practitioners | ➤ | Vacancies and turnover ratios in respect of skilled resources and medical practitioners are expected to remain at similar levels to the prior year. | • Monitoring doctor satisfaction, movement and doctors’ profiles  
• Details on the relationship with doctors are provided in the Sustainable Development Report.  
• The employment, recruitment and retention strategies are explained in the Sustainable Development Report.  
• The extensive training and skills development programme, and the foreign recruitment programme are further explained in the Sustainable Development Report. |

### Clinical risks

<table>
<thead>
<tr>
<th>PRINCIPAL RISK</th>
<th>MOVEMENT IN 2018</th>
<th>DESCRIPTION OF RISK</th>
<th>MITIGATION OF RISK</th>
</tr>
</thead>
</table>
| Clinical risks | ➤ | Clinical processes across operating divisions continued to be a key focus area for the Group. Risk exposure remained at a comparable level to the previous year. | • Refer to the Clinical Services Report for a detailed analysis of the strategies to manage and monitor clinical risks  
• A Group-wide clinical risk registers per operating division  
• Accreditation processes  
• Clinical governance processes  
• Monitoring clinical performance indicators  
• Comprehensive processes for infection control and prevention  
• Marketing and communication strategies  
• Quality management processes  
• Stakeholder engagement and disclosure strategies |

### Key

- **REFERENCE**
- **CATEGORY**
- **BUSINESS PROCESSES**
- **STRATEGIC PRIORITIES**

| 1 | Strategic and business environment | • Strategy formulation and implementation  
• Strategic investments and strategic projects | • Delivering business value  
• Continuing to expand as a successful international healthcare group |
| 2 | Financial and reporting risks | • Revenue cycle  
• Procure to pay cycle  
• Financial management and control  
• Treasury  
• Health information (including coding) | |
| 3 | Operational risks | • Infrastructure  
• Marketing and corporate communication  
• Operations | |
| 4 | Information technology risks | • Information and communications technology ("ICT")  
• ICT projects | |

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**RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

<table>
<thead>
<tr>
<th>REFERENCE</th>
<th>CATEGORY</th>
<th>BUSINESS PROCESSES</th>
<th>STRATEGIC PRIORITIES</th>
</tr>
</thead>
</table>
| 5         | Regulatory compliance risks | • Legal and secretarial  
                        • Governance, risk and compliance  
                        • Environmental management | • Ensuring good corporate governance  
                        • Acting as a responsible corporate citizen |
| 6         | Clinical risks | • Clinical  
                        • Nursing  
                        • Pharmacy  
                        • Coding | • Delivering superior value to its patients  
                        • Delivering integrated healthcare in collaboration with doctors and allied healthcare professional communities |
| 7         | People risks | • Human resources  
                        • Compensation and benefits cycle | • Being an employer of choice  
                        • Having constructive relationships with all stakeholders  
                        • Being a valued member of the community |

**INTERNAL CONTROLS**

The Group upholds an effective control environment designed to ensure risks are mitigated and the Group attains its objectives, including the accuracy and reliability of the Group’s financial reporting. The system includes monitoring mechanisms and ensures that appropriate actions are taken to correct deficiencies when they are identified.

The key features of the Group’s internal control and risk management systems in relation to the financial reporting process include:

- clearly defined matters reserved for the Board or its Committees, delegations of authority and lines of accountability;
- policies and procedures covering:
  - the Group’s approach to treasury activities and tax matters;
  - internal and external audit mandates;
  - preparation of financial reports;
  - governance of key projects; and
  - ICT security;
- periodic audits conducted by the Internal Auditor;
- representation letters from the divisional CEOs regarding the key risks and mitigating actions for their division; and
- review of disclosures in financial reports by the divisional CEOs and CFOs and the Group senior management as relevant, as well as the Audit and Risk Committee and the Board, to ensure that they fulfil the relevant requirements.

During the year, the Group and each operating division executed their assurance plans. These plans comprise various assurance processes, including internal and external audit processes which are in place to evaluate the effectiveness of key controls designed to mitigate the significant risks identified in each operating division.

The Group makes use of an outsourced internal audit function which is closely aligned to the Group risk management function. It reports independently to the Audit and Risk Committee of the Board. At each operating division, the effectiveness of the system of internal financial control is independently evaluated through the internal and external audit programmes. In addition to these audits, the effectiveness of operational procedures is examined internally through various peer review and control self-assessment processes. The results of these assurance processes are monitored by the Group’s risk management function and reported to each operating division’s management team.

Each operating division has, in addition to the above mentioned assurance processes, implemented further independent assurance processes with professional organisations, as summarised in the table on page 49.

The company secretaries at Group and operating division level, as well as the internal legal advisors, are responsible for providing guidance in respect of compliance with applicable laws and regulations.

**EFFECTIVENESS OF RISK MANAGEMENT PROCESS AND SYSTEM OF INTERNAL CONTROL**

The Board, via the Audit and Risk Committee, regularly receives reports on, and considers the activities of, the internal and external auditors of Hirslanden, Mediclinic Southern Africa and Mediclinic Middle East, and the Group’s risk management function. The Board, via the Audit and Risk Committee, is satisfied that there is an effective risk management process in place and that there is an adequate and effective system of internal control in place to appropriately mitigate the significant risks faced by the Group.
## COMBINED ASSURANCE

<table>
<thead>
<tr>
<th>ASSURANCE OUTPUT*</th>
<th>BUSINESS PROCESSES ASSURED</th>
<th>PROVIDER/STANDARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>External calculation of carbon footprint based on carbon emissions data of Mediclinic Southern Africa</td>
<td>Carbon footprint calculation</td>
<td>Carbon Calculated</td>
</tr>
<tr>
<td>ISO 14001:2004 certification of 42 of Mediclinic Southern Africa’s 52 hospitals</td>
<td>Environmental management system</td>
<td>British Standards Institute, as accredited by United Kingdom Accreditation Service (“UKAS”)</td>
</tr>
<tr>
<td>COHSASA accreditation of 34 of Mediclinic Southern Africa’s 37 participating hospitals</td>
<td>Quality standards of healthcare facilities</td>
<td>Council for Health Services Accreditation of Southern Africa (“COHSASA”), which is accredited by the International Society for Quality in Health Care (“ISQua”)</td>
</tr>
<tr>
<td>B-BBEE verification</td>
<td>Broad-based black economic empowerment</td>
<td>Empowerdex</td>
</tr>
<tr>
<td>ISO 9001:2008 certification of all Hirslanden hospitals and Hirslanden Corporate Office. Five hospitals are already ISO 9001:2015 certified with the remainder to be concluded by September 2018</td>
<td>Process and Quality management</td>
<td>Swiss Association for Quality and Management Systems (“SQS”)</td>
</tr>
<tr>
<td>Self-assessment against EFQM Excellence Model by all Hirslanden hospitals and Hirslanden Corporate Office</td>
<td>Assessment against the EFQM Excellence Model, a framework for organisational management systems aimed at promoting sustainable excellence within organisations</td>
<td>European Foundation for Quality Management (“EFQM”) Excellence Model</td>
</tr>
<tr>
<td>ISO 14001:2015 certification of Hirslanden Klinik Belair</td>
<td>Environmental management system</td>
<td>SQS</td>
</tr>
<tr>
<td>JCI reaccreditation of Mediclinic Al Noor Hospital in Abu Dhabi in November 2017</td>
<td>Quality and safety of patient care</td>
<td>Joint Commission International (“JCI”) Accreditation</td>
</tr>
<tr>
<td>JCI accreditation and re-accreditation of all Mediclinic Middle East facilities (hospitals and clinics) is scheduled for mid-2019</td>
<td>Pathology laboratories of Mediclinic Middle East hospitals and clinics in Dubai, Abu Dhabi, Al Ain and Western Region</td>
<td>International Organisation for Standardisation (“ISO”)</td>
</tr>
<tr>
<td>All Mediclinic Middle East laboratories operating within Mediclinic hospital and clinic facilities are ISO 15189:2012 accredited.</td>
<td>Pathology laboratory of Mediclinic City Hospital</td>
<td>College of American Pathologists (“CAP”)</td>
</tr>
<tr>
<td>CAP re-accreditation of the laboratory of Mediclinic City Hospital in 2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The flags indicate the operating division where the assurance process is in place.

Key: 🇳🇿 = Mediclinic Southern Africa  🇨🇭 = Hirslanden  🇦🇪 = Mediclinic Middle East