

## Living our values

CARE | DIGNITY | PARTICIPATION | TRUTH | PASSION



## Netcare Interim Results ended 31 March 2009 Conference Call

---

## **Operator**

---

Good afternoon and welcome to the Netcare interim results for the six months ended 31 March 2009. All participants are now in listen only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. I would now like to hand the conference over to Dr Richard Friedland, the CEO of Netcare. Please go ahead, sir.

---

## **Richard Friedland - CEO**

---

Thank you very much for joining us here in Johannesburg for this conference call. I'm joined today by Vaughan Firman, the Chief Financial Officer of Netcare Limited, by Adrian Fawcett, Chief Executive of General Healthcare Group, Phil Wieland, Chief Financial Officer of General Healthcare Group, and by Fundisa Mgidi, our Investor Relations Executive. I'm going to give you a brief overview of these results, ladies and gentlemen, and then hand over to Adrian Fawcett to give you an overview of the operations in the United Kingdom, and then possibly to Vaughan on the financial side to give us an overview of the group results, and then hand over for questions. But just to say that we are delighted with the results that we have put out today.

I think despite the worldwide economic downturn we've put in a solid performance both in South Africa and the United Kingdom, and we've shown extremely good operational leverage at the EBITDA line in both the UK and South Africa. We've managed to de-gear the South African balance sheet. There has been the sale of Ampath, and the impact of that will really be felt in the coming six months. We've also cleared the acquisition of Community. We have cleared the capital structure of Netcare in terms of ridding ourselves of that overhang of treasury shares, and overall we've had an outstanding performance in the hospital and emergency services, with some losses in the Primary Care division, primarily as a result of the increased provisions we've taken for underwriting risks and also for debts.

In the UK – and Adrian will speak to this in detail – not only have we managed to grow the core business and improve efficiencies, but the team has managed to make four strategic and very important acquisitions that increase our footprint in the United Kingdom, more particularly in the London and central London area, which give us a very strong foothold in the UK. And that business has managed to grow its EBITDA by some 12% off a revenue of 8%. So overall it was a very pleasing result in both markets. I'm not going to continue for much longer. I'm going to hand over quickly to Adrian, and then I'll ask Vaughan to take us through an overview of the financial results. So Adrian, if you could give us an overview of the UK.

---

## **Adrian Fawcett – CEO General Healthcare Group**

---

Thank you very much. I'm pleased to report the UK business in the first six months of this year has continued in good health, with the primary indicators of increased footfall, increased patient visits, increased outpatient activity and increased revenues. Revenue is up 8% over the period, seeing both organic growth coming from the core business and some income addition from the Nuffield outlets that were added a year ago reporting for the full half year. Our margins have again improved in the half year, adding to our previous growth over the previous four and a half years. We're now almost three percentage points greater than when we took the business on just under three years ago. That has allowed us to see improvements in both our tax generation falling to the bottom line and also our investment opportunities in assets available in the marketplace.

Since our strategic acquisitions started over the last two years to try and grow a footprint so that we became more relevant to funders across the UK and more relevant to the general public, I'm pleased to report now that 89% of the population now live less than an hour's drive from one of our facilities. No funder network can put together a national product without our hospitals being included. Through the course of the period we looked at leveraging our superior buying terms and our funder terms in order to access a small number of new units, principally to support our London outlets where we have ten inside the M25. And with the addition of Fitzroy Square closing our gap in the London City, we now see our business having good national coverage relevant to those funder networks that we defer to.

More pleasing are our quality metrics that remained at an all-time high. We have now managed a full 12 months without a single episode of MRSA within our hospital network, which when compared to many other networks in the DDNA [?] chest is a very powerful selling proposition and an emotional driver for the general public. Our scores for outpatients, inpatients and patient satisfaction continue to track at an all-time high, and I'm pleased to report that our bottom quartile has continued to improve. This is very satisfied considering the amount of change that the business has undertaken in the last year. Our efficiency programmes continue to leverage off the learning here at Netcare in South Africa, with our ward labour hours, our nurse skill mix and our theatre utilisation all benefitting from the skills that you guys have over here being leveraged from our smaller units in the UK. The management team has remained solid, and are all in place in our regional structure that we announced last year.

The business continues to work in these challenging times, and we are well set up for the half year in front of us, despite some of the challenging economic times that we potentially accept are going to happen on a worldwide basis. Closing off that, our covenant cover has again passed on all tests. In fact, it's true to say now if the company didn't grow at all it would pass all of its covenant tests for the next 23 years. And therefore I'm pleased to report that the business is in good financial sound health and adding to the group overall, with revenue growth at about four times inflation and EBITDA growth leveraging off the back of that.

---

### ***Richard Friedland - CEO***

---

Thank you very much, Adrian. Vaughan, would you like to give us an overview of the group's financial performance?

---

### ***Vaughan Firman – CFO***

---

Thank you, Richard. For those of you that have the income statements in front of you I'm going to be doing down the income statement line by line. Revenue growth at R11.6 billion is 12% higher than last year, driven by strong organic growth in South Africa and strong operational performance from the UK. Included in the UK results is the Nuffield acquisition which took place in February of last year. That translates to an EBITDA improvement of some 13% at R2.5 billion. In terms of margins our EBITDA margin has improved slightly, as has our operating margin from 15.3% to 15.7%. If we continue down looking at our cash generation from operations, our cash generation has improved to R1.8 billion or a 13% improvement year on year.

Our net debt has decreased from R36.8 billion down to R30.4 billion, and the debt has reduced primarily as a result of the Ampath proceeds of approximately just over R1 billion in growth aggregate

terms as well as tight working capital and capital management. Our total assets similarly have also decreased, but that is primarily due to the impact of the Rand. The Rand has appreciated during the last six months by approximately 7%.

Looking at our results then, we have shown an increase in headline earnings per share from 23.7c to 33.3c per share, which is just over 40% increase. And our diluted headline earnings per share are up some 44%. The board has decided to declare an increased capital reduction of 2c from 14c to 16c or alternatively a 14% increase in earnings. That covers in fairly brief terms the financial highlights for the half year.

---

***Richard Friedland - CEO***

---

Ladies and gentlemen, that covers our brief introduction. We would welcome any questions if there are any.

---

***Operator***

---

Thank you, sir. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one. If you then decide to withdraw your question please press star and then two to remove yourself from the question queue. Our first question comes from Martin Whitbread of Morgan Stanley. Please go ahead.

---

***Martin Woodgrave – Morgan Stanley***

---

Hello. Good afternoon. Thanks for taking my questions. I have a number of questions. Do you want to take them one by one?

---

***Richard Friedland - CEO***

---

Fine.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. Have there been any implications of you returning to a greater mix of fee-for-service type of business in South Africa, and what has the customer feedback been on that?

---

***Richard Friedland - CEO***

---

There are no implications for the customer in terms of returning to a fee-for-service environment in South Africa, but it has certainly assisted us in reducing the complexity. We had about 40% of our business last year with alternative reimbursement. Some of those arrangements and one in particular was incredibly complex. We needed a room full of mathematicians and statisticians to work out where we were on a weekly basis. I think we have just returned to a far simpler model and it had no implication on customer service or on experience at all.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. In the UK what proportion of the NHS volumes are choice now versus larger spot type contracts?

---

***Adrian Fawcett – CEO General Healthcare Group***

---

I guess it's easier to look at where we are today rather than just the half year. It has been a mixture of choice growing and spot purchasing declining. We're at about 40% choice and 60% spot as we sit here today, with spot declining and choice growing.

---

***Martin Woodgrave – Morgan Stanley***

---

Do you see any particular differences between the fundamentals and price in particular between spot and choice today?

---

***Adrian Fawcett – CEO General Healthcare Group***

---

Increasingly not so as much as the spot price is increasingly becoming the tariff price. They're charging code four. That was launched last month, and that saw adjustments in pricing across the different specialities. And there have subsequently been some adjustments where the NHS acknowledges that they got some of those pricing tariffs incorrect. So I think if we look at the run rate pricing tariffs sees a slight reduction on prior tariffs, but a mixed movement for the benefit of [unclear] in particular.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. Do you see your role in Primary Care in the UK expanding, or is that more of a marketing drive to lead higher volumes into the hospitals?

---

***Adrian Fawcett – CEO General Healthcare***

---

Both I think. Primary Care is something that we can learn from South Africa. They have a big Primary Care business over here in a very different form and structure to the UK. I think GPs are increasingly looking at both engaging in groups, and there are certain companies that are focussed on doing that, and we can assist them with some of the administrative and referral activities there, including out of hours control etc. We have got a Primary Care business in Nottingham, and we are learning from that. But as it stands at the moment I think our focus should really be on our acute hospitals and making sure that we educate GPs as to the fantastic facilities that we've got, the services that we can provide and how to use the free choice network, as there has been very little spend by the Department of Health, the NHS or government in educating GPs about how that works.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. Two more questions if I may, one of which is on the working capital in the UK. Do you expect the NHS to be a quicker payer in future, or is it just a structurally slow beast?

---

***Adrian Fawcett – CEO General Healthcare Group***

---

The answer is, I would definitely expect them to be a quicker payer than where we are now. The NHS clearly made a government commitment to being a decent and speedy payer. I have no evidence of that to date, and therefore our working capital as a result of the group in NHS activities as part of our mix has deteriorated as a result. Broadly, my funders' relationships are paying three times quicker than the NHS as I sit here today. I expect the NHS terms to improve significantly, however, between now and the end of the year.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. The final question is what do you plan on doing with your free cash generation in South Africa in the next two to three years? Is there a possibility in particular to buy greater portions of the GHG OpCo rather than the HoldCo?

---

***Richard Friedland – CEO***

---

Martin, I think you're asking an important question because we certainly will have quite significant cash flow. At the moment our cash flow is to apply to de-gearing South Africa, and probably by the first quarter of 2012 if we keep our capital expenditure constant we would have de-gear South Africa completely. So it does give us some optionality, and there have certainly been no decisions made on that score at the moment.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay. Many thanks.

---

**Richard Friedland – CEO**

---

Thank you very much, Martin.

---

**Operator**

---

Ladies and gentlemen, a reminder that if you'd like to ask a question please press star and then one, our next question comes from Alex Comer [change where his names appears again] of JP Morgan. Please go ahead.

---

**Alex Coleman – JP Morgan**

---

Hi. I've got a few questions here. Firstly, you had some quite decent margins in the UK despite the fact you had the self-pay fall off and the NHS moving up. Maybe you could explain what comprises that and whether it's sustainable. You mentioned in the presentation about potential for income statement volatility. Maybe you can go through what you mean with regard to that. And just on the tax side, obviously there is a big tax reversal in the second half last year. I'm just wondering whether or not we can expect some clever sort of tax benefits to come through or whether that's not going to happen this year. And the final question is what the impact of the [unclear] would be.

---

**Richard Friedland – CEO**

---

Sorry, could you repeat the last question.

---

**Alex Coleman – JP Morgan**

---

Just the impact of [unclear].

---

**Adrian Fawcett – CEO General Healthcare**

---

Okay. I'll be answering question one to start with, which was...

---

**Alex Coleman – JP Morgan**

---

The UK the margins

---

***Adrian Fawcett – CEO General Healthcare Group***

---

Okay. Each half year we've managed to deliver a margin improvement. We have again managed that in this half year. That has been driven by operational efficiencies coming through the organisation rather than any top line revenue activity. And our operational efficiencies have offset any decline in self-pay and movement to NHS that has come in. And I anticipate that run rate margin to be able to continue over the course of the balance of this year.

---

***Alex Coleman – JP Morgan***

---

Adrian, you also talked about some cost savings coming in the second half. Are you saying including the cost savings the run rate margin is basically going to stay where it is?

---

***Adrian Fawcett – CEO General Healthcare Group***

---

Including the cost savings I would anticipate the run rate margin to broadly stay where it is, the reason being that we are seeing a movement of self-pay down and NHS up. That gives you an income line reduction in margin, which we're offsetting using those efficiency savings. If I can beat that, that will be great. What I don't want to do is overpromise and under-deliver.

---

***Alex Coleman – JP Morgan***

---

That's great.

---

***Adrian Fawcett – CEO General Healthcare Group***

---

I'm going to hand over to Phil for a combination of tax and volatility swaps.

---

***Phil Wieland – CFO General Healthcare Group***

---

Okay. To take them in your order then I will go with the swaps first. We have swaps for almost all of the debt in the group, and we have been applying hedge accounting and IAS39 ever since acquisition. At the highest level that requires us to look at the movement in value of the derivative instruments we have as compared to a hypothetical derivative. Now, to the extent that they move within an acceptable range of each other, the mark-to-market movement goes to equity. In the event that that movement moves outside of that acceptable band, that part of the movement needs to go to the income

statement. And what we're flagging to you today is that whilst we have been within that acceptable band until now there is a significant risk that that won't continue to be the case. Now, that has no cash or commercial impact. The amount that we pay for interest under the swaps will remain exactly the same, and therefore what we will do if we do see this volatility is we'll explain what that number is. So we will say, here are our results and these have been impacted by X million Pounds, which could be an upside or a downside, so that you can adjust your understanding of the results accordingly.

---

**Alex Coleman – JP Morgan**

---

Okay.

---

**Phil Wieland – CFO General Healthcare Group**

---

Shall I move on to tax? Just to give you a bit of an explanation of where we are, as you'll know the UK headline tax rate is 28%. We would expect our long-term tax rate to be 29% to 30% as a result of non-allowable expenditure for tax purposes. However, we have £200 million of tax losses, of which only £100 million has been recognised at the September 2008 balance sheet date. We will be recognising the remaining £100 million in the coming years. At the point that we recognise those losses a credit appears in the income statement and therefore a reduction in the effected tax rate. So we would expect that over 2009, 2010 and 2011 to mean that we have a tax rate significantly lower than that prevailing rate that I have just described. It may well not be zero because in the UK tax is calculated on the individual company basis rather than a group basis and some of the companies therefore, particularly the PropCo will have a tax liability we still need to be recording in the accounts. In cash terms which I guess is the really critical thing, we do not expect the OpCo to pay tax until 2011, 2012.

---

**Alex Coleman – JP Morgan**

---

So basically it does not mean that the tax rate is going to be in the P&L every year.

---

**Vaughan Firman – CFO**

---

I mean, it is going to be substantially lower than the 28% as Phil said for the next three years. I mean, Phil and his team look at it quite closely at the end of September and they take a forecast on the tax loss that they're going to utilise for the next 18 months to two years and then we will based on that and in conjunction with auditors, we put a figure to it.

---

**Phil Wieland – CFO General Healthcare Group**

---

So basically we are saying the £100 million, 28%, will come through the P&L as we recognise the losses. The speed with which that happens, 2009, 2010, 2011, is based on what we agree with the auditors as being our likely amount that can be utilised in an 18 to 24 month look-forward. So it not an

exact science and it has to be agreed with the auditors at the balance sheet date which is subject to a bit of movement.

---

**Alex Coleman – JP Morgan**

---

I understand that. That's fair enough. There is one more on the Stracathro.

---

**Phil Wieland – CFO General Healthcare Group**

---

The Stracathro contract is not particularly material to the group and therefore as that contract comes to an end, yes, we will see a reduction in revenue and EBITDA, but that EBITDA impact is a few hundred thousand pounds so you would not expect that to stand out at all in our results.

---

**Richard Friedland – CEO**

---

Can I ask you, what is your question around the Stracathro contract specifically, Alex? Maybe I have missed something.

---

**Alex Coleman – JP Morgan**

---

I just wondered how long have you had it.

---

**Richard Friedland – CEO**

---

There is a Stracathro contract. There is a greater Manchester treatment...

---

**Alex Coleman – JP Morgan**

---

I thought I heard you mention that it was coming to an end somewhat.

---

**Richard Friedland – CEO**

---

Well, the Ophthalmic Chain contract ended in April. I think the Stracathro is a three year contract. We are about halfway through.

---

**Alex Coleman – JP Morgan**

---

Okay. If I might just have one more question. In terms of Primary Care in South Africa, are we through the losses now, or are we going to see losses in the second half?

---

**Richard Friedland – CEO**

---

Sorry, Alex, I never heard you. Was that on Primary Care specifically?

---

**Alex Coleman – JP Morgan**

---

Yes.

---

**Richard Friedland – CEO**

---

I would like to believe, Alex, that we have taken sufficient provisions. We certainly thought by September last year that we had, but in reviewing it with independent actuaries and bringing in further accounting discipline we felt that it was prudent to take further provisions. I think if you look at where we are in terms of the IBNR last year of R19 million versus the R73 million, I think we adequately provided. So I am expecting a turnaround in Primary Care. I am not expecting an enormous one, but certainly not losses in the next six months and I hope we get through the woods on it.

---

**Alex Coleman – JP Morgan**

---

Okay.

---

**Richard Friedland – CEO**

---

Are there any other questions?

---

**Operator**

---

We have a follow-up question from Martin Woodgrave of Morgan Stanley. Please go ahead.

---

**Martin Woodgrave – Morgan Stanley**

---

Thanks for taking my question. On the ISTC contracts, I know that when we spoke before you were not so enthusiastic about following on any of those contracts. I think it was Phil that I was speaking to. Are any of them attractive and do you want to continue any of them?

---

**Phil Wieland – CFO General Healthcare Group**

---

The only one which has expired so far is the OC chain contract which finished at the end of April and there is some ongoing work and we are in discussions about an extension. The contract will not be in the same form and it will not exactly be with the same parties, but it does not matter. There is a decent chance of that carrying on.

---

***Martin Woodgrave – Morgan Stanley***

---

Do you have to rebid for it? I mean, does that go for a retendering in the official journal of the European Union, for example?

---

***Phil Wieland – CFO General Healthcare***

---

No.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay, that is interesting. And then just, I will reduce my questions to just one final one, what is the opportunity for dialysis I think that you mentioned, Richard, in the UK right now? I mean, the country needs some expanding provision in some sort of capacity to treat patients. So are you offering a cheaper service, for example?

---

***Richard Friedland – CEO***

---

I will let Adrian answer that one, Martin.

---

***Adrian Fawcett – CEO General Healthcare Group***

---

Well, we have opened a renal centre and that complements some of our existing facilities and we have now done a review across all 152 PCTs in the country as to what requirements there are. And pleasingly for the population there is actually less outstanding requirement than we previously thought and that [unclear] quite clearly to the NHS has been managing to service both existing patients, anticipated patient needs and foreign travellers coming in that require it. So we will be opening a couple more centres, but only in those areas where we know there is marked demand on service. Unfortunately it is quite often the lifestyle disorder that you see, type 2 diabetes etc, having those impacts, but I think we will be rolling it out, but it will be on a quite limited process.

---

***Martin Woodgrave – Morgan Stanley***

---

Okay, well, that concludes my questioning. Thanks very much for answering.

---

**Operator**

---

We have a further follow-up question from Alex Coleman. Please go ahead.

---

**Alex Coleman – JP Morgan**

---

You mentioned what has happened to NHS and self-pay and I saw from the chart that it looks like the PMI is pretty flat. Is that why you do not see any real impact on PMI?

---

**Adrian Fawcett – CEO General Healthcare Group**

---

Through to the half year we actually saw PMI, I was going to say not only flat but actually in some parts of the country, growth. I think increasingly in the second half of this year will give us a better read on how that is going to stabilise through because there is a lack in PMI between both people who take it out and how long your terms and conditions roll it on for. And we are working with each of the funders, so that would be [unclear], Bupa etc., to make sure that we understand both what their sales teams are telling them, what their churn rate is and the type of policy that they are selling. And clearly our job is to try and make sure that we are aware of what the market is going to be doing in the year ahead, not behind us, and I think there is a change of policy type coming through where you will see more people taking out PMI but their policies would be covering less people each and that is a more efficient way of companies providing PMI in terms of the cost benefit to employees. The Associate of British Insurers last month, released statistics actually showing the PMI cover had it not only growing in the year before but it is growth that accelerated on the prior two years. I have got no evidence of that filtering through. I am reporting flat.

---

**Alex Coleman – JP Morgan**

---

Okay. Thanks so much.

---

**Operator**

---

Gentlemen, we have no further questions. Would you like to make some closing comments?

---

**Richard Friedland - CEO**

---

Yes, thank you very much for listening at this conference call. We are all available for any further questions that you may have outside of this call and thank you very much for your attendance this afternoon. Good afternoon.



You're in safe hands

---

## *Operator*

---

On behalf of Netcare that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

*ENDS*

### DISCLAIMER

Netcare reserves the right to make changes to documents, content, or other information in this transcript without obligation to notify any person of such changes.

In the conference calls upon which Netcare's Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF THE NETCARE CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES NETCARE OR THE PUBLISHER ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE NETCARE CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Netcare.