

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND STAKEHOLDERS OF KPJ,

IT IS MY PRIVILEGE TO PRESENT TO YOU KPJ HEALTHCARE BERHAD'S (KPJ OR THE GROUP) INAUGURAL INTEGRATED REPORT (IR) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (FY2018).

Having embarked on our integrated thinking journey in 2016, this year we advanced it further with the goal of providing transparent and accountable reporting, as well as demonstrating how the Group has created and shared value for our shareholders and stakeholders.

To prepare us for this effort, the KPJ team conducted workshops during the year, and worked together as a team to produce a concise and focused report with a comprehensive narrative in line with global best practices as espoused by the Integrated <IR> Reporting Framework and Guidelines. Through our IR 2018, we aim to share with you how we have achieved our strategic objectives within our patient centric healthcare business for FY2018, and our forward moving strategies to capture greater long-term value.

KEY HIGHLIGHTS FOR 2018

Since KPJ's inception in 1981, our focused strategies have sustained our growth in an increasingly competitive and complex healthcare landscape within our footprint in the Asia Pacific region. In our home market of Malaysia, the national economy recorded only moderate Gross Domestic Product (GDP) growth of 4.8%, which has impacted corporate employers' confidence regarding future economic prospects, and thus many are seen to be mitigating it by downsizing employees healthcare insurance coverage. Whilst the healthcare sector was also shaped by shifts in the regulatory environment, the signal given by the Malaysian Government continues to be reassuring as unveiled in Budget 2019, reflecting national commitment towards raising public healthcare

DATO' KAMARUZZAMAN ABU KASSIM

CHAIRMAN



IN OUR HOME MARKET OF MALAYSIA, THE NATIONAL ECONOMY RECORDED ONLY MODERATE GROSS DOMESTIC PRODUCT (GDP) GROWTH OF 4.8%

spend to between 6% and 7% of GDP, from 4.6% previously, in line with healthcare spends in developed nations.

Notwithstanding challenges faced by the industry, KPJ's resilient business fundamentals enabled us to record another solid performance in FY2018. The Group recorded our highest revenue to date, which grew by 4% to RM3.3 billion from RM3.2 billion the previous year. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased correspondingly by 18% to RM503.1 million from RM428.0 million in 2017, on the back of

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sustained efforts to increase our market share through new hospital developments, expansions of existing hospitals, venturing into burgeoning niche healthcare segments, and leveraging on the advancements of digitalisation and medical technology (MedTech) innovations of Industry 4.0.

REFINED BRANDING TO REFLECT OUR FUTURE ASPIRATIONS

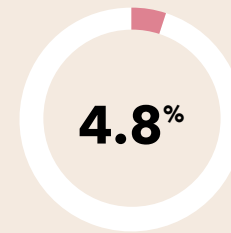
Another key exercise conducted during the year was refining our Group's branding to reflect our sustainable business aspiration and vision of being the preferred healthcare provider. This was borne



THE GROUP RECORDED OUR HIGHEST REVENUE TO DATE, WHICH GREW BY 4% TO RM3.3 BILLION FROM RM3.2 BILLION THE PREVIOUS YEAR. EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA) INCREASED CORRESPONDINGLY BY 18% TO RM503.1 MILLION FROM RM428.0 MILLION IN 2017

KEY HIGHLIGHTS

The year 2018 was characterised by a buoyant Malaysian economy



Gross Domestic Product (GDP) growth of 4.8% for the year.

Our Seven Strategic Thrusts Areas

keep us on course as we strive to increase our market share



→ **CAPACITY BUILDING**



→ **ENRICHED CUSTOMER RELATIONSHIP**



→ **INNOVATION @ THE CORE**



→ **NEW NICHES**



→ **TALENT MANAGEMENT**



→ **BUSINESS PROCESS IMPROVEMENT**



→ **SUSTAINABLE VALUE FOR STAKEHOLDERS**



THROUGH THE YEARS, THIS HAS TRANSLATED INTO CONSISTENT SHAREHOLDER REWARDS OF QUARTERLY DIVIDEND PAYOUTS BETWEEN 45% AND 50% OF THE GROUP'S NET PROFIT.

through the re-design of our new logo, which was aligned with our parent company Johor Corporation's logo upgrade and refresh exercise.

Our modern and contemporary logo is also a sign of KPJ's evolution in a dynamically changing healthcare era to reposition our brand in domestic and international markets through an eye-catching, easy to recall and impactful design. It is aligned with our new communication direction which leverages on virtual and social media to enhance the effectiveness of our brand in the marketplace.

THE VALUE WE CREATED FOR OUR STAKEHOLDERS

In line with our Group philosophy of Care For Life, and aligned with our commitment to create continuous value for our shareholders and stakeholders, KPJ delivered the following value creation for FY2018.

For Our Shareholders

We have maintained a consistent and sustainable dividend policy for our shareholders, via progressive dividends that takes into account our underlying earnings and available funding, whilst remaining prudent and retaining sufficient capital for ongoing operations and project developments. Through the years, this has translated into consistent shareholder rewards of quarterly dividend payouts between 45% and 50% of the Group's net profit. Given our strong results for the year, the Board of Directors has declared dividends of 2.0 sen per ordinary share, with total dividends of RM84.7 million paid for FY2018.

For Our Customers and Patients

Our commitment towards providing the highest quality of patient centric care to be the preferred healthcare provider is evidenced by new healthcare engagement models such as Planetree, as well as focused initiatives to embed patient centric healthcare across our network.

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KEY HIGHLIGHTS

DECLARED
DIVIDENDS OF2.0
SEN

per ordinary share, with total dividends of RM84.7 million paid for FY2018



KPJ'S TALENT BASE OF

13,395

PEOPLE

represents the public persona of the Group

CONTRIBUTES TO THE
WELLBEING AND GOOD
HEALTH

24

KLINIK WAQAF AN-NUR
(KWAN)

and

5

FIVE MOBILE CLINICS
NATIONWIDE

During the year, we expanded the scope of our specialist healthcare offerings, leveraging on MedTech to offer our patients access to cutting edge medical solutions. We enlarged our footprint by opening new hospitals and upgraded facilities in existing hospitals, which have allowed us to serve greater market demand and provide broader access to our high quality and affordable healthcare services.

For Our Employees

KPJ's talent base of 13,395 people represents the public persona of the Group's concerted efforts in living out a high performance culture which puts our patients at the heart of all we do. We have remained on track with our talent development programmes, to inspire our employees to continuously innovate in terms of customer service, processes and systems towards ensuring the highest standards of healthcare delivery.

To ensure responsiveness to changing times and patient expectations, we have invested a total of RM11.3 million Group-wide in our talent development programmes throughout 2018, by growing our people's capacities and capabilities in the areas of MedTech and digitalisation of healthcare services.

For Our Communities

KPJ contributes to the wellbeing and good health of the less fortunate in our communities through our 24 Klinik Waqaf An-Nur (KWAN) and five mobile clinics nationwide. Our flagship community healthcare initiative since 1998, KWAN provide medical services for a minimum fee of only RM5, and dialysis treatments for only RM90. In 2018, we provided medical treatments at KWAN for 120 patients, while a total of 174 kidney patients benefitted from dialysis treatments.

Our initiatives in this sphere represent our ongoing commitment to do our part to expand quality, universal healthcare access for the underprivileged and lower income communities who would not ordinarily be able to afford private healthcare services. At the same time, these initiatives have helped alleviate the burden on public healthcare services, signifying our greater commitment towards the socioeconomic development of our country. As at end 2018, we invested a total of RM7.2 million on KWAN clinics nationwide.

For the Government

In alignment with the Government's goals and aspirations, KPJ has maintained an ongoing commitment to further develop the healthcare sector in Malaysia by our observance of healthcare regulations and policies, ongoing engagement with the Government on healthcare issues and legislation, seeking to bring our best practices and insights to the table as we work collaboratively towards enhancing the healthcare sector, as well as responsibly managing the environmental impact of our business.

As a result of sustained engagements with the Government, KPJ is providing vaccinations for employees of the Immigration Department of Malaysia (Jabatan Imigresen Malaysia or JIM) and the National Registration Department (Jabatan Pendaftaran Negara or JPN) at selected offices nationwide beginning in 2018.



OUR ECONOMIC, ENVIRONMENTAL AND SOCIAL (EES) COMMITMENTS

The year 2018 was a landmark year for us, as we significantly enhanced our EES commitments by aligning and mapping our sustainable business outcomes against the United Nations Sustainable Development Goals (UN SDGs). We also maintained efforts to adhere to the Malaysian Patient Safety Goals (MPSG) to continuously improve patient outcomes and towards a more inclusive healthcare system which takes into account complex trends shaping healthcare provision all over the world.

As we embark in this bold new direction towards enhancing our sustainability development commitments, KPJ has produced its first standalone Sustainability Report (SR) to document our journey towards national socioeconomic development and provide a comprehensive account of our EES contributions.

SUSTAINED COMMITMENT TOWARDS UPHOLDING STRONG GOVERNANCE

To ensure that the Group effectively address the risks we face within a shifting and challenging healthcare landscape, and embed mitigations into our business operations, we incorporated a Risk and Sustainability Committee at Board of Directors (Board) level during the year. Further, a new tender board was put in place not only to ensure stricter procurement governance but to also safeguard quality by making sure that suppliers and vendors appointed have the capacities and capabilities to support us in providing the highest standards of goods and services.

It is with pride we highlight that our network of hospitals have remained on course with various quality accreditations and certifications, testament to the standard of excellence we deploy across the board. These are evident in international and local validations we

received in 2018, some of which were industry firsts, both in Malaysia and the region. They include the following:

- KPJ Group was certified for ISO 9001:2015 by TUV Rheinland
- KPJ Dental was the first dental facility in Malaysia to receive MSQH accreditation
- Lablink Medical Laboratory was certified by the Department of Standards Malaysia with ISO 15189:2012
- KPJ Ampang Specialist Hospital and KPJ Damansara Specialist Hospital were the first two hospitals in Malaysia and the Asia Pacific region to receive the Gold Level Excellence in Person-Centred Care certification from Planetree International, USA
- KPJ Sabah was awarded with the Accredited Quit Smoking Service location by the Malaysian Ministry of Health
- KPJ Seremban was awarded one star for the Energy Management Gold Standard under ASEAN Energy Management Scheme (EMGS AEMAS)

AWARDS AND RECOGNITIONS

KPJ continue to receive awards and recognitions in 2018, again a testament of our sterling reputation in providing the highest quality of medical treatments and services for our patients.

On behalf of everyone at KPJ and Johor Corporation, I would like to congratulate our President and Managing Director Dato' Amiruddin Abdul Satar for receiving the Digital Transformation Leader of the Year Award at the IDC Digital Transformation Awards, as presented by the International Data Corporation (IDC). His strong leadership in steering the future of the Group through digitalisation and MedTech adoption has been a crucial factor in ensuring that KPJ remains ahead of the curve in the provision of healthcare services in Malaysia.

In recognition of KPJ's high levels of employee engagement and excellence workplace culture, KPJ Healthcare Berhad was recognised as one of the Best Companies to Work in Asia 2018 by HR Asia at the HR Asia Awards. The Group was also presented with the Platinum Trusted Brand Award by Reader's Digest Asia, signifying the strength of our brand and the trust it inspires.

Focused efforts to expand the reach of the KPJ brand to provide healthcare services to medical tourists resulted in the Group being recognised as Hospital of the Year in Malaysia at the Global Health and Travel Awards 2018. On home shores, our efforts towards ensuring the wellbeing of communities through our Corporate Social Responsibility (CSR) programmes were lauded by CSR Malaysia at the CSR Malaysia Awards 2018.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to stress that KPJ's value creation journey towards transforming KPJ into a world-class healthcare provider would not have been possible without the continuous support and cooperation of all our stakeholders.

We take this opportunity to express our heartfelt gratitude to the various state governments as well as the Federal Government, along with the Ministry of Health and other health regulators and accreditation bodies, along with our vendors and suppliers for their ongoing support of our mission to provide patient centric healthcare solutions and treatments.

To our consultants, medical officers, nurses and all other medical and non-medical professionals, we thank them for their steadfast dedication and commitment in living out the Group's values in their daily roles and responsibilities, which has kept the KPJ brand at the forefront of the healthcare industry.

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As for our customers and patients, we thank them from the bottom of our hearts for their continued trust and faith in our quality healthcare delivery. On a personal note, I would like to extend my appreciation to my colleagues on the Board for their unwavering commitment in steering KPJ forward towards the realisation of our strategic goals by sharing their insights, wisdom and expertise.

And finally to our shareholders, our deepest thanks for their sustained belief in our value creation abilities and for continuing this journey with us. As we forge ahead into the future, we wish to reaffirm our commitment to sustain our efforts towards greater value creation across our entire ecosystem of stakeholders.

Dato' Kamaruzzaman Abu Kassim

Chairman
KPJ Healthcare Berhad