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# Netcare Interim Results ended 31 March 2009

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**Michael Sacks**

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If you read your SENS this morning you will have seen that I have again been reappointed only as programme director for this morning. The old firm is temporarily back, and it certainly gives me great pleasure to welcome all of you here to the interim results presentation of Netcare for the six months ended 31 March 2009. I would want to pay a special welcome to our Chief Executive Office and Chief Financial Officer of GHG, and I do welcome you, Adrian and Phil. Please stand up and let's have a look at you. It's certainly good to have you here. Please feel welcome. The presentation this morning I guess is against the backdrop of a trading statement which we put in the press some weeks ago, and I guess you will probably get great satisfaction by being privy to the detail of the results. Richard will commence the presentation with a review of the industry, the company's performance and I'm sure some of the more material metrics and dynamics, followed by Vaughan, who will give us an analysis of the financial information. At the end of that there will probably be some time for questions. Without further ado I would like to call upon Richard to commence with his task.

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**Richard Friedland - CEO**

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Thank you, Motty. Good morning ladies and gentlemen, and welcome here this morning to Netcare. A special welcome to Adrian Fawcett, our CEO of General Healthcare in the United Kingdom, and Phil Wieland, our CFO, who have flown overnight to join us and be part of our presentation and part of our discussions over the coming days. At the outset, ladies and gentlemen, let me thank our management teams on the ground, not only here in South Africa but also in the United Kingdom. As I say every year we could not produce the kind of results that we do if it were not for their incredible efforts. So a real thanks to the head office team here at Netcare that have assisted in putting the results together for this presentation.

I'm going to take you through some of the group highlights, and then look at South Africa and the United Kingdom. As you know, Netcare is very much a tale of two countries, some very similar but also some very different challenges in both of those geographies. I'm going to hand over to Vaughan to unpack the financial numbers for you and give you an update on our guidance that we gave in November last year. In looking at the group highlights we've had a very solid performance, both in South Africa and in the United Kingdom, driven by a significant demand for private healthcare services in South Africa and a solid performance in the UK, not only organically but also through the full inclusion of the Nuffield acquisition. Importantly, in the United Kingdom we've been able to expand our facilities this year, and I will talk to that in some detail.

I'm pleased to say that after some three years of to'ing and fro'ing between the competition authorities, the acquisition of Community has finally been approved in November last year and the Community Hospital Group has been fully integrated into Netcare. We were also able to announce the conclusion of a three year saga in negotiating the sale of our pathology management company, Ampath, back to the pathologists. We did this. We met all the conditions precedent at the end of February. And Vaughan will unpack those details and the impact of that on Netcare. And a significant feature of our results this year is that we have significantly strengthened the South African balance sheet. When I stood before you in March last year we had some R6.1 billion of debt on the South African balance sheet. You will see that we have reduced that by R1.8 billion, and we will talk to those numbers a bit later. We have cleaned up the capital structure of Netcare, repurchasing and cancelling treasury shares and effectively giving us the opportunity to buy back in the future. And something that we're incredibly proud of is that from a lowly position of 112 in 2005 this year we were rated the 11<sup>th</sup> best company in South Africa in terms of Black Economic Empowerment. In terms of the DTI codes we

were rated number one in the healthcare sector. We were rated the third best trainer and skills developer in South Africa. I think as we normalise the environment within Netcare and we contribute to normalising and restoring the environment in South Africa we recognise that there is still much to do.

Just briefly looking at the group overall from a financial highlights point of view, you can see revenue is up by some 12%. Importantly there has been a negligible currency impact on that, but a very good operational performance here in South Africa and also for the UK. And Nuffield hospitals are in for the full period. Good operating leverage coming through with an operating profit of some 15% increase over there, and cash generation is up some 13%. Both our net debt and asset position was impacted by currency, by the Rand's appreciation, and you can see that at the total assets level. The debt again was impacted here due to the proceeds from Ampath and also tight working capital management, particularly here in South Africa. Our profits before tax were up significantly, as were our profits after tax, notwithstanding a higher tax rate overall for the group this year. And this ultimately resulted in a 44% increase in our diluted headline earnings per share. Overall a very, very solid performance And it was against this backdrop, ladies and gentlemen, that the board felt confident to declare a dividend or a capital reduction of some 16c, 14% up on the prior year.

I think this really tells you the story of two countries and where the real opportunity lies for Netcare into the future when you look at the geographic contributions now and how they may pan out as we go forward with General Healthcare in the UK. There was an almost equal split of revenue between the United Kingdom and South Africa, the bulk of the operating profit being generated in the UK. A lot of that being taken up by interest charges from the UK, but bearing in mind that all of the debt that you see here for the UK in terms of those interest charges is non-recourse to South Africa. And 85% of that debt relates to the property holding company, PropCo, which has fixed interest rates, and we will talk about that later. And then 22% of interest was paid here in South Africa, and as a result of that at the moment 89% of our earnings are coming from South Africa. And I'm pleased to say now the UK is contributing positively, with some 11% of our earnings coming from the UK. Importantly, those earnings come from operational earnings. Last year we broke even, and the benefit we showed from earnings was from some once-off tax benefits we had in the United Kingdom. You can see as we de-lever this business or we begin to look at this separately as an operating and property holding company, the impact on the headline earnings per share becomes quite significant.

Here is just a picture of Unitas Hospital in Pretoria, a 476 bed hospital, probably one of the largest private hospitals in the Southern Hemisphere. Just looking at South Africa now and unpacking some of the detail behind South Africa. We had very, very strong revenue growth right across our Primary Care division, emergency services and hospital division, demonstrating a high demand for private healthcare services over the last six months. There was very strong margin improvement. It was tempered by losses that we are still incurring in our Primary Care division, and I'll talk to that a bit later. But again, operating profit was up by some 18.9%. We have managed some very tight working capital management. You can see that capex has been well constrained here. And again, a very important feature for us in South Africa is that we've been able to de-gear the South African operations by almost 30%, in part due to the proceeds of Ampath, but certainly due to far better debtor control and accounts receivable. The operating margin overall in South Africa is improving slightly, and the operating margin is improving, and you will see where that comes out in terms of the hospitals.

I'm pleased to be standing here before you today, ladies and gentlemen, as opposed to March last year when we faced so many changes to our business model. We were also dealing with electricity outages and a whole plethora of issues. And I'm really pleased to say that the hospital division has performed outstandingly well this year in South Africa. We've bedded down those extensive changes made to the model, and I think you're seeing those coming through in the results. We've had very strong patient day growth of 6.3%. Our weekday occupancies are in excess of 70%. And all of this is essentially organic growth within that network. Debtor's days are at record lows. We've had good management there. I'm also pleased to say that we've opened up our first PPP in the Eastern Cape.

It's some 90 beds. We'll be opening up in June a further 200 plus beds in Grahamstown. We managed to conclude the financing on the largest PPP in healthcare in Africa with the Lesotho government, some 420 odd beds in Maseru, and we have started construction. And I think when Lesotho comes on board we will probably have close to 1,000 beds under management in terms of PPPs between ourselves and our government here in South Africa and Lesotho. We continue to focus on quality and we accredited six new hospitals with ISO-9000 status. In terms of our emergency services, again we've seen a growth in managed care or capitated lives through that service.

How does this translate into the numbers? You can see a very good growth of revenue of some 14%. Our two relatively new hospitals, Blaauwberg and Alberlito, are reaching maturity, and obviously we have benefitted from the incremental add-on of facilities at the various sites. We've had massive operational leverage there of some 25.6% off that 14% revenue growth, really due to efficiencies and cost containment. But now the real economies of scale are coming through in our operations, and obviously the integration of Community is complete and you can see that we've been able to show a 2.1% increase at the operating line, and at the EBITDA line a 1.8% increase. That's a substantial reverse of the erosion of that margin we'd seen in the last two years.

In Primary Care we still see a significant demand for services. We've grown our managed care lives by some 15.6%. This is at the low income. These are blue collar workers, many of whom have previously not had medical aid. It's a very challenging market with very thin margins. We've also had a growth in lives through Medicross. As we told you last year in our results, there had been a structural change within Primary Care. We had taken on substantially more risk. 60% of our business was full-risk as opposed to partial-risk. And we had grown this business compounded by some 30% on an annual basis. And as a result of that last year we took significant underwriting provisions in September. We continued to do that, and we've taken a further R11 million in this six months. And just to give you an indication of the difference, last year our underwriting provisions of something known as incurred but not reported – in other words patients seen but not yet reported in terms of accounting – we've increased that from R19 million in March last year to some R73 million in this reporting period. It's obviously impacted our numbers. We've taken a very prudent view of patient debtors in our network of over 100 clinics, Medicross, and against that we've made a significant provision against some private patients and patient debtors. And there have been some additional non-recurring expenses.

All of that contributed to a loss in this division. We are expecting, however, a recovery in the second half. So if you unpack those numbers we're showing a R16 million EBITDA loss there against the reported EBITDA of some R52 million last year. If we correct it for the shortfall in what the IBNR should have been last year, that reduces down to some R36 million, and if we take off the additional provisions we've added this year our result might have been some R29 million. What I'm really trying to say to you, ladies and gentlemen, is I think these are corrective measures. They are prudent. We are committed to Primary Healthcare. We believe in the health of that business, but it is important to get our accounting and actuarial estimations absolutely correct. And I believe we're seeing that happening in Primary Care.

Just moving on to the United Kingdom, you will have been given a beautiful brochure in front of you, if I can point it out to you, produced by our colleagues and management team in the United Kingdom. I urge you to read it. It has got some incredible information in it, and gives you a good flavour and feel of General Healthcare. Before we begin to look at the UK operations, I just want to give you a 60 seconds sound bite or video clip just to give you a look and feel of the quality and type of hospitals and operations we have there. [Video clip plays]. You will have seen that we've rebranded the United Kingdom operations. It has been very, very successful. And I hope that gives you a sense of the really top-notch facilities and the quality and ambience within the General Healthcare Group.

Just having a look at the geographic coverage, I think this slide tells an enormous story here in the United Kingdom. This year we've been able to add some four sites to the national coverage. There are

now some 63 sites in the UK. General Healthcare has some 36% market share in terms of beds, some 33% in terms of theatres. It is the number one provider of acute private healthcare services in the UK. And you can see that this little blue dot really indicates what we acquired some three years ago on 12<sup>th</sup> May 2006. At that stage we had some 48 hospitals. There were a good six to eight that were underwater, that were in ICU. They have come out of ICU and they are back on the playing fields. All of those hospitals are now profitable and contributing to the group. We have three existing Netcare UK sites up in Scotland, in Leeds and in Manchester, and we have also got this one mobile unit that has been operating for the last five years. You will see that that little dot fades out because that five year contract ended on 26<sup>th</sup> April, having completed a five year contract. And then last year we were very pleased to make the acquisition of some seven Nuffield hospitals, and an outstanding world-class orthopaedic unit at the Oxford Clinic.

And when you look at this map, ladies and gentlemen, you will see that these Nuffield sites are very strategic for us, because many of them are what we call solar sites. They are the only private healthcare provider in that geography, which gives us a huge strategic benefit. This year we managed to add on four sites in the UK, a 38 bed hospital called the Woodlands Hospital in Darlington, County Durham, and a primary care centre in Nottingham. We've significantly strengthened our presence in London with consulting rooms at City Medical and at Marylebone Streets. Then importantly in the heart and centre of London we've purchased the operating company of the Fitzroy Square. It's a 16 bed facility with consulting rooms and diagnostic suites. So overall we have a very strong geographic presence that gives us access to almost 90% of the UK's population that can access private healthcare.

Looking at the highlights, there was strong revenue growth of some 8%. And I think it's important to pause for a moment and to realise that in the United Kingdom RPI, or CPI as we know it here, is only some 2.1% relative to the kind of inflation that we have in this country. So it was some 2.1% over the last six months, and if you look at it since acquisition it was only some 2.5%. So revenue growth was almost four times what the underlying inflation is in the United Kingdom. There is excellent leverage at the EBITDA line of 12% growth, and quality metrics are at an all-time high. Again I urge you to look in the beautiful brochure that has been produced. You will see the patient surveys there for you, and also the outcomes in terms of infection control versus the NHS and other of our competitors. The facilities that we've shown you that we've expanded have really been at very low capital cost. We've essentially taken over leases and purchased the operating companies, and we've been able to be opportunistic in a market where some of these stand-alone facilities are under pressure and can benefit from a larger operator that has those economies of scale.

PMI or Private Medical Insurance remains the bedrock of our services in the United Kingdom, but we have seen a change in patients who pay out of pocket or cash. That has declined, given the kind of economic conditions we're seeing in the UK. But fortunately that has been offset by quite significant increases in NHS volumes as patients choose through the free choice network to use the private sector. And a very, very important point, ladies and gentlemen, is that all of our debt covenants have been met. They have been met with at least £50 million of headroom, and that headroom is growing. And without any incremental EBITDA at the end of 2009 those debt covenants will be met to term.

Just unpacking this income statement in the United Kingdom and then going into detail, again there was strong revenue growth coming from private medical insurance or medical aid. We've seen strong NHS. And again we've had the Nuffield hospitals in our results for the full six months. In the previous six months they were only in for two of those months. There was good EBITDA growth and leverage there, due to efficiencies and some of those economies of scale coming through. And what is most pleasing for us at a Netcare group level is to have a look at the profit before tax and after tax. As we showed you last year we were breaking even. Even in September when we showed earnings they were essentially due to once-off tax benefits within the United Kingdom. And this year they are almost entirely due to operational earnings. Working capital has increased somewhat in the United Kingdom,

but let's see that in perspective. Over the last three years working capital has not increased to the same extent that the business has grown, and so there is an inherent efficiency within that. But nonetheless, given the fact that we're doing more NHS work we've had some structural changes in terms of creditor payments and we've had a lag that working capital has increased. We believe that over time we'll rectify that position. And capital expenditure in the United Kingdom is well controlled.

Before we unpack the results for this year we thought it might be interesting just to have a look at the profile of both the revenue growth and the EBITDA contribution of the United Kingdom, and so I want to take you through a couple of slides that demonstrate how this business has progressed over the last few years. If you look at the EBITDA half year growth year on year, half year on half year, as a percentage, you can see that this year half year continues the success of last year in terms of 11% growth at EBITDA. And you can see that this has been a steady progression over the last few years, and particularly since the acquisition as a percentage. We've been able half year on half year to grow that EBITDA as a percentage, and it's some 11% up, again due to all of those factors here on the right hand side. But if you look at the next slide what you'll be able to see is that we have been able to grow the margin. The EBITDA margin here has grown by almost three percentage points since our acquisition in 2006. And that really is as a result of many of the top line initiatives we've put in, the additional services – you will read in this booklet that we've now put in a renal dialysis service, an A&E service and many other ancillary services – and also the operational efficiencies we've been able to achieve in this business to structurally change the base of GHG.

It is today a very, very different operating platform to the one that we inherited some three years ago. So there was an EBITDA growth there of some 3%. We're growing revenue on a compound basis, yearly basis, by some 10%. Again in the light of where inflation has been over the last three years at about 2.5%, you can see we're going that at some four times what inflation is currently in the United Kingdom. And importantly, given the benefit of the operational efficiencies we're bringing through in this business, you can see that at EBITDA level there has been a 16% growth in EBITDA before rental. And you can see the benefit of the leverage coming through in this business.

Now, if you split out this business and look at General Healthcare in terms of its operating company and property holding company, you see something very interesting coming through. And if you have a look at this next slide we can demonstrate that for you. On the right hand side you will notice that the property company, in other words where all the properties are held, has grown at a compound annual growth of some 4%. And that's really because of the fixed nature of the leases. They escalate at some 2.5% per annum. But that gives the operating company enormous leverage because as we're able to grow revenue, and indeed EBITDA, and improve the operating base, you can see what the actual compound annual growth of the operating company has been: some 44%, based on a pretty static and fixed rental coming through from the property. Now, take that back to the earlier slides that I showed you. We showed you a revenue growth of some 10% in the United Kingdom, and off that revenue growth we've been able to show a compound annual growth in EBITDA over the last three years of some 44% based on the structure of how we've put OpCo and PropCo together, and the underlying fundamentals in this operating company.

Just moving on to the revenue mix, you can see that over the last three years the bedrock of our business in the United Kingdom has essentially been private medical insurance. That has remained stable. It has been quite static this year. Where we have seen a change is here between self-pay (patients paying out of pocket) and the NHS. We've seen a very significant increase as patients are able to choose the private sector as waiting lists are breached. And the free choice network is now active. You can see that that has offset to a large extent the decline in self-pay. Looking at total patient volumes, again ladies and gentlemen, when you look at this slide, whether you're looking at before acquisitions or after acquisitions, we have managed to grow both activity, footfall in our hospitals and admissions into our hospitals on the existing base and also on the acquired base. And just having a look at that over here, you can see that our total patient visits have increased from 3% to 6% if you

include acquisitions, and have grown 3% here in terms of total cases to some 7% if you look at it in terms of total admissions into our hospitals. Notwithstanding that, we still have significant capacity within this network to absorb more. And importantly the efficiencies that we've added to the base have further given us more capacity to allow for this expansion of growth.

And the last slide on the United Kingdom is just an update on the operation efficiencies. We've been able to take many of these scale opportunities that we've had here in South Africa with our large facilities in terms of ward labour and translate that into sustainable, meaningful efficiencies in some of our smaller units in the United Kingdom. A good example of that is ward labour hours. There has been an enormous amount of other activity that is ongoing. You will have seen from our results that management are committing to some £13 million of saving this year, having already banked some £3.8 million in these six months. Those efficiencies are ongoing and will really help to sustain and underpin our margin going forward. I think that gives you an overview of operations here in South Africa and also in the UK.

We'll be very happy to take your questions afterwards, but it gives me great pleasure to call on our new Chief Financial Officer, Vaughan Firman, to take you through the financial results and unpack them in some detail. Vaughan took over as acting Chief Financial Officer in November last year. It has been a delight working with him. He is hands on, he has got an incredible understanding of the business, and he has done an incredible job for us. Vaughan, thank you very much.

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#### ***Vaughan Firman – Chief Financial Officer***

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Thank you, Richard, for those rather flattering words, and good morning, ladies and gentlemen. It's my pleasure to take you through the six month financial review. If you look at the slide I'm going to be covering five factors: the structural factors impacting the results, the summary of the financial statements, the group debt and the cash generation that occurred during the six months, the capital reduction that Netcare intends paying at the end of July and then finally the guidance for the group for the full year.

If you look at the structural factors impacting Netcare during the last six months, I think the most important has been the sale of Ampath. During the six months we've received gross proceeds of just over R1 billion. And in terms of the accounting implications that are governed by IFRS, and in terms of the rules that IFRS give us when we deconsolidate, we've had to proportionately account for the trading profits until the 28<sup>th</sup> February 2009. So if you look at the income statement you will see R46 million of trading profits coming through the results. We've also realised a capital profit of some R678 million, and we will be paying CGT thereon of approximately R90 million which hasn't been paid yet. It is sitting in our balance sheet. We have also realised final cash proceeds on the disposal of R852 million. During the course of the year – and there is a slide on it going forward – the UK interest rates have dropped to record lows, down from approximately 6% to 1.5%. Because of that we've had to recognise a very large mark to market loss, which we have taken through to equity. Because we managed to achieve hedge effectiveness there has been no income statement impact, but there has been a very large balance sheet impact. We do wish to just caution that in future periods there could be a potential income statement volatility creeping into our results. There is no cash or commercial impact, but we may not be able to achieve hedge effectiveness in future periods.

The Rand has strengthened in the last while, and we've had a nearly 7% improvement in the Rand from R14.76 to R13.64. That has had an impact on our balance sheet. There has been a minimal impact on our income statement during the course of the period. And finally, we have repurchased and cancelled 436 million shares for no consideration. We've done that to reduce complexity. We have

eliminated a cross-holding within the group, and it also does give us opportunity to buy back treasury shares in the future.

So if we look at the group income statement for the half year, revenue has grown by 12.3%. Richard has covered that in some detail, but just to recap, South Africa experienced 14.4% growth in revenue and the UK experienced 10.4% growth in revenue. That includes an exchange rate impact of some 2.1%. Operating profit has also increased, and Richard has covered that in some detail in the previous slides. But just to recap, operating profit margins have increased from 15.3% to 15.7%. Financial expenses have grown by 5.7% and both localities have incurred higher interest rates during the course of the year. I think it's important to note that the Ampath proceeds were only received on the 27<sup>th</sup> March, so the interest benefit from Ampath will only be felt in the second half of the year. The UK has also had an increase in interest rates due to the acquisition of Nuffield last year.

Our associate earning income of R10 million has changed from a loss to a profit, primarily because we had prior impact of pre-acquisition write-offs in Community. If we just look at our tax rate, it has gone from R85 million to R142 million. We've had an increase in the effective tax rate up to 24.5%. Last year it was 21.5%. The reason primarily is because the UK we've attributed a 20% tax rate, and that is a notional tax rate because we will not be paying tax there until approximately 2012. But we do look at it and we take a view on whether we can access tax losses and what amount we can create in terms of our deferred tax entries. So overall, a 40.8% increase in profit for the period from continuing operations, and we've generated after the Ampath sale just over R1 billion for the half year.

I've just dealt with the income statement, and before we carry on I thought it was worthwhile to reflect on our compound historical revenue and operating profit growth. And if you can see from these tables at the bottom here, all of them are over 30%. And I think it's just pleasing to note that both geographies continue to reflect ongoing revenue and operating margin growth.

If we look at the major divisions' operating profit I've just put this slide in to show that the margin erosion of last year in the hospital and emergency division has been arrested, and in fact our margins are now higher than two years ago. As Richard alluded to, the UK continued to generate operating margin growth. Just bearing in mind that these slides are Rand denominated and not Sterling denominated, so they don't tie in to the front section of the slides. If we unpack the headline earnings per share calculation, basic headline earnings per share is up some 200%, but we need to strip out the capital items, primarily the Ampath sale. So we get to basic headline earnings per share growth of some 40.5%, splitting between South Africa where the continuing operations increased headline earnings by 39%. The Ampath contribution to Netcare now is frozen. We will not generate any more profits from Ampath; it is discontinued in totality. And that 3.9c will flow through to our September results. And the United Kingdom pleasingly has come in with an 11% contribution to headline earnings per share.

If we analyse and explain the group assets, the balance sheet, we can immediately see the large impact of the currency that the Rand strength has had on the balance sheet. All classes of assets have been impacted by the strength of the Rand. The first two categories, Property, Plant and Equipment and Goodwill, the decreases are almost entirely related to the Rand. Associate earnings have decreased primarily because it's Netcare's intent to get out of non-core investments. And that ultimately will be some associate earnings generated out of the UK as well as our PPPs in South Africa. Our Financial Assets, which I will cover in detail going forward, has dropped to zero because of the impact of the UK interest rates. And our Current Assets have increased, primarily due to an increase in UK debtors. Ampath has been disposed of, which has reduced our Assets Held for Sale down to negligible amounts. Total shareholders' equity has dropped by some R2.6 billion, and that is not currency related. That is due to the mark to market on the interest rate swap. There has been a very large devaluation on the interest rate swaps in the UK, and we have taken all that to equity. The

long-term debt and the financial liability slides we will cover in some detail going forward. Just one final thing, the disposal of Ampath. No more liabilities held for sale.

On this slide we tried to unpack the group debt for the period. Starting with the cost of debt, the UK debt remains the same because 98% of UK debt is fixed. The cost of the South African debt has dropped from 10.1% to 9.5%. The question may be asked, with the decreases in prime that has happened in the last six months, why is that lower? We don't run overnight financing in Netcare. We do run short-term debt, but it takes time to filter that through the income statement. So this will drop, but it will come through in dribs and drabs during the next six months. UK debt has dropped by some £3 million, but again the currency impact has meant that it has dropped by over R2 billion. The South African gross debt figure has dropped from R4.9 billion to R4.6 billion. We've done a lot of work on our South African debt during the course of this year. If you have a look at the slide March 2008, as Richard alluded to there is about a R1.8 billion drop in debt in the 12 months. And during the course of this period we've increased facilities. We've gone to committed facilities with the bank. We've looked at repaying more expensive debt. So we've done a lot to strengthen the profile of the South African balance sheet. And I think one thing that one doesn't notice on these figures is that we've got a very large property portfolio. If we had to add that onto our net asset value the South African operations would be worth around about R8 per share and we would have about R5.6 billion increase in equity just through revaluing our property portfolio in South African.

This slide tries to explain the UK debt position. The first two tables are the original debt that was acquired when Netcare purchased GHG. And this table covers the debt subsequent to the acquisition, which primarily is the acquisition of Nuffield. There are the gross figures that exist in each of the packages. I think it's important to note that 98% of the UK debt has been fixed until at least 2013. We pay about £126 million of interest per year on this debt. We're going to get into some detail on the covenants now, just to say that all covenants have been met very adequately. If we look at the UK debt covenants, and we've had a lot of questions around this so we are going into a bit of detail on the covenants, we've got two property covenants. We've got a primary covenant and we've got a secondary covenant. The primary covenant is the interest cover ratio, which looks at the rental income to interest expense. As both of these are fixed there is no real risk of covenant breach.

The property secondary covenant is the loan to value ratio, which is only triggered if the rental cover reduces to less than 1.4 times. The next slide in fact covers that. It's just important to note that there is current headroom in excess of £50 million. The OpCo covenants, for all the bankers in the room, are the standard covenants that you impose on a company that you lend to. It's a standard interest cover, cash cover, those types of ratios. But just again to note that our tightest covenant has headroom in excess of £50 million. Importantly there is no cross-default between the OpCo and the PropCo and also there is no recourse back to South Africa. So without any EBITDA growth all covenants will be fully met for the full terms of the debt, and I think that's quite important for the bankers in the room. Just looking at one of the PropCo covenants, the interest here is the blue line. That slowly will decrease as debt gets repaid. The rental increases slowly by 2.5% a year, but if you look at that, the growing headroom that has been achieved in the last three years that Richard has alluded to in terms of operational efficiencies and revenue growth has actually meant that really it's highly unlikely that this covenant will ever be breached.

Cash conversion has always been a very important ratio for the Netcare group, and we look at it throughout the year as well as in our working capital committee meetings that we have. Our cash conversion ratio, which is basically EBITDA to cash flow from operations, is at 72%. But just bear in mind that the South African operations have achieved 84%, which is a record high for the Netcare group. If you look at it year on year we've had a R419 million improvement in working capital during the course of the last 12 months. Richard has spoken about the changes in the UK mix, the fact that NHS volumes have to some extent caused a delay in debtor payments, but the UK sits at 65%. This is an important slide because for those of you who are statisticians, UK interest rates are at the lowest

level ever in recorded history. I think the central bank in the UK have tracked interest rates for the last 300 years, and this is the lowest that we've ever been. Our UK colleagues can perhaps comment on that, but there has been a precipitous fall in interest rates from 6.2% to 1.68% in the last few months. I'm just using the one year swap rate.

What has that meant to Netcare? As yet no income statement effect, but there has been a very large balance sheet effect where we've taken approximately a R2.8 billion loss to the balance sheet. Again I wish to reiterate that hedge accounting may not apply in the future, which means that we will be exposed to a certain amount of volatility in the income statement. This has no commercial impact and has no cash flow impact, but it does cause forecasting difficulties. Finally in this section of the presentation the board has declared a growth in the capital reduction of 16c. That's 2c higher than last year, or approximately 14% up year on year. And that has been taken into account after all these factors that are listed on the left there.

Finally, we're just going to look at the guidance that we're going to give for the next six months. And what we're saying is guidance is basically unchanged. Revenue growth in South Africa is higher than 10%, and in the UK between 5% and 7%. Operating efficiencies of 17% to 18%. For the half year we have not achieved that in South Africa, but we do plan to achieve that in the next six months. EBITDA is maintained in the UK. And then there are our two capex forecasts. So thank you very much, and I'll hand back to Richard.

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***Richard Friedland - CEO***

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Thank you very much, Vaughan, for that. I think we have put a little statement at the bottom there that we just need to be cautious as growth forecasts across the world have gone into recession. But I think as you've seen from these results, ladies and gentlemen, that healthcare demands do not necessarily abate in these kinds of markets, and we've seen that strong growth. So we are welcoming questions from the floor. Just to apologise for our Chairman, Jerry Vilakazi, who is in Kenya at the moment and only returns later today. But he does send his apologies. But Adrian Fawcett and Phil Wieland are also here, and we welcome any questions from the floor.

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***Leigh - RMB***

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Hi, I'm Leigh from RMB. Given that there was generally a positive view on Barbara Hogan, I just wanted to know what the view about the new Health Minister was.

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***Richard Friedland - CEO***

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We welcome the appointment of our new Health Minister. We think there have been some incredibly positive changes in government and government's approach to healthcare. I think that the strategic plan released by the Department of Health, which is a collaborative piece of work between civil society, the private sector and government departments that was released, this ten point plan to 2012, sets our government's intentions, and we think that that's very positive. Adrian, would you like to make any comments on the United Kingdom generally?

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**Adrian Fawcett – CEO General Healthcare**

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I guess that there aren't any direct questions. I don't have an awful lot to add other than you can quite clearly see that the UK sits firmly within the European situation at the moment. The banking crisis that you've seen over the last seven or eight months seems to be unwinding at this point in time, so lending is available. I think a lot is yet to be seen over the next six months as we move from paper losses into real losses, and then we'll start to see the renegotiations going forward. There are three watched things on the horizon. Clearly we have rising unemployment. That isn't necessarily a bad thing because we've had an awful lot of Eastern Europeans leaving the UK and heading back across Europe, and therefore I think we're going to see a resurgence at the lower end of the public coming back in. It might not be ideally people's first choice of job, but it hides an awful lot of a number of evils in the country.

Secondly, the housing market which has been the underpinning part of people's confidence with respect to PMI seems to have seen some signs of stability starting to come in over the last six to eight weeks. If that reverts back then that's a good thing for us. And finally for the business, there will be winners and losers in our market. We've tried to position our company in order to benefit from what could be a changed cycle, and yes, we are looking to prey on the weak. In reality I'm very excited about the year ahead.

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**Richard Friedland - CEO**

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Thank you very much, Adrian. Ladies and gentlemen, if there are no further questions please join us for some refreshments afterwards. Thank you very much.

*ENDS*

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