MEDI-CLINIC

Private hospital group

UNAUDITED INTERIM GROUP RESULTS OF MEDI-CLINIC CORPORATION LIMITED

AND ITS SUBSIDIARIES FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Incorporated in the Republic of South Africa Registration number: 1983/010725/06 Share code: MDC ISIN code: ZAE000074142 ("Medi-Clinic" or "the Company")

SALIENT FEATURES

- SOLID PERFORMANCE BY ALL THREE OPERATING PLATFORMS
- BASIC HEADLINE EARNINGS PER SHARE INCREASED BY 19%
- INTERIM DIVIDEND PER ORDINARY SHARE MAINTAINED AT 23.0 CENTS

CONSOLIDATED INCOME STATEMENT

	Unaudited 6 months to 30/09/2010 R'm	Increase %	Unaudited 6 months to 30/09/2009 R'm	Audited Year to 31/03/2010 R'm
Revenue	**8 768**	5%	8 363	17 141
Cost of sales	**(5 009)**		(4 831)	(9 573)
Administration and other operating expenses	**(1 893)**		(1 793)	(3 832)
Core operating profit before depreciation (EBITDA)	**1 866**	7%	1 739	3 736
Past service cost	**–**		–	97
Operating profit before depreciation (EBITDA)	**1 866**	7%	1 739	3 833
Depreciation and amortisation	**(351)**		(353)	(718)
Operating profit	**1 515**		1 386	3 115
Gain on sale of interest in subsidiary	**–**		–	28
Income from associates	**–**		–	7
Finance income	**23**		28	41
Finance cost	**(732)**		(779)	(1 524)
Profit before taxation	**806**		635	1 667
Taxation	**(305)**		(258)	(481)
Core tax	**(305)**		(258)	(560)
Change in tax rates and taxation on past service cost	**–**		–	79
Profit for the period	**501**		377	1 186
Attributable to:				
Equity holders of the Company	**410**		331	1 058
Minority interest	**91**		46	128
	501		377	1 186
Earnings per ordinary share – cents				
– Basic	**70.7**	20%	59.0	188.4
– Diluted	**67.4**		56.0	179.0
Headline earnings per ordinary share – cents				
– Basic	**70.2**	19%	59.0	183.1
– Diluted	**67.0**		56.0	173.9
Earnings reconciliation:				
Profit attributable to shareholders	**410**		331	1 058
Profit on sale of property, equipment and vehicles	**(1)**		–	(2)
Gain on rights sold	**(2)**		–	–
Gain on sale of interest in subsidiary	**–**		–	(28)
Headline earnings	**407**	23%	331	1 028
Core headline earnings	**407**	23%	331	852
Past service cost after taxation	**–**		–	76
Tax rate changes	**–**		–	100
Headline earnings	**407**		331	1 028
Core basic headline earnings per share – cents	**70.2**	19%	59.0	151.8
Headline earnings per share relating to past service cost and tax rate changes – cents	**–**		–	31.3
Basic headline earnings per share – cents	**70.2**		59.0	183.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months to 30/09/2010 R'm	Unaudited 6 months to 30/09/2009 R'm	Audited Year to 31/03/2010 R'm
Profit for the period	**501**	377	1 186
Other comprehensive income			
Currency translation differences	**115**	(1 124)	(1 401)
Fair value adjustment to cash flow hedges (net of tax)	**(437)**	1	(183)
Actuarial gains and losses	**(183)**	341	331
Other comprehensive loss, net of tax	**(505)**	(782)	(1 253)
Total comprehensive loss for the period	**(4)**	(405)	(67)
Attributable to:			
Equity holders of the Company	**(70)**	(353)	(88)
Minority interest	**66**	(52)	21
	(4)	(405)	(67)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 30/09/2010 R'm	Unaudited 30/09/2009 R'm	Audited 31/03/2010 R'm
ASSETS			
Non-current assets	**34 504**	34 425	33 535
Property, equipment and vehicles	**28 844**	28 759	28 046
Intangible assets	**5 398**	5 440	5 243
Investments – unlisted	**22**	23	26
Deferred income tax assets	**240**	203	220
Current assets	**6 362**	4 345	4 829
Inventories	**516**	484	481
Trade and other receivables	**3 241**	2 775	3 211
Cash and cash equivalents	**2 605**	1 086	1 120
Current income tax assets	**–**	–	17
Total assets	**40 866**	38 770	38 364
EQUITY AND LIABILITIES			
Total equity	**8 646**	7 333	7 616
Share capital and reserves	**7 665**	6 497	6 650
Minority interest	**981**	836	966
Total liabilities	**32 220**	31 437	30 748
Long-term interest-bearing borrowings	**21 169**	21 391	20 667
Retirement benefit obligations	**564**	456	346
Provisions	**238**	186	185
Derivative financial instruments	**2 892**	2 209	2 331
Deferred income tax liabilities	**4 514**	4 586	4 399
Short-term interest-bearing borrowings	**477**	364	398
Short-term interest-free borrowings	**2 366**	2 245	2 422
Total equity and liabilities	**40 866**	38 770	38 364
Net asset value per ordinary share – cents	**1 227**	1 156	1 181
Directors' valuation of unlisted investments (R'm)	**22**	23	26

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months to 30/09/2010 R'm	Unaudited 6 months to 30/09/2009 R'm	Audited Year to 31/03/2010 R'm
Cash flow from operating activities	**864**	1 078	1 960
Cash generated from operations	**1 742**	1 947	3 800
Net finance cost	**(669)**	(707)	(1 396)
Taxation paid	**(209)**	(162)	(444)
Cash flow from investment activities	**(241)**	(578)	(1 271)
Cash flow from financing activities	**929**	(468)	(542)
Distributions to shareholders	**(261)**	(251)	(374)
Distributions to minorities	**(51)**	(39)	(55)
Proceeds of shares issued	**1 364**	–	–
Share issue costs	**(33)**	–	–
Movement in borrowings	**(105)**	(212)	(155)
Treasury shares utilised	**15**	26	15
Contributions by minority shareholders	**–**	8	27
Net movement in cash, cash equivalents and bank overdrafts	**1 552**	32	147
Opening balance of cash, cash equivalents and bank overdrafts	**967**	941	941
Exchange rate fluctuations on foreign cash	**(50)**	(95)	(121)
Closing balance of cash, cash equivalents and bank overdrafts	**2 469**	878	967
Cash and cash equivalents	**2 605**	1 086	1 120
Bank overdrafts	**(136)**	(208)	(153)
	2 469	878	967

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months to 30/09/2010 R'm	Unaudited 6 months to 30/09/2009 R'm	Audited Year to 31/03/2010 R'm
Opening balance	**7 616**	7 989	7 989
Shares issued	**6**	–	–
Premium on shares issued	**1 358**	–	–
Costs of shares issued	**(33)**	–	–
Movement in shares held in treasury	**15**	8	15
Movement in share-based payment reserve	**–**	3	7
Minority interest acquired by the group	**–**	2	(6)
Total comprehensive loss for the year	**(4)**	(405)	(67)
Distributed to shareholders	**(261)**	(251)	(374)
Change in shareholding of subsidiaries	**–**	27	108
Cost of subsidiary rights issue	**–**	(1)	(1)
Distributed to minorities	**(51)**	(39)	(55)
Closing balance	**8 646**	7 333	7 616
Comprising			
Share capital	**65**	59	59
Share premium	**6 066**	4 741	4 741
Treasury shares	**(296)**	(318)	(311)
Share-based payment reserve	**123**	119	123
Foreign currency translation reserve	**1 441**	1 569	1 301
Hedge reserve	**(2 780)**	(2 159)	(2 343)
Retained earnings	**3 046**	2 486	3 080
Shareholders' equity	**7 665**	6 497	6 650
Minority interest	**981**	836	966
Total equity	**8 646**	7 333	7 616

CONSOLIDATED SEGMENTAL REPORT

	Unaudited 6 months to 30/09/2010 R'm	Unaudited 6 months to 30/09/2010 R'm	30/09/2010 R'm	Unaudited 6 months to 30/09/2010 R'm
	Hospital Services	**Hospital Properties**	**Adjustments and eliminations**	**Total**
Revenue				
Southern Africa	**4 244**	**378**	**(378)**	**4 244**
Middle East	**611**	**30**	**(30)**	**611**
Switzerland	**3 913**	**647**	**(647)**	**3 913**
EBITDA				
Southern Africa	**543**	**367**		**910**
Middle East	**61**	**29**		**90**
Switzerland	**262**	**604**		**866**
Operating profit				
Southern Africa	**431**	**367**		**798**
Middle East	**25**	**29**		**54**
Switzerland	**120**	**543**		**663**
Assets				
Southern Africa	**4 510**	**6 380**	**(5 121)**	**5 769**
Middle East	**907**	**747**		**1 654**
Switzerland	**8 589**	**23 388**		**31 977**
Corporate				**1 466**
Liabilities				
Southern Africa	**2 349**	**3 992**	**(931)**	**5 410**
Middle East	**438**	**283**		**721**
Switzerland	**2 479**	**23 610**		**26 089**
	Unaudited 6 months to 30/09/2009 R'm	Unaudited 6 months to 30/09/2009 R'm	30/09/2009 R'm	Unaudited 6 months to 30/09/2009 R'm
Revenue				
Southern Africa	3 802	340	(340)	3 802
Middle East	524	32	(32)	524
Switzerland	4 037	670	(670)	4 037
EBITDA				
Southern Africa	484	329		813
Middle East	(2)	32		30
Switzerland	240	656		896
Operating profit				
Southern Africa	386	329		715
Middle East	(41)	32		(9)
Switzerland	90	590		680
Assets				
Southern Africa*	4 167	5 831	(4 567)	5 431
Middle East	911	793		1 704
Switzerland	8 369	23 431		31 800
Liabilities				
Southern Africa	2 036	3 912	(770)	5 178
Middle East**	626	322		948
Switzerland	2 264	23 216		25 480

* *Includes intersegmental assets of R165m which eliminate on group consolidation*

** *Includes intersegmental liabilities of R169m which eliminate on group consolidation*

CONSOLIDATED SEGMENTAL REPORT (CONTINUED)

	Audited Year to 31/03/2010 R'm	Audited Year to 31/03/2010 R'm	31/03/2010 R'm	Audited Year to 31/03/2010 R'm
Revenue				
Southern Africa	7 680	687	(687)	7 680
Middle East	1 126	62	(62)	1 126
Switzerland	8 335	1 330	(1 330)	8 335
EBITDA				
Southern Africa	985	666		1 651
Middle East	71	61		132
Switzerland	806	1 244		2 050
Operating profit				
Southern Africa	779	666		1 445
Middle East	(4)	61		57
Switzerland	499	1 114		1 613
Assets				
Southern Africa*	4 495	6 048	(4 785)	5 758
Middle East	942	786		1 728
Switzerland	8 323	22 555		30 878
Liabilities				
Southern Africa	2 287	3 962	(931)	5 318
Middle East**	468	312		780
Switzerland	2 361	22 289		24 650

ADDITIONAL INFORMATION

	Unaudited 6 months to 30/09/2010 R'm	Unaudited 6 months to 30/09/2009 R'm	Audited Year to 31/03/2010 R'm
Capital commitments			
Southern Africa	**857**	645	867
Middle East	**13**	21	10
Switzerland	**1 031**	134	216
Exchange rates	**R**	R	R
Average Swiss franc (ZAR/CHF)	**6.96**	7.48	7.35
Closing Swiss franc (ZAR/CHF)	**7.18**	7.23	6.93
Average UAE dirham (ZAR/AED)	**2.03**	2.21	2.13
Closing UAE dirham (ZAR/AED)	**1.90**	2.02	2.00
	Number '000	Number '000	Number '000
Shares			
Number of ordinary shares in issue	**652 315**	593 014	593 014
Number of ordinary shares held in treasury	**(27 704)**	(31 136)	(30 145)
	624 611	561 878	562 869
Weighted number of ordinary shares	**579 965**	560 996	561 648
Diluted number of ordinary shares	**607 912**	591 185	591 221

In determining earnings and headline earnings per share the weighted number of ordinary shares were taken into account.

COMMENTARY

We are pleased to report that the Group has continued to maintain its consistent growth pattern.

GROUP OVERVIEW

Group financial performance

The Group uses the concepts of core headline earnings and core headline earnings per share as a method to provide shareholders with clear and consistent reporting. Since there are no one-off items for the period under review, reportable headline earnings per share and core headline earnings per share are the same.

Trading results

Group revenue increased by 5% to R8 768m (2009: R8 363m) for the six months under review. Operating income before interest, taxation, depreciation and amortisation ("EBITDA") was 7% higher at R1 866m (2009: R1 739m). Headline earnings rose by 23% to R407m (2009: R331m). Basic headline earnings per ordinary share increased by 19% to 70.2 cents (2009: 59.0 cents).

These solid results were achieved despite the continuing tough global economic conditions. The leveraging effect of the capital structure of the Group is evident through the higher headline earnings per share growth of 19% compared to the EBITDA growth of 7%.

The Swiss franc (CHF) average exchange rate was R6.96 compared to R7.48 for the comparative period, which had a negative effect on the reported results on a comparative basis, as detailed under the Hirslanden's financial performance section.

Finance cost

Included in the finance cost is an amount of R36m (2009: R38m), which is the current period's amortisation in respect of raising fees paid on the Group's local and offshore debt. These amounts are amortised over the terms of the relevant loans in line with future cash payments as prescribed in IAS 39 Financial Instruments.

Cash flow

The Group's cash flow did not achieve the same level as in the past, because of a temporary invoicing matter as described in the Swiss operations section. The Group converted 93% (2009: 112%) of EBITDA into cash generated from operations. After taking into account the equity capital of approximately R1 330m raised by the Company by way of a rights offer during the reporting period ("the rights offer"), cash and cash equivalents increased to R2 605m at 30 September 2010.

Interest-bearing borrowings

Interest-bearing borrowings ("debt") increased from R21 065m at 31 March 2010 to R21 646m at 30 September 2010, mainly as a result of the change in the closing rand/CHF exchange rate. The CHF closing exchange rate moved from R6.93 at 31 March 2010 to R7.18 at 30 September 2010. It is important to note that the foreign debt of our Swiss and Middle Eastern operations, amounting to R17 838m, is matched with foreign assets in the same currencies. The foreign debt also has no recourse to the Southern African operations' assets, as stipulated by the South African Reserve Bank as well as applicable financing arrangements.

Dividend

As indicated in previous Annual Reports, the Group is moving towards a targeted dividend cover of three times based on Group headline earnings, over time. Therefore the interim dividend per share is being maintained at 23.0 cents (2009: 23.0 cents) and the Board will review the final dividend based on the Group's results for the full financial year.

IFRS and technical matters

Accounting for the Hirslanden pension funds

Hirslanden provides defined contribution pension plans to employees in terms of Swiss law; the assets of these plans are held in separate trustee administered funds. The plans are funded by payments from employees and Hirslanden, taking into account the recommendations of independent qualified actuaries. Because of the strict definition of defined contribution plans in IAS 19, these plans are classified as defined benefit plans for IFRS purposes, since the funds are obliged to take some investment and longevity risks in terms of Swiss law.

Since 31 March 2010 the market yield on Swiss government bonds has declined further; consequently the discount rate used for discounting the Defined Benefit Obligation (DBO) has been adjusted downwards for the IAS 34 interim remeasurement, resulting in a higher IAS 19 pension liability in the Group's statement of financial position. The IAS 19 remeasured pension liability amounted to R249m (CHF34.7m) (31 March 2010: R64m (CHF9.3m)), included under "Retirement benefit obligations" in the Group's statement of financial position. However, for Swiss statutory purposes the pension funds were estimated to be 104.5% funded at 30 September 2010 (31 March 2010: 106.5%). Therefore, from an economic and legal point of view, this amount as calculated in terms of IAS 19 did not lead to a liability for Hirslanden at 30 September 2010.

The higher remeasured pension liability resulted in an amount of R183m (CHF25.4m) being charged to the consolidated statement of comprehensive income for the current reporting period. In addition, an amount of R46m (CHF6.6m) (2009: R28m (CHF3.7m)) representing the employer contributions exceeding the current service cost was credited to the consolidated income statement.

Fair value of interest rate swaps

The overall decline of interest rates led to the increase of the fair value liability of the Group's interest rate swaps from R2 331m at 31 March 2010 to R2 892m at 30 September 2010. The interest rate swaps are included under "Derivative financial instruments" in the Group's statement of financial position.

The rights offer

After deduction of expenses, the Company raised approximately R1 330m through a rights offer that closed on 6 August 2010. The proceeds of the rights offer will be used to finance growth opportunities available at hospitals currently owned in Switzerland.

The rights offer was for a total of 59 301 395 Medi-Clinic shares ("rights offer shares") at a subscription price of 2 300 cents per rights offer share in the ratio of 10 rights offer shares for every 100 Medi-Clinic shares held at the close of trade on Friday, 16 July 2010.

The rights offer was fully subscribed, 66.7% excess applications were received and no allocation of rights offer shares was made to the underwriter

OPERATIONS IN SOUTHERN AFRICA

MEDI-CLINIC SOUTHERN AFRICA

Financial performance

The Southern African group revenue increased by 12% to R4 244m (2009: R3 802m) for the six months under review. EBITDA was 12% higher at R910m (2009: R813m).

After incurring depreciation charges of R112m (2009: R98m), net finance charges of R174m (2009: R163m), taxation of R195m (2009: R165m) and deducting the interest of minority shareholders in the attributable income of the Southern African group amounting to R73m (2009: R66m), the Southern African operations contributed R356m (2009: R321m) to the attributable income of the Group.

Business performance

The 12% revenue growth was achieved through a 2.2% increase in bed-days sold and a 9.8% increase in the average income per bed-day. The increase in utilisation reversed the trend of many previous reporting periods in that it was more evident in surgical rather than medical cases. The increase in the average income per bed-day was driven by this positive shift towards more surgical cases with a higher income profile. The number of patients admitted increased by 0.7%, while the average length of stay increased by 1.5%.

The Southern African operations maintained its EBITDA margin at 21.4%.

During the reporting period the Southern African operations spent R86m (2009: R147m) on capital projects and new equipment to enhance its business, as well as R119m (2009: R111m) on the replacement of existing equipment.

In addition, R128m (2009: R107m) was spent on the repair and maintenance of property and equipment, charged through the income statement. For the current financial year, R402m is budgeted for capital projects and new equipment to enhance its business, R213m for the replacement of existing equipment and R236m for repairs and maintenance. Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to R32m and R67m in 2011 and 2012 respectively.

The number of licensed hospital beds increased from 7 035 to 7 051 during the six months under review.

The new 140-bed Cape Gate Medi-Clinic in the Western Cape was successfully commissioned as planned during February 2010 and occupancies have been above budget.

During the past six months building projects at Constantiaberg Medi-Clinic (upgrade and new doctors consulting block), Tzaneen Medi-Clinic (28 additional beds), Marapong Medi-Clinic (upgrade) and Ermelo Medi-Clinic (upgrade) were completed.

Currently there are building projects in progress at Panorama Medi-Clinic (upgrade and a new electro-physiology laboratory), Muelmed Medi-Clinic (upgrade of 57 beds) and Wits Donald Gordon Medical Centre (upgrade of 28-bed ward), which will be completed during the next six months. Projects at Nelspruit Medi-Clinic (74 additional beds), Limpopo Medi-Clinic (30 additional beds and upgrade), Stellenbosch Medi-Clinic (10 additional beds), Kimberley Medi-Clinic (nine additional beds), Kloof Medi-Clinic (32 additional beds) and Cape Town Medi-Clinic (new doctors consulting block) will be completed during the 2012 financial year.

Further projects were approved for Cottage Medi-Clinic (upgrade and 14 additional beds), Louis Leipoldt Medi-Clinic (upgrade), Hoogland Medi-Clinic (new doctors consulting block and upgrade), Welkom Medi-Clinic (36 additional beds and upgrade), Medforum Medi-Clinic (upgrade) and Highveld Medi-Clinic (27 additional beds). These projects will start during the next 12 months.

The number of licensed beds is expected to increase from 7 051 to 7 093 during the next six months.

The Southern African operations' cash flow continued to be strong as it converted 115% (2009: 111%) of EBITDA into cash generated from operations. Cash and cash equivalents increased from R486m at 31 March 2010 to R526m at 30 September 2010. Over this period interest-bearing borrowings decreased from R3 871m to R3 808m.

Medi-Clinic Southern Africa supports the South African government's policy objective to increase access to affordable quality healthcare services for all citizens. The process to develop a National Health Insurance (NHI) model for the country is followed with keen interest and in this regard the first official document was released at the National General Council meeting of the African National Congress (ANC), which took place during September 2010. According to this discussion document, voluntary medical aid membership will continue (after payment of the compulsory additional NHI tax) and contracting with the NHI fund by private sector providers will be voluntary. The proposed restructuring of the tax subsidies on medical aid contributions – from the current format to a tax credit – should be viewed in a positive light due to the associated improved affordability for low income earners. According to the Minister of Finance, the introduction of additional NHI tax is not imminent. If and when any form of additional NHI tax is introduced, one would expect Treasury to apply the usual principle of phasing in the additional tax gradually over time in small incremental steps to minimise the impact on the disposable income of individuals and to allow adequate time for individuals to gradually adjust spending patterns. Furthermore, the mooted NHI payroll tax will be progressive in nature, i.e. the higher the income of an individual, the higher the percentage tax. Since the affordability of medical aid contributions is of greater concern for low income earners, the low impact of a progressive payroll tax on these members will probably mean that medical aid membership will not be affected significantly.

The scrapping of the Reference Price List (RPL) regulations and benchmark tariffs by the High Court on 28 July 2010 does not have any direct impact on Medi-Clinic Southern Africa. The RPL tariffs have never been relevant and have never been used by the private hospital industry in South Africa. Private hospitals negotiate tariffs on an annual basis directly with medical aid schemes. This practice is in line with the competition law and has been in place since 2002.

OPERATIONS IN SWITZERLAND

HIRSLANDEN

Financial performance

Hirslanden's revenue decreased by 3% (increased by 4% at constant foreign exchange rates) to R3 913m (CHF562m) (2009: R4 037m (CHF540m)) for the six months under review. EBITDA was 3% lower (3% higher at constant foreign exchange rates) at R866m (CHF124m) (2009: R896m (CHF120m)).

After incurring depreciation charges of R203m (CHF29m) (2009: R217m (CHF29m)), net finance charges of R517m (CHF74m) (2009: R558m (CHF75m)) and taxation of R110m (CHF16m) (2009: R92m (CHF12m)), Hirslanden contributed R36m (CHF5m) (2009: R29m (CHF4m)) to the attributable income of the Group.

Business performance

Inpatient admissions increased by 3% during the reporting period. The average length of stay remained fairly constant. The trend towards higher acuity cases in admissions continued which led to a further increase in the average revenue per admission. The current reporting period reflects the lower seasonal flow of patients, being the European summer compared to the winter period.

The EBITDA margin of the group decreased slightly from 22.2% to 22.1%. Hirslanden's results were achieved despite an increased tariff risk provision of R35m (CHF5m) which was charged to the income statement. This tariff provision relates to tariff determination differences for patients with compulsory health insurance.

During the reporting period, Hirslanden spent R51m (CHF7m) (2009: R124m (CHF17m)) on capital projects and new equipment to enhance its business as well as R86m (CHF12m) (2009: R186m (CHF25m)) on the replacement of existing equipment. In addition, R104m (CHF15m) (2009: R111m (CHF15m)) was spent on the repair and maintenance of property and equipment, charged through the income statement. For the current financial year CHF54m is budgeted for capital projects and new equipment to enhance its business, CHF51m for the replacement of existing equipment and CHF32m for repairs and maintenance. Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to CHF7m and CHF11m in 2011 and 2012 respectively.

At Klinik Hirslanden the neurology centre opened in April 2010 and a vascular centre in June 2010. At Klinik Im Park a new 3.0 tesla magnetic resonance imaging ("MRI") machine was acquired in August 2010. Planned investment in new technology, which provides for new treatment options and increased case load, includes a 3.0 tesla MRI machine at Klinik Hirslanden as well as a 1.5 tesla MRI machine at Klinik St. Anna. The acquisitions of both MRI machines are planned for spring 2011.

The number of fully operational inpatient beds increased from 1 365 to 1 372 during the period under review. At Klinik St. Anna seven new private rooms were commissioned at the beginning of April 2010.

The construction works at Klinik Beau-Site in Berne are proceeding well and the new facilities are expected to be commissioned on time. The hospital will be expanded by 23 beds to 116 beds, with 19 beds to be commissioned in 2011 and the balance in 2012. In addition, the hospital will receive an extensive upgrade while consulting rooms will also be added.

Construction works and commissioning for the major extension projects at Klinik Hirslanden (additional 71 inpatient and eight ICU beds as well as new consulting rooms) and Klinik Bois-Cerf (creation of a skeletal radiology and a radiotherapy centre) should still be in line with the original plans, despite some delays.

During the period under review cash flow temporarily deteriorated mainly because of an invoicing backlog at some hospitals caused by a tariff base rate dispute. Although the tariff base rate dispute has now been temporarily resolved, the effect of the invoicing backlog for the period under review resulted in 70% (2009: 117%) of EBITDA generated into cash from operations. Cash and cash equivalents decreased from R526m (CHF76m) at 31 March 2010 to R496m (CHF69m) at 30 September 2010.

Interest-bearing borrowings increased from R16 673m (CHF2 406m) at 31 March 2010 to R17 380m (CHF2 421m) at 30 September 2010 net of capitalised debt transaction fees in rand terms because of the increase in the spot rate of the rand/Swiss franc exchange rate.

The amendment of the Swiss Health Insurance Act of 1 January 2009 will come into effect on 1 January 2012, with all elements aimed to be in place three years later. The implementation of this amendment and its consequences have dominated current discussions on public health policy in Switzerland. The new Act contains two major changes, being the introduction of fixed fees (DRGs) and the revision of the hospitals that are listed to treat mandatory insured patients. These statutory provisions refer exclusively to treatment for patients with mandatory insurance who comprise approximately 30% of Hirslanden's inpatients. The implementation of this federal act will be defined at the cantonal level and Hirslanden is in regular direct contact with the Health Departments in the cantons where Hirslanden owns hospitals. As of today no rulings on hospital lists or DRGs have been made, thus any possible impact cannot yet be assessed.

Cost control in the mandatory health insurance arena continues to rank high on the political agenda in Switzerland. In addition to the amendment of the Health Insurance Act, licensing restrictions for new doctors continues and an additional national planning system in respect of high-cost high-technology specialist treatments is currently being established. Further regulation initiatives regarding a single national insurer proposal and the extension of managed care are under discussion.

Despite these uncertainties and changes Hirslanden is well prepared for the future and changes in the regulatory environment have always been part of everyday business life. Currently Hirslanden manages this changing regulatory environment by using an expert panel to assist the Executive Committee. This is coupled with intensive lobbying and co-operation in the political committees, co-ordinated by Hirslanden's Public Affairs department. As all hospitals in Switzerland will be affected by these changes, some smaller competitors in the private sector are expected to merge or join forces with an existing group in the short to medium term. This may lead to potential acquisition opportunities.

Acquisition of Klinik Stephanshorn

Hirslanden acquired a 100% interest in the 85-bed Klinik Stephanshorn with effect from 4 October 2010. Klinik Stephanshorn is the largest private hospital in the canton of St Gallen and the only one in the city of St Gallen. It had always been earmarked for incorporation into the Hirslanden group because of its strategic value. Together with Hirslanden's existing 62-bed Klinik Am Rosenberg, situated nearby in Heiden, Appenzell Ausserrhoden, it significantly strengthens Hirslanden's position in Eastern Switzerland. The two hospitals complement each other and will create synergies for the current and future development of acute, specialist-orientated hospital care in Eastern Switzerland. This market still offers many growth opportunities and, in order to capitalise on the full growth potential of the transaction, further capital expenditure is planned.

The financial results of Klinik Stephanshorn are not included in the Group financial results for the period under review, since the transaction only came into effect after 30 September 2010.

OPERATIONS IN UNITED ARAB EMIRATES

EMIRATES HEALTHCARE

Financial performance

Revenue increased by 17% (27% at constant foreign exchange rates) to R611m (AED301m) (2009: R524m (AED237m)) for the six months under review. EBITDA increased by 200% (221% at constant exchange rates) to R90m (AED45m) (2009: R30m (AED14m)) and the EBITDA margin increased from 5.7% to 14.7%.

After incurring depreciation charges of R36m (AED18m) (2009: R39m (AED18m)), net finance charges of R18m (AED9m) (2009: R30m (AED13m)) and the sharing of minority shareholders in the attributable income of Emirates Healthcare amounting to R18m (AED9m) (2009: sharing in the attributable loss of R20m (AED9m)), Emirates Healthcare contributed R18m (AED9m) (2009: a negative contribution of R19m (AED9m)) to the attributable income of the Group.

Business performance

During the reporting period inpatient admissions in the hospitals increased by 22% (2009: 46%), while hospital outpatient consultations and visits to the emergency units increased by 6% (2009: 40%). Clinic outpatient consultations decreased by 2% (2009: increased by 25%).

The upgrade project at Welcare Hospital which began in September 2009 is substantially completed.

The number of licensed hospital beds remained constant at 336 beds during the six months under review.

Both The City Hospital and Welcare Hospital have now received accreditation by the prestigious USA based Joint Commission International (JCI).

During the reporting period Emirates Healthcare spent R4m (AED2m) (2009: R6m (AED3m)) on capital projects and new equipment to enhance its business as well as R11m (AED5m) (2009: R5m (AED2m)) on the replacement of existing equipment. In addition, R10m (AED5m) (2009: R6m (AED3m)) was spent on the repair and maintenance of property and equipment, charged through the income statement.

Emirates Healthcare converted 97% of EBITDA into cash generated from operations. Cash and cash equivalents increased from R108m (AED54m) at 31 March 2010 to R117m (AED62m) at 30 September 2010.

Interest-bearing borrowings decreased from R521m (AED261m) at 31 March 2010 to R458m (AED241m) at 30 September 2010.

CHANGES TO THE BOARD OF DIRECTORS

During the reporting period there have been the following changes to the Board as previously reported.

Mr Gerhard Swiegers, Group Chief Financial Officer, retired as a director of the Company on 15 September 2010. He was succeeded by Mr Craig Tingle who was appointed as the new Group Chief Financial Officer with effect from 1 September 2010. Mr Tingle was the Chief Financial Officer of Medi-Clinic from 1992 to 1999 and remained on the Board as a non-executive director of the Company from 1999 until he became the Chief Financial Officer of Emirates Healthcare in 2006.

Dr Ronnie van der Merwe and Prof. Dr Robert Leu were also appointed to the Board with effect from 26 July 2010: Dr Van der Merwe as an executive director (Chief Clinical Officer) and Prof. Dr Leu as an independent non-executive director.

Mr Alwyn Martin resigned as an independent non-executive director on 26 July 2010 as he had reached the Company's compulsory retirement age for non-executive directors.

PROSPECTS

The Group remains uniquely positioned across three diverse global operating platforms. It continues to focus on its core business of acute care, specialist-orientated hospital services to fulfil its vision of being regarded as the most trusted and respected provider of such services by patients, doctors and funders of healthcare. The Group also continues to consolidate its collective intellectual capital and strengths with the goal of establishing a global hospital group where verifiable cost-effective quality care will distinguish it from its competitors.

Regulatory issues do create some uncertainties, but this has always been part and parcel of the healthcare environment. The Group, particularly in Switzerland and Southern Africa, is constantly monitoring the regulatory environment with a view to proactively playing a role in decision-making, or adjusting to a potentially new environment. There are health policy monitoring units at the platforms which serve precisely this function.

Over the years the Group has been able to weather difficult economic and political conditions relatively well. With underlying positive factors supporting the industry in general and the Group specifically, the Group remains optimistic about its operational prospects for the next six months and significant resources continue to be invested across the three operating platforms.

As indicated in the circular to shareholders dated 19 July 2010, the rights offer will have a diluting effect on the Group's headline earnings per share in the short term due to the time taken for the expansion projects to reach earnings maturity.

BASIS OF PREPARATION

These financial results have been prepared in accordance with the recognition and measurement requirements of IFRS and the disclosure requirements of IAS 34. The accounting policies are consistent with those adopted in the previous financial statements.

DIVIDEND TO SHAREHOLDERS

The board of directors declared an interim dividend of 23.0 cents per ordinary share.

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

Last date to trade cum dividend	Friday, 3 December 2010
First date of trading ex dividend	Monday, 6 December 2010
Record date	Friday, 10 December 2010
Payment date	Monday, 13 December 2010

Share certificates may not be dematerialised or rematerialised from Monday, 6 December 2010 to Friday, 10 December 2010, both days inclusive.

Signed on behalf of the board of directors:

E DE LA H HERTZOG
Chairman

D P MEINTJES
Chief Executive Officer

Stellenbosch
9 November 2010

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