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

TRADING STATEMENT

In terms of paragraph 3.4 (b) of the JSE Listings Requirements, a listed company is required to publish a trading statement as soon as it is satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next will differ by at least 20% from those of the previous corresponding period.

Netcare will be releasing its unaudited interim Group results for the six months ended 31 March 2018 ("H1 2018") on Monday, 14 May 2018. The results for H1 2018 and the comparative six month period ended 31 March 2017 ("H1 2017") include sizeable non-trading items of a non-recurring nature (described in more detail below), which affect Earnings per Share ("EPS") and Headline Earnings per Share ("HEPS"). In addition to the mandatory EPS and HEPS metrics, Netcare also publishes an "adjusted HEPS" figure, which is the primary measure used by management to assess Netcare's underlying financial performance, and excludes all of the non-trading items of a non-recurring nature set out below. The adjusted Headline Earnings and adjusted HEPS from continuing operations (comprising the SA operations following the deconsolidation and discontinued operation classification of the UK operations) are anticipated to be between 5.0% and 10.0% higher (R55 million and R110 million and 4.0 cents and 8.1 cents, respectively) than those for H1 2017 of R1 097 million and 80.8 cents, respectively.

<u>Description of sizable non-trading items of a non-recurring nature</u>

1. <u>H1 2018</u>

- A non-cash profit of R4 205 million has been recognised on the deconsolidation of BMI Healthcare ("Profit on loss of control"). Netcare made a strategic decision to exit the United Kingdom ("UK") market and to pursue the disposal of its interests in General Healthcare Group ("GHG"), as noted in the SENS announcement of 28 March 2018. This decision was informed by various inter-related factors, including (i) Netcare's inability to conclude a commercially viable rent reduction transaction with BMI Healthcare's largest landlord, and which would be sufficient to generate an appropriate risk-adjusted return for its shareholders; (ii) the deterioration of the UK healthcare market, which is expected to remain constrained in the medium to longer term; and (iii) the demands of BMI Healthcare's lenders that shareholders of GHG relinquish effective control of the boards of directors of BMI Healthcare in return for the extension of short-term funding to the business. Acting in the best interests of BMI Healthcare and its stakeholders, Netcare elected to accede to the lenders' demands. Consequently, the UK operations have been deconsolidated from the Netcare Group results with effect from 28 March 2018. In addition, in accordance with accounting standards, the results of the UK operations will be classified as a discontinued operation in the Group statement of profit or loss and comparative results will be restated accordingly.
- A non-cash impairment of R1 302 million (after tax) has been recognised against the carrying value of Netcare's contractual economic interest in the debt of BMI Healthcare ("Impairment of contractual economic interest in debt of BMI Healthcare"). Although the economic and contractual rights with regard to this debt interest remain intact (including BMI Healthcare's obligation to repay the debt), the accounting standards are prescriptive and provide that, when determining fair value of this contractual economic interest, cognisance may only be taken of factors in existence at the reporting date of 31 March 2018. Given that BMI Healthcare had not negotiated a rental reduction with its major external landlord by the reporting date, that the rental negotiations have been ongoing for many years without success, that no certainty exists as to whether a rent reduction transaction will be agreed, and that BMI Healthcare is currently in default of certain obligations under its 2nd lien debt facility (in which Netcare owns a contractual economic interest), Netcare believes it prudent to impair this contractual economic interest in the debt of BMI Healthcare in full.

2. <u>H1 2017</u>

As reported in the half-year accounts, the H1 2017 results contained the following items:

- A capital profit on the sale of the land and buildings of the old Netcare Christiaan Barnard Memorial Hospital ("CBMH capital profit") of R169 million (after tax); and
- A non-cash, fair value accounting credit of R651 million (after tax) on the mark-to-market valuation of Retail Price Index swap instruments related to property leases of the UK operations ("UK RPI swap valuation").

Impact on EPS and HEPS

These non-trading items of a non-recurring nature are treated as follows for purposes of calculating EPS and HEPS:

Rm	H1 2018	H1 2017	EPS	HEPS
Profit on loss of control (non-cash)	4 205		Included	Excluded
Impairment of contractual economic interest in debt of BMI Healthcare (non-cash)	(1 302)		Included	Included
CBMH capital profit		169	Included	Excluded
UK RPI swap valuation (non-cash)		651	Included	Included

<u>EPS</u>

As a result of all of the above non-trading items of a non-recurring nature, Earnings and EPS for the six months ended 31 March 2018 are anticipated to be between 130.0% and 135.0% higher (between R2 116 million and R2 198 million and between 156.0 cents and 162.0 cents, respectively) than those for H1 2017 of R1 628 million and 120.0 cents, respectively.

<u>HEPS</u>

As a result of the impairment of the contractual economic interest in debt of BMI Healthcare in H1 2018 and the UK RPI swap valuation credit in H1 2017, Headline Earnings and HEPS for the six months ended 31 March 2018 are anticipated to be between 125.0% and 130.0% lower (between R1 821 million and R1 894 million and between 134.3 cents and 139.6 cents, respectively) than those for H1 2017 of R1 457 million and 107.4 cents, respectively.

The information provided in this trading statement has not been reviewed or reported on by Netcare's external auditors.

Johannesburg
09 May 2018
Sponsor
Deutsche Securities (SA) Proprietary Limited