

VETCARE

Network Healthcare Holdings Limited

(Registration number: 1996/008242/06) (Incorporated in the Republic of South Africa)
(JSE share code: NTC) (ISIN code: ZAE000011953) ("Netcare", "the Company" or "the Group")



Presentation - Transcript:

Interim Results for the six months ending 31 March 2007



You're in safe hands

Dr Richard Friedland - Netcare: Chief Executive Officer

Good morning ladies and gentlemen and welcome to this presentation of our interim results to 31 March 2007. The choir you have just seen is a choir here at head office singing a song that they themselves have composed about Netcare and our values. And this month we are celebrating cultural diversity within our organisation. And having regard to all the various presentations on Summit Television this morning and analysts and investors being glued to their screens, we thought we would just liven things up and energise the proceedings. I send best wishes and regards from our non-executive chairman, Motty Sacks, who has traditionally anchored these proceedings over the last eleven years. He unfortunately can't attend as he is overseas. I'm going to be taking you through the first part of today's presentation, which is effectively a business overview, and then I'm going to hand over to our chief financial officer Peter Nelson, to take you through a financial review. Right at the outset I want to pay tribute to our staff and management teams, to our directors and executives, both non-executive and executive, who have played such pivotal role in producing these outstanding results. Let me thank you for your dedication, your commitment and your energy. And the results are here for all to behold.

In November last year when I stood before you I said that we were entering and beginning a new journey for Netcare. And I think these results to March begin to show you the full impact of the transformational changes that have occurred in our organisation, not just as a result of the acquisition of General Healthcare in the United Kingdom, but also of our advancing strategy to provide more affordable care across South Africa. In order to put our group interim highlights into some perspective I think it would be helpful for us to focus firstly on South Africa, then on the United Kingdom and then look at the group as a whole. I think if you look at South Africa right up front you will see we have experienced significant revenue growth of some 14%. A lot higher than our own internal expectations of some 9% to 11%. This growth has been fuelled by significant demand for private healthcare, both in the traditional medical aid markets (I'll show you those numbers later) and also in the self-pay out of pocket market where we have seen a growth of some 19%. So as a result of this we continue to invest very heavily in South Africa. We have built and commissioned two new hospitals. We have added some 320 beds, and we continue to invest very, very heavily in South Africa. At the same time we're advancing our strategy of penetrating the low income market and affording a broader reach of healthcare to more South Africans on a more affordable basis. There has been as a result thereof a small decline in our EBITDA margin percentage, but that has been more than offset by the strong revenue growth. And I think you only have to look at our core earnings in South Africa to see that the net result is a 13% increase in those earnings. In terms of the United Kingdom we are well on track in terms of our strategy of building a sustainable platform for future growth, and have in fact exceeded

our own internal targets in several regards. Perhaps the most important one is the operating margin for the United Kingdom. We have always said to the market we would probably achieve uplift in that margin over twelve to eighteen months or a two year period. We have achieved a 26% EBITDA margin within the first six months and are on track to maintain that. We continue to roll out projects for the NHS. Looking at the group as a whole, again not unexpectedly GHG has been dilutionary on earnings by some 8,7 in our earnings.

Turning to South Africa and repeating what I said a bit earlier about the normal growth we have seen in revenue, this has really been fuelled by growth in medical aid numbers. As a result we have probably extended and accelerated our capital expenditure to take full advantage of this. You will see that our capital expenditure is up some 52% up compared to the previous period. We have commissioned and opened two new hospitals, one in Kwa-Zulu Natal and one in Blaauwberg in the Western Cape, two state-of-the-art facilities. And we have added another 116 beds to our portfolio through a number of initiatives such as the neo-natal ICU unit at Park Lane, the ICU unit at Linksfield and a variety of other developments in the group. We have also signed a public-private partnership agreement with the Eastern Cape department of health that will allow us to operate some 62 beds in the Eastern Cape in an area where we don't have particularly high penetration. But probably what is significantly important here is not only are we focussing on growing our hospital network and investing in it, but we are equally concerned about patient outcomes and the patient experience. So we are continuing to evolve our clinical governance initiatives. This year we benchmarked all of our neo-natal ICU's on something known as the Vermont Oxford ICU Score. And I can tell you that our ICU's rank incredibly well with those of our peers on an international basis. We've also been looking at the kind of experience our patients have in our facilities and have done much around the patient experience. I have put this slide up to show you the real growth in medical aid membership we are seeing in this market, and I point you to this graph on the left-hand side. In 2005 this market saw a 2.3% growth. At that stage we believed that was an inflection point in a market that has effectively been static for some eight to ten years. And lo and behold last year, just for the nine months to September 2007, this medical aid market has now grown a further 3%. It is evidence of a number of factors that we are seeing at the moment. A lot more people entering the formal sector of employment, a much lower medical inflation rate and what I believe is more affordable healthcare. If you look at the right-hand side you can see the impact of the most important government initiative in this regard, the Government Employer Medical Scheme. When we reported to you last in November, GEMS was standing at about 45 000 members, and as we speak they're now at 127 000 principal members, which represents about 355 000 lives which we believe represents some 40% are new, so an enormous growth in the medical aid population. And enormous growth as a result of GEMS as well that we should see growing. And I'll show you later that our self-pay market itself has grown as well.

If you look at what is underpinning this demand and the changing in utilisation within Netcare, these graphs demonstrate very clearly that impact. Firstly we have seen a change in the kind of disease patterns. For instance respiratory admissions as a percentage of total admissions in our group over the past few years have risen. You can also see a change in technology and practise and you can see caesarean sections as a percentage of maternity admissions have increased from 62% in 2002 up to 71% in 2006. But this graph on the right-hand side demonstrates something that we have been speaking about over several months and have shown you in various presentations. We have a more elderly population accessing, utilising and demanding healthcare, and they tend to stay longer in our hospitals. And this length-of-stay graph demonstrates how the age of the patient impacts on the length of stay. So how has all of that impacted on our hospital and trauma division? I think this demonstrates clearly that impact. We have been able to show very good growth in patient days of some 4%. We have had an 8% growth in total admissions. We continue to attract specialists to our network, some 121 in the past six months alone. And something that we have now begun to see is a rapid rise in the self pay or out-of-pocket market. In the past six months we saw this rise by some 19%, evidenced largely by a growth in maternity, a large part of it is due to self pay. Our margins in the hospital businesses have been affected by a number of things, and allow me to just take you through one or two of them. We have increased our training and training costs, given the skills crises in South Africa. We are absolutely committed to building a sustainable network and to meet the kinds of demands. And so what you will see in our results is that we have spent some R20 million in the past six months, versus R13 million in the previous period, on training. We are training a thousand more nurses. We have some 3400 nurses in training at the moment. And overall for the year we will be spending about 49% more than we did the in the previous year to ensure that we can provide the quality of care that Netcare is well known for. The commissioning of our two hospitals cost us about R11 million in this period, and we have seen a change in our mix towards more medical cases versus surgical cases.

I put this slide up to demonstrate what has actually happened to the training of nurses in our country in the last ten years. This is not an overnight problem and the solution is not one we can solve alone. It requires a national solution over many years. You will see that from 1996 to present day the government and state facilities have trained less and less nurses, reducing from some 2600 in 1996 to just over a thousand in 2005. Quite the opposite has happened in the private sector, where we have increased training from some 1100 to 2352. But I'm delighted to report that government has committed to double its number of nurses trained, and I think this will go a long way to meeting some of those shortages. I'm not sure there are too many organisations that can say that 35% of their base is currently undergoing training. We are training almost 35% of nurses within Netcare as we speak. We have also employed new models of nursing care. We have introduced a six month ICU technician's course in order to train non-nurses in how to use monitors in ICU, how to set them up and how to control them, so as to lessen the burden on our ICU sisters and lessen the requirement for nurses in

those units. In terms of our ancillary division and in line with our strategy to broaden both access to quality, affordable healthcare we have been building an extensive primary care network. Last year we announced the acquisition of Prime Cure, and in these results you will see for the six months the impact and growth of that division within this ancillary division. And so today we can say that we have a hundred primary care facilities on a national basis and some 41 retail pharmacies. We continue to open Medicross's in selected areas and we've certainly increased the number of doctors and dentists within our network. We have probably one of the largest networks of doctors across the country, some 2900 on a national basis. Importantly in terms of Prime Cure we have increased the number of lives under management to 155 000 from 130 000 last year, and we have taken the number of GEMS lives that we manage from some 12 000 up to 34 000 GEMS lives, 40% are under full risk. So what is the impact of all of that? Well, we have seen a 10% growth in GP and dental visits over the period, and we have seen strong growth in this division. I just point you here to this table on the right hand side where revenue has increased by some 24%. Clearly it has come at a lower margin, primarily because primary care is at a lower margin, but also because we have had several costs related to closure of non-viable clinics and facilities. This has been somewhat offset and counterbalanced by some integration savings efficiencies that we have been able to achieve over the period.

Probably one of the last slides on South Africa is to give you some colour and update on the regulatory and legal framework that we find ourselves in. Firstly in terms of the single exit pricing, we believe that the regulations in this regard will probably be finalised in August. As you know there has been an objection by groupings of pharmacists. We haven't been part of that objection at all, and we have disclosed in the past the impact of such regulations on our Medicross network in particular. In January of this year the national hospital pricing regulations were promulgated through HASA. We have given comment and have raised certain queries and asked for certain modifications, and we await a report back in that regard. Probably one of the most sensitive and controversial pieces of legislation that we still await to see the light of day is the international benchmarking of drugs. We're hoping it will come out in 2007. We think it will have a major impact of drugs in the South African market. And I'm talking about single exit pricing drugs, in terms of lowering the level at which single exit pricing of drugs is set. If I can share with you, if our experience of GHG is anything to go by, when we compare drug pricing in the United Kingdom to drug pricing in South Africa of the same single exit pricing, we were horrified to find that that price was something 25% to 50% less than it is here in South Africa. So we believe that could have an enormous impact. I just want to go back if I may. Just in terms of our DTI codes these have been gazetted earlier this year and I'll show you the impact for Netcare itself. We are fully aligning ourselves to that. We have taken a lot of questions around our pathology division Ampath, and suffice to say that we are considering our options in this regard. We do hope to have finalised this issue towards the year end, but clearly the regulator is opposed to any corporate involvement in pathology services, so this is a priority for Netcare. And on the legal front, in



June our proposed acquisition of the remaining 56% of Community Healthcare is coming before the Competition Tribunal. Just in terms of our compliance to the DTI codes on BEE, I just want to take you through some aspects of this to show you what progress Netcare has made and continued to make. And certainly our transformation has been something that has been with us for many years. In terms of ownership we score quite highly, and we have been able to show significant benefit to those shareholders in Health Partners for Life, some R171 million worth of value after debt. Despite this being a company where almost 60% of our employees are black, we don't score particularly well on management control and employment equity because that is focussed around management. We have done a lot in this regard, but still there is a lot for us to do. In terms of skills development you can see that we are spending some 4.6% of our payroll in training black people, well ahead of the DTI BEE target of 3%. On procurement we have some way to go, but really in terms of enforcing compliance of our suppliers. And given our track record in Netcare in assisting the development of several new enterprises, we score very highly in terms of enterprise development and socio-economic development. This is a score we have engaged with Empowerdex to verify. It gives us a score of 61, which ranks us as a level 5 contributor. I raise this with you, ladies and gentlemen, because in the recently published ratings in the Financial Mail our score was put down as 39, and we were ranked 78th out of the top 200 companies. This ranking would put us in the top 20 companies in South Africa. In terms of the performance priorities that we put out in our annual results in November, this slide really demonstrates the progress we have made. Two ticks speaks to largely complete, and one tick is work in progress that we hope to complete at least in this financial year. Obviously you can see that we have commissioned our two hospitals, and we have certainly integrated Prime Cure and we have reviewed our central costs. Those are deliverables that are done and complete. We are still rolling out SAP as we speak, and hope to have completed the vast majority of that this year with benefits beginning to roll in next year. And we are still developing our high volume lower cost model as we speak.

Moving on then to the United Kingdom, I think the United Kingdom has been characterised by quite significant external and internal changes. Externally, we find ourselves in a market that is increasingly becoming far more competitive. This year we will see the sale of the BUPA hospital group as well as Capiro. Clearly a lot of investors are seeing this as a very attractive market. Internally we have seen enormous changes within GHG as we bring together and integrate a largely unaligned group of hospitals. Let me take you through some of that. We have in place now a very experienced new senior management team. We have appointed a new chairman, Sir Peter Gershon. We have appointed as of the 30th April this year Adrian Fawcett, and I am stepping down as the acting CEO of GHG. We have aligned our management against the new strategy and direction for GHG. We have identified very clearly what our KPI's are, and we have embarked on a number of efficiency programmes, many of which originated from the kind of work which we do within our own network in South Africa. We have

introduced Netcare's doctor-centric model. That is in its early phases of being rolled out. And importantly we have reviewed our property portfolio and are now looking at the various opportunities and options that that may afford us into the future. But importantly for us, and I've highlighted this before, we have achieved a target of 26.1% EBITDA margin, something we thought we may only achieve over a twelve to eighteen month period.

In terms of the private hospital division itself, and now I'm talking about the network of 49 hospitals, as opposed to Netcare UK which is the NHS services division, you can see the kind of work that we have done in this division. And it is not purely about ring-fencing the efficiencies and ensuring that we can improve margins. It is also about building a sustainable platform. To that extent we have launched a number of new products in terms of spine care, women's health and varicose veins products. We have started a rollout of casualties of accident and emergency units in the United Kingdom. The first one is up at the Alexander in Cheadle in Manchester. But importantly, we have begun to invigorate that network and put in best practice and new technology. There are new European Union regulations on sterilisation of equipment and of instruments. We are the first network to embrace this fully, and we have outsourced this entire project to Vanguard AG from Germany. We have also recently started implementing PAX and radiology information reporting system right throughout the entire network. We've achieved a 5% reduction in head count, not just through nursing efficiencies, but certainly looking at our administration overhead as well. Perhaps just to give some granularity on the efficiencies that we have achieved, we expect to achieve about £10 million of savings as a result of staffing efficiency and also more efficient procurement throughout the group, and a whole range of other efficiencies. And what this graph demonstrates to you is the reduction in full-time equivalent employees from some 8400 in August down to some 8000 in March. And this shows you the impact of our savings in ward costs. This demonstrates the saving in ward cost per patient day, as a result of the changes and you can see our savings in the order of some 8% to 10%. So overall an incredibly busy period for the BMI network, and certainly one which management is entirely focussed on and I believe will set an incredible platform for us as we move into the future.

If we look at Netcare UK, which is really our NHS servicing arm, we have been successful in commissioning some new projects for the NHS. We opened up the first independent sector treatment centre in Scotland in Stracathro in January. It'll do some 8000 procedures over three years. We opened our walk-in commuter centre. This is a doctor and nurse-led primary care centre in the city centre of Leeds, seeing some 150 patients per day over five years. And we've also just recently been awarded preferred bidder status on this project, the NEYNL project, which is for about 70 000 procedures over five years. If I draw your attention to this table over here, the results for Netcare UK have been impacted by mobilisation costs and bidding costs. This table really demonstrates that

impact for you. Without those costs we had a very good increase in revenue of some 29%. Without those costs on an adjusted basis our EBITDA would have increased by some 44%. It has however declined given those bidding costs and those mobilisation costs. In the broader scheme of things it is not that material, and given the huge pipeline of potential projects within the NHS we believe that is entirely appropriate.

This is the project pipeline that I have been referring to. You can see all the projects down here on the left hand side, and the number of procedures. We estimate there is a potential pipeline of some £400 million over the next five years for projects commencing this year and next year. We did begin our diagnostics project, providing MRI's and plain form radiology in London. It is a joint venture project with Inhealth. We hopefully will be opening our second commuter walk-in centre in Kings Cross in London in December, and we are mobilising on two other schemes which are known as Capture Access Treatment Support schemes. These are essentially primary care schemes in the Manchester area and the in Cumbria and Lancashire areas. So really looking at our priorities for the United Kingdom, again a slide I put up in November at our final results. We have only really completed the property review in its entirety, and the rest of it is work in progress. We are going to continue the integration of GHG. We believe there is more to come, both this year in terms of the next six months and certainly next year and potentially the year thereafter. We are only now beginning to roll out our doctor-centric model. We are currently reviewing pathology and radiology services, and we are almost complete in rolling out our extended choice network systems. As I remind you, extended choice is a programme by the NHS which allows people who have waited more than 18 weeks on a waiting list to choose provider of choice, including the private sector. And we are obviously extremely busy on mobilising our NHS contracts, so all in all a very strong revenue growth for South Africa, more than offsetting a slight decline in the EBITDA margin. And certainly in the United Kingdom we are well on track in terms of our own internal targets. I'm now going to call on Peter Nelson to take you through the financial review.

Peter Nelson - Netcare: Chief Financial Officer

Thank you Richard and good morning ladies and gentlemen. I think we're beginning to see for the first time the size of the new group post the GHG acquisition. We certainly had some margin uplift. The EBITDA margins coming out of GHG are considerably higher than those of South Africa, so we are seeing that margin uplift coming. It is not to say the return on shareholders funds is climbing, it is more the EBITDA margins and the operating margins. We have alluded to the fact that the South African engine continues to stream ahead with 13% growth in core earnings. The group EBITDA percentage is 22% higher than previously because of the GHG impact. We still generate strong amounts of cash. And in this period we have a significant profit on our hedge accounting, which gets accounted directly through equity. And I'll talk about that a little later. But there have been some items which we should just touch on.

We issued the convertible bonds last year. I think you all followed that. It was post the year end. We repaid the Netpartners debt, a net amount of about R1 billion of debt. And we unwound the zero cost collars which were very complicated. We finalised soon after the GHG acquisition the legal structures to separate the properties and the operating company formally in GHG. And we have been working hectically to get SAP implemented. At the moment we are in a fast roll out phase to try and get every hospital and reporting centre on SAP by the end of this financial, year. Once we are there we have all of our businesses on SAP, then we start to see the benefits of SAP. At the moment we still run dual systems and we are prevented from using SAP to its ultimate. And the SAP logistics is rolled out. The group income statement is very different. At the top you see significant growth over the last year because of consolidating GHG and Prime Cure for the first time. So you see revenue growth at 129% and operating growth at 166%. The reality lies in the middle of the income statement. Here we've got financial income at R196 million. In that figure we've got a R31 million profit in our swaps in relation to the 25 year GHG swaps. The 10% portion that we account through income statement, R31 million going into that line. We've got some R71 million profits on foreign exchange conversion on our DRKW loans. And we've got some R68 million of interest which we have received in the period. Certainly GHG hold at any one time some £50 to £60 million of cash. They are earning interest. And at our head office in our cash management we also earn interest. So we see a big increase on that line.

The financial expenses are massively up. Now clearly this is where the cost of financing GHG and the GHG interest itself is lying in that R1.3 billion. The GHG interest in South Africa we spent about R107 million in the period on financing our GHG acquisition. And also in that line is the other side. I spoke about in the profit line we had some R70 million of profit on the foreign exchange conversion of the

GHG debt from South Africa. But that is fully swapped out, and because the Rand strengthened in that period the swap losses are accounted for in that line. So to that extent there is a contradiction between those two items. But in the middle of our income statement for this period for the first time there are some real big numbers that we've got to get our minds around. Taxation is very much as we expected. And then we see basically at this line here the benefit of the Netpartner transaction on the weighted average number of shares in issue. Because we have acquired those shares and turned them into treasury shares, there is 16% less treasury shares for this period weighted average than there was in the comparative period last year. And that is helping us drive up our HEPs and minimise the decline in HEPs to only 7% year on year. It is a very good income statement. We are pleased with the results. There are no surprises in it.

If we look at the earnings per share, obviously we have spoken about the 7% decline at the group level on earnings per share, but if we look at South African stand-alone then we are 13% increase in earnings per share from 28.7 to 32.4. Richard spoke about that number a little earlier. Last year we had an abnormal item on the Health Partners for Life price that was R56.7 million. Not repeating this year because we haven't issued any more units in the trust. And therefore after abnormal items the earnings per share increase would have been 31%. That is what will be on the statistics. That is what the formal requirement is, but we are breaking it down to improve our understanding of that number. And then you see that for GHG itself, GHG made a loss of about £1.7 million in the period. Plus then we have to finance our acquisition of GHG. That all rolls out to dilute our earnings per share about 8.7c and reduces our earnings per share to 23.7c, a 7% decline year on year.

If we look at the balance sheet there are some very significant things on the balance sheet. We can't repeat all of the detail. It is in your slide, it is in the paid advert but I'd like to go through just three of those items for you. Firstly, within twelve months of acquiring GHG we are able, obliged to review the fair value of the assets and liabilities at acquisition of GHG. In other words the first sweep of the accounting is what they refer to as the initial fair values for the assets and liabilities. And then within twelve months as you understand more and some of the numbers firm up and harden, you have to make changes to your assets and fair values retrospectively. And you do that through a re-statement. But we have reviewed the assets. The most significant asset value that we changed was that of deferred tax. Previously we had taken a view that the assessed losses of GHG would only become of value post two years. In other words it would take us two years to start utilising the assessed losses of GHG. We now think that is going to be much, much sooner. And because of that we have to raise deferred tax as at acquisition. The other side of the entry goes to goodwill. So that is the main change, about £13 million being affected there. The next change as you will see is that the ordinary shareholders equity is significantly up on last year. We have issued 47.4 million Netcare shares last

year in December. We also have R1.1 billion of hedge profits not going through the income statement, going through the statement of recognised income and expenditure (previously referred to as changes in equity) but now sitting in our equity. And also because of the corporate bond we issued there is about R170 million that finds its way into equity because of the premium option pricing around the corporate bond, so all of that is improving our gearing. You will see that year on year our gearing is significantly better, from September to March. And then anybody that analyses our balance sheet, you've got to take note that the conversion of GHG is significantly impacted by the exchange rate. At September the Rand was R14.53 to the pound. At March it is R14.24 to the pound. The Rand has strengthened, and because of that movement you get significant impact on all of our assets and all of our liabilities. So if you're trying to track what has happened between September and now, please bear that in mind because it is a major number. As you can see it has reduced the value of assets in total by R858 million and increased the value of liabilities by the same. And I think this is going to be a trend going forward. We're always going to find these fluctuations in the conversion rates.

Just to keep up the trend on the debt, we continue to focus on this. In November 2006 we paid a big portion of our DRKW debt. In December 2006 we did the rights issue with Netcare shares, some 47.4 million shares reduced debt by some R51 million. In November 2006 we issued the convertible bond on the Singapore stock exchange of some R1.4 billion and in November 2006 we issued some redeemable preference shares at 64% of prime, very useful ways of funding. So you can see that between September 2006 and March 2007 we have reduced the debt on the South African balance sheet. We continue to focus on this and try to degear the balance sheet in an orderly fashion. If we look at the GHG debt, we have separated the op co and prop co issues, which are still underpinned by the £2.1 billion plus property portfolio. It is fully hedged with interest rate swaps for 25 years. A small portion of which is ineffective and is accounted for through the income statement. We are easily meeting our covenant tests in GHG for the time being. Very important to us with a big financing package that we are not forced into refinancing at a time that is inconvenient to us. At the moment the covenant tests are being quite nicely met. And again to stress that all of this debt is without recourse to South Africa.

If we look at the South African debt, I'm not going to go through all of the slides. I'd like to point out that the South African interest rate average cost is about 8.67% and the UK average costs about 6.42%, the bulk of that being the prop co funding. But that is the average across the whole portion. Some interesting numbers here. South African interest cover; three times interest cover in South Africa and there is one times interest cover in the UK, very, very tight. In fact if you put the UK in it pulls us down to about 0.9. So we do have to watch that very carefully. These are always interesting numbers for me. SA net debt to EBITDA we've got 3.1 times debt to EBITDA in South Africa. Norm target is

maybe 2.5 or something like that. For the time being we will head in that direction. And in the UK debt to EBITDA 10.4 times. Clearly it was a leverage buy-out. You wouldn't be surprised by that number, but we just need to take stock and try and move that number down over time.

We do have very strong cash generation in the period of some R1.5 billion. Inventories and receivables no major surprises there. Inventories are up 4% and receivables are up 7%, very much in line with where we would expect. Even probably better if you take into account that revenue is increasing at 14%. But accounts payable is significantly down. It makes working capital look worse. The question is why. Two things are driving that. At the end of last year we had quite a lot of money in transaction costs in GHG relating to the acquisition. Advisors costs, bank costs and the likes have all been paid now. They work their way through the system. And in South Africa we have gone on to a slightly faster payment cycle. Often in the past we would pay our creditors for February at the end of March and we'd roll our February creditors over at the end of September. During the year we really only have one month's creditors outstanding at any one time. We have taken the view from an accounting perspective that we want to get our actual statutory in line with our management accounts. It is a one-off cost of some R320 million. It doesn't affect financing costs or anything like that, because that is the fact on the ground. With that, if we look at the capital distribution we have increased the dividend. Last year we kept the final dividend stable. We had a big debate. We covered a lot of these issues. We were unsure exactly of all of the implications of the GHG acquisition. I think we can see the implications now. We are very confident with the integration plan of GHG, the financing is all pretty clear to us. So we felt a little bit bolder when it came to this interim. We increased the dividend by 1c from 12c to 13c. This is not a change in dividend cover policy, I must stress that. We really just wanted, in light of the confidence that we have in the company, and the fact that we can degear this company in an orderly fashion we felt that we could do an increase in the dividend of 1c. It is a pretty modest increase but please don't take it as any signal about dividend cover policy. We are also very mindful that our BEE trust that we set up needs a certain amount of dividends to settle its vendor financing loans and other loans, and clearly we couldn't forever not increase the dividend even though we might have thought about it whilst we were being diluted by GHG.

Let's just go through some of our guidance issues on South Africa. We previously said 9% to 11% on the revenue line. We are now saying 11% to 12%. We have commissioned Ballito and Tableview, and we have had sight of the results for six months. Some might say why if turnover was 14% up for the first six months we are only going to be 12% for the full year. Please bear in mind that in the first six months we brought in Prime Cure. The comparative of Prime Cure was only in the accounts for February and March so it gave our turnover increase a bit of a kicker. But if you look at the second six months, Prime Cure was in for the full comparative period. So you're not going to see anything

significant in the second six months from Prime Cure. If we look at the EBITDA margin, Richard has spoken about the higher costs of nursing and the higher costs of training and the like. We are seeing a bit of margin pressure. Tariff increases range 5.5% to 6.5% and we are seeing an impact at the EBITDA margin. But then our revenue line is well up, and if our revenue line is going to be well up even at a lower EBITDA margin we're going to earn the same EBIT guideline that we gave last time.

Capital expenditure we are staying constant. We previously said R800 million to R900 million. We see no reason to change that at this stage. There are some investment opportunities. If one or another of them is pursued it could affect that, but in pure cap ex that is where we expect to be. If we look at the UK we are stable and sustaining our guidance on the revenue line of 650 million to 700 million. We are sustaining our guidance on the operating margin of about 26%. We are there already so we think that's a good number. Perhaps a bit of a surprise is that we previously set some 20 million to 30 million of cap ex. The sustaining cap ex is now 25 million to 30 million. But there is a host of cap ex projects which are looking at. Richard spoke about the PAX system. One of our small acquisitions is properties and that basically makes sense. I think this year we will probably see cap ex of closer to 45 million in GHG. I hope that helps you understand the numbers. I think we are available and around to answer some questions, back to Richard.

Dr Richard Friedland – Netcare: *Chief Executive Officer*

Thank you ladies and gentlemen. We are happy to take any questions if there are any. Sir.

QUESTIONS AND ANSWERS

Anthony - Investec

Hi it's Anthony Gear from Investec, a couple of questions. You didn't raise in the presentation the issue that you spoke about in the announcement about the change in UK tax rate. Do you anticipate that that could provide a bit of a windfall benefit to your earnings per share in the second half? And if so, if you could quantify that, that would be great. And then a couple of other things, you've spoken about increasing competition in the UK. Are you confident that a 26% EBITDA margin is sustainable and achievable in the long-term? And lastly, if I got my calculations right your free cash flow for the year...you spoke about your strong operating cash flow but if you take off the interest and if you take off the cap ex it is negative even before paying the dividend. You have spoken about the impact of your change in policy on accounts payable. Do you anticipate that for the full year your free cash flows are going to be positive pre the dividend, so after the cap ex before the dividend?

Peter Nelson - Chief Financial Officer

I think this year we are funding some major cap ex in new hospitals, so if you take Tableview, Ballito and the SAP project they are swallowing up a good chunk. I see that more as an investment in the future and you should carve out allowance for that. At the end of the year if we maintain the same policy on creditors that will be the same adjustment and it works its way through the system. The tax rate in the UK, in South African terms we normally would have responded to that change in this set of results. We would have had some £27 million which would have been released out of deferred tax straight into the income statement as a credit to deferred tax charge. The UK is somewhat different. Once the minister has made his announcement on the budget proposals he still has to go to the House of Commons and there are a few procedures before he can regard that tax rate as being substantively constituted. And we have to wait for that. We expect that to happen within the next few months, certainly before the end of the financial year. And then there will be £27 million of income to feed back through the income statement.

Dr Richard Friedland – Netcare: Chief Executive Officer

I think in terms of the question you ask about an increasingly competitive UK market, we haven't derived these efficiencies as a result of preferential tariff increases. We derived this as a result of

internal reorganisation and restructuring, and we are confident that we can maintain those margins going forward. Any further questions...

Anne

The interest charge looks a bit higher than we were expecting. Can you in a nutshell explain why?

Peter Nelson – Netcare: Chief Financial Officer

I think the interest charge Anne has the big number from GHG. The interest occurred in GHG and our interest incurred and our interest incurred on the debt to buy GHG, but then included in that line is the forex loss on the swap. There is about a £83 million expense through there which contra a similar figure in interest receipts. We also have impaired some goodwill. We have impaired some R19 million of goodwill in the period relating to Netcare Life and to Prime Cure. So it is a basket of numbers, and it does have a lot of items which are not pure interest in there. But the accounting disclosure requires you to put them in that line, so we can clear some of that up with you.

Dr Richard Friedland – Netcare: Chief Executive Officer

Are there any further questions? Ladies and gentlemen thank you very much for attending this presentation. We are also available to take your questions outside. Please join us for some refreshments served in the foyer. Thanks very much.

ENDS

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