

MEDI-CLINIC CORPORATION LIMITED

Reg. No. 1983/010725/06 Share code: MDC ISIN-code: ZAE000074142 ("Medi-Clinic" – Incorporated in the Republic of South Africa)

MEDI-CLINIC
Your first choice.



INTERIM REPORT

Unaudited interim group results for the
six months ended 30 September 2006



MEDI-CLINIC
Private hospital group

Committed to Quality Care

HIGHLIGHTS

■ GROWTH IN REVENUE:	14%
■ INCREASE IN OPERATING PROFIT:	15%
■ CORE EARNINGS PER SHARE DILUTED DUE TO:	
• CAPITAL RESTRUCTURING	
• RELEASE OF BEE SHARES FROM TREASURY STOCK	
■ CAPITAL RESTRUCTURING RESULTED IN INCREASED ROE	

CONSOLIDATED INCOME STATEMENT

	Unaudited 6 months to 30/09/06 R'm	Increase %	Unaudited 6 months to 30/09/05 R'm	Audited Year to 31/03/06 R'm
Revenue	2,605	14	2,278	4,723
Cost of sales	(1,431)		(1,258)	(2,571)
Administration and other operating expenses	(629)		(548)	(1,165)
Operating profit before depreciation (EBITDA)	545	15	472	987
Depreciation	(67)		(56)	(124)
BEE share-based payment	-		-	(85)
Profit on sale of equipment	-		-	1
Operating profit	478	15	416	779
Income from associates	-		13	13
Profit on sale of associate	-		-	43
Finance income	22		39	70
Finance cost	(44)		(12)	(45)
Profit before taxation	456		456	860
Taxation	(133)		(133)	(428)
Profit for the period	323		323	432
Attributable to:				
Shareholders of the company	272		276	338
Minority interests	51		47	94
	323		323	432
Earnings per ordinary share - cents				
- Basic	76.2	(5)	80.4	97.1
- Diluted	69.0		79.3	85.9
Headline earnings per ordinary share - cents				
- Basic	76.2	(5)	80.3	86.3
- Diluted	69.0		79.2	76.3
Core earnings per ordinary share - cents				
- Basic	76.2	(5)	80.3	159.3
- Diluted	69.0		79.2	140.9
Earnings reconciliation:				
Profit attributable to shareholders	272		276	338
Profit on sale of equipment	-		-	(1)
After tax profit on sale of associate	-		-	(37)
Headline earnings	272	(1)	276	300
Net STC charge on special dividend	-		-	168
BEE share-based payment	-		-	85
Core earnings	272	(1)	276	553

CONSOLIDATED BALANCE SHEET

	Unaudited 30/09/06 R'm	Unaudited 30/09/05 R'm	Audited 31/03/06 R'm
Assets			
Non-current assets	2,685	2,350	2,617
Property, plant and equipment	2,445	2,105	2,327
Intangible assets	48	48	48
Investments - unlisted	72	109	119
Deferred income tax assets	120	88	123
Current assets	1,122	1,617	980
Inventories	158	140	153
Trade and other receivables	606	496	667
Cash and cash equivalents	358	981	160
Total assets	3,807	3,967	3,597
Equity and liabilities			
Total equity	2,115	3,125	1,931
Share capital and reserves	1,799	2,868	1,641
Minority interests	316	257	290
Total liabilities	1,692	842	1,666
Long-term interest-bearing borrowings	810	145	848
Retirement benefit obligations	116	82	102
Deferred income tax liabilities	5	4	5
Short-term interest-bearing borrowings	76	51	74
Short-term interest-free borrowings	685	560	637
Total equity and liabilities	3,807	3,967	3,597
Number of ordinary shares ('000)	357,910	344,659	356,231
Weighted number of ordinary shares ('000)	356,832	343,817	347,140
Diluted number of ordinary shares ('000)	394,320	348,432	392,417
Net asset value per ordinary share - cents	503	832	461
Directors' valuation of unlisted investments	72	142	119

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months to 30/09/06 R'm	Unaudited 6 months to 30/09/05 R'm	Audited Year to 31/03/06 R'm
Opening balance	1,931	2,928	2,928
Net shares issued	-	-	3
Distributed to shareholders	(122)	(109)	(1,493)
Distributed to minorities	(25)	(24)	(39)
Profit for the period	323	323	432
Movement in shares held in treasury	4	6	17
Movement in share-based payment reserve	4	1	90
Share issue costs	-	-	(7)
	<u>2,115</u>	<u>3,125</u>	<u>1,931</u>

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 6 months to 30/09/06 R'm	Unaudited 6 months to 30/09/05 R'm	Audited Year to 31/03/06 R'm
Cash flow from operating activities	515	455	571
Cash generated from operations	696	562	994
Net finance (cost) / income	(22)	27	25
Taxation paid	(159)	(134)	(448)
Cash flow from investment activities	(138)	(151)	(388)
Cash flow from financing activities	(175)	(140)	(830)
Distributions to shareholders	(122)	(109)	(1,493)
Distributions to minorities	(25)	(24)	(39)
Movement in borrowings	(32)	(13)	689
Other	4	6	13
Net movement in cash, cash equivalents and bank overdrafts	202	164	(647)
Opening balance of cash, cash equivalents and bank overdrafts	149	796	796
Closing balance of cash, cash equivalents and bank overdrafts	351	960	149
Cash and cash equivalents	358	981	160
Bank overdrafts	(7)	(21)	(11)
	<u>351</u>	<u>960</u>	<u>149</u>

COMMENTARY

We are pleased to report that the group has maintained its consistent growth pattern. It strengthened its operational performance and continued to implement strategic initiatives and investments aimed at expanding the group's operations in South Africa and other countries.

FINANCIAL PERFORMANCE

Shareholders are referred to the circular dated 1 November 2005 presenting details of the black ownership initiative and the capital restructuring implemented by Medi-Clinic in 2005 ("the transactions"), as well as the trading statement, dated 19 April 2006, setting out, *inter alia*, the accounting treatment of the black ownership initiative.

The transactions have a non-recurring as well as an ongoing financial effect on the group's earnings, EPS and HEPS. The non-recurring effect of the transactions manifests in the following two charges to the group's income statement: a net STC charge of R168 million ("the STC charge") resulting from the special dividend declared as part of the capital restructuring as well as a charge of R85 million being the IFRS charge on the share-based portion of the black ownership initiative ("the BEE share-based payment"). These charges were fully reflected in the financial results for the year to 31 March 2006.

The ongoing effect of the transactions is mainly reflected in:

- higher interest charges payable by the group ("the higher interest charges") as a result of the capital restructuring which was implemented on 27 December 2005. The higher interest charges consist of the aggregate of the interest income foregone on the cash balance on hand prior to the capital restructuring and the interest paid on the newly introduced debt of R700 million. Compared with the previous six months the higher interest charges for the six months under review amount to about R61 million before taxation; and
- the 28,5 million new shares issued to the strategic black partners in terms of the black ownership initiative. These shares are treated as treasury stock and are being released in line with payments made to Medi-Clinic by the strategic black partners relative to the original market value of these shares, being R525 million. To date 10,5 million of these shares have been released from treasury stock (0,9 million during the period under review). This leaves a balance of 18,0 million treasury shares at 30 September 2006 in addition to the existing treasury shares held by the group and the 15,8 million shares issued to the Mpilo Trust. The release of such shares from treasury stock has had and will continue to have a commensurate dilutive effect on the EPS and HEPS of the group.

In this report the core earnings of the group are emphasised. The core earnings include the headline earnings of the group and the ongoing effect of the transactions, but exclude the non-recurring effect of the STC charge and the BEE share-based payment.

The transactions did not have a significant financial effect on the operational performance of the group.

With the above as background, revenue, which consists mainly of hospital fees levied, increased by 14% to R2 605 million (2005: R2 278 million) for the six months under review. Operating income before interest, taxation, depreciation and amortisation ("EBITDA") was 15% higher at R545 million (2005: R472 million). After incurring the higher interest charges of about R61 million, core earnings declined by 1% to R272 million (2005: R276 million) resulting in a decrease of 5% in core earnings per ordinary share to 76,2 cents (2005: 80,3 cents). The interim dividend per ordinary share was maintained at 16,5 cents.

BUSINESS PERFORMANCE

The group acquired a 49,9% interest in the 190 bed Wits Donald Gordon Medical Centre as well as 100% in the 137 bed Legae Private Hospital effective from 1 July 2005 and 1 December 2005, respectively. The current period's results are therefore not directly comparable with those of the previous period. Excluding this increase in capacity, the group's revenue growth amounted to 11%.

The revenue growth of 11% was achieved through a 5% increase in bed-days sold, a 5% increase in the average income per bed-day and a 1% change in the profile of patients treated. The increase in utilisation was evident in both surgical and medical cases. The number of patients admitted increased by 3% while the average length of stay increased slightly mainly due to an increase in the average length of stay of medical cases.

The group's EBITDA margin increased from 20,7% to 20,9% due to improved operational efficiencies.

Cash flow continued to be strong during the period under review, mainly due to more efficient working capital management. The group converted 128% (2005: 119%) of EBITDA into cash generated from operating activities. Cash and cash equivalents increased to R358 million from R160 million at 31 March 2006 after financing capital expenditure and investments. Interest bearing borrowings decreased from R922 million at 31 March 2006 to R886 million resulting in a strengthening of the interest bearing borrowings to equity ratio from 48% to 42%. The group's strong cash flow continues to underline the quality of its earnings.

Comparing the balance sheet at 30 September 2006 to the balance sheet at 30 September 2005, the result of the capital restructuring is clear. The interest bearing borrowings to equity ratio increased from 6% to 42% with a concomitant increase in the return (core earnings) on shareholders' equity from 19% to 30%.

Capital expenditure for the period under review was R185 million (2005: R144 million). Capital commitments (including amounts approved but not yet contracted for) amounted to R312 million (2005: R373 million).

UNITED ARAB EMIRATES ("UAE")

The group announced on 28 April 2006 that it had entered into an agreement to acquire a 49% interest in Emirates Healthcare Holdings Limited ("Emirates Healthcare")

for US\$46,4 million. Emirates Healthcare is the ultimate holding company of the healthcare interests of the Varkey Group, a private healthcare group based in Dubai, UAE that owns and operates the 120-bed Welcare Hospital, currently the largest private hospital in Dubai, along with one ambulatory care centre and two clinics close by. It also has the rights to develop two new hospitals (approximately 400 beds) in the free zone area called Dubai Healthcare City and plans to develop a further five related clinics. These projects will be funded by the equity capital to be injected at the implementation of the transaction plus debt at a projected gearing ratio of 45%. Medi-Clinic's investment in Emirates Healthcare is not expected to have a material effect on its earnings in the short term. The construction of the first hospital, being the 210 bed City Hospital, has commenced and is planned to be commissioned during the second half of 2007.

The agreement is subject to the fulfilment of several conditions precedent, *inter alia*, that the agreed debt funding referred to above be secured. The date by when the conditions precedent have to be fulfilled has been extended from 30 June 2006 to 31 December 2006 to allow a realistic time frame for finalising a number of statutory and financing matters. The funding has now been approved by the participating banks and the legal documentation and syndication are in the process of being finalised. It is expected that the transaction will become unconditional and will be implemented in the near future.

Shareholders are also referred to paragraph 3.2.5 of the announcement on 28 April 2006 which indicated that the parties will endeavour to secure a further strategic equity investor to hold an equity interest of approximately 22,75% in the operating subsidiary of Emirates Healthcare. Medi-Clinic has subsequently agreed that, in the event that a suitable strategic investor has not been secured at the time of the implementation of the transaction, Medi-Clinic will subscribe for cumulative variable rate participating redeemable convertible preference shares ("the preference shares") in Emirates Healthcare for about US\$28,1 million which will fill the gap in the required capitalisation of the venture. If a suitable strategic investor is found within one year of such subscription, the strategic investor will be allowed to take up the equity and Medi-Clinic will be refunded. If such investor is not found, the Varkey Group will have an option to buy 51% of the preference shares. The preference shares will automatically convert into ordinary equity after three years.

Further opportunities in other countries continue to be investigated.

INDUSTRY MATTERS

The Health Charter

As previously stated, Medi-Clinic supports the formulation of a Healthcare Charter and plays an active role through the Hospital Association of South Africa ("HASA") in the drafting of the Charter. It seems that the end of the process is in sight. The group is grateful that reason prevailed and that the Charter is essentially in line with the BEE Codes of the Department of Trade and Industry.

Affordability of Healthcare

Affordability will always remain a critical issue in the healthcare industry internationally, but especially in developing countries.

Throughout the world increased healthcare costs are driven by increased utilisation resulting from factors such as the ageing population, new technology, patient expectations and the increased burden of disease. Locally the position is exacerbated by a shortage of skilled nursing staff, in line with the international shortage. This leads to and will for the foreseeable future continue to lead to sustained pressure for higher nursing salaries.

The private hospital industry recognised the need to place private hospital costs in proper perspective and to explain the fundamental cost drivers in a typical private hospital in South Africa. To this end, HASA, of which Medi-Clinic has always been an active member, commissioned independent research into the cost drivers and other variable factors influencing private hospital expenditure. Some of the most significant findings of the first phase of the research were that private healthcare cost inflation reduced significantly in the recent past; that private hospitals did absorb costs and did not just pass all their cost increases on to consumers; and that South African private hospital inflation was the third lowest of the nine countries selected for the research. To compare public healthcare costs in South Africa with private healthcare costs is a futile exercise as the real, all inclusive public healthcare costs are just not known. The group is convinced that even medical scheme members in private wings of public hospitals receive substantial subsidisation by taxpayers: just to a lesser extent than the poor who should be receiving all the subsidisation.

CHANGE TO THE BOARD OF DIRECTORS

Prof. WP Esterhuyse reached retirement age and consequently stood down at the group's recent annual general meeting on 27 July 2006, after 14 years of diligent service on the Board. His calm, wise and well informed contributions not only at Board level but also at other forums within the group, will be sincerely missed. Our good wishes accompany him during his retirement.

PROSPECTS

The group expects to continue its track record of consistent growth in operating profit based on meeting the needs of the market.

The Emirates Healthcare opportunity will require time and operational resources, but the group is very confident that it will provide an excellent platform for further growth.

Phodiclinics (Proprietary) Limited ("Phodiclinics"), a company owned 51% by Medi-Clinic and 49% by Phodiso, acquired the hospitals of the 200 bed Protector group consisting mainly of the Medivaal MediCentre in Vanderbijlpark. The Competition Tribunal approved the transaction which will be implemented during November 2006. Phodiclinics has

also been awarded a license to build a 140 bed hospital in the northern suburbs of the Cape Town Metropole. The building of this hospital will commence during the next calendar year.

An extensive upgrade of Panorama Medi-Clinic has commenced as well as the total reconstruction of the Plettenberg Bay Medi-Clinic. Major upgrades at Morningside Medi-Clinic and Sandton Medi-Clinic, each involving over R100 million, are nearing completion. Expansions at Durbanville Medi-Clinic and Pietermaritzburg Medi-Clinic as well as a project at Nelspruit Medi-Clinic consisting of additional consulting rooms and the upgrade of the original hospital, are in their final stages. Routine upgrades continue at various other hospitals. The group will also, as a 49% shareholder, be developing a 70 bed hospital in Scottburgh, KwaZulu-Natal.

Currently it is projected that the number of beds in the group will increase by about 500 over the next two years resulting from the building of new hospitals and extensions to existing hospitals.

BASIS OF PREPARATION

The interim financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting. The accounting policies comply with International Financial Reporting Standards ("IFRS") and have been applied consistently with the policies adopted in the previous year.

DIVIDEND TO SHAREHOLDERS

The board of directors declared an interim dividend of 16,5 cents per ordinary share.

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

Last date to trade cum dividend	Friday, 1 December 2006
First date of trading ex dividend	Monday, 4 December 2006
Record date	Friday, 8 December 2006
Payment date	Monday, 11 December 2006

Share certificates may not be dematerialised/rematerialised from Monday, 4 December 2006 to Friday, 8 December 2006, both days inclusive.

Signed on behalf of the board of directors:

E DE LA H HERTZOG
Chairman

LJ ALBERTS
Managing Director

Stellenbosch, 8 November 2006

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