

MEDI-CLINIC CORPORATION LIMITED

Reg. No. 1983/010725/06

Share code: MDC
("Medi-Clinic" – Incorporated in the Republic of South Africa)

ISIN-code: ZAE000074142



Committed to Quality Care

PROFIT ANNOUNCEMENT

Audited results of Medi-Clinic Corporation Limited and its subsidiaries for the financial year ended 31 March 2006

HIGHLIGHTS

• Growth in revenue:	17%
• Core earnings per share growth:	8%
• Distribution per share up:	18%

CONSOLIDATED ABRIDGED INCOME STATEMENT

	2006 R'm	Increase %	2005 R'm
Revenue	4,723	17	4,040
Cost of sales	(2,571)		(2,236)
Administration and other operating expenses	(1,165)		(985)
Trading income (EBITDA)	987	21	819
Dividends	2		2
Interest received	68		57
Income from associates	13		25
Profit on sale of equipment	1		1
Profit on sale of associate	43		–
Consideration for the termination of agreements	–		50
Goodwill	–		(3)
BEE share-based payment	(85)		–
Depreciation	(124)		(97)
Finance cost	(45)		(30)
Profit before taxation	860		824
Taxation	428		214
Profit for the year	432		610
Attributable to:			
Shareholders of the company	338		543
Minority interests	94		67
	432		610
Earnings per share - cents			
Basic	97.1	(39)	158.7
Diluted	85.9		156.7
Headline earnings per share - cents			
Basic	86.3	(41)	146.9
Diluted	76.3		145.0
Core earnings per share - cents			
Basic	159.3	8	146.9
Diluted	140.9		145.0
Earnings reconciliation:			
Profit attributable to shareholders	338		543
Goodwill	–		3
Profit on sale of equipment	(1)		(1)
After tax profit on sale of associate	(37)		–
After tax consideration for the termination of agreements	–		(42)
Headline earnings	300	(40)	503
Net STC charge on special dividend	168		–
BEE share-based payment	85		–
Core earnings	553	10	503

CONSOLIDATED ABRIDGED BALANCE SHEET

	2006 R'm	2005 R'm
Assets		
Non-current assets	2,612	2,247
Property, plant and equipment	2,327	1,997
Intangible assets	48	48
Investments - unlisted	119	114
Deferred income tax	118	88
Current assets	980	1,510
Inventories	153	136
Trade and other receivables	667	525
Cash and cash equivalents	160	849
Total assets	3,592	3,757
Equity and liabilities		
Total equity	1,931	2,928
Share capital and reserves	1,641	2,693
Minority interests	290	235
Total liabilities	1,661	829
Long-term interest-bearing borrowings	848	159
Long-term interest-free liability	102	73
Short-term interest-bearing borrowings	74	81
Short-term interest-free borrowings	637	516
Total equity and liabilities	3,592	3,757
Number of shares ('000)	356,231	343,618
Weighted number of shares ('000)	347,140	342,368
Diluted number of shares ('000)	392,417	346,749
Net asset value per share (diluted) - cents	461	784
Directors' valuation of unlisted investments	119	153

ABRIDGED STATEMENT OF CHANGES IN EQUITY

	2006 R'm	2005 R'm
Opening balance	2,928	2,480
Net shares issued	3	–
Distributed to shareholders	(1,493)	(142)
Distributed to minorities	(39)	(34)
Profit for the year	432	610
Movement in shares held in treasury	17	11
Movement in share-based payment reserve	90	3
Share issue costs	(7)	–
	1,931	2,928

CONSOLIDATED ABRIDGED CASH FLOW STATEMENT

	2006 R'm	2005 R'm
Cash flow from operating activities	571	759
Cash generated from operating activities	994	923
Net finance income	25	29
Consideration for the termination of agreements	–	50
STC paid on special dividend	(198)	–
Taxation paid	(250)	(243)
Cash flow from investment activities	(388)	(178)
Cash flow from financing activities	(830)	(185)
Distributions to shareholders	(1,493)	(142)
Distributions to minorities	(39)	(34)
Movement in borrowings	689	(21)
Other	13	12
Net movement in cash and bank overdrafts	(647)	396
Opening balance of cash and bank overdrafts	796	400
Closing balance of cash and bank overdrafts	149	796
Cash and cash equivalents	160	849
Bank overdrafts	(11)	(53)
	149	796

COMMENTARY

We are pleased to report that the group has maintained its consistent growth pattern. It succeeded in increasing revenue and its distribution to shareholders while also implementing strategic initiatives and investments aimed at expanding the group's operations in South Africa and abroad.

FINANCIAL PERFORMANCE

Shareholders are referred to the circular dated 1 November 2005 ("the circular") presenting details of the black ownership initiative and the capital restructuring ("the transactions") as well as the trading statement dated 19 April 2006 ("the trading statement"). The transactions were successfully implemented according to the timetable in the circular. The effect of the transactions on the earnings per share ("EPS") and headline earnings per share ("HEPS") of the group was fully disclosed in the circular and the trading statement. The transactions have a once-off and an ongoing financial effect on the group's earnings, EPS and HEPS. The once-off 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"). The ongoing effect of the transactions is mainly reflected in higher interest charges payable by the group as a result of the capital restructuring ("the higher interest rate charges") which was implemented on 27 December 2005. The higher interest rate charges consist of the aggregate of the interest income forgone on the cash balance on hand prior to the capital restructuring and the interest paid on the newly introduced debt of R700 million. The 28.5 million new shares issued to the strategic black partners in terms of the black ownership initiative are treated as treasury stock and will be released pro-rata to dividends returned by them relative to the original market value of these shares of R525 million. To date 9.6 million of these shares have been released from treasury stock due to the flow back of the special dividend to the group leaving a balance of 18.9 million treasury shares at year-end 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 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 will be emphasised. The core earnings include the headline earnings of the group and the ongoing effect of the transactions, but exclude the once-off effect of the STC charge and the BEE share-based payment.

The transactions do 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, increased by 17% to R4 723 million (2005: R4 040 million) for the year under review. Operating profit before interest, taxation, depreciation and amortisation (EBITDA) was 21% higher at R987 million (2005: R819 million). After incurring the higher interest charges of about R33 million before tax from the date of implementation of the capital restructuring, core earnings (which exclude the STC charge and the BEE share-based payment) rose by 10% to R553 million (2005: R503 million) resulting in an increase of 8% in core earnings per share ("CEPS") to 159.3 cents (2005: 146.9 cents). Taking into account the STC charge and the BEE share-based payment, HEPS declined by 41% from 146.9 cents per share to 86.3 cents per share. The total distribution per share at 53.1 cents for the year (2005: 45.0 cents) is 18% higher.

BUSINESS PERFORMANCE

ER24 became a wholly-owned subsidiary of the group with effect from 1 April 2005. The group also acquired a 49.9% interest in the Wits Donald Gordon Medical Centre ("WDGMC") (190 beds) as well as 100% in the Legae Private Hospital ("Legae") (137 beds) 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 the increase in capacity, the group's revenue growth amounted to 14%.

The revenue growth of 14% was achieved through a 7.6% increase in in-patient bed-days, a 5% increase in the average income per bed-day and a 1.5% change in the case profile of patients treated. The increase in utilisation was evident in both surgical and medical cases. The number of patients admitted to our hospitals increased by 6.9% while the average length of stay increased slightly mainly due to an increase in the average length of stay of medical cases.

The increase in the average income per bed-day sold of 5% is, as alluded to in earlier reports, the result of the successful implementation of the fully transparent net acquisition price model ("NAP model") on all pharmaceutical items referring to both medicines and scheduled drugs as well as surgical consumables. The NAP model enabled the group to gain a significant slowdown in pharmaceutical price inflation to well below the general and the healthcare inflation experienced over the comparable period. This trend is expected to continue.

The group's EBITDA margin increased from 20.3% to 20.9% mainly due to improved operational efficiencies. The improved performance of the Curamed group also contributed to this increase.

The group sold its interest in the HMS JV, accounted for under Investments in Associates, for R84 million with effect from 1 October 2005 deriving a capital profit of R43 million.

Cash flow continued to be strong during the period under review, mainly due to more efficient working capital management. The group converted 101% (2005: 113%) of EBITDA into cash generated from operating activities. The group's strong cash flow continues to underline the quality of its earnings.

The capital restructuring resulted in cash and cash equivalents declining from R849 million to R160 million while new interest-bearing debt of about R700 million was introduced at the same time. Consequently, interest-bearing borrowings increased from R240 million to R922 million. This resulted in an increase in the debt:equity ratio from 8% to 48% with a concomitant increase in the return (core earnings) on shareholders' equity from 19% to 34%.

Capital expenditure for the period under review was R427 million (2005: R202 million) of which R131 million (2005: R23 million) was for new acquisitions. Capital commitments (including amounts approved but not yet contracted for) amounted to R384 million (2005: R526 million).

STRATEGIC OBJECTIVES

The group set itself three strategic objectives at the beginning of the financial year, namely to implement its Black Economic Empowerment ("BEE") initiative, to explore alternatives aimed at optimising the capital structure of the group and to intensify its investigation into meaningful growth opportunities in other countries. Significant progress has been made on all of these matters.

BEE

The group implemented a BEE transaction with a total value of R1.1 billion, through which an effective 15% of the group is now owned by a broad-based group of black entities, including Medi-Clinic staff.

The BEE transaction involved the introduction of two strategic black partners, Phodiso Holdings Limited ("Phodiso") and Circle Capital Ventures (Proprietary) Limited ("Circle Capital"), which together acquired 11% of the group, each acquiring 7% and 4% respectively. The Mpilo Trust, an employee share trust, holds a further 4%. The trust will benefit an estimated 11 000 employees of whom 52% are black and 89% are women.

The ownership was effected partly through the purchase of existing shares (4.25%) from shareholders of the group in terms of a scheme of arrangement ("the scheme") in the amount of some R280 million, and partly through the issue of 28.5 million new shares at par, valued at about R525 million. The purchase of the existing shares was financed by the strategic partners themselves by providing R80 million of their own capital and by Standard Bank in the amount of R200 million. In respect of the shares issued at par, the group will be entitled to receive all dividends earned by the strategic partners on their equity interest of 11% in the group until the R525 million less the par value of the shares so acquired have been repaid to the group.

The Mpilo Trust was funded through capital contributions by the group's operating subsidiaries in the amount of R290 million which enabled the trust to acquire 4% (15.8 million shares) in the group at market value. These shares are treated as treasury shares for accounting purposes due to the consolidation of the Mpilo Trust. The capital contributions plus a coupon of 70% of the prime interest rate as applicable from time to time will be recovered by the operating subsidiaries by way of the vesting in them of 80% of all ordinary dividends and 100% of all special dividends earned by the trust from its shareholding in the group. The remaining 20% of all ordinary dividends earned by the trust will be paid to participating employees.

A ten-year lock-in period is applicable to both the strategic black partners and the participating employees in the Mpilo Trust.

Capital restructuring

A capital restructuring programme was announced on 4 October 2005 with the objective of increasing the return on the group's shareholder equity. It entailed the introduction of debt funding in the amount of R700 million. This debt was used to repay existing inter company indebtedness in the group. The introduction of the debt through facilities arranged with Standard Bank leaves sufficient capacity to allow the group to fund future strategic initiatives and respond to growth opportunities.

In addition, a special dividend in the amount of about R1.6 billion was declared which equated to R4.02 per share. This dividend was paid to shareholders on 27 December 2005.

Opportunities in other countries

It was recently announced that the group has entered into an agreement for the acquisition of a 49% interest for US\$46.4 million in Emirates Healthcare Holdings Limited ("Emirates Healthcare"), the ultimate holding company of the healthcare interests of the Varkey Group, a private healthcare group based in Dubai, United Arab Emirates ("UAE"). Emirates Healthcare owns 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 new Dubai Healthcare City as well as 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 debt to equity ratio of 45:55. The Varkey Group has an existing strategic relationship with General Electric ("GE") and is well positioned for further growth in the UAE and adjoining regions. The group believes that the Varkey Group and GE are good partners with whom to build an expanded private hospital business in the Gulf countries and beyond. Three senior staff members of the group have already been seconded to support this initiative. The relationship also offers the potential for the group to export its expertise and to broaden the career opportunities available to other members of staff. The agreement is subject to the fulfilment of several conditions precedent by not later than 30 June 2006. Exchange control approval has been received for this transaction.

Initially the income to be derived from this investment will be neutral after finance costs. It may, however, have a slightly negative impact on the earnings of the group a year to eighteen months later on, due to the green fields nature of the two hospitals to be developed in the Dubai Healthcare City.

Shareholders are referred to an announcement on 26 September 2005 and are advised that a potential investment in Abu Dhabi, UAE referred to in such announcement is not being proceeded with.

AFFORDABILITY OF HEALTHCARE

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

The group will therefore continue its efforts to improve the affordability of healthcare in South Africa. Medi-Clinic's initiative in relation to the NAP model (as referred to earlier) promotes transparency in the pricing of medicines and scheduled drugs as well as surgical consumables and has gone a long way to bring the spiralling inflation of these prices to substantially lower levels.

The South African private hospital industry recognised the need to place private hospital costs in a sound and proper perspective, explaining the fundamental cost drivers in a typical private hospital. To this end, the Hospital Association of South Africa, of which Medi-Clinic has always been a member, commissioned independent research into the cost drivers and other variable factors influencing expenditure on private hospitals. The results of this in-depth and comprehensive study are in the process of being finalised and once completed, its findings will be made public.

CHANGES TO THE BOARD OF DIRECTORS

Dr V E Msibi, the chairman of Phodiso, was co-opted to the Board on 9 November 2005 as a non-executive director. We welcome him and look forward to his positive contribution to the group.

Mr W E Bührmann, one of the representatives of Remgro Limited ("Remgro"), the largest shareholder in the group, was assigned other duties within Remgro and consequently resigned from the Board on 10 November 2005. His valuable input as member of the Board and the Human Resources Committee as well as the Chairman of the Audit and Risk Committee is greatly appreciated. He was replaced by Mr M H Visser, Chief Executive Officer of Remgro on 10 November 2005.

Mr C I Tingle stepped down as a non-executive director on 7 February 2006 to take up the full-time financial responsibility of the group's international division. We thank him for his long and loyal service of almost 14 years on the Board as well as the Audit and Risk Committee and wish him well in his new challenging environment.

PROSPECTS

The group expects to continue its track record of consistent growth based on meeting the needs of the market. This includes increasing the use and expansion of facilities and services in its core competencies along with further efficiency improvements. Apart from these internally driven growth focus areas, initiatives by government aimed at broadening the membership base of medical schemes should have a positive impact on growth in the industry in the longer term. It still remains too early to predict the likely outcome of these initiatives.

The Emirates Healthcare opportunity will require time and operational resources from the group especially the two new hospitals to be developed in the Dubai Healthcare City. The group is, however, very confident that this will be done successfully and that it will provide an excellent platform for further growth.

Phodiliclinics (Proprietary) Limited ("Phodiliclinics"), 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 Commission made a positive recommendation to the Competition Tribunal which now has to finally decide on the transaction.

Phodiliclinics has also been awarded a license to build a 140 bed hospital in the northern suburbs of the Cape Town Metropole which can be regarded as tangible evidence of the value created by the group's BEE initiative.

Major upgrades at Morningside Medi-Clinic and Sandton Medi-Clinic, each involving about R100 million, are in progress so as to ensure their competitiveness in this particularly high income area. Expansions at Durbanville Medi-Clinic and Pietermaritzburg Medi-Clinic are also taking place while a project at Nelspruit Medi-Clinic consisting of additional consulting rooms and the upgrade of the original hospital, is underway. Routine upgrades continue at various other hospitals.

The group remains optimistic about its operational prospects for the next year. The ongoing financial effect of the black ownership initiative and the capital restructuring will, as reported on earlier, have a continued impact on the earnings of the group.

REPORT OF THE INDEPENDENT AUDITORS

The results have been audited by the company's auditors, PricewaterhouseCoopers Inc., Stellenbosch and a copy of their unqualified reports are available for inspection at the registered office of the company.

BASIS OF PREPARATION

The financial results are prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the South African Companies Act, Act 61 of 1973, and the Listings Requirements of the JSE Limited ("Listings Requirements").

In terms of the Listings Requirements the group is required to prepare its consolidated financial statements in accordance with IFRS from 1 April 2005.

The date of transition to IFRS is 1 April 2004. The group's opening balance sheet at 1 April 2004 has been restated to reflect all existing IFRS statements. The effect of the transition from South African Statements of Generally Accepted Accounting Practice ("SA GAAP") to IFRS on the group's assets, equity and its net profit are due to adjustments to property, plant and equipment; IFRS 2 expense relating to share options and the recognition of actuarial gains on the post-retirement medical benefit obligation on 1 April 2004.

The effect of the changes from SA GAAP to IFRS has been disclosed with the group's interim results. These changes to the income statement and balance sheet are summarised below.

RECONCILIATION OF INCOME STATEMENT (R'm)

	Year to 31 March 2005		
	SA GAAP	Audited IFRS effects	IFRS
Revenue	4 040	-	4 040
Earnings before depreciation, impairment (EBITDA)	823	(4)	819
Depreciation	(110)	13	(97)
Other	102	-	102
Profit before taxation	815	9	824
Taxation	(211)	(3)	(214)
Profit for the year	604	6	610
Attributable to:			
Equity holders of the company	539	4	543
Minority interests	65	2	67
	604	6	610

RECONCILIATION OF BALANCE SHEET (R'm)

	Year to 31 March 2005		
	SA GAAP	Audited IFRS effects	IFRS
Assets			
Non-current assets	2 204	43	2 247
Current assets	1 510	-	1 510
Total assets	3 714	43	3 757
Equity and liabilities			
Total equity	2 885	43	2 928
Share capital and reserves	2 654	39	2 693
Minority interests	231	4	235
Total liabilities	829	-	829
Total equity and liabilities	3 714	43	3 757

FINAL DIVIDEND TO SHAREHOLDERS

The board of directors has declared a final dividend of 36.6 cents per share.

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

Last date to trade cum dividend	Thursday, 15 June 2006
First date of trading ex dividend	Monday, 19 June 2006
Record date	Friday, 23 June 2006
Payment date	Monday, 26 June 2006
Share certificates may not be dematerialised or rematerialised from Monday, 19 June 2006 to Friday, 23 June 2006, both days inclusive.	

The total dividend (2005: distribution) per share (excluding the special dividend) payable to shareholders in respect of the financial year amounts to 53.1 cents (2005: 45.0 cents) and is made up as follows:

	2006 cents	Increase %	2005 cents
Interim distribution	16.5		13.3
Final distribution	36.6		31.7
	53.1	18	45.0

Signed on behalf of the board of directors:

E DE LA H HERTZOG

Chairman

Stellenbosch, 10 May 2006

LJ ALBERTS

Managing Director

DIRECTORS: E de la H Hertzog (Chairman), L J Alberts (Managing), S Dakile-Hlongwane, W P Esterhuysen, J du T Marais, A R Martin, D P Meintjies, V E Msibi, A A Raath, M A Ramphela, J G Swiegers, W L van der Merwe, M H Visser
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