

Commentary

Netcare Limited, a holding company listed on the JSE Limited, operating through its subsidiaries, the largest private hospital networks in South Africa and the United Kingdom (UK), announces unaudited group results for the six-month period ended 31 March 2008. The interim financial information has been prepared in accordance with International Financial Reporting Standards (IFRS), and is in compliance with IAS 34 *Interim Financial Reporting*, the Listings Requirements of the JSE Limited and the South African Companies Act, 1973, as amended.

Financial review

The results were impacted by several acquisitions, most notably the acquisition of the remaining interest in Community Hospital Group (Community) in South Africa and the seven Nuffield hospitals in the UK.

The remaining 56,25% of Community was purchased in October 2007 for R169 million funded by the issue of 14,2 million Netcare shares at R11,89.

General Healthcare Group (GHG) completed the purchase of nine hospitals from the Nuffield Group on 1 February 2008 for a total consideration of R2 076 million (£140 million) (excluding transaction costs). Subsequently, Nottingham Hospital and Gerrards Cross Hospital were disposed of in March 2008 and April 2008 respectively, resulting in net consideration paid for the seven hospitals of £109 million. Approval for the acquisition has been granted by the Office of Fair Trading (OFT).

Group operating revenue from continuing operations increased by 15,7% to R10 343 million (2007: R8 938 million), fuelled by acquisition growth of R334 million and supported by organic growth of R1 071 million. Group operating profit from continuing operations increased by 9,7% to R1 584 million (2007: R1 444 million) and the Group operating profit margin declined from 16,2% to 15,3% as a result of the non-recurring costs in the UK, increasing tariff and cost pressures in South Africa and revenue growth in the lower margin primary care business. Included in Group operating profit is net expenditure of a non-recurring and capital nature of R51 million (2007: R33 million) largely relating to restructuring and transaction costs in the UK of R59 million (£4,1 million) and R10 million for restructuring and losses arising from power outages in South Africa, offset by a profit of R18 million for the sale of properties and investments. Excluding such items, core operating profit increased by 10,7% with core operating margins at 15,8% (2007: 16,5%).

Group headline earnings per share remained flat at 23,7 cents per share and diluted headline earnings per share increased by 2,7% to 23,1 cents per share.

Group net financial expenses increased by 7,5% to R1 185 million (2007: R1 102 million) largely due to the increase in debt to fund the acquisition of the Nuffield hospitals and the debt inherited through the acquisition of Community. During the period UK interest rates decreased from 5,75% to 5,25% and as a result fair value losses on the interest rate swap derivatives of R16 million were recognised in financial expenses and R1 207 million (including minority interests) debited directly to the statement of recognised income and expense.

Attributable earnings from associates reduced from a R15 million profit in the prior six-month period to a R3 million loss in the period as a result of Community becoming a subsidiary (including the R8 million write-off and provision of pre-acquisition items), and the termination of the Healthshare agreement.

The decrease in the Group's effective tax rate from 26,4% to 21,5% is as a result of the recognition of a deferred tax asset in relation to prior UK trading losses now realisable, the recognition of Secondary Taxation on Companies (STC) credits and the release of deferred taxation liabilities due to a reduction in the tax rate in South Africa.

Cash generated from operations increased by 3,7% from R1 522 million to R1 579 million which was utilised to fund the reduction of capital and preference dividends of R259 million, capital expenditure of R606 million and taxation payments of R115 million. Cash generated from operations was negatively impacted by working capital as funder remittances were delayed by Easter holidays occurring towards the end of March, but this was substantially remedied during April 2008.

The Group balance sheet was impacted by the depreciation of the Rand against the Pound Sterling of 14,6% from R14,03 at 30 September 2007 to R16,08 at 31 March 2008. This resulted in a net credit to the foreign currency translation reserve of R1 031 million (including minority interests), and a net increase in the foreign currency swap asset of R200 million. Net debt increased by 20,5% to R36 834 million largely due to the weakening of the Rand against the Pound on translation of the UK debt. Excluding the currency impact, net debt increased by 7,5% due to the acquisition of Nuffield, debt taken on in the Community acquisition and short-term working capital movements. The UK debt has no recourse to South Africa.

Commentary (continued)

Operations review

South Africa

Notwithstanding the strong demand for private healthcare, the South African operations are operating in an extremely challenging environment with increased regulatory and cost pressures. In January 2008 we fundamentally changed our billing methodology within our hospital division and contained annual average tariff increases for wards and theatres to significantly below consumer price inflation resulting in an average price increase per admission of 6,2%. Patient day growth of 4,7% was experienced in our existing hospitals and together with the acquired hospitals patient day growth was 13,6%. The average length of stay in our hospitals remained flat and the average occupancy increased.

Netcare has been selected by the Lesotho government as preferred bidder on a PPP to build a 390-bed hospital in Maseru, refurbish three primary care clinics and provide clinical services. The project is supported by the World Bank/ IFC and is the largest healthcare PPP in Africa. This commercial project is also regarded as a pilot for future World Bank hospital projects in Africa.

Significant progress has been made in building our primary care network in South Africa, expanding it by 22,6% to 3 565 participating doctors. Managed care lives increased by 34,6% to 208 000 as Prime Cure secured several new contracts. We experienced a 5,6% growth in GP and dentist visits to 1,8 million across the 100 Medicross and Prime Cure facilities. Prime Cure continues to successfully deliver care to the low income market and will provide an appropriate platform for planned comprehensive lower income products.

The South African operations delivered strong revenue growth of 17,1% to R4 907 million boosted by the acquisition of Community, the increased revenue contribution of the new hospitals and the primary care division. Operating profit from continuing operations was up 3,4% to R636 million. The margin was negatively impacted by non-recurring costs of R10 million relating to restructuring and the losses arising from power cuts, the increased contribution from primary care (at lower margin), the under recovery on the sub-inflation tariff increase, increased labour cost due to skill shortages and other cost pressures.

Capital expenditure for the six months was R314 million, a reduction of 18,7% on the prior six-month period.

United Kingdom

During the period GHG continued its efforts to increase operating efficiencies across the business and also launched its revenue growth initiatives of deploying a sales force to market BMI hospitals to GP's and consultants. The business expanded its portfolio through the acquisition of seven Nuffield sites.

The UK's existing BMI hospital division grew patient visits by 2,8% as a result of growth in day cases and outpatient visits. Inpatient admission growth would have been better had it not been impacted by Easter falling in March compared to April in the prior year, reporting an overall growth of 1,3%. Year-on-year growth was 3% for the seven months ended 30 April 2008. The growth in inpatient admissions is largely driven by increased NHS admissions.

Revenue from the UK business increased by 14,5% to R5 436 million (£376 million) from R4 749 million (£337 million) with organic revenue growth of 8,6%. Netcare UK's contribution to revenue increased to £21 million (2007: £12 million) during the period as new projects became fully operational. Operating profit for the year increased by 10,7% to R933 million (£64 million). Operating profit was negatively impacted by £4,1 million (2007: £1,4 million) of non-recurring costs. These included restructuring costs of £2,2 million and transaction costs of £1,9 million. Excluding these non-recurring costs, GHG's core operating profit was R992 million (£68 million) and core earnings before interest, taxation, depreciation and amortisation (EBITDA) was R1 427 million (£99 million). The significant progress made in transforming the business is evidenced by the 15,1% growth in core operating profit against the comparative six-month period and the business is now profitable after financing costs.

Capital expenditure for the period increased by 32,1% to R292 million in respect of the refurbishment of 20 hospitals and high investment return capital projects.

Outlook

Besides the critical shortage of skills, the issue of substantially improving access and affordability of healthcare in South Africa remains the key priority. Netcare is fully supportive of the ANC's Social Transformation Agenda, which includes improving the provision of housing, education and healthcare. To this end, Netcare is actively engaged in developing innovative solutions, to address affordable and accessible healthcare delivery mechanisms to at least all employed South Africans. Netcare believes that a National Health Insurance framework and a review of public sector delivery models will greatly enhance the ability of both public and private sectors to extend healthcare on a universal basis.

Already, Netcare is demonstrating through our primary care division that we are able to successfully provide affordable and accessible healthcare to the lower income sector. Our challenge remains the delivery of such healthcare at a secondary and tertiary level. Netcare is committed to engaging with government, civil society and organised labour in developing sustainable healthcare solutions and is actively involved in the industry process of providing constructive inputs into the proposed NHRPL and the National Health Amendment Bill. Netcare will continue to pursue the opportunities that Private Public Sector partnerships with government provide to ensure the broader provision of healthcare services.

Despite a downturn in the UK economy and an increasingly competitive environment, GHG is on track to meet its performance objectives for 2008. Key to achieving this are the various marketing and operational initiatives put in place by management. Management is confident that the operational platform created and the increased reach achieved with the acquisition of the seven Nuffield hospitals further strengthens and consolidates GHG's leadership position in this market. Management has restructured the UK hospitals into ten regions to mirror the NHS Primary Care Trusts (PCTs) and has packaged a regional service offering, better able to optimise volumes from the NHS through Full Patient Choice (FPC) and waiting lists.

Management appointments

We are pleased to announce the appointment of new managing directors for the South African divisions: Jacques du Plessis (Hospitals), Tumi Nkosi (Netcare 911), and Dr Charmaine Pailman (Primary Care).

Changes in directorate

The board is pleased to announce the appointment, with effect from 1 June 2008, of Mr Jerry Vilakazi, as independent non-executive Chairman. Mr Vilakazi succeeds Mr Michael (Motty) Sacks who, on 25 January 2008, announced his intention to retire as Chairman of the board with effect from 31 March 2008. Mr Sacks will continue to serve as acting Chairman of the board until 31 May 2008, and thereafter as a non-executive director. The appointment of Mr Vilakazi will enhance the independence of Netcare's board composition and the board looks forward to Mr Vilakazi's stewardship and guidance.

The board would like to record its appreciation to Mr Sacks for his loyal and dedicated service as well as his outstanding leadership and mentorship of Netcare over the past 12 years. He has made an enormous contribution to all spheres of the business and the board is grateful that he will continue to impart his wisdom and expertise as a non-executive director.

Declaration of reduction of capital number 18

In accordance with the authority given to the directors by way of an ordinary resolution passed on 25 January 2008, the board of directors declared on 15 May 2008 an interim reduction of capital (number 18) out of share premium of 14 cents per ordinary share (2007: 13 cents per ordinary share), payable on 21 July 2008, to shareholders recorded in the register of the Company as at 18 July 2008.

In compliance with the requirements of Strate, the following dates are applicable:

Last date to trade "cum" the reduction of capital ("LDT")	Friday, 11 July 2008
Date trading commences "ex" the reduction of capital	Monday, 14 July 2008
Record date	Friday, 18 July 2008
Date of payment	Monday, 21 July 2008

Share certificates may not be dematerialised nor rematerialised between Monday, 14 July 2008 and Friday, 18 July 2008, both dates inclusive.

On behalf of the board

Michael I Sacks
Chairman

Dr Richard Friedland
Chief Executive Officer

Peter Nelson
Chief Financial Officer

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16 May 2008