



Private hospital group
Committed to Quality Care

MEDI-CLINIC CORPORATION LIMITED

Reg. No. 1983/010725/06

Share code: MDC

ISIN-code: ZAE000004370

("Medi-Clinic" – Incorporated in the Republic of South Africa)

INTERIM REPORT

Unaudited results of Medi-Clinic Corporation Limited and its subsidiaries for the six months ended 30 September 2004

HIGHLIGHTS

- **Growth in hospital turnover:** **13%**
- **Headline earnings per share growth:** **12%**
- **Distribution per share up:** **12%**

CONSOLIDATED INCOME STATEMENT

	6 months to 30/09/2004 R'000	Increase %	6 months to 30/09/2003 R'000	Year to 31/03/2004 R'000
Revenue	2 002 263	13	1 779 005	3 642 763
Cost of sales	(1 124 189)		(1 011 498)	(2 046 544)
Administration and other operating expenses	(475 091)		(420 511)	(873 791)
Operating income	402 983	16	346 996	722 428
Dividend received	821		–	–
Interest received	26 944		24 344	45 618
Income from associates	12 567		8 298	17 331
Profit on sale of equipment	768		293	514
Goodwill impairment/amortisation	(2 410)		(1 816)	(2 969)
Depreciation	(53 034)		(47 459)	(101 018)
Finance costs	(15 141)		(14 853)	(31 349)
Net income before taxation	373 498		315 803	650 555
Taxation	102 693		85 746	174 008
Net income after taxation	270 805		230 057	476 547
Minority interests	32 963		18 027	37 507
Attributable earnings	237 842		212 030	439 040
Headline earnings reconciliation:				
Attributable earnings	237 842		212 030	439 040
Goodwill impairment/amortisation	2 410		1 816	2 969
Profit on sale of equipment	(768)		(293)	(514)
Attributable headline earnings	239 484	12	213 553	441 495
Headline earnings per ordinary share – cents	70,1	12	62,7	129,5
Earnings per ordinary share – cents	69,6		62,3	128,8
Capital distribution per ordinary share – cents				
Interim	13,3	12	11,9	11,9
Final	–		–	28,1
	13,3		11,9	40,0

CONSOLIDATED BALANCE SHEET

	30/09/2004 R'000	30/09/2003 R'000	31/03/2004 R'000
Assets			
Non-current assets	2 154 046	1 953 686	2 078 923
Property, plant and equipment	1 914 216	1 750 602	1 846 126
Intangible assets	47 449	36 212	47 874
Investments – unlisted	107 105	94 849	102 631
Deferred taxation	85 276	72 023	82 292
Current assets	1 207 768	955 195	1 134 151
Inventories	137 579	140 876	137 846
Receivables and prepayments	481 284	503 707	545 237
Cash and cash equivalents	588 905	310 612	451 068
Total assets	3 361 814	2 908 881	3 213 074
Equity and liabilities			
Share capital and reserves	2 389 512	2 051 402	2 242 033
Minority interests	209 397	174 460	199 522
Long-term interest-bearing debt	174 482	155 603	167 803
Short-term interest-bearing debt	63 922	82 064	74 317
Interest-free debt and provisions	524 501	445 352	529 399
Total equity and liabilities	3 361 814	2 908 881	3 213 074
Number of ordinary shares ('000)	342 646	341 053	341 715
Weighted number of ordinary shares ('000)	341 834	340 496	340 840
Net asset value per ordinary share – cents	697	601	656
Directors' valuation of unlisted investments	152 479	132 595	144 844

STATEMENT OF CHANGES IN EQUITY

	30/09/2004 R'000	30/09/2003 R'000	31/03/2004 R'000
Opening balance	2 242 033	1 917 276	1 917 276
Distributed to shareholders	(96 022)	(79 256)	(119 841)
Net income for the period	237 842	212 030	439 040
Movement in shares held in treasury	5 659	1 352	5 558
	2 389 512	2 051 402	2 242 033

CONSOLIDATED CASH FLOW STATEMENT

	30/09/2004 R'000	30/09/2003 R'000	31/03/2004 R'000
Cash flow from operating activities	255 431	202 567	484 802
Cash generated from operations activities	493 636	423 579	818 903
Net finance income	11 803	9 491	14 269
Taxation paid	(132 598)	(130 416)	(196 543)
Cash distributions to minorities	(21 388)	(20 831)	(31 986)
Capital distributions to shareholders	(96 022)	(79 256)	(119 841)
Cash flow from investment activities	(100 773)	(179 403)	(324 943)
Cash flow from financing activities	(16 821)	60 318	64 079
Net movement in cash and cash equivalents	137 837	83 482	223 938
Opening balance of cash and cash equivalents	451 068	227 130	227 130
Closing balance of cash and cash equivalents	588 905	310 612	451 068

COMMENTARY

We are pleased to report that the group has maintained its consistent growth pattern.

Financial Performance

Turnover, which consists entirely of hospital fees levied, increased by 13% to R2 002 million (2003: R1 779 million) for the six months under review. Operating income before interest, taxation, depreciation and amortisation (EBITDA) was 16% higher at R403 million (2003: R347 million). Headline earnings rose by 12% to R239 million (2003: R214 million) resulting in an increase of 12% in headline earnings per ordinary share to 70,1 cents (2003: 62,7 cents). The interim capital distribution per ordinary share at 13,3 cents (2003: 11,9 cents) is 12% higher.

Business Performance

In comparing the results with the previous six months under review, the increase in bed capacity by approximately 500 beds to about 6 200 beds due to the commissioning and acquisition of new hospitals, reported on previously, should be taken into account. The current period results are, therefore, not directly comparable with those of the previous year. Excluding the increase in capacity, the group's turnover growth amounted to 9%.

The group's EBITDA margin increased from 19,5% to 20,1% mainly as a result of benefits realised from the integration and turnaround of the Curamed Group in Pretoria. We are pleased to report that the plans and actions taken to restore the attractiveness and profitability of the Pretoria city hospitals are showing success and a number of new doctors have already established their practices at these hospitals. Our empowerment partners in Curamed continue to play an important role in the turnaround. The higher figure of R33 million (2003: R18 million) attributable to minority interests is mainly due to the improved performance of the Curamed Group.

On a comparable basis the group experienced a slight increase in admissions and bed-days sold as well as a favourable change in patient mix over the previous period.

Cash flow continued to be strong during the period under review, mainly due to more efficient working capital management. The group converted 123% (2003: 122%) of EBITDA into cash generated from operating activities. Cash and cash equivalents increased to R589 million from R451 million at 31 March 2004 after financing capital expenditure and investments. Interest-bearing debt decreased from R242 million at 31 March 2004 to R238 million resulting in a strengthening of the debt: equity ratio from 10% to 9%. The group's strong cash flow continues to underline the quality of its earnings.

Capital expenditure for the period under review was R98 million (2003: R188 million). Capital commitments (including amounts approved but not yet contracted for) amounted to R354 million (2003: R339 million).

Black Economic Empowerment (BEE)

The group has stated consistently that it wholeheartedly supports the need for BEE in South Africa. To this end the group proposed a transaction to introduce meaningful and real Black Economic Empowerment to the industry in November 2003, through the facilitation of Bidco's R3.1 bn acquisition of Afrox Healthcare. A BEE consortium led by Brimstone and Mvelaphanda Strategic Investments controls Bidco. The Competition Commission has recommended the conditional approval of the transaction to the Competition Tribunal. The ruling of the Tribunal is expected towards the end of March 2005.

In view of new options that became available since the announcement of the proposed transaction, Medi-Clinic has proposed a solution to facilitate the satisfactory outcome of the Bidco transaction for all the relevant parties. An announcement will be made as soon as final agreement and compliance with appropriate regulatory processes have been achieved. A further cautionary announcement regarding the proposed Bidco transaction was issued to shareholders on 11 October 2004 and is still in force.

Phodiso Holdings acquired the Mvelaphanda Strategic Investments' interest in the Curamed Group after a recommendation by the Competition Commission in this regard. The transaction is in the process of being finalised. We welcome Phodiso and are optimistic about their continued positive contribution.

Further discussions to enhance the principles of broad-based BEE within Medi-Clinic, are currently taking place.

Medi-Clinic supports the formulation of a Healthcare Charter and is actively participating with the Private Healthcare Forum to establish the charter.

Affordability of healthcare

Affordability remains a critical issue in the healthcare industry.

The group supports the Department of Health in their efforts to create transparency in the pricing of medicines and scheduled drugs. As alluded to in previous reports, the group has had a fully transparent pricing system in place with Discovery Health since January 2003, almost 18 months prior to the new pharmacy pricing regulations came into operation. Its scope went beyond ethical drugs and included surgical consumables, which are the major part of the total pharmaceutical portion of a typical private hospital bill. This enables the group to focus on pharmaceuticals as a cost centre and not an income contributor. This will result in major savings to medical schemes in the longer term and should be regarded as beneficial to the group since it improves the affordability of healthcare. This transparent pricing system was offered to the other medical schemes as well and accepted by nearly all.

PROSPECTS

The group has a track record of consistent growth based on meeting the needs of the market. It continues to increase the use and expansion of facilities and services in its core competencies, particularly in acute care, while ongoing efficiency improvements continue to benefit the operating margin. Furthermore, initiatives by government aimed at broadening the membership base of medical schemes are being followed with interest, and should have a positive impact on growth in the industry in the longer term.

The group continually reviews its growth strategy. The growth potential arising from the recent relaxation of certain foreign exchange controls is welcomed.

Expansions at Durbanville Medi-Clinic and Pietermaritzburg Medi-Clinic as well as major upgrades at Morningside Medi-Clinic, Sandton Medi-Clinic and Worcester Medi-Clinic are all in progress. A project at Nelspruit Medi-Clinic consisting of additional consulting rooms and the upgrade of the original hospital has been approved and will commence soon.

Recent downward pressure on the inflation of pharmaceutical prices is expected to continue. However, the group remains optimistic about its prospects for the next six months, given that current trading conditions continue to prevail. Our consistent track record, strong balance sheet and experienced management team make the group attractive for potential partners to explore new opportunities in our core competencies.

ACCOUNTING POLICIES

The interim results are prepared in accordance with South African Statements of Generally Accepted Accounting Practice, the requirements of the South African Companies Act and the Listing Requirements of the JSE Securities Exchange South Africa. The accounting policies are consistent with those of the previous financial periods, except for the implementation of the South African Statement of Generally Accepted Accounting Practice, AC 140: Business Combinations, which has now been applied.

CAPITAL DISTRIBUTION TO SHAREHOLDERS

The board of directors has declared a capital distribution of 13,3 cents per ordinary share, which will be paid out of share premium.

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

Last date to trade cum capital distribution	Friday, 3 December 2004
First date of trading ex capital distribution	Monday, 6 December 2004
Record date	Friday, 10 December 2004
Payment date	Monday, 13 December 2004

Share certificates may not be dematerialised/rematerialised from Monday, 6 December 2004 to Friday, 10 December 2004, both days inclusive.

Signed on behalf of the board of directors:

E DE LA H HERTZOG
Chairman

LJ ALBERTS
Managing Director

Stellenbosch, 11 November 2004