NETCARE LIMITED
(Registration number 1996/008242/06)
JSE ordinary share code: NTC
ISIN: ZAE000011953
JSE preference share code: NTCP
ISIN: ZAE000081121
("Netcare")

PRE-CLOSE TRADING UPDATE

The purpose of this trading update is to provide shareholders with an update on Netcare's trading operations in Southern Africa and the UK for the financial year ending on 30 September 2017.

SA: Hospitals and Emergency Services

Patient days in H1 2017 fell by 1.0%. We have seen an overall improvement in year-on-year activity in H2, with patient day growth recorded in the months of July and August 2017 and this trend has continued into September 2017. We therefore expect patient days for the full 2017 financial year to decline by approximately 0.9%, an improvement to the natural extrapolation of H1 2017. Full week overall occupancy levels of 65.3% were experienced year-to-date through to the end of August 2017, improving from 63.2% reported at the half-year. Week day occupancies for the same period were 71.0%, compared to 69.0% at the half-year. Revenue per patient day has increased by 6.8% to the end of August 2017. The specialist base has grown by a net 125 doctors.

As advised at the half-year, the 2017 results have been impacted by a non-cash prior year accounting error in our Emergency Services division of R81 million. Following an operational review of the Emergency Services business, a decision has been taken to dispose of operations in Mozambique. The H2 results are expected to reflect trading losses and closure costs in respect of the Mozambique operations.

In our interim results we guided that full-year EBITDA margins would remain broadly in line with the first half EBITDA margin of 21.1% and this guidance remains intact. The business continues to focus on its cost base through a number of efficiency initiatives, including the automation and centralisation of administrative processes and extensive sustainability programmes to curtail the ever increasing cost of utilities such as electricity, water and waste. These projects continue to deliver cost savings, although these were not sufficient to absorb the countervailing margin pressures in the current year. We will be embarking on a major IT digitalisation of our front end services and will be introducing Electronic Medical Records across all of our divisions. This is the most significant IT intervention since we rolled out our SAP Enterprise Resource Planning system and will result in improved patient care and safety and deliver significant efficiencies. The implementation will take approximately 3 years and further details will be provided at our results presentation in November.

During the year there was a net increase of 93 beds and 52 under-utilised beds were converted to disciplines where there is higher demand. We believe we have enough beds and facilities given the current market dynamics and our strategic focus is less on "bricks and mortar" and more on IT and systems. This "asset lighter" approach will see us focus on filling our existing capacity by converting beds to higher demand disciplines, offering new service lines and transferring beds from under-utilised to higher demand facilities. Thus in 2018, we will not be adding any new beds. Further details will be provided at our results presentation in November.

The acquisition of Akeso Clinics, a portfolio of 12 mental health facilities, has been submitted to the Competition Commission. The transaction has been classified as a large merger which will require the determination of the Competition Tribunal. This acquisition will substantially improve our mental health offering as both the demand and incidence of mental illness continues to rise in South Africa.

With respect to medical scheme demand management, we continue to work closely with funders and our specialists on appropriate levels of care and efficiency benchmarking in the furtherance of our Quadruple Aim philosophy of achieving the best clinical outcomes, ensuring the best patient experience, delivering healthcare at the most affordable cost and improving the wellbeing of healthcare delivery teams.

SA: Primary Care

The Primary Care division has undergone a structural change in the 2017 financial year. Firstly, its retail pharmacies were outsourced to Clicks from 1 December 2016. The outsourced pharmacies continue to perform well under the new arrangement and have shown solid growth in scripts for the past 9 months. Secondly, Prime Cure wound down its managed care administration service offering during the first half, in line with its strategic decision to focus on provider services. Netcare remains committed to primary healthcare and is supportive of the expansion of Prescribed Minimum Benefits to be more inclusive of primary healthcare benefits. The division will report lower revenue against the prior year due to these structural changes. This will, however, have little impact on EBITDA and is expected to improve the EBITDA margin against last year. Thirdly, in line with our strategy to strengthen our day theatre offering, the division has also expanded its offering in the day theatre and sub-acute market. A new day theatre in Kimberley commenced operations in mid-October 2016. In H2, the division opened a new sub-acute and rehabilitation facility in Hillcrest and a new day theatre in Upington. Together with two new day theatres due to open in 2018, this will bring Primary Care's network of day theatres to 17 and sub-acute facilities to three. We believe we are well positioned to extend our partnership with doctors and medical schemes in offering a comprehensive network of day theatre facilities.

National Health Insurance ("NHI")

There has been much media speculation regarding the potential role of the private sector in terms of the proposed NHI. Netcare fully supports universal health as a critical and fundamental foundational step towards building a healthy and sustainable nation. To this end, Netcare stands ready to play its part in providing services, augmenting the training of nurses and medical doctors and providing management support. We have over 15 years of experience of working closely with the National Health Services ("NHS") in the UK to deliver services to the public and look forward to working closely with the Department of Health to provide similar services or support.

United Kingdom

With regard to BMI Healthcare, the business has performed poorly in H2 as the challenges in the trading environment have intensified over recent months, with the implementation of demand management strategies by the NHS, lower tariffs for NHS work effective from 1 April 2017 and continuing change in case mix in favour of more day cases. Inpatient and day caseload for the 11 months to August 2017 has grown by 0.9% year-on-year, comprising underlying growth in day case admissions and a reduction in inpatient admissions, which has accelerated in recent months and has an effect on the average revenue earned per admission. There has been year-to-date growth in self-pay and NHS caseload and a reduction in PMI funded work. Total NHS caseload for the 11 months ended 31 August 2017 has grown by 5.3% year-on-year driven by NHS e-referrals, which increased by 8.8%, while NHS spot work fell by 8.9% in the same period. However, the business has experienced a weaker second half due to the stringent demand management strategies implemented by the NHS. The impact has been more acutely felt at certain localised sites where referral mechanisms are being changed through the introduction of triage and referral management centres. The NHS demand management strategies are broadly expected to defer hospital treatment rather than to remove the need for it, with the self-pay market absorbing some of the activity in the meantime. NHS waiting lists stood at almost 4 million at 31 July 2017, the highest since 2007 with occupancies approaching 90%, making insourcing of the outstanding demand challenging. PMI caseload to the end of August 2017 has reduced by 5.1% with lower activity levels in the last quarter. Self-pay activity continued to grow and experienced stronger second half activity, reflecting additional investment by BMI Healthcare in this area and the market opportunities presented from longer NHS waiting times. It also indicates that much of the demand management by the NHS is, in reality, demand deferral and this may stimulate further growth in self-pay. The year-to-date rate of self-pay growth to August 2017 was 9.5%.

Operating costs reflect the overall growth in activity during the year, but due to the rapid impact of NHS demand management initiatives in H2, the cost base has not adapted quickly enough to align with the underlying shift in case mix. Management is working to ensure that the hospital cost structures are adjusted to adapt to the changes in case mix from inpatient admissions to day case.

Therefore, as a result of these aforementioned factors of the implementation of demand management strategies by the NHS, the lower NHS tariff, the change in case mix and the resultant impact on average hospital revenue per case, EBITDA margin has been weaker in H2. The EBITDA margin for the 2017 financial year is expected to be between 4.0% - 4.5% lower than the prior year EBITDA margin of 7.1%.

As communicated in our SENS announcement of 27 July 2017, Mrs Jill Watts has resigned as BMI Healthcare's Chief Executive with effect from 30 September 2017 and we wish to express our gratitude and appreciation to Mrs Watts for her contribution over the last three years. Dr Karen Prins will be taking over as BMI Healthcare's new Chief Executive with effect from 1 October 2017. Dr Prins has undertaken a comprehensive induction to the business in recent weeks and will be well placed to step into her new role next month. Dr Prins is a seasoned Netcare executive previously tasked with leading our largest region in the Hospital Division and, most recently, was the CEO of our Public Private Partnership in Lesotho. Dr Prins will be available to answer questions at our results announcement in November and will make herself available to meet investors and shareholders.

Lastly, I want to announce that Netcare has reached agreement with Apax pursuant to which Netcare will acquire Apax's interest in GHG and will also acquire the remaining interests in GHG held by our other partners. As the business looks to enter a new phase of strategic development we concluded that the time was right to consolidate our ownership of GHG.

The summary terms of the agreement with Apax are as follows:

- There is no immediate cash payment. Rather, Apax will receive the right to subscribe for 54 million shares in Netcare over the course of the next five years at the higher of R26.50 per share or a 25% premium to the Volume Weighted Average Price of Netcare shares during the 10 day period following the release of Netcare's 2017 full year results.
- The right to purchase the Netcare shares is subject to certain conditions precedent, including certain minimum operating performance targets for BMI Healthcare's operations.
- The transaction itself is also subject to certain conditions precedent, including Reserve Bank approval, which we expect should not present any challenges.
- This transaction is not a categorised transaction in terms of the JSE Listings Requirements.
- Further details will be provided on completion of the transaction.

The GHG partnership agreement provides a mechanism for us to conclude a similar and proportional deal with our other partners. Our other partners will be entitled to subscribe for 13 million shares in Netcare. After a relatively challenging operating period, we believe this is a good outcome and gives the incoming CEO the necessary flexibility to lead the business. Our relationship with our partners has been a constructive one. We thank them for their contribution and their collaborative spirit over the past few years and we welcome them as shareholders in Netcare in coming years.

Regarding our discussions with PropCo, we believe we are now better placed to engage with them to implement a mutually beneficial transaction. Netcare will act rationally and deliberately in the best interests of Netcare.

Group results

As reported at the half-year, the sale of the old Netcare Christiaan Barnard Memorial Hospital premises has completed for a consideration of R300 million. The cash proceeds have been received and a non-recurring capital profit of R169 million after tax will be reflected in the full-year results.

The average Rand exchange rate against the Pound Sterling in the current year has been stronger than last year. The average Rand/Pound Sterling exchange rate applicable for 2016 was R21.04. In the 11 months to August 2017, the average Rand/Pound Sterling exchange rate was 19.7% stronger at R16.89. The stronger Rand will impact the conversion of the UK results in the consolidated Group accounts.

The above information has not been reviewed or reported on by Netcare's external auditors.

Johannesburg
28 September 2017
Sponsor
Deutsche Securities (SA) Proprietary Limited