

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

UPDATE ON H1 2019 TRADING

The purpose of this announcement is to provide shareholders with an update on Netcare's trading for its financial half-year ending 31 March 2019 ("H1 2019").

HOSPITALS AND EMERGENCY SERVICES

Total growth in patient days of approximately 8.0% is expected for H1 2019. This includes the contribution from Akeso Clinics (acquired effective 27 March 2018) as well as a decline of approximately 1.1% in acute hospital patient days (excluding the Netcare Rand and Bell Street hospitals which are held-for-sale).

The decline in acute patient days in H1 2019 is primarily attributed to ongoing funder case management activity started in 2018, most notably in the medical respiratory disciplines, and the creation of new hospital networks effective January 2019 where Netcare expects to retain approximately 65.0% - 70.0% of its 2018 volumes from these specific networks. Our expectation for growth in patient days (acute and mental health) for the financial year ending 30 September 2019 ("FY 2019") remains within a range of 3.0% to 3.5%.

Demand for mental health remains strong. Akeso experienced total patient day growth of approximately 20.0% over the comparative base period (which was prior to the Netcare acquisition). This was boosted by two new hospitals opened in 2017 and 2018 respectively.

Acute hospital full week occupancy levels (excluding Netcare Rand and Bell Street hospitals) of 63.8% were experienced up to February 2019, down from 65.3% for the first half of 2018 ("H1 2018"). Acute hospital revenue per patient day increased by 4.6% to the end of February 2019. Netcare continues to attract specialists and a net 95 doctors were granted admission rights at acute and mental health facilities during the period.

Our EBITDA margin guidance for FY 2019 was to hold margins flat at 20.8%. To date margins have been held broadly in line with this guidance.

No new acute hospital beds were added during H1 2019 and 10 under-utilised acute hospital beds were converted to high demand haematology beds, in line with Netcare's focus on improving asset utilisation. A total of 51 mental health beds were added during the period under review, including the expanded and refurbished Akeso George Hospital which re-opened in March 2019.

Following the Competition Commission approval of the acquisition of Akeso, Netcare was required to sell both the Netcare Rand and Bell Street hospitals. On 15 March 2019, Netcare entered into agreements with the RH Bophelo Group to dispose of the Netcare Rand and Bell Street assets and properties for a combined cash consideration of R124 million. The agreements remain subject to the fulfilment of conditions precedent, including but not limited to the approval of the Gauteng Department of Health, which approval is anticipated to be received in due course. In accordance with the agreements and accounting standards, Netcare will only recognise the capital profit arising on disposal of the Netcare Rand and Bell Street hospitals in its accounts upon formal closing of the transaction following satisfaction of the conditions precedent.

Good progress has been achieved to date in Netcare's journey to implement fully digitised patient and clinical records in terms of the strategy to deliver person-centred health and care which is digitally enabled. The blue-printing phase of the project has completed and we are due to commence the pilot programme at Netcare Milpark Hospital shortly. As reported previously, digitisation has already been successfully introduced across Netcare 911.

PRIMARY CARE

The Primary Care division achieved good revenue growth through the expansion of its occupational health offering and national day theatre network, including the new Richards Bay day theatre which opened during July 2018. EBITDA margins are expected to reduce due to a greater proportion of lower margin occupational health activity in the mix as well as new day theatres ramping up towards mature activity levels.

SUSTAINABILITY

Netcare's embedded sustainability programme, launched in 2013, supports continuity of patient care and positions the company well to withstand disruptions to business caused by the unstable supply of electricity from the national grid.

Netcare has one of the largest commercial solar photo voltaic installations in the country, comprising 52 installations, with an installed capacity of 9.1MWp that generates approximately 15.5GWh of renewable energy annually. This fleet, along with other sustainability initiatives, has resulted in the Group reducing its energy intensity by over 22% since inception of the programme.

In addition, the Group has 200 generators installed at our facilities across the country. All Netcare hospitals have generators capable of supplying power to critical functions. Additionally, 25 hospitals have full island load capacity including dual redundancy, meaning that there would be no impact on the entire site should the grid go down, and eight hospitals have dual redundancy for critical functions in the form of second stand-by generators. At

current electricity tariffs and diesel prices, the cost of operating on generator power is approximately 3.7 times that of running off the national grid.

As a result of the load shedding experienced during this period, diesel fuel costs of approximately R4.8 million were incurred in H1 2019 as compared to R1.6 million incurred over the same period in 2018, an increase of R3.2 million (200%). In FY 2018 the full year cost of diesel fuel was approximately R3.5 million.

Going forward, in the event that load shedding is contained to predominantly Stages One and Two, we estimate a further R5.5 million cost for diesel will be incurred in the second half of FY 2019 (“H2 2019”), bringing the total cost for FY 2019 to R10.3 million. Should load shedding of the magnitude recently experienced continue, the expected H2 2019 cost for diesel will increase to R8.1 million resulting in a potential cost of R12.9 million for the full year.

All of Netcare’s hospitals are equipped with at least a 24-hour water back-up supply. Certain hospitals which cater for more complex specialties are equipped with a back-up water supply of 48-hours. In the event of an interruption to the water supply, facilities automatically go into “water conservation mode”, which in practice can double the period of available back-up supply by reducing consumption. Borehole and filtration facilities have been installed at four hospitals which have historically experienced water shortages. In addition, in the Western Cape, Netcare Christiaan Barnard Memorial Hospital is equipped with a desalination plant allowing supply of additional water to all Cape facilities.

REGULATORY UPDATE

Healthcare Market Inquiry (“HMI”)

The Competition Commission’s HMI, which was established to review the functioning of the private healthcare market and to determine whether there are barriers to effective competition, published its provisional findings on 6 June 2018 and invited comments on the report. Following on the submissions received, the HMI has called for presentations on specific topics from 9 to 12 April 2019. The publication of the Final Recommendations and Report is now due on 30 September 2019.

The information provided in this update on H1 2019 trading has not been reviewed or reported on by Netcare’s external auditors.

Netcare will be releasing its unaudited interim Group results for the half-year ended 31 March 2019 on Monday, 13 May 2019.

28 March 2019

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