Network Healthcare Holdings Limited

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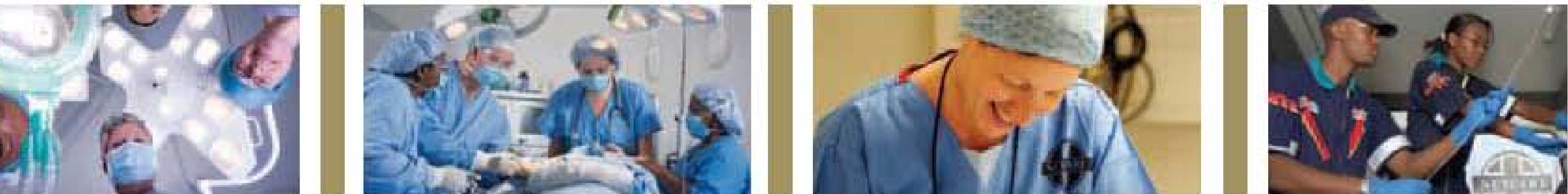

Netcare Analysts Day

Web cast – 07 August 2007

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***Richard Friedland** – Netcare: Chief Executive Officer*

Ryan is going to take us through a presentation of our hospital division and our emergency services. Thanks very much.

***Ryan Noach** - Netcare: Chief Operating Officer*

Good morning everyone, it is really great to have you all here. Between the South African teams and the United Kingdom teams, we have formed quite a good relationship. Adrian arrived this morning and said to Richard, where is Ryan, I have not seen him yet and Richard said, well, he has gone to a circumcision. So Adrian said, you mean he is going to have a circumcision and then come and present to the analysts? These South Africans are tough. That is why we are going to beat you in the rugby Adrian. We are going to touch on some of the operational issues driving growth in South Africa. Some of the top line issues in South Africa and then look at some of the operational efficiencies and hopefully summarise with the discussion about the outlook for the South African operations, hospital and emergency services' operations for the remainder of this financial year.

The growth in hospital activity as we showed you at the end of March this year has been impressive and this growth is continuing to sustain throughout the hospital division. We have seen it come down from the 4.1% to the region of about 3.5%, but we see that the continued utilisation factors that Melanie spoke about earlier; the prevalence of lifestyle diseases is pushing these patient days to satisfactory levels. At the moment as we stand here today, the occupancies in our hospital divisions are very, very high and with the seasonal peak that happens at this time of the year with all the respiratory infections, we really do take up a lot of the capacity that does exist. Today for example, in the coastal region, the average occupancy across the coastal region, been both Kwazulu Natal and the Western Cape is 74% and really, at occupancy of 75%, a private hospital is full. On the weekend, our elective cases tend to dip and the beds empty out. So to be 75% occupied on a 7 day basis means that during the week, these hospitals are really full. I think that is a very good sign for us because we have made recent large investments in the coastal region, been the Alberlito and the Blaauwberg hospitals and so clearly these investments are in the right places where we are seen good volumes coming through at the moment.

You will see that average length of stay has ticked up marginally and this we attribute primarily to changes in benefit designs by medical schemes coming into the 2007 calendar year. What happened in 2006 is that medical schemes, in their attempt to contain costs, reduced the benefits around outpatient diagnostic services. So for example, if you are a bad headache sufferer and you needed an

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MRI, that cost would come out of your medical savings account if you were an outpatient. So what typically landed up happening is once medical savings accounts were empty, patients were admitted and many of those diagnostic procedures performed on an inpatient basis and this ended up costing the schemes a little bit extra. So what we are seen now is that they have reversed that benefit design process and so our length of stay has ticked up. We are not really convinced that that particular trend is going to be sustained. All over the world, minimally evasive surgery is becoming far more popular than open procedures, and typically the length of stay in these minimally evasive procedures are lower. So I am sure in time we will see that that length of stay comes back and normalises.

This graph is an interesting graph that I just wanted to tell you about in terms of the respiratory infections this season relative to last season based on the number of respiratory admissions in our facilities. And you can see very clearly the seasonal patterns of respiratory admissions in our facilities, with this time of the year been the peak of respiratory admissions. I think what was interesting for us is that relative to 2006, the peak in 2006 was in June. This year, we are seen what we think is a peak in July / August. So much later manifestation of this seasons respiratory infections and at the same time we are seen a blunted effect this year of this pattern and this peak of respiratory admissions. So the flues this year have not been as bad and the pneumonias have not been as bad and there are not as many of them that we are seen in the wards. There has been great increase in capacity of beds within Netcare with now 8 540 registered beds. And really this has been driven by Netcare's first two Green Field operations, been Alberlito and Blaauwberg, having approximately 200 beds. And then following the Competition Tribunal's recent decision and approval of the acquisition of the balance of shares in community that adds a further 685 registered beds to Netcare. At the moment, of those 685 beds, only about 580 are in use and there are building projects under way as we speak at both N17 hospital on the East Rand and at the Kuilsriver Hospital in the Western Cape and that will take the beds in use up to that registered bed capacity.

There is an exciting pipeline of new hospital builds and we are constantly working on ensuring that we can sustain this organic growth. In an age old preferred provider networks, and you have heard descriptions of those from Jacques and Richard and Melanie how important those preferred provider networks are. Footprint is absolutely vital to Netcare and its hospital operations. And so we are focussing on developing new projects, new hospitals in areas where we previously were not well presented. So the Polakwani hospital is currently under construction and they are busy laying foundations right now at a superb site, very close to Savannah Mall, if any of you know Polakwani, in an area where Netcare has not previously been represented, where occupancy is in the competitor hospital, are high, and where we believe there is a great demand for services.

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Many of these new projects are different to our existing model in that they are been done on a joint venture basis with black empowerment partners. What we have seen is that new hospital licenses are been admitted more to black empowerment partners than they are really to anybody else in the industry and we are please and honoured to partner with these partners to bring to the party capital funding in some cases, certainly the intellectual property and the ability to build and manage these facilities. And then the Limpopo project at Polakwani, we hold a 51% share, the balance of the share is held by a broad based BEE consortium including a large number of doctors, GPs and specialists right across that province. Of course we continue to reinvest constantly in our own facilities and that to ensure that we maintain this leading edge in terms of the technology that we are delivering. Our investment is focussed in high revenue generating areas. If you glance at some of the examples, you can see there is a focus on ICU's, on trauma units, certainly on maternity. These are high revenue generating areas. For me, what is exciting about some of these developments is that the feasibility is that we work on prior to initiating these projects, we are able to achieve at the moment and we really are making those investment hurdles.

The Park Lane neonatal ICU for example is a 16 bed, dedicated neonatal ICU. Now 16 beds dedicated to neonates is a pretty large neonatal ICU, and within 2 weeks of opening this neonatal ICU at Park Lane, the occupancy of that unit was 100% for that particular month. So we really are seen that capacity been taken up. At the Linksfield ICU for example, we have put in the first negative pressure cubicals that we have put in the entire Netcare Group. So what this does is, there is a negative pressure in terms of the airflow in these particular isolation cubicals which makes circumstances absolutely ideal for infection control and particularly for the increased number of TB patients and resistant TB patients that we are seen. This type of technological advance is very, very important. The Linksfield team is led by a group of 3 remarkable respiratory physicians. And to be able to partner these physicians with this new technology is really core and fundamental to Netcare.

We have developed under Peter Nelsons' guidance, a strict discipline around our approach to capital expense and capital investment with very clear hurdle rates and feasibilities that are required to meet those hurdle rates prior to the project and of course, retrospectively, looking back at those projects and ensuring that we are achieving those hurdles. I have given you an example here from the capital investment at Sunninghill hospital, just down the road from here, over the past 5 years, where you can see that that capital investment after 5 years has resulted in a cash flow return on investment of 26%. That is an exceptional example and is an excellent return at Sunninghill hospital and Sunninghill really been a great success story, particularly around the cardiac services and the other high-tech services that are delivered there. But for each and every project, that we undertake, we perform these retrospective analyses to make sure we are achieving the targets we are setting. You can see that

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obviously this ticks up over time and although the cash flow return on investment depends on the replacement cost of the assets, or is calculated based on the replacement costs of the assets. You can see how sensitive this model is to the occupancy and the utilisation of that unit. And clearly that plateaus once we reach capacity in the unit.

There was a question here earlier from a gentleman around the cost to build a bed and Richard alluded to R1.2 million fully equipped for a bed. That was the cost of building Alberlito and ultimately the cost of building Blaauwberg when its beds reach capacity. But what we are seen is, we are seen significant inflation in the construction sector that is making these feasibilities more difficult and that should certainly, is making the cost of construction higher. So we did an interesting exercise just 2 weeks ago and we re-costed the Blaauwberg construction at today's costs versus what it cost us to build when we started construction there just 2 years ago. And that cost is 19% higher. So whether this construction inflation will be sustained to beyond 2010, once the Gautrain and the stadiums and so on are complete, I don't know, but we certainly are been affected by this inflation in the sector at the moment.

Speaking about those new hospitals, this is a pleasing slide for me to show that the break even occupancy on a monthly basis at an EBITDAR level has been achieved both at the Alberlito and the Blaauwberg facilities. You can see that Alberlito in June just popped above that break even mark; it was assisted by the public sector strike when Alberlito absorbed some of the capacity for the State sector. Blaauwberg, you can see that projectory there been very favourable. And the demographics in the Blaauwberg region are ideal for this new facility and really are supporting the facility which is a flagship for Netcare. A remarkable facility that we invite you all to visit at some stage, hopefully just as a visitor and not as a patient.

This research comes from a Mckinsey Analysis around understanding what motivates doctors, particularly and distinctly to choose a particular hospital, to establish an allegiance and a loyalty with that hospital and to continue working at that facility. And we really, in our doctor alignment strategy are building our alignment around these various segments of doctors who each have specific needs. Just to give you an example, for example, these doctors that are non-financially orientated, and are academic clinicians, this is something that we are seen quite prominently in our hospital division at the moment. The specialists are aging, there is no doubt about that and with these aging specialists, what happens is, they obviously achieve a lifestyle that they are comfortable, there is sufficient wealth creation and there is a requirement from them to give back in the form of academic participation and mentoring young people that are coming up through the speciality. Now the incorporation of the UCT academic hospital through community hospital group into our group, the full incorporation of that is

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significant for us because there we have a partnership with the medical school at the University of Cape Town and we believe we can really build something special in Cape Town, which is right in the heart of our competitors country. To meet specifically this segment of doctors' needs but obviously also filtering across the other segments. We also have relationships with the University of Pretoria and the University of Stellenbosch and particularly at Pretoria, we have established two professorial roles that the Unitas hospital in Centurion where both on the gastroenterology and on the laparoscopic surgery side, we have students, registrars, post graduate students rotating through that private hospital, been trained in that private environment. But for each of these kinds of segmented areas, there is a focused and particular strategy.

Coming from the same McKinsey research, this analysis really looked at what doctors were prepared to sacrifice in dollar terms from their earnings, in order to value or to place a value on a hospital specific's attributes. And I am not going to take you through the detail, it was divided into facilities and grounds, commuting times, which is very important in South Africa, now Joburg particularly, reputation and lifestyle and what was interesting to me out of this, was that lifestyle sort of takes the cake and wins hands down. And we are seen this change in dynamic with our doctors in the group. And in fact, where we used to get a push back from doctors, when we wanted to bring new specialists into a facility, we are seen now, larger practices and much more intra-disciplinarily competition been encouraged, which is a good thing particularly for Netcare, at these facilities, probably driven by this lifestyle phenomenon of choosing better work balance. Our strategies for doctor alignment, I have tried to summarise for you in 5 headings: patient safety, patient care, patient satisfaction is first and foremost by some margin, there is no doubt about that. And we have a number of programs underway here in Netcare to drive these issues and monitor these issues and try and take an industry leadership position, particularly with respect to clinical governance. Through our foray into the United Kingdom where clinical governance is much better established than in our country, we have been able to take some of those learnings, bring them back to South Africa and they are now in discussions with the South African Medical Association through our Medical Director, Professor Dion Du Plessis, to in fact establish a Clinical Governance Association led by Professor Du Plessis at this stage for the country.

Continuing professional development is ongoing and Richard was at Christian Barnard Memorial hospital last week seen some of the staff and doctors and witnessed this incredible continuing professional development program run by the cardio thoracic guys at a facility which is named after of course a very famous cardio thoracic surgeon. With 60 to 80 general practitioners coming on a monthly basis to interact with the specialists, and work through this continuing professional

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development process. There is clearly mutual benefit and for the loyalty that is created that is marvellous.

There is a big focus on general practitioners and it ties very closely to Jacques eloquent description of what is happening in the primary health care market. This practice development consultants program is something we are quite excited about and I have got a slide to show you some more detail on it. But we have adopted a very sales orientated approach to building these relationships between general practitioners and specialists. And here we are looking at a conversion rate of how many referrals we can facilitate between general practitioners and specialists on totally ethical grounds, but purely through customer relationship management and really entertaining and improving the relationship between the stakeholders. The relationship with Medicross we believe could also be better, closer between Medicross and the Netcare hospital division and Jacque and I are working very, very closely at the moment to see how some operational structures could be integrated even further to try and leverage this relationship and to build strong ties between the GPs and the Medicross chain and the specialists in the Netcare hospitals. Medicross has also assisted now with a practice management system. We are about to roll it out to specialists to say to a new specialist who is going into practice, one of their biggest fears is how do they administer their practice? So we are going to give them a platform of a complete practice administration solution with a shopping list of services that we provide them. Really, they can pick and choose what they want all the way through to factoring their book if that is what they are looking for and we can really add value to their practices which becomes an incredible retention tool for Netcare in terms of our relationship with those doctors.

Along the lines of this, you know, we were talking about hospital construction costs. About R100 000 per bed of our construction costs is attributed to doctor's rooms. So we are looking in our attempts to reduce the costs of building facilities, to build the doctor's rooms in a different way, totally different, completely different paradigm to how specialists look in private hospitals at the moment. Much more like the Medicross model on a much smaller scale with consulting and examination areas and centralised admin platforms. So watch this space and I think there are some nice developments coming there. And then of course recognising excellence in that academic affiliation is very, very important and I am going to talk to centres of excellence in a moment. Just on the practice development consultant program that I told you about, there are 12 consultants in branded vehicles with PDA connectivity which is monitored centrally. They have a daily schedule and that schedule really includes visits to GP's and specialists and perhaps some functions to entertain GP's and specialists together and centrally we monitor their attendance to those various functions and meetings and we can measure that quite critically based on the average revenue per month turnover for the particular doctors that are party to the program. Currently we have 104 specialists enrolled on the

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program and we are seen significant growth in their revenue contribution to Netcare, just based purely on this relationship building program. As a doctor who qualified at Wits University, if I had to go and open up a practice in Cape Town, I would really have no referral base because the referral base comes from the people that you were at class with, that were ahead of you or behind you. So for guys in that kind of situation and there are many of them joining Netcare in that type of situation, this is a very important program and I think quite an innovative one as well.

So we have spoken about segmenting the doctors, well of course it is important to segment patients expectations and understand what various groupings of patients are saying are the particular factors that make them choose a hospital. And in this McKinsey analysis you see, the group of patients here said that keeping them informed, really was the most important factor that made them choose a particular hospital or choose to go back to a particular hospital and you can see in terms of keeping them informed, Netcare is doing 4 of the 6 issues here and certainly this last one here is underway. Designated staff members following the case, this road to recovery packet, it is a marvellous development in Netcare. On our web now we have put together patient information brochures which we purchased together with GHG and we share this library now of patient information brochures. So that a patient coming to a facility for a hip replacement or an appendectomy, not only can book their pre-admission online now with Netcare, but at the same time, can pull of Netcare's website generic information about the procedure to give them more information around the form consent process. Really, it is around keeping the informed. So I am please that our strategy is around this patient facing component of the business are reliant on some of the business we see.

In terms of the segmentation of patients, we have just done demographic studies together with Firmridge, an urban consultant group, urban demographics group and what we have done, we have looked at the immediate areas surrounding 17 of our hospitals and overlaid the demographics and living standard needs data of those particular surrounding areas or catchment areas over the patient database to understand where the patients are coming from, to particular facilities, what the income brackets are, what the difference in expectations are of the various patients that are coming to our facilities to really be in touch with out customer, so called been the patient. So as part of the segmentation, of course it is important to see what particular services different hospitals are delivering and more important than an absolute assessment of that is the trend. You take N1 City for example and you see the relationship here between trauma in green and the number of elective cases that they are seen in blue. That is a very dynamic situation and we are seen that situation changing over time. As the competitive situation has changed, and the roads infrastructure has changed, so the trauma at N1 City has tapped off, but the neurosurgical services is there and the centre of excellence we are

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establishing around neurosurgery there has picked up. So for us to understand the trends of what is actually happening in our business, together with the segmentation models are critical.

I apologise for the detail in the slide, but I just wanted to show you something that I found very interesting. You look at the catchment areas, in this column over here; these figures represent the number of kilometres a patient is travelling for 80% of the elective cases at that particular hospital. Now if you look at Sunninghill, you will see that the average patient for 80% of elective cases is travelling 22 kilometres. Now Sunninghill is in an area of dense competition, with a large number of private facilities around it and close to it, Netcare and other competitive groups. Yes patients are still travelling 22 kilometres. So what we see is that specialised services at Sunninghill, the paediatric, cardiac care that we offer there, there neurosurgical care that is offered there, the path lab and electrophysiology services is drawing patients in from a much broader base and so we are trying to niche these services, understanding the customer segmentation models to draw the patients into the facilities. Jacaranda is an extreme example of that. Jacaranda has 2 professors of orthopaedic surgery who are specialists in upper limb surgery. They particularly do hand surgery and the average case, and that is a vast majority of surgery at Jacaranda relates to this orthopaedic surgery. The average patient is travelling 124 kilometres for 80% of the elective surgery at Jacaranda. These are patients coming from Johannesburg, from Limpopo Province, from far and wide to come to these experts to have their surgery done. And these are very interesting dynamic that is particular to each and every particular facility.

Richard said that I would show a slide of the self pay activity and how that relates and how that is grown relative to the medical aid activity in our market. And isn't this fascinating? In green you see the growth in self pay activity per discipline and in blue you see the growth in medical aid activity. And what you will notice is that we have selected out here, certain specialities where self pays growth is outstripping the medical aid group. And the drivers behind this relating to these consumer behaviours are very interesting. I mean, people are making emotional decisions around private health care. When it comes to their children, who typically are the bread and butter of ENT surgeons and obviously paediatricians, they are choosing to come to private hospitals because they are prepared to dig deep and make that payment and they are buying for their children. When they are having babies, they are doing the same thing. And we are seen 6.4% growth in our maternity cases, driven to an extent by the self pay market. It is still a small portion of our overall revenue; don't let me confuse you around that. But the growth here is exciting. And then in the casualty market, we are seen this significant demand for all hours outpatient emergency care and the self pay market there is really becoming a big portion of the revenue in fact within the casualty market. The neurology self pay patients, particularly the Alzheimer’s one, don't always remember that they paid for the service and they obviously tend to keep

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coming back. So when we are talking about niching the services, I wanted to give you actually a tangible concrete example of that. So it is not kind of up in the air, you must have a relative of Alzheimer's, because you...

Bariatric surgery, obesity is a lifestyle disease that is on the increase worldwide. And Bariatric surgery has been proven in large evidence based studies, to really result in significant and sustained weight loss, with almost an immediate cure of diabetes in many cases, non insulin dependent diabetes and resolution of hypertension and other chronic diseases. So Bariatric surgery, the treatment of obesity through surgery to the stomach had become an evidence based medicine, very powerful and very important. So what Netcare did is we associated ourselves with a leading endocrinologist in South Africa, Professor Tessa van der Merwe who really wrote her PHD in obesity and we set up 6 Bariatric centres of excellence throughout South Africa, which we had internationally accredited. We brought the team out from Sweden, which is an international panel who does this accreditations and they came and accredited the facility, the surgeon, the endocrinologist, the psychologist, the dietician, the whole system and we set up 6 of these. We then set up a call centre to try and advise and garner this work from patients who are suffering from obesity and in green, and I apologise here, the legend here has got it the wrong way around, in green you can see the number of calls received at the call centre and in blue you can see the conversion to surgeries performed which is reflected on this right hand axis. The spike here was when we launched it. There was some interest around the launch and there was some media coverage around the launch and the call centre just received a ton a calls and that was followed by an upswing in cases. We took a decision not to market it at that stage because the centres were new and we wanted to make sure we were delivering the care to the standard that we required. And so it tailed off in the numbers and in June this year, our market department again ran another campaign which you may have seen around the Bariatric surgery at Netcare hospitals. It was mostly a print media campaign, the call centre calls picked up and obviously the conversion to surgery picked up. This is something we have not typically done in our industry before. This is a very sales oriented approach, but certainly is bringing patients to our hospitals. Lots of kilometres like those graphs I showed you earlier, the table I showed you earlier for specialised services.

The care we deliver is about quality. It is about the people who deliver the care, this is a business about people, it is its people and it is about quality. You know, a couple of months ago, my gran who is an Alzheimer's sufferer, that is why I am allowed to make the joke, she is in a home and she had a heart attack and collapsed. I was unfortunately unavailable, I was out of town. So they phoned 082911, Netcare 911 responded there and transported her to Sunninghill hospital to Dr Jeff King, a cardiologist there. They wrote an article, Richard and I read last night. She was in the casualty unit at Sunninghill hospital for just under an hour. She was the cardio catheterisation lab at about an hour

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and a quarter. She had a stent in place about 45 minutes after that. She was in the ICU for the rest of the afternoon and overnight and been an elderly patient with other [unclear] diseases, you want to get that patient out of hospital. She was back in the old age home the next morning. Now as a medical practitioner who has visited many hospitals and many places in the world, I tell you that is world class care. So I deliver this presentation with real pride, because the quality that is delivered out there in our facilities is astounding. It is substantiated by some of the data that we are seeing out of our medical division under Dr Kim Foray's guidance here with clinical governance. Where you see that our hospital acquired infections are lower than any international benchmarks, and I am not going to go through all the detail. But it is important for you to know that we are actually investing in measuring these systems. At a trauma level, we have invested in an American system called Trauma Bank, where we put all the data of trauma patients from all 32 of our trauma units into this database and we benchmark using injury severity scores and apache scores, other international scores. We benchmark our outcome.

At a neonatal level, we have joined the Vermont Oxford Neonatal database and the data that we have got out of here has been really exciting. On a case next adjusted basis, in other words, taking into account the severity of the babies been admitted to the units. Our mortality rate in the neonatal ICU is about 1% lower than the rest of the worlds and on this Vermont Oxford Neonatal database of 560 odd neonatal facilities from all over the world. So quality and quality reporting is going to become a much bigger part of what we do. Just to touch with one slide on Netcare 911, I could not get through a presentation with a slide on 911. The big story on 911 at the moment is really the expatriate influx that we are seeing into the sweaty armpits of Africa here and along the West Coast of Africa. Really driven by the oil and gas industry and the support industries around that, the Middle East been a little bit unpalatable at the moment, high cost of security and high risk and big premiums paid to staff in the Middle East. There is a lot of exploration happening along the West Coast, many of you may analyse some of these oil and gas companies and know the story much better than us. But where it manifests for us is all of these patients are insured and to be quite frank, if you get sick, even mildly ill anywhere on that Sub Saharan coastline or the West Coast of Africa, you need to come to South Africa for care. Now what the international insurers are seen is that there are patients in Nigeria, who typically used to fly to France for care or fly back to Europe for care on about a 9 hours flight. They are now choosing on the same 9 hour flight to fly those patients to South Africa because the quality is good, if not better, and the costs are much, much lower. So we had a BUPA delegation out here last month, a big delegation that came to inspect the hospitals and the credit facilities and they have committed from the 1st of September, to use Netcare 9110 medical division and this is driving that growth. It is a bit of a messy graph, but 2004 through 2007 you can see the growth in hours flown on 911's aircraft. This was high margin work and it is certainly helping the road ambulance part of the business, which as

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you well know is a very difficult part of the business to sustain. So this is an exciting story in 911 and we hope to keep you apprised of the developments here.

I am going to go quite quickly through the last few slides and just touch very briefly on operational efficiencies. The big story on the efficiencies is clearly around the implementation of the ERP system and we have chosen to implement SAP and that allows a centralisation, it allows efficiency, it allows rationalisation and also very important from my point of view, it is going to provide a much better service to the patient. We are going to have a single medical record right across the business. So a patient goes to Medicross or goes to 911, or comes to a Netcare hospital, we will have all their information. There are great, great benefits there. This is really the major efficiency initiative. Already in Netcare we have a number of centralised services and we are looking at sharing services at Netcare to enhance this efficiency. We look at league tables on a monthly basis and are measuring all the time, particularly through budgeting process and so on, productivity measures and benchmarks and we are trying to cost these various initiatives, benchmark ourselves against other groups and internally and understand what we are doing. So for example, the customer service initiative which Thumi will tell you about in detail, it costs us R2 per admission. So we know, for every admission to a Netcare hospital it is costing us R2 to deliver this whole customer service offering which Thumi is going to describe to you in detail. We have made the business much more patient centric and patient facing at a cost of R2 per admission. It becomes a no brainer, but important to benchmark it against what other groups are doing and continue to manage that over time and there are many, many other indicators around that.

The key issue for us of course is payroll, and we must create as much efficiency in our payroll as possible. We have a time and attendance system that we are investing in again at the moment. We have an HR shared services centre through which we are seeing world class HR service levels at an excellent cost on those same benchmarking exercises. But the key issue and the big story really around the payroll at the moment is retention of scarce skills. We need to retain registered nurses, professional nurses especially those who have post basic qualifications in ICU and theatre and the trauma areas, catheter lab areas and we are looking at a tiered remuneration system and actually in our remuneration strategy, are looking very differently this year at the way we are going to handle the remuneration for 2008. Related to this group of nurses, versus various other groups of stakeholders within the company. So that remuneration strategy is key. We currently have an absenteeism program running and we are starting to see the results of that absenteeism is high in our company and we feel there is opportunity to move there and we are trying to extract that efficiency and turnover in the scarce skills market is frighteningly high. Around pharmacists, around paramedics, around those registered nurses I was talking about. So these are the key focused areas with detailed analysis, a lot

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of benchmarking, a lot of discussion and understanding best practice and trying to bring that here within Netcare.

One exciting development is we are looking at a web based demand side agency vacancy model. Sounds like a long story, but really what it is, is a website that is available to a Unit Manager in a unit, she can highlight on a calendar very user friendly, exactly which shifts she needs help with at what skill mix level and then all the nurses who subscribe to this agency system, obviously we can choose who we allow to subscribe, anywhere in the country where we have got internet access, of course will be able to click on that vacancy and state whether they are available or not. Built into the system, and this is the important part for us and this is the tweak, build into the system is s rating that is given to each of those agency nurses after they have completed a shift at our facility. And so the intelligence in the system will take the nurse who has got the best quality rating, who is available for that particular shift, cutting out a hell of a lot of admin that is happening on the ground at the moment, and in a seamless manor, make them available to that unit for the agency time. I am giving you a lot of detail, but I want you to understand some of the exciting initiative that are happening.

So quickly to the outlook and we are about to come to an end. The 4% patient day growth in the first half, we think will settle somewhere between 3.5 and 4% for the year. There is this self pay market which we have spoken about at length and there is a large volume of increased activity at Netcare 911, both in road patient's transport and the aeromedical division. The margin in under pressure, it is tough out there, the skills issues and the scarcity of those skills is really putting enormous pressure on these operating margins and we are boxed in clever and working hard around those, but that margin is coming under pressure, and as per the March results, you saw that there was some contraction in the margin. This reference to margin would be incomplete if I did not just touch on the State remuneration adjustment. We don't actually know exactly how that is going to pan out because the final decisions around the exact allocations of those increases have not been given and have not yet been tabled. But we do know that it is going to have an implication to our business, certainly at the top levels, the specialised skills levels and we are preparing and interrogating that at the moment.

So the top line growth in summary will be driven by the growth of our network, the integration of community and these fund and pricing strategies which Richard spoke about earlier. But the cost pressures will certainly continue in the medium term. So my last slide is really our view on the recipe for success for Netcare's hospital division. It is this differentiated offering, it is understanding the doctor facing and the patient facing parts of our business very, very clearly. The detail and the segmentation and exactly what those stakeholder groups are expecting, it is about segmenting the offering for this economy class, lower cost solution. How do we bill much cheaper, and how do we

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provide a more cost effective service? And there is some great work we are doing there on Ingrid Davis' suggestion around gastro scopes at the moment, to see how we can view scopes which are routine procedures for half the cost at what we are doing it at the moment. Very different in terms of its comforts, but certainly a solution that the accessibility and affordability issues in this market demand and that we wish to meet. And then of course to leverage our comprehensive health care offering. The biggest thing that makes Netcare different, the fact that there are emergency services and primary health care and the hospital group, and how do we best leverage that and get the operational efficiencies and position our brand to enjoy the benefits of that. A very exciting story. Okay, thanks very much.

Richard Friedland – *Netcare: Chief Executive Officer*

Thank you Ryan for that outstanding presentation. Are there any questions ladies and gentlemen?

Ryan Noach - *Netcare: Chief Operating Officer*

The turnover in the pharmacists and the paramedics category, I will give you bands, is around about 30 to 35% and the turnover in the registered nurses category is just below 30%. Call it between 20 and 30%. We break it up into post basic and just professional nurses and so on. But north o 20% and when 1 in 5 staff members on an annual basis is been replaced, particularly when they staff at a management level, and we are investing in training these people as heavily as we are, it does come as a cost to the business. So retention strategy is on top of the list for our operational priorities for 2008.

Audience member

The building inflation that you were referring to, it is reflected in Murray and Roberts' results this morning with the high margin, can you maybe just elaborate in terms of how you negotiate those prices.

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***Ryan Noach** - Netcare: Chief Operating Officer*

All of our property projects at the moment go out to tender. We have a very transparent tender process that we are aligning certainly to our preferential procurement requirements certainly in terms of the health charter guidelines as well. And we are not only looking at the costing issues of course when we are looking at that, but the quality issues are absolutely critical when choosing contractors because otherwise we just see massive blowouts on the operational expenses side from the repairs and maintenance. Wilson Bailey Holmes has had a long standing relationship with Netcare and they built the two new facilities at Alberlito and Blaauwberg and they are coming in certainly the most cost effective for the quality that we are receiving at the moment. But we have got small and medium business enterprises building for us in Bloemfontein, building for us in Polakwani, building for us in Johannesburg as well, building for us in Pretoria, I can think of one and we are supporting SMME as much as we can in this regard. So there is quite a robust process that goes around this tender allocation.

***Richard Friedland** – Netcare: Chief Executive Officer*

Are there any further questions?

Audience member

Can I just ask about medical tourism Ryan, and also perhaps the portion of foreign patients in your hospital versus local patients? I am thinking particularly out in Africa.

***Ryan Noach** – Netcare: Chief Operating Officer*

The component of revenue as a total is still very low, it is below 2%. So as a component of our revenue market, it is not really a material contribution to revenue. It is however a high margin work and at times it is premium prices as well. So it is something that we are investigating and we are looking along the lines of centres of excellence approach at cosmetic centres of excellence that may well attract an international market. I think where there is a natural synergy through the integrated comprehensive model, is that Netcare 911 runs an international assistance desk and in fact Glen

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Staples, the Medical Director of Netcare 911 chairs the international assistance group, worldwide association grouping of 30 assistance companies and what we are seeing through that desk, is more and more insurers recognising the fact that we are able to deliver high quality at an affordable cost and sending their insured patients this way for care as expats. And that is pushing the foreign growth.

Audience member

Are you feeling a market impact from GEM-set hospitals?

***Ryan Noach –** Netcare: Chief Operating Officer*

We have looked very carefully at this and thanks for asking that question. And we are actually tracking our patient days specifically to Gems in those hospitals. We are seeing that in terms of our footprint, Limpopo for example where we are building at the moment, is getting a large share of Gems patients and so it is very important that those pipeline initiatives that I spoke about around footprint do materialise. But we are getting our market share of Gems patients at the moment an we hope through the relationship that we have built with Gems and particularly at a primary healthcare and service level, that relationship is very strong and I think at a personal level, for Richard and many others, we have got a good relationship with Gems. We are hoping to see that deliver in time.

***Richard Friedland –** Netcare: Chief Executive Officer*

I think Ryan, just one thing on that, we are looking at a very different market in Gems and therefore the average admissions per 1 000 is a lot lower than we are seen in the traditional medical aids at the moment.

***Ryan Noach –** Netcare: Chief Operating Officer*

We are seeing an average admissions per 1 000 of about 142 per 1 000 per annum, whereas the rest of the market is at about 200 to 220. So obviously whether it is the demographics of the insured base

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or whether it is the way that the managed care is been handled, and prime care has a role to play there, certainly for the lower two options, they have got a lower claims utilisation rate.

Audience member

Can you rethink hospital utilisation? Is there anyway that 74% is not the maximum or do we go through a phase now where it becomes too expensive to build new hospitals and we just kind of got to make do with what we have got or build kind of knockdown versions of hospitals?

***Ryan Noach** – Netcare: Chief Operating Officer*

We are still a little way away from it been too expensive to build these hospitals and we are doing feasibilities on new builds as we speak. But, yes we are definitely looking to take up that 25% capacity that is not been used. The approach is ultimately to find a compliant group of doctors and to create our own network of compliant group of doctors who are prepared to at a discounted price, discount for volume. So we need to doctors to partner us in that. We would obviously, because it is marginal business for us, be prepared to discount that work dramatically on the weekends and if we had compliant doctor network, who was prepared to almost on a panel type basis do this together with us, and provide specific offerings to lower income portions of the market, we believe that we can take up that capacity. We are seeing already the start of this. I was at Greenacres hospital 2 days ago in Port Elizabeth and already, there at Greenacres, there are places been done right throughout the Saturday, 3 theatres running the whole day Saturday, which was historically unheard of in a sleepy town like Greenacres and the hospital is discounting those and the doctors are discounting them sometimes too. So it is happening, the other initiative around that is as Victor said in his presentation, we are looking at waiting list proposals and taking some of the stuff that Richard and the UK team have learned and trying to apply that and offer that to our Department of Health. If we are successful in securing some of that waiting list work, clearly for us, the way to handle that would be to run it Friday through Sunday for the theatres. The capacity is there, it is marginal volume for us, so we are clearly looking at those initiatives.

***Richard Friedland** – Netcare: Chief Executive Officer*

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Ryan thank you very, very much for an outstanding presentation and for sharing those insights on the hospital division and on Netcare 911.

ENDS

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