

Commentary

Netcare Limited announces unaudited Group interim results for the six months ended 31 March 2009. These results have been prepared in accordance with International Financial Reporting Standards (IFRS) and are in compliance with *IAS 34 Interim Financial Reporting*, the Listings Requirements of the JSE Limited (JSE) and the South African Companies Act, 1973, as amended.

Netcare is an investment holding company operating the largest private hospital network in South Africa (SA) and the United Kingdom (UK). The Company has been listed on the JSE since 1996. In SA, Netcare operates a portfolio of private hospitals, a primary care network and medical emergency services. In the UK, through the General Healthcare Group (GHG), Netcare operates as a private acute care hospital provider and an independent service provider to the National Health Service (NHS).

Group financial highlights

- Revenue up 12% to R11 619 million
- EBITDA up 13% to R2 474 million
- Basic headline earnings per share up 41% to 33,3 cents
- Completed sale of 50% interest in Ampath Holdings Trust
- Repurchased and cancelled 436 million treasury shares
- Interim capital reduction up 14% to 16 cents per share

Group business highlights

- Solid operational performance in both SA and UK
- Community Hospital Group acquisition cleared by Competition Appeal Court
- Port Alfred Hospital PPP opened in February 2009
- Commenced construction of Lesotho Hospital PPP in March 2009
- Further enhanced GHG footprint in London and across other key regions in the UK
- Rated the most empowered JSE-listed company in the healthcare sector

Introduction

The global economic downturn continues to affect the business climate and the Group's operating environment remains challenging, particularly in the UK. Netcare is therefore pleased to report a solid overall performance with operating regions either meeting or exceeding management guidance provided in November 2008.

Group financial performance

Group revenue rose 12,3% to R11 619 million, supported by strong demand for private healthcare services in SA, solid core activity in the UK and the inclusion of hospitals acquired from Nuffield for the full six months.

Group operating profit was up 15,0% to R1 822 million with operating profit margin increased from 15,3% to 15,7%. In SA, strong patient volumes and improved hospital margins were tempered by underwriting costs and higher doubtful debt provisions in the Primary Care division. In the UK, efficiency improvements and cost savings resulted in improved operating profit margins.

The Group results were positively impacted by the sale of Netcare's 50% interest in Ampath Holdings Trust (Amphath) following Competition Commission approval of the transaction on 24 February 2009. The sale realised gross proceeds of R1 027 million. The profit from the disposal amounted to R588 million, after capital gains tax of R90 million, which is included in profit from discontinued operations.

Group net financial expenses were 5,7% higher at R1 252 million. This was mainly due to the acquisition of the Nuffield hospitals, which were financed by raising additional debt of R1 210 million (£82 million) in February 2008. The interest benefit arising from the Ampath sale proceeds will only be realised in the second half of the financial year.

Basic earnings per share rose 213,8% to 79,4 cents from 25,3 cents in the prior period. Basic headline earnings per share of 33,3 cents were up 40,5% on the 23,7 cents achieved a year before. The earnings growth is in line with the Group's trading statement issued on 6 May 2009.

An interim capital reduction of 16,0 cents per share has been declared, reflecting an increase of 14,3% over the prior period.

Net debt at 31 March 2009 of R30 361 million was 6,8% lower than the R32 589 million at 30 September 2008, mainly as a result of the appreciation of the Rand against the British Pound (GBP) and the net cash proceeds of R852 million from the Ampath disposal. Equity decreased by R1 706 million arising from unfavourable non-cash mark-to-market fair value adjustments on the UK interest rate swaps recognised in the cash flow hedge accounting reserve.

Cash generated from operations increased 13,2% to R1 788 million from R1 579 million in the prior period as a result of the improved operating performance. The Group converted 72,3% of its EBITDA into cash which remains unchanged year-on-year. Pressure on working capital in the UK impacted negatively on cash flows, largely due to an increase in NHS debtors from the higher volumes of NHS patients seen.

Capital expenditure of R592 million was incurred, compared to R606 million for the six months ended 31 March 2008.

During the reporting period, 436 million treasury shares, representing 23% of the shares in issue, were repurchased and cancelled. This has simplified the Group's capital structure significantly, providing the opportunity for a potential repurchase of additional shares in future.

South Africa

The South African operations performed solidly. Driven by an increased demand for private healthcare services, the results reflect almost entirely organic growth. The Hospital division has now implemented extensive changes to its business model which underpinned the excellent results achieved in the six-month period. The results of the Primary Care division were impacted by prior year factors that have now largely been resolved.

Commentary (continued)

Netcare was independently rated as the most empowered firm in the JSE's healthcare sector and the eleventh most empowered listed company in SA in the Financial Mail's Top Empowerment Companies 2009 survey. The Company was rated third overall in skills development and training.

In November 2008 the Competition Appeal Court overruled the Competition Tribunal ruling on the merger with Community Hospital Group (Community), allowing for the full integration of the Community hospitals into Netcare.

Financial performance

SA revenue grew 14,4% to R5 616 million from R4 907 million, while operating profit rose 18,9% to R756 million. The operating margin improved from 13,0% to 13,5%. SA's operating performance reflects strong patient volumes and improved efficiencies.

Working capital was well managed and hospital debtor collections over the six-month period were at record levels. A cash conversion ratio of 83,9% was achieved compared to 52,6% in the same period in 2008. The SA balance sheet strengthened with a 29,7% year-on-year reduction in net debt to R4 255 million.

Hospitals and Emergency services

The Hospital division recorded a 6,3% increase in patient days and occupancy increased across the hospital network. The medically insured population has also grown gradually over the last five years from 6,9 million to 7,8 million lives. Year-on-year revenue growth was further boosted by the timing of the Easter Holiday period, which fell in April this year and therefore outside the reporting period. Pharmacy operations continued to grow with a 5,3% increase in dispensed scripts.

Costs in the division have been tightly controlled and working capital management has improved substantially. Netcare continues to invest in capital infrastructure to meet growing demand, while ensuring that facilities and equipment are maintained to the highest standards. Several projects are currently underway which will significantly enhance the division's service offering.

Netcare continues to maintain the highest standards of patient care and safety. A further six hospitals received international ISO 9001:2000 accreditation through UK-based CHKS Healthcare Accreditation and Quality Unit (HAQU). This brings the total number of accredited facilities to 16 hospitals.

Netcare has continued to foster strong relationships with government through Public Private Partnerships (PPP). The 91-bed Port Alfred Hospital PPP, with 60 public and 31 private beds, was opened in February 2009 and the 249-bed Grahamstown Hospital is scheduled for completion in July 2009. After several challenges, the 214-bed Universitas/Pelononi Hospital PPP has shown growth and a significantly better operating performance. Financing for the construction of the Lesotho Hospital PPP has been finalised and construction of this 425-bed referral hospital and the refurbishment of four primary care clinics commenced in March 2009.

The Emergency services division, Netcare 911, recorded growth in managed lives and continued to assist government by servicing indigent patients. The Aeromedical unit was negatively affected by unforeseen maintenance requirements on both fixed-wing aircraft.

Primary Care

The Primary Care division posted strong revenue growth of 17,6% driven by solid demand for services in both Prime Cure (managed care division) and Medicross (GP, dental and pharmacy network).

Prime Cure's lower income managed care lives grew by 15,6% year-on-year to over 240 000 lives. Medicross patient visits to GPs were up 5,6% to 1,4 million and dental visits increased to over 250 000.

The Primary Care division's results were severely impacted by significant provisions taken against prior year patient debtors in Medicross, as well as the increased provision for underwriting and servicing costs in Prime Cure. Consequently, the division reported an operating loss of R25 million compared to a profit of R43 million in the prior period. Within Prime Cure, revised accounting reports and standards have been implemented and actuarial reporting significantly enhanced in line with best practice. Management is confident that accurate reporting and assessment of insurance risk are being appropriately monitored. During the reporting period, Medicross was also restructured to realign its regional operating structures. Netcare is committed to continue providing these essential services through the Primary Care division.

Health sector developments

The appointment of Dr Aaron Motsoaledi as SA's new Minister of Health is welcomed and the launch of the Department's strategic plan to 2012 is another positive indicator of the progress made to date.

Debate on the introduction of National Health Insurance (NHI) is expected to intensify with possible legislation to this effect promulgated as early as 2011.

United Kingdom

Netcare owns a 50,1% stake in GHG which has 56 hospitals operating under the BMI brand name, in addition to an NHS outsourcing division known as Netcare UK.

GHG acquired the Woodlands Hospital in Darlington and City Medical consulting suites in London in October 2008 as well as the Fitzroy Square Hospital in London in April 2009. GHG's organic growth, coupled with an effective acquisition strategy, has continued to extend the Group's geographic footprint in the UK, resulting in further cost and revenue efficiencies and a corresponding improvement in profitability.

Financial performance

Revenue from the UK operations rose 10,4% to R6 003 million (£407,4 million). The inclusion of the Nuffield hospitals for the full six months contributed 3,4%, to the revenue increase, while higher average exchange rates during the period resulted in an additional 2,1% in Rand denominated revenue.

Commentary (continued)

Operating profit was up 14,5% to R1 068 million (£72,4 million), which includes non-recurring items amounting to R51 million (£3,5 million) compared to R59 million (£4,1 million) in the prior period. Adjusted for these items, operating profit for the half-year amounted to R1 119 million (£75,9 million) compared to R992 million (£67,9 million) in 2008.

Capital expenditure for the period was R299 million (£25 million), from R292 million (£22 million) in 2008.

Net debt rose by £34 million during the six months from £1 880 million at September 2008 to £1 914 million at March 2009. The combined effect of increased NHS volumes and delays in payments last year when the shared services function was introduced have increased working capital funding. The necessary measures have been implemented to rein in the additional investment in working capital, although certain structural factors will take some months to address.

GHG continues to meet its financial covenants and has sufficient headroom for the rest of the financial year, taking into account the challenging economic climate. Without any incremental EBITDA growth, all covenants are fully met for the term of the debt.

Hospitals (BMI)

The overall caseload in the UK grew by 14,9% year-on-year. Continued decline in self-pay patients was experienced, largely offset by a significant increase in NHS cases. With the formal introduction of the National Free Choice Network (FCN) Programme, the NHS is expected to be a key partner in delivering future caseloads, as the public through their GPs are able to select private facilities directly for their treatment. Effective negotiations will ensure that the work undertaken remains sufficiently profitable.

Operational costs were tightly controlled and the business delivered a further improvement in operating margin. A plan to contain costs has been introduced and is set to deliver a saving of £13 million for the full financial year. Planned savings of £3,8 million were delivered in the reporting period.

Netcare UK

Netcare UK continues to service existing Independent Sector Treatment Centre (ISTC) contracts such as the Greater Manchester Surgical Centre, the Commuter Walk-in Centre in Leeds and the surgical initiative with the Scottish NHS in Stracathro. The five-year mobile ophthalmic contract to provide cataract operations was successfully completed in April 2009.

Outlook

It remains difficult to predict the impact of various factors on the Group in the current volatile global economic environment. However, as the Group's half-year results show, the demand for healthcare does not necessarily abate in an economic downturn.

Netcare remains confident that the demand for private healthcare will be sustained in SA, supported by a financially sound and growing medical scheme market. Netcare is hopeful that the positive approach by government, as outlined in the strategic plan announced by the Department of Health, will result in greater collaboration between the private and public sectors.

In the UK, the recessionary environment is expected to continue to impact out-of-pocket spending on private healthcare. However, we expect this to be largely offset by growth in NHS activity through the purchasing of healthcare services by NHS Primary Care Trusts.

Changes in directorate

Vaughan Firman was appointed Chief Financial Officer of the Netcare Group and Financial Director of Netcare Limited with effect from 12 February 2009, following the resignation of Peter Nelson on 5 December 2008.

Declaration of capital reduction number 20

In accordance with the authority given to the directors by way of an ordinary resolution passed on 30 January 2009, the board of directors declared on 14 May 2009 an interim capital reduction (number 20) out of share premium of 16 cents per ordinary share (2008: 14 cents), payable on 27 July 2009, to shareholders recorded in the register of the Company as at 24 July 2009.

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

Last date to trade "cum" the capital reduction ("LDT")	Friday, 17 July 2009
Date trading commences "ex" the capital reduction	Monday, 20 July 2009
Record date	Friday, 24 July 2009
Date of payment	Monday, 27 July 2009

Share certificates may not be dematerialised nor rematerialised between Monday, 20 July 2009 and Friday, 24 July 2009, both dates inclusive.

On behalf of the board

Jerry Vilakazi
Chairman

Dr Richard Friedland
Chief Executive Officer

Vaughan Firman
Chief Financial Officer

Sandton
15 May 2009