

# DaVita 4th Quarter 2007 Results

PRNewswire-FirstCall  
EL SEGUNDO, Calif.

DaVita Inc. today announced results for the quarter and year ended December 31, 2007. Net income for the three months ended December 31, 2007 was \$85.7 million, or \$0.79 per share, as compared to \$74.1 million, or \$0.70 per share, for the same period of 2006.

(Logo: <http://www.newscom.com/cgi-bin/prnh/20020729/DAVITALOGO>)

Net income for the year ended December 31, 2007 excluding after-tax gains from insurance settlements, the after-tax valuation gain on the Company's product supply agreement with Gambro Renal Products and after-tax gains on the sale of investment securities was \$340.3 million, or \$3.17 per share, as compared with \$266.5 million or \$2.52 per share for the same period of 2006.

Financial and operating highlights include:

- Cash Flow: For the year ended December 31, 2007 operating cash flow was \$533 million and free cash flow was \$421 million. For the three months ended December 31, 2007 operating cash flow was \$223 million and free cash flow was \$185 million.
- Operating Income: Operating income for the three months ended December 31, 2007 was \$195 million, as compared to \$189 million for 2006. Operating income for the year ended December 31, 2007 was \$862 million including pre-tax gains from insurance settlements of \$6.8 million, and the pre-tax valuation gain on the Company's product supply agreement with Gambro Renal Products of \$55 million, and was \$800 million excluding these items, as compared to \$701 million for 2006.
- Volume: Total treatments for the fourth quarter of 2007 were 3,983,542 or 50,045 treatments per day, as compared to 3,723,198 or 47,369 treatments per day for the fourth quarter of 2006. Non-acquired treatment growth in the quarter was 4.6% over the prior year's fourth quarter.
- Effective Tax Rate: The annual effective tax rate for the year ended December 31, 2007 was 39.2% and was 37.9 % for the three months ended December 31, 2007. We currently project our annual effective tax rate for 2008 to be in the range of 39.0% to 40.0%.
- Center Activity: As of December 31, 2007, we operated or provided administrative services at 1,359 outpatient dialysis centers serving approximately 107,000 patients, of which 1,336 centers are consolidated in our financial statements. During the fourth quarter of 2007, we acquired 6 centers, opened 25 new centers, closed 3 centers and discontinued providing administrative services to 20 centers. We also acquired a 50% non-controlling ownership interest in 6 centers.

## Outlook

Our operating income guidance for 2008, excluding the impact of any potential Medicare legislation, is still projected to be in the range of \$790-850 million; however, we continue to believe that operating income is more likely to be in the lower end of the range for 2008. We are entering into a period of unusual earnings uncertainty. Therefore, the guidance range for 2008 does not capture as high a percentage of the potential outcomes as usual. These projections and the underlying assumptions involve significant risks and uncertainties, including those described below and actual results may vary significantly from these current projections.

DaVita will be holding a conference call to discuss its results for the fourth quarter ended December 31, 2007 on February 13, 2008 at 5PM Eastern Time. The dial in number is (800) 399-4406. A replay of the conference call will be available on DaVita's official web page, <http://www.davita.com/>, for the following 30 days.

This release contains forward-looking statements, including statements related to our 2008 operating results. Factors which could impact future results include the uncertainties associated with governmental regulations, general economic and other market conditions, accounting estimates and the risk factors set forth in the Company's SEC filings, including its Form 10-Q for the quarter ended September 30, 2007. The forward-looking statements should be considered in light of these risks and uncertainties.

These risks and uncertainties include those relating to:

- the concentration of profits generated from commercial payor plans,
- continued downward pressure on average realized payment rates from commercial payors and possible reductions in government payment rates,
- changes in the structure of and payment rates under the Medicare ESRD Program which may further reduce Medicare payment rates,
- changes in pharmaceutical or anemia management practice patterns, payment policies, or pharmaceutical pricing,
- our ability to maintain contracts with physician medical directors,
- legal compliance risks, including our continued compliance with complex government regulations and compliance with the corporate integrity agreement applicable to the dialysis centers acquired from Gambro Healthcare and assumed in connection with such acquisition, and
- the resolution of ongoing investigations by various federal and state governmental agencies.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in underlying factors, new information, future events or otherwise.

This release contains non-GAAP financial measures. For reconciliations of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see the attached reconciliation schedules.

DAVITA INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

(dollars in thousands, except per share data)

|                                                         | Three months ended<br>December 31, |             | Year ended<br>December 31, |              |
|---------------------------------------------------------|------------------------------------|-------------|----------------------------|--------------|
|                                                         | 2007                               | 2006        | 2007                       | 2006         |
| Net operating revenues                                  | \$1,354,869                        | \$1,272,617 | \$5,264,151                | \$ 4,880,662 |
| Operating expenses and charges:                         |                                    |             |                            |              |
| Patient care costs                                      | 927,503                            | 872,556     | 3,590,344                  | 3,390,351    |
| General and administrative                              | 134,987                            | 124,457     | 491,236                    | 453,516      |
| Depreciation and amortization                           | 51,392                             | 45,209      | 193,470                    | 173,295      |
| Provision for uncollectible accounts                    | 34,996                             | 32,908      | 136,682                    | 126,203      |
| Minority interests and equity income, net               | 10,728                             | 8,976       | 45,485                     | 35,833       |
| Valuation gain on Alliance and Product Supply Agreement | -                                  | -           | (55,275)                   | (37,968)     |
| Total operating expenses and charges                    | 1,159,606                          | 1,084,106   | 4,401,942                  | 4,141,230    |
| Operating income                                        | 195,263                            | 188,511     | 862,209                    | 739,432      |
| Debt expense                                            | (62,651)                           | (69,907)    | (257,147)                  | (276,706)    |
| Other income                                            | 5,329                              | 2,915       | 22,460                     | 13,033       |
| Income from continuing operations before income taxes   | 137,941                            | 121,519     | 627,522                    | 475,759      |
| Income tax expense                                      | 52,224                             | 47,390      | 245,744                    | 186,430      |
| Income from continuing operations                       | 85,717                             | 74,129      | 381,778                    | 289,329      |
| Discontinued operations                                 |                                    |             |                            |              |
| Gain on disposal of discontinued operations, net of tax | -                                  | -           | 362                        | -            |
| Net income                                              | \$85,717                           | \$74,129    | \$381,778                  | \$289,691    |
| Earnings per share:                                     |                                    |             |                            |              |
| Basic earnings per share from continuing operations     | \$0.80                             | \$0.71      | \$3.61                     | \$2.79       |
| Basic earnings per share                                | \$0.80                             | \$0.71      | \$3.61                     | \$2.80       |

|                                                       |             |             |             |             |
|-------------------------------------------------------|-------------|-------------|-------------|-------------|
| Diluted earnings per share from continuing operations | \$0.79      | \$0.70      | \$3.55      | \$2.73      |
| Diluted earnings per share                            | \$0.79      | \$0.70      | \$3.55      | \$2.74      |
| Weighted average shares for earnings per share:       |             |             |             |             |
| Basic                                                 | 106,885,553 | 104,193,829 | 105,893,052 | 103,520,254 |
| Diluted                                               | 108,250,536 | 106,219,281 | 107,418,240 | 105,793,246 |

DAVITA INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(dollars in thousands)

|                                                                                              | Year ended<br>December 31, |             |
|----------------------------------------------------------------------------------------------|----------------------------|-------------|
|                                                                                              | 2007                       | 2006        |
| Cash flows from operating activities:                                                        |                            |             |
| Net income                                                                                   | \$381,778                  | \$289,691   |
| Adjustments to reconcile net income to cash provided by operating activities:                |                            |             |
| Depreciation and amortization                                                                | 193,470                    | 173,295     |
| Valuation gain on Alliance and Product Supply Agreement                                      | (55,275)                   | (37,968)    |
| Stock-based compensation expense                                                             | 34,149                     | 26,389      |
| Tax benefits from stock award exercises                                                      | 32,788                     | 40,375      |
| Excess tax benefits from stock award exercises                                               | (25,541)                   | (37,251)    |
| Deferred income taxes                                                                        | 18,601                     | 2,342       |
| Minority interests in income of consolidated subsidiaries                                    | 46,702                     | 38,141      |
| Distributions to minority interests                                                          | (48,029)                   | (32,271)    |
| Equity investment income                                                                     | (1,217)                    | (2,308)     |
| (Gain) loss on disposal of discontinued operations and other dispositions                    | (2,825)                    | 239         |
| Non-cash debt and non-cash rent charges                                                      | 12,713                     | 27,736      |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: |                            |             |
| Accounts receivable                                                                          | 15,911                     | (74,737)    |
| Inventories                                                                                  | 11,271                     | (18,587)    |
| Other receivables and other current assets                                                   | (61,049)                   | (34,044)    |
| Other long term assets                                                                       | (14,528)                   | (9,791)     |
| Accounts payable                                                                             | (9,216)                    | 40,712      |
| Accrued compensation and benefits                                                            | 9,691                      | 101,555     |
| Other current liabilities                                                                    | 657                        | 88,841      |
| Income taxes                                                                                 | (12,779)                   | (67,329)    |
| Other long-term liabilities                                                                  | 5,764                      | 4,541       |
| Net cash provided by operating activities                                                    | 533,036                    | 519,571     |
| Cash flows from investing activities:                                                        |                            |             |
| Additions of property and equipment, net                                                     | (272,212)                  | (262,708)   |
| Acquisitions and purchases of other ownership interests                                      | (127,094)                  | (86,504)    |
| Proceeds from divestitures and asset sales                                                   | 12,289                     | 22,179      |
| Purchase of investments available-for-sale                                                   | (52,085)                   | (3,726)     |
| Purchase of investments held-to-maturity                                                     | (23,061)                   | -           |
| Proceeds from sale of investments available-for-sale                                         | 32,274                     | 3,030       |
| Maturities of investments                                                                    | 4,795                      | -           |
| Purchase of a non-controlling ownership interest in an unconsolidated joint venture          | (17,550)                   | -           |
| Contributions from minority owners                                                           | 18,463                     | 21,263      |
| Purchase of intangible assets                                                                | (2,291)                    | (5,597)     |
| Net cash used in investing activities                                                        | (426,472)                  | (312,063)   |
| Cash flows from financing activities:                                                        |                            |             |
| Borrowings                                                                                   | 13,113,640                 | 6,354,784   |
| Payments on long-term debt                                                                   | (13,160,942)               | (6,761,743) |
| Deferred financing costs                                                                     | (4,511)                    | (2)         |
| Purchase of treasury stock                                                                   | (6,350)                    | -           |
| Excess tax benefits from stock award exercises                                               | 25,541                     | 37,251      |
| Stock award exercises and other share issuances, net                                         | 62,902                     | 40,593      |
| Net cash provided by (used in) financing activities                                          | 30,280                     | (329,117)   |
| Net increase (decrease) in cash and cash equivalents                                         | 136,844                    | (121,609)   |
| Cash and cash equivalents at beginning of period                                             | 310,202                    | 431,811     |

Cash and cash equivalents at end of period      \$447,046    \$310,202

DAVITA INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)  
(dollars in thousands, except per share data)

|                                                                   | December 31,<br>2007 | December 31,<br>2006 |
|-------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                     |                      |                      |
| Cash and cash equivalents                                         | \$ 447,046           | \$310,202            |
| Short-term investments                                            | 40,278               | 4,734                |
| Accounts receivable, less allowance<br>of \$195,953 and \$171,757 | 927,949              | 932,385              |
| Inventories                                                       | 80,173               | 89,119               |
| Other receivables                                                 | 198,744              | 148,842              |
| Other current assets                                              | 34,482               | 25,124               |
| Deferred income taxes                                             | 247,578              | 199,090              |
| Total current assets                                              | 1,976,250            | 1,709,496            |
| Property and equipment, net                                       | 939,326              | 849,966              |
| Amortizable intangibles, net                                      | 183,042              | 203,721              |
| Investments in third-party dialysis businesses                    | 19,446               | 1,813                |
| Long-term investments                                             | 22,562               | 13,174               |
| Other long-term assets                                            | 35,401               | 45,793               |
| Goodwill                                                          | 3,767,933            | 3,667,853            |
|                                                                   | <b>\$6,943,960</b>   | <b>\$6,491,816</b>   |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                                                                                                                                                                     |                    |                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Accounts payable                                                                                                                                                    | \$ 225,461         | \$251,686          |
| Other liabilities                                                                                                                                                   | 486,151            | 473,219            |
| Accrued compensation and benefits                                                                                                                                   | 334,961            | 341,766            |
| Current portion of long-term debt                                                                                                                                   | 23,431             | 20,871             |
| Income taxes payable                                                                                                                                                | 16,492             | 24,630             |
| Total current liabilities                                                                                                                                           | 1,086,496          | 1,112,172          |
| Long-term debt                                                                                                                                                      | 3,683,887          | 3,730,380          |
| Other long-term liabilities                                                                                                                                         | 83,448             | 50,076             |
| Alliance and product supply agreement, net                                                                                                                          | 41,307             | 105,263            |
| Deferred income taxes                                                                                                                                               | 166,055            | 125,642            |
| Minority interests                                                                                                                                                  | 150,517            | 122,359            |
| Commitments and contingencies                                                                                                                                       |                    |                    |
| Shareholders' equity:                                                                                                                                               |                    |                    |
| Preferred stock (\$0.001 par value, 5,000,000<br>shares authorized; none issued)                                                                                    |                    |                    |
| Common stock (\$0.001 par value, 450,000,000<br>and 195,000,000 shares authorized;<br>134,862,283 shares issued; 107,130,127<br>and 104,636,608 shares outstanding) | 135                | 135                |
| Additional paid-in capital                                                                                                                                          | 707,080            | 630,091            |
| Retained earnings                                                                                                                                                   | 1,515,290          | 1,129,621          |
| Treasury stock, at cost<br>(27,732,156 and 30,225,675 shares)                                                                                                       | (487,744)          | (526,920)          |
| Accumulated other comprehensive<br>(loss) income                                                                                                                    | (2,511)            | 12,997             |
| Total shareholders' equity                                                                                                                                          | 1,732,250          | 1,245,924          |
|                                                                                                                                                                     | <b>\$6,943,960</b> | <b>\$6,491,816</b> |

DAVITA INC.  
SUPPLEMENTAL FINANCIAL DATA  
(unaudited)

(dollars in millions, except for per share and per treatment data)

|  | Three months ended<br>Dec. 31, Sept. 30,<br>2007 | Dec. 31,<br>2006 | Year ended<br>Dec. 31,<br>2007 |
|--|--------------------------------------------------|------------------|--------------------------------|
|--|--------------------------------------------------|------------------|--------------------------------|

Financial Results  
excluding gains from insurance  
settlements, the valuation gain  
on the product supply agreement

and gains on sale of investment

securities:

|                                                                                     |         |         |         |          |
|-------------------------------------------------------------------------------------|---------|---------|---------|----------|
| Net income (1)                                                                      | \$85.7  | \$89.3  | \$74.1  | \$340.3  |
| Diluted earnings per share                                                          | \$0.79  | \$0.83  | \$0.70  | \$3.17   |
| Operating income (1)                                                                | \$195.3 | \$205.6 | \$188.5 | \$800.2  |
| Operating income margin                                                             | 14.4%   | 15.6%   | 14.8%   | 15.2%    |
| Other comprehensive income                                                          |         |         |         |          |
| Unrealized loss on securities, net of tax benefits of \$4.8, \$5.1, \$0.7 and \$9.9 | \$(7.5) | \$(8.0) | \$(1.1) | \$(15.5) |

#### Business Metrics:

##### Volume

|                                    |           |           |           |            |
|------------------------------------|-----------|-----------|-----------|------------|
| Treatments                         | 3,983,542 | 3,842,763 | 3,723,198 | 15,318,995 |
| Number of treatment days           | 79.6      | 78.0      | 78.6      | 313        |
| Treatments per day                 | 50,045    | 49,266    | 47,369    | 48,942     |
| Per day year over year increase    | 5.6%      | 6.1%      | 7.0%      | 5.5%       |
| Non-acquired growth year over year | 4.6%      | 5.2%      | 5.5%      | 4.6%       |

##### Revenue

|                                                         |          |          |          |          |
|---------------------------------------------------------|----------|----------|----------|----------|
| Total operating revenue                                 | \$1,355  | \$1,318  | \$1,273  | \$5,264  |
| Dialysis revenue per treatment, including the lab       | \$328.11 | \$333.57 | \$334.45 | \$334.26 |
| Per treatment (decrease) increase from previous quarter | (1.6%)   | (1.3%)   | 0.9%     | -        |
| Per treatment (decrease) increase from previous year    | (1.9%)   | 0.6%     | 4.5%     | 1.2%     |

##### Expenses

##### A. Patient care costs

|                                                                                                                                                      |          |          |          |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|
| Percent of revenue                                                                                                                                   | 68.5%    | 67.5%    | 68.6%    | 68.2%    |
| Per treatment                                                                                                                                        | \$232.83 | \$231.67 | \$234.36 | \$234.37 |
| Per treatment increase (decrease) from previous quarter                                                                                              | 0.5%     | (1.4%)   | 0.3%     | -        |
| Per treatment (decrease) increase from previous year                                                                                                 | (0.7%)   | (0.8%)   | 2.6%     | 0.2%     |
| Per treatment (excluding gains from insurance settlements of \$1.76 and \$0.44 for the third quarter and year ended December 31, 2007, respectively) | -        | \$233.43 | -        | \$234.81 |

##### B. General & administrative expenses

|                                                         |         |         |         |         |
|---------------------------------------------------------|---------|---------|---------|---------|
| Percent of revenue                                      | 10.0%   | 9.1%    | 9.8%    | 9.3%    |
| Per treatment                                           | \$33.89 | \$31.38 | \$33.43 | \$32.07 |
| Per treatment increase (decrease) from previous quarter | 8.0%    | (2.8%)  | 8.1%    | -       |
| Per treatment increase from previous year               | 1.4%    | 1.5%    | 19.9%   | 2.5%    |

##### C. Bad debt expense as a percent

|                           |      |      |      |      |
|---------------------------|------|------|------|------|
| of current-period revenue | 2.6% | 2.6% | 2.6% | 2.6% |
|---------------------------|------|------|------|------|

##### D. Consolidated effective

|                                     |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| tax rate from continuing operations | 37.9% | 39.4% | 39.0% | 39.2% |
|-------------------------------------|-------|-------|-------|-------|

##### Cash Flow

|                                         |         |         |         |         |
|-----------------------------------------|---------|---------|---------|---------|
| Operating cash flow                     | \$223.3 | \$95.8  | \$190.1 | \$533.0 |
| Operating cash flow, last twelve months | \$533.0 | \$499.8 | \$519.6 | \$-     |
| Free cash flow (1)                      | \$184.6 | \$73.5  | \$158.9 | \$421.4 |
| Free cash flow, last twelve months (1)  | \$421.4 | \$395.6 | \$410.4 | \$-     |

Capital expenditures:

|                              |        |        |        |         |
|------------------------------|--------|--------|--------|---------|
| Development and relocations  | \$60.4 | \$48.5 | \$44.5 | \$162.3 |
| Routine maintenance/IT/other | \$39.7 | \$22.6 | \$32.5 | \$113.9 |
| Acquisition expenditures     | \$45.3 | \$75.5 | \$10.9 | \$127.1 |

|                     |       |       |       |
|---------------------|-------|-------|-------|
| Accounts Receivable |       |       |       |
| Net receivables     | \$928 | \$976 | \$932 |
| DSO                 | 66    | 70    | 70    |

|                                                                |         |         |         |
|----------------------------------------------------------------|---------|---------|---------|
| Debt/Capital Structure                                         |         |         |         |
| Total debt, excluding debt premium of \$4.5 million            | \$3,703 | \$3,701 | \$3,751 |
| Net debt, net of cash, excluding debt premium of \$4.5 million | \$3,256 | \$3,309 | \$3,441 |
| Leverage ratio (see Note 1)                                    | 2.99x   | 3.10x   | 3.66x   |

|                                                   |       |       |       |
|---------------------------------------------------|-------|-------|-------|
| Clinical (quarterly averages)                     |       |       |       |
| Dialysis adequacy - % of patients with Kt/V > 1.2 | 94.4% | 93.6% | 92.9% |
| Patients with albumin >= 3.5                      | 83.7% | 82.9% | 84.0% |
| Patients with HCT >= 33                           | 82.4% | 82.8% | 84.7% |

(1) These are non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to their most comparable measure calculated and presented in accordance with GAAP, see attached reconciliation schedules.

#### Note 1: Calculation of the Leverage Ratio

Under the Company's current Senior Secured Credit Facilities (Credit Agreement), the leverage ratio is defined as all funded debt plus the face amount of all letters of credit issued, minus cash and cash equivalents, divided by "Consolidated EBITDA". The leverage ratio determines the interest rate margin payable by the Company for its term loan A and revolving line of credit under the Credit Agreement by establishing the margin over the base interest rate (LIBOR) that is applicable. The following leverage ratio was calculated using "Consolidated EBITDA" as defined in the Credit Agreement. The calculation below is based on the last twelve months of "Consolidated EBITDA", pro forma for the routine acquisitions that occurred during the period. The Company's management believes that the presentation of "Consolidated EBITDA" is useful to investors to enhance their understanding of the Company's leverage ratio under its Credit Agreement.

| Year ended<br>December 31, 2007                                                                           |             |  |
|-----------------------------------------------------------------------------------------------------------|-------------|--|
| Net income                                                                                                | \$381,778   |  |
| Income taxes                                                                                              | 245,744     |  |
| Debt expense including the write-off of deferred financing costs, (excluding other cash charges of \$180) | 256,967     |  |
| Depreciation and amortization                                                                             | 193,470     |  |
| Minority interests and equity income, net                                                                 | 45,485      |  |
| Valuation gain on Product Supply Agreement                                                                | (55,275)    |  |
| Other                                                                                                     | (300)       |  |
| Stock-based compensation expense                                                                          | 34,149      |  |
| "Consolidated EBITDA"                                                                                     | \$1,102,018 |  |
| December 31,<br>2007                                                                                      |             |  |
| Total debt, excluding debt premium of \$4.5 million                                                       | \$3,702,839 |  |
| Letters of credit issued                                                                                  | 41,002      |  |
|                                                                                                           | 3,743,841   |  |
| Less: cash and cash equivalents                                                                           | (447,046)   |  |

|                                          |             |
|------------------------------------------|-------------|
| Consolidated net debt                    | \$3,296,795 |
| Last twelve months "Consolidated EBITDA" | \$1,102,018 |
| Leverage ratio                           | 2.99x       |

In accordance with the Company's Credit Agreement, the Company's leverage ratio cannot exceed 5.25 to 1.0 as of December 31, 2007. At that date, the Company's leverage ratio did not exceed 5.25 to 1.0.

# RECONCILIATIONS FOR NON-GAAP MEASURES (unaudited) (dollars in thousands)

## 1. Net income excluding gains from insurance settlements, the valuation gain on the product supply agreement and gains on the sale of investment securities

Net income excluding gains from insurance settlements, the valuation gain on the product supply agreement and gains on the sale of investment securities held by us, excludes certain unusual or non-recurring items in order to present a measure of net income that is more reflective of the normal day-to-day operations of our business. Gains from insurance settlements relates to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers. The valuation gains on the product supply agreement with Gambro Renal Products reflect non-cash items. In 2006, the valuation gain resulted from the modification of the product supply agreement, that reduced our required purchase obligations, and in 2007, the valuation gain resulted from an additional modification of the product supply agreement, which resulted in the termination of our obligation to purchase dialysis machines from Gambro Renal Products Inc. under that agreement. Gains on the sale of investment securities related to the sale of our common stock in NxStage. We believe that the exclusion of each of these items enhances a user's understanding of our normal operations and performance and that the adjusted amount of net income is more comparable to prior periods and therefore more indicative of our performance for purposes of period over period comparison. Our management eliminates these items when evaluating our operating performance. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to net income.

|                                           | Three months ended |                | Year ended    |               |               |
|-------------------------------------------|--------------------|----------------|---------------|---------------|---------------|
|                                           | Dec. 31, 2007      | Sept. 30, 2007 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 |
| Net income                                | \$85,717           | \$ 94,455      | \$74,129      | \$381,778     | \$289,691     |
| Less: Gains                               |                    |                |               |               |               |
| on insurance settlements                  | -                  | (6,779)        | -             | (6,779)       | -             |
| Valuation gain                            | -                  | -              | -             | (55,275)      | (37,968)      |
| Gain on the sale of investment securities | -                  | (1,634)        | -             | (5,868)       | -             |
| Add: Related income tax                   | -                  | 3,273          | -             | 26,422        | 14,770        |
|                                           | \$85,717           | \$ 89,315      | \$74,129      | \$340,278     | \$266,493     |

## 2. Operating income excluding pre-tax gains from insurance settlements, and the pre-tax valuation gain on the product supply agreement

Operating income excluding gains from insurance settlements, and the valuation gain on the product supply agreement, excludes certain unusual or non-recurring items in order to present a measure of operating income that is more reflective of the normal day-to-day operations of our business. Gains from insurance settlements relates to insurance proceeds from Hurricane Katrina and from a fire that destroyed one of our centers. The valuation gains on the product supply agreement with Gambro Renal

Products reflect non-cash items. In 2006, the valuation gain resulted from the modification of the product supply agreement, that reduced our required purchase obligations, and in 2007, the valuation gain resulted from an additional modification of the product supply agreement, which resulted in the termination of our obligation to purchase dialysis machines from Gambro Renal Products Inc. under that agreement. We believe that the exclusion of each of these items enhances a user's understanding of our normal operations and performance and that the adjusted amount of operating income is more comparable to prior periods and therefore more indicative of our performance for purposes of period over period comparison. Our management eliminates these items when evaluating our operating performance. This measure is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative operating income.

|                                        | Three months ended |                |               | Year ended    |               |
|----------------------------------------|--------------------|----------------|---------------|---------------|---------------|
|                                        | Dec. 31, 2007      | Sept. 30, 2007 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 |
| Operating income                       | \$195,263          | \$212,412      | \$188,511     | \$862,209     | \$739,432     |
| Less: Gains from insurance settlements | -                  | (6,779)        | -             | (6,779)       | -             |
| Valuation gain                         | -                  | -              | -             | (55,275)      | (37,968)      |
|                                        | \$195,263          | \$205,633      | \$188,511     | \$800,155     | \$701,464     |

### 3. Free cash flow

Free cash flow represents net cash provided by operating activities less capital expenditures for routine maintenance and information technology. We believe free cash flow is a useful adjunct to cash flow from operating activities and other measurements under United States generally accepted accounting principles, since free cash flow is a meaningful measure of our ability to fund acquisition and development activities and meet our debt service requirements. Free cash flow is not a measure of financial performance under United States generally accepted accounting principles and should not be considered as an alternative to cash flows from operating, investing or financing activities, as an indicator of cash flows or as a measure of liquidity.

|                                                                       | Three months ended |                    |                   |
|-----------------------------------------------------------------------|--------------------|--------------------|-------------------|
|                                                                       | December 31, 2007  | September 30, 2007 | December 31, 2006 |
| Cash provided by operating activities                                 | \$223,326          | \$95,778           | \$190,108         |
| Less: Expenditures for routine maintenance and information technology | (38,688)           | (22,229)           | (31,214)          |
| Free cash flow                                                        | \$184,638          | \$73,549           | \$158,894         |

|                                                                       | Rolling 12-Month Period |                    |                   |
|-----------------------------------------------------------------------|-------------------------|--------------------|-------------------|
|                                                                       | December 31, 2007       | September 30, 2007 | December 31, 2006 |
| Cash provided by operating activities                                 | \$533,036               | \$499,818          | \$519,571         |
| Less: Expenditures for routine maintenance and information technology | (111,663)               | (104,189)          | (109,131)         |
| Free cash flow                                                        | \$421,373               | \$395,629          | \$410,440         |

First Call Analyst:

FCMN Contact: LeAnne.Zumwalt@davita.com

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CONTACT: LeAnne Zumwalt, Investor Relations of DaVita Inc.,  
+1-650-696-8910

Web site: <http://www.davita.com/>

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