



CLIENT: Overend Outsource  
DATE: 15/11/2006  
FILE NAME: Netcare presentation

Speaker

Narrative

**Motty Sacks**

Good afternoon everybody. Let me commence by saying what a pleasure it is to welcome you to the annual results presentation of Netcare for the year ending 30<sup>th</sup> September 2006. I have always said when we received visitors over the years as this company has grown, that as we grew so the quality of our visitors improved. And I think that today is no different with this august body of visitors in the auditorium. And I can tell you for the first time we are currently live on Summit television witnessing this presentation, and there is an eminent group of our stakeholders who will be watching the presentation. I think the significance of today is that it is our 10<sup>th</sup> presentation of our annual results. This is the tenth anniversary of Netcare. Most of you will know that this company was listed on the 4<sup>th</sup> December 1996. And when I look around the room today I see only very few people who were there on that particular day. Our rock and anchor in our pharmacy department Ingrid Davis, our chief of finance in pharmacy Andrew Schultz and I'm also very happy to say that Arnold Basseraie is here who at that time was the chief executive of Fedsure, who was the anchor investor in Netcare when it was first listed. Some old faces also from our banker. I see Gerard Cloete in the audience and it's a delight to have you all. I think that in some analogous way this year's results can be compared to the very first report of Netcare. You may remember in November of 1997 we had just concluded the acquisition of Clinic Holdings. And ambitious acquisition. A company that was in some distress and a company which required Netcare to take on some serious debt in being able to acquire it. And this year I think that we also have made an ambitious acquisition in General Healthcare in the UK. We found that that company itself is in need of management intervention. And as you will see in the accounts during the presentation, it also required that we take on significant debt in the UK to fund that operation. But I have no doubt that you will conclude that Netcare over the years has demonstrated its skills and experience in dealing with such wonderful opportunities. I don't want to pre-empt the presentation that Richard and Peter will be presenting in a few moments, but the 2006 financial year was a momentous year in our history. I have no doubt you will read in due course that we achieved so many things that many companies find difficult to even deal with one of them in a year like we have just completed. And I need to remind us of some of the issues that we dealt with. We said goodbye

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to our founder and previous chief executive Dr Jackie Shevel – an icon in the private healthcare industry in South Africa. A great loss to Netcare and certainly a great loss to private healthcare in the country. We completed the Health Partners for Life transaction – our black empowerment transaction – and the result of that for the beneficiaries of that institution will be clear for everyone to see. The Netpartner unwind itself was a challenging episode during the year, but it was very elegantly dealt with and very successfully concluded with immense benefit for Netcare going forward. The acquisition of Prime Cure had its challenges with a very successful result. The acquisition of GHG was a very interesting and challenging acquisition. It wasn't by private treaty, it was by auction which made it even more difficult – particularly for a South African company – but we succeeded in that as well and we're very proud of our achievement. We've also raised some significant capital on a perpetual pref issue and a bond issue, and after the year end we have other initiatives that are in place for certain conversion of debt. So given the growing demand for healthcare, not only in South Africa but the UK and generally around the world, I think things look pretty bright for healthcare companies in this country and elsewhere. I would like to conclude by just saying what an extraordinary job our management have done. Not only in bedding down some of the acquisitions, but in dealing with all of the challenging issues that we encountered during 2006. They came through with flying colours, and I would hope that you would make a similar conclusion after listening to the presentation and looking at the results. So in dealing with that aspect I do want to pay special tribute – and I won't have another opportunity today – to our Chief Executive Dr Richard Friedland, who took over the organisation towards the end of 2005. And I think with an enormous task on his plate he rallied to the call and I can only refer you to the results that he is going to explain to you, and you will make your own conclusions what an extraordinary performance this company has achieved under his stewardship. He wasn't alone in the work that he did. He had wonderful management, which is something that Netcare has always prided itself in. And Peter Nelson as Chief Financial Officer was a real anchor in that department. Ingrid, Norman, our other directors, Victor and whoever I may have left out. The senior management of this company have done an extraordinary job. And I guess that there is nothing more for me to say other than to thank you very much for coming and call

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<p><b>Richard Friedland</b></p>	<p>upon Richard and Peter in due course to present the results to you. Thank you very much.</p> <p>Thank you Motty. Ladies and gentlemen, may I begin by paying tribute to our management and staff who allow both Peter and myself to stand here today. For your dedication and for your commitment to delivering outstanding patient care, thank you. I think it is the hallmark of what we do in Netcare. As Motty said, it has been a transformational year for our organisation. And in many ways we have begun a new journey. Let's have a look at the highlights of the group and see how this has translated this year. I think if you look at our results generally they are characterised by three things: an extremely strong performance here in South Africa operationally, a myriad of corporate finance activities during the year, and thirdly a significant restructuring of our balance sheet, much of which Peter Nelson will take you through later in the presentation. But if you look at our performance in South Africa we have a revenue growth of some 11%. But significantly, adjusted headline earnings per share of some 20% growth. Adjusted really against the impact or for the impact of the GHG acquisition, and also our broad-based black economic empowerment transaction Health Partners for Life. Overall, revenue growing by some 54%, and cash generated by operations up to some R2.1 billion. In terms of some of that corporate activity, on the 26<sup>th</sup> September this year we concluded the unwind of Netpartner, there was a significant concern in the market concerning the potential vertical integration with Netpartner. We listened to the funders, we listened to the Department of Health and the regulators, and I think we have successfully unwound Netpartner. As Peter will discuss later that [unclear] for us going forward. In terms of addressing the crisis of affordability and access in South Africa, we purchased Prime Cure. It has increased our primary care network to about 106 clinics, and it is a key acquisition for us. We've seen an uplift in the share price, and the 45 000 shareholders who now own 10% of Netcare have enjoyed a R1 billion uplift in that investment. And we acquired the largest premier hospital provider in the United Kingdom in May of this year. We have been involved with it some four and a half to five months. That is all on track, and I'll talk to that a bit later. And so what does this all mean? And I think this slide demonstrates to you what we have achieved. We have effectively become the leading provider of private healthcare in the two geographies that we serve. Here in</p>
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South Africa with a market share of some 35%. A leading, international world-class private emergency service, and certainly a leading private primary care network. In the United Kingdom we have two divisions. A private hospital division of some 49 hospitals – now going up to 52 if we include Netcare UK. But we're a leader in all fields, whether it is the number of beds, number of hospitals, number of operating theatres, and number of ICU's. And certainly with Netcare UK as a provider of NHS services, I think we have made a wonderful acquisition in this market. Overall we have some 120 hospitals, both in England and in South Africa, covering some 11 700 beds. What does this really mean? What it really means is that it has allowed us to share best practise between both continents. And really when you look at South Africa and the United Kingdom, they have unique features in this market that fit into our overall strategy of being able to work both within the public and within the private sectors to find innovative solutions to healthcare. If you look at South Africa, we have an extremely well developed and mature private hospital market here. We're able to share a lot of that expertise, a lot of what we have learnt over the last ten years in South Africa with our colleagues in General Healthcare in the United Kingdom. But similarly, if you look at the United Kingdom, they have an extremely well-developed outsourcing public/private partnership model which has been developed over many years. And we can learn much from that market as we seek to partner our own government in finding solutions to healthcare in this country. In fact one of our Chief Operating Officers, Dr Victor Litlhakanyane will be leading a team from the Department of Treasury and the Department of Health to United Kingdom next week, in order to explore those opportunities and learn from those models. This year we were awarded the best exporter of services by the Gauteng Chamber of Commerce for the kind of intellectual property and technological skills that we have been able to bring to bear in Netcare UK. And Netcare UK itself this year was awarded one of the best operational healthcare projects by the Public Private Finance Awards in London. And so let's have a look at South Africa, at the two divisions that we break down, and see the impact of that. But probably South Africa is characterised by probably two drivers. One is the macro-economic drivers of healthcare. There is an enormous demand for private healthcare in South Africa. I'll show you that; I'll take you through those numbers and show you what is driving that. But equally we

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have been able to continue the operational leverage and operational efficiencies over the last decade and particularly over the last year. If you look at the demand shown in this graph here for private healthcare in South Africa, you will see that an elderly population in South Africa and indeed internationally is driving both demand and utilisation of healthcare. Those green bars over there demonstrate the increase in admissions and activity and the population we are serving, and particularly in the age group over 60. If you look at the graph on the far left hand corner over there, you will see circled in red that portion of the population, some 19% who have become more prosperous in South Africa since 2000. People who have moved up their living standards medium, to become wealthier and able to afford healthcare. Have we seen that benefit yet? No we haven't. But we believe that healthcare is a late cycle beneficiary. Once people have bought their cell phones and their motorcars and their houses, healthcare will become an increasingly more important commodity and priority. And if you have a look at the graph here on the right hand side, medical aid membership in South Africa has been static for many years, and this past year for the first time we're starting to see a growth in that. There are more people being employed within the formal sector of employment. But probably the single most important initiative this year, one which we embrace and welcome, has been government's initiative to stand behind its own civil servants who are currently employed but have no access to private healthcare. Potentially through GEMS, which stands for the Government Employee Medical Scheme, we're able to increase the number of people on private medical aid by almost a million lives. And incredible stimulus to this market. Let's have a look at what that demand is doing in terms of our hospital and trauma divisions. You can see that one a purely organic basis we grew our hospital division. In all the key metrics that you see on the right hand side, we've had a very solid growth in patient days, in admissions and in maternity. But significantly for us, we've managed to grow the [unclear] margin. Again adjusted, and really adjusted in terms of the Health Partner for Life transaction, but by some 21.9% off an organic growth of some 10%. That really being achieved by the increased volumes and also by operational efficiencies that we continue to extract from the business. Again on trauma, we have seen a demand for private emergency services. That increasing by almost 11%. We have seen a huge demand for air medical

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evacuation out of Africa. We have increased our fleet of aircraft in order to cater for that. If you have a look at our primary care network and our auxiliary services, the acquisition of Prime Cure takes our network to 106 centres country-wide. We now have the privileged of treating some 3 million patients at the primary care level. This is very important in our overall strategy of addressing affordability in South Africa. In our diagnostics division that has unfortunately been a poor performance for the year. I think that division has been hit by sub-optimal tariff increases and by a weaker Rand. I need to say that in both National Renal Care and also in Diagnostics these two divisions are very sensitive to the strength of the Rand, given that most of their consumables are imported. And also we've had a once-off charge related to post-retirement medical benefits. This past year we have continued to meet that demand by continuing to invest in our facilities around the country to ensure that in Netcare we maintain facilities that are comparable to the best in the world. We spent some R781 million on capital expenditure last year. On the right hand side you can see the various units and various units that we upgraded or built. And on the left hand side you'll be able to see some of the Greenfield projects that we will be commissioning in the next year. In Tableview in the Cape the Blaauwberg Hospital, along the coastline in KwaZulu Natal in Ballito the Ballito Hospital. We won a very important 62 bed PPP in Settlers in Port Alfred that we will be concluding this year, and hopefully start on the East London Hospital towards the latter end of next year. Significantly as you all know we have been involved with the growth and development of the Community Hospital Group since inception, and we have reached an agreement to purchase the remaining 56.3% of that group. Obviously pending competition authority approval. And this year we also purchased the property on which Umhlanga Hospital is based. So an enormous amount of investment in this past year in terms of the demand for growth, and in terms of building a network which we believe will be relevant going forward in South Africa. I wanted to show you this because as the last slide on South Africa is that we are continuously seeking smart solutions to address this issue of affordability and access in South Africa. As you'll see from this triangle, we have traditionally looked only at the LSM markets of eight through to ten. But we are actively targeting those markets of three through to seven, which are people which are formally employed yet have no access to private medical insurance or cover. And

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there are a myriad of various initiatives that we are involved in to access this market and to make products affordable. We have partnered with GEMS. Prime Cure has been awarded a contract with GEMS. 911 has been awarded the emergency services contract. We are already involved in two of their schemes. We have just been made part of their lower cost Sapphire Scheme, in terms of being part of that network. We are able now to provide services where the designated service providers – public hospitals – are not in a position to provide those services. And we are actively pursuing various PPP initiatives to partner government in finding solutions to our healthcare issues in South Africa. If we turn now to the United Kingdom, I'm going to take you again through some of the macro-economic factors driving growth in that market, and some of the rationale behind why we have taken that large leap in terms of making the acquisition that we have. And then we will look at the operational performance. I think if you look here at the left hand side on the private sector, you will see the very same macro-economic drivers of healthcare in South Africa are impacting the market in the UK. We're seeing an increasingly aging population. In fact by 2015 it is estimated that there will be some 3 million people over the age of 60. We're seeing a rapid rise in new technology that is driving the demand for healthcare. People are being treated earlier, diagnosed earlier. Previously inoperable diseases are now finding treatments and their prognoses are better. And something that we have perhaps not yet seen in South Africa is the advent of a lot of lifestyle diseases. The demand for obesity surgery and treatment in the UK is quite extraordinary at the moment for example. And we're seeing a different trend as consumers become a lot more selective in the way they access healthcare going forward. And we are targeting that. Probably one of the major factors dominating that market at the moment is hitherto the NHS. The NHS is the dominant provider, providing some 96% of acute care in the UK. It has enjoyed an enormous funding surge of about 7-8% compounded annually over the last five years, but that funding dries out in 2008. It will probably only increase by CPI or what they call the retail price index (RPI). We believe that that will bring severe constraints on the NHS and enormous opportunities for those providers who are able to work and engage with the NHS. In fact the NHS itself, given these macro-economic drivers and also this potential funding squeeze coming in 2008 has taken a policy decision to become a purchaser or commissioner of

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healthcare services and not just a provider. And this has manifested itself in a whole range of outsource services on which we have been bidding. If you look at the UK we have divided our results up to show you what the results of our private hospital division (known as BMI) and then separately what has happened on Netcare UK. Netcare UK is included for a full year in our results, and what you see here in BMI – the 49 hospitals – really is for four and a half months since acquisition. But again a reasonably good margin there, and certainly again South Africa an outstanding one. Adjusted at 24% and really adjusted to exclude some 280 million of re-structuring costs. And I should perhaps pause there to answer what those restructuring costs are. There were restructuring costs that we incurred post-acquisition. They were revolved around the fact that we have restructured BMI or the entire GHG group into an operating property company. We've had to take extensive stamp duty fees as a result of that, and legal fees, and that is essentially what you see there as reflected within that R280 million of restructuring costs to date. But nonetheless a very solid performance there for BMI. Just to tell you about some of the things we are doing within that organisation at the moment. We are actively launching products that we feel are appropriate to that market. Niche market products around cosmetic surgery, obesity surgery and varicose vein surgery. A lot of surgery now that the NHS now is looking to either outsource or perhaps not to offer on a wide basis. We have started with launching our first casualty service at one of our flagship hospitals in Manchester – the Alexander Hospital. Significantly we qualified 44 of our hospitals for the extended choice network. The NHS has put a programme of some £200 million together, which now says to patients that if you're waiting more than eighteen weeks on a waiting list for elective surgery you can choose an alternative provider. And 44 of our hospitals are on this network, which kicks off next year. We've started to attract a lot of consultants, new UK consultants for specialists into the network. We have attracted some 59 since May of this year. And generally I think we're on track, and I'll talk to the integration programme a bit later. If you look at Netcare UK, and again we're seeing this for the full year, we're really showing you the results of the two major projects we have there; up at the Greater Manchester Surgical Centre where we are running a small hospital, and our mobile Ophthalmology units. Effectively we have had a 50% increase in revenue, and on an adjusted basis

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a 50% increase at the [unclear] line. I say on an adjusted basis, because we are excluding significant bid costs there of some R39 million, up from R12 million the year before. A large amount and perhaps I can explain that to you. We took on some of the bid costs that the Abacus division... which was the original division of GHG...But it is also reflected in the enormous amount of tendering activity that we are experiencing. Some of you have asked why we haven't capitalised that. We expense those costs until we reach preferred bidder stage. Thereafter we are able to capitalise and amortise those costs over the period of the project. But a good and solid result. As you will see from the right hand side here we have won significant contracts which provide us with a wonderful platform over the next five years. Two large diagnostic contracts, one in London and the east of England. The London project will be operational in April of next year. We've also been awarded the preferred bidder status in Cumbria and Lancashire on a large primary care project known as Capture Access Treat and Support Scheme. This will look after some 220 000 patients. The diagnostic contract is for some 400 000 radiological procedures. We'll be opening our first commuter walk-in centre in Leeds in January 2007 and we're still involved in a number of different phases on other bids as we move forward. Perhaps you can't see this bit, and I'm going to lower this. But this really demonstrates to you what we've achieved over the last hundred days in terms of the integration of GHG. I think one of the most significant things we have achieved is to put in place a group executive team that is motivated, that is aligned and that is absolutely focused on making GHG fit for purpose in a changing market. They are driving that business at the moment and we are very confident in their abilities in making sure that this is an outstanding acquisition for all the shareholders. We now have regular KPI reporting as we have here in South Africa. It is a key metric for us and a key methodology in driving and managing our businesses. We have been reviewing procurement throughout the group – we think there are enormous opportunities. And also nursing and resources. We brought a team of nurses out to South Africa to shadow our own nurses and to understand how it is that we schedule and we achieve the kinds of efficiencies here in South Africa. We've just introduced those efficiencies for the very first time in the UK. And we've been through a very extensive restructure of this group, putting all the properties into a property holding company and the operations into a

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separate op. co. And what that has allowed us to do is to draw down and re-finance the group. We've been able to draw down some long-term finance at extremely favourable interest rates, secured against the properties. And that all has been completed by year end. Just to end quickly in terms of the strategic review. We have six pillars that really drive our strategy within Netcare. And I'm pleased to say that we've made significant progress in all of them. And I'm going to run through them very quickly for you. First of all in terms of organisational growth, I think we've really created sustainable platform going forward. And all of those initiatives I've referred to you can see build on that platform for growth both here and in the UK. In terms of operational excellence, aside from the improved [unclear] margins that we've been able to demonstrate, there are a number of initiatives that we have launched during the year that are ongoing and will drive that efficiency into the future. We're rolling out [unclear] and hopefully that will continue well into next year and the year thereafter. We have launched a human resources shared services centre, and that will be the pilot for future shared services going forward. We are still accrediting our hospitals on an international basis. We have completed that hundred day plan for GHG and there are a whole range of initiatives that stand behind this strategic theme. In terms of physician partners we continue to attract doctors to our network, both here in South Africa and in the UK. We have upgraded a lot of our centres. We are focussing on centres of excellence. We have launched Netcare TV. This is an innovative product aimed at doctors. We have some 5000 doctors who listen to this once a month. It is a two hour programme. Sorry, 5000 people who listen to it, 91% of which are doctors. And we are involving our doctors in training of our staff and ensuring that we're really delivering outstanding care. We're just about to publish a booklet on the research conducted within our organisation. And would you believe, we have some 160 projects ongoing within Netcare amongst all of our consultants and doctors, of active research and publications in international journals. In terms of best and safest care, it is the absolute cornerstone and pillar of everything we do. Probably our key focus this year has been to remove the variability of our service offering right across all of the various divisions. So we've launched a customer care centre with a universal number that can control and measure the kinds of levels of service across the group. We've been very involved in

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being pioneers of clinical governance in South Africa. We've brought a lot of that skill back from our colleagues in the UK and we've been very active in rolling out various guidelines on trauma and infection control in ICU, which really improves the safety of patients within our hospitals. We've formed a medical advisory ethics committee – key in driving this process forward. And all of this has given us a lot of tangible results. One of those I think is probably that we've achieved the lowest infection rate since the start of Netcare, of some 2.06% in our hospitals. In terms of the last two of our strategic drive is passionate people. We re-launched our values this year. We have committed ourselves to the initiative launched by the Deputy President and we are really increasing our nursing training almost double from 1500 to 3000. It is the key rate-limiting factor to the provision of healthcare, not only in South Africa but on a global basis. And the programme we have now launched will hopefully eliminate that shortage within Netcare by 2010. We have also been very involved in the homecoming revolution and the Wozakhaya or "come home" campaign. We have sent teams overseas to address nurses, doctors and other medical professionals and offer them jobs back here in South Africa with Netcare. And I think the last one is that as we embrace the need to normalise our society in South Africa we have made extensive strides in transformation. We have increased our BEE equity ownership to 24% from some 14% last year. We beat our own internal target on employment equity – which was from 52% to 57%. We have created R1 billion worth of value to some 45 000 BEE shareholders who own 10% of Netcare. And we've spent some R61 million in corporate social responsibility programmes, R18 million of which was spent treating indigent patients through Netcare 911. I want to end really by looking at our management priorities for next year, firstly in South Africa and then also in the UK. For us in South Africa it is really about successfully commissioning our two new hospitals. It is about successfully rolling out SAP on a wide platform throughout the company. It is about continuing to develop innovative and affordable products in South Africa. Integrating Prime Cure and ensuring that it is fit for purpose. We think there is going to be exponential growth through that organisation. And obviously continuously reviewing our costs through the organisation. I think in the UK it is obviously around the integration of GHG. That integration will continue well into next year, and we're on track there. We will be engaging

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**Peter Nelson**

actively with consultants in a very similar way to how we do in South Africa. We will be reviewing how we deliver pathology and radiology services there. We will be preparing the network for the rollout of extended choice. And particularly on the Netcare UK side, we have a huge mobilisation where we are going to be taking our staffing levels from some 300 at the moment to close on 1000 new staff, as we gear up for our diagnostic contracts and our primary care contracts in Lancashire and Cumbria. And so in short, next year is going to be a year of incredible focus on operations and consolidation. And with that I'm going to hand over to Peter to take us through the financial highlights. Thank you very much.

Thank you Richard and thank you Motty. At the outset can I say it's a great feat for me to have my wife here today. And I guess with all the travelling we've been doing we've got to take every opportunity to see each other. Thirty years ago to the month I started articles in Pretoria, and the partner to who I was articled was Edgar Buling. And I saw Edgar Buling here today, and that's also a great delight to me. Welcome Edgar. The group financial highlights...it has been an incredible year for us. I'll go through some of the features. I won't go through some of the embedded detail – I think you need time to work through the numbers. Some of the features this year are that we've managed to reduce the cost of debt by about 2.5%. This is a big number and it adds a lot of value for Netcare. We issued 650 million perpetual preference shares, and we still intend to issue the remaining 350 million. We issued an R1.7million convertible bond in October. We got that at a 6% coupon rate with a nice conversion, and we were very happy with that process. The Netpartner unwind we made a profit. We made a negative goodwill of R819 million on that transaction. If that was any other consolidation that would have been credited to income. But because Netpartner primarily own Netcare shares, and we can't take a profit on our own shares to our own income statement, that number goes through changes to equity directly. And then we've obviously bought back and cancelled a lot of shares in the process, and we now assume that Netcare shares which Netpartner owned – the 340 000 shares – are now treasury shares. And that happened on the first day of this financial year. Our earnings per share had a 9% boost. So just to put that in context. And the real value of this transaction will flow next year because of the fewer shares

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in issue. And then the re-financing of the GHG group. Just an interesting number coming out of that. Because the Rand has weakened post our acquisition, if we did that acquisition today all other elements staying unchanged, it would cost us R1.4 billion more to that transaction. Another way to look at it is, we've had a R1.4 billion gain through the foreign exchange rate on that transaction so far. If we look at the South African adjusted headline earnings, and we thought this was important because the South African businesses have done extremely well this year, we have shown that basically we think that on an adjusted basis the like for like earnings per share for our business would have been 70.5c per share had we not done the GHG transaction. We made a R38 million adjustment, and behind the R38 million – if you go in there and look at the number – you will find that we made R111 million profit on the sale of Netcare UK into this transaction. Now we own 52% of the GHG, and we can't account for 52% of the total profit as a profit. This R111 million that is embedded there is the minority share of that profit which we are obliged to book as a profit on consolidation. Then we basically also paid R65 million of interest on the DRKW loans which we raised. And we had hedged those loans. And when you look at the increase in the foreign liability because the Rand has weakened, and you set that off against the gain on our hedging, you make a net R38million adjustment for the effects of GHG. So all round an excellent result on the South African businesses. If we then go and look at the group financial income and expenditure...and before we go into the income statement I want to spend time on financial expenses and financial income, because our balance sheet and income statements now are very complicated. We never had these sorts of magnitude of individual transactions that we've reported before. So I want to spend some time, and then we will go into the income statement and have a look at that. We made at Netcare a R442 million gain on the derivative foreign currency hedged transaction that we took out to cover our liability on the DRKW offshore loan. That was a loan in Sterling and we needed to make sure that we were hedged on that. So we made a R442 million gain. And obviously the liability went up by R454 million. It wasn't an exact hedge, but it was a significantly effective hedge. And those two transactions should be seen as one. And I've spoken before on the R111 million profit on the UK which is reflected there. And we've also made an R85 million loss on interest rate swaps. I'll come back to this a

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little later, because of all the long-term debt in GHG we are exposed to interest rates. We have hedged that fully, but the accounting implications are tricky. I will come back to that a little later. And you can see the interest bill now is R962 million. The interest in this combined group is pretty significant. So we look at the group income statement. Turnover was 54.2% up, of course getting a kick from GHG coming in for four and half months. Operating profit 29.6% up. You see the financial income and financial expenses which I spoke of before. And then we see earnings from associated down year on year. Clearly Netpartner has had to account for significant transaction costs. Our unwind of Netpartner we incurred transaction advisor's fees, legal fees, publication on records and documents very significant costs. Going forward that is about the number we're going to see, because now our significant associates are Community Hospital Group and Health Share. So typically that's where we're going to be. Tax is an interesting number. At a group level it looks like we've paid about 30% effective tax rate, but when you break it down country by country you will see that in Netcare South Africa we are well below the 29% figure. We've had out R100 million in assessed losses that we've utilised and we've managed to come out well below the 29%. In the UK there is virtually no cash tax. The company in the UK has assessed losses of in excess of £125 million. It pays a little bit of cash tax in the prop. Co. structures. For the rest there are no cash taxes, but very big deferred taxes and I will explain that a little later. Big deferred tax credits coming to the income statement. If we look at that, interestingly we have made a loss this year in GHG in the four and a half month period, and as a minority obviously have to share in that loss until we get it up to profitability. So the minority has picked up a R204 million share of the losses. And interestingly this time we have our first payment of preference dividends. You will all recall we issued the 650 million perpetual preference shares, and we raise dividends on those twice a year and have to settle those. Some reconciliation on the earnings per share. Firstly to come back to this figure. I showed you that in South Africa our earnings per share for the South African businesses would have been 70.5c on the South African context we incurred plus or minus 5c adjustment because of the GHG affect. GHG losses alone were 4.8c. So if you put the two together, 9.8c is the effect in this year of the GHG acquisition on Netcare. It is about a 13.9% dilution. If you adjust that down you come to the 60.7c that

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we are reporting as the adjusted or normalised heps. So you can work back or forward for the other adjustments. The 60.7c adjusted heps has obviously been adjusted to eliminate the cost of the BEE transaction. That would take you to 56.2c and then you have all the normal capital items which you are entitled to adjust when you go from basic earnings per share to heps, and I list them there. Just to confirm 9.8c a share at heps level was the impact of GHG for the year. This is an interesting slide. The treasury and finance team have been very active. Every time I have stood up here over the last couple of years we have been talking about our progress towards corporate bonds and refinancing the group. Simplifying the financing structures, taking out the more expensive debt and eliminating the asset financing in favour of a single or two or three pools of financing. Let's just go through and have a look at what we've done. It starts at November last year and ends in October this year. We issued a short-term paper programme – R800 million. We paid hundreds of asset financing – individual asset financing, more expensive, more administratively complicated. We repaid R303 million of equipment finances. We issued out first medium-term note of R500 million. Then we went to DRKW and raised the bridge financing for GHG. We raised R2.6 billion. We repaid some more expensive debt from the pool of cheaper funding. We repaid R200 million in long-term loans which were costing us 12.9%. In July we issued the perpetual preference shares for 650 million. In August we repaid 500 million of the Dresdner bridge loan. It was an expensive loan, and we're going to continue paying that as quickly as we can. When we acquired Netpartner in September we acquired R1 billion of debt embedded in Netpartner. It was an expensive debt. We immediately paid the cover loan of R456 million. We repaid collar loans of R277 million. We issued a convertible bond in September. We raised R1.7 billion which came in on the 11<sup>th</sup> October. 6% coupon, 25% conversion rate. And yesterday we managed to sign off the registered bond programme, which will mean that all our short-term and long-term notes will be quoted on [unclear] and will be listed in terms of an overall bond programme. So a very active year and it's not quite over yet. I think today we've made another payment off on the DRKW loan. So that loan which was £290 million is now down to about £99 million. And we're going to continue finding surplus cash and would like to pay that off as soon as we can. We've reduced our average cost of debt from 10.5% to 7.95%.

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And that is an incredible feat, and I would pay credit to the treasury team for that. If we just touch on the long-term structures of the GHG transaction, we did announce that we went in and bought 52.4% of GHG. We've separated it into an op. Co and prop. Co. Richard has covered that. I just want to make sure everyone is clear that we're going to own and control a controlling interest in all entities of GHG. It doesn't matter how we split them up and whatever; they all come up through a partnership between us and our consortium partners. We control the partnership. And whereas at the beginning we bought 52.46% we know and we intend to issue shares to management to incentivize them to meet the targets that we're hoping to meet. And that process will dilute us down to 50.1%. But we won't go lower than 50.1%. So we have majority control. We've separated the companies. And I just want to touch sides that there is a lot of debt in the UK, but the UK balance sheet stands behind that debt. There is no further call of action which any of the financiers have other than the UK balance sheet. There is no recourse to South Africa. Looking at this debt I think it is interesting to take a few minutes here. In the UK we've got £1.65 billion of Sterling debt. That's R23.9 billion. The op. co. debt fluctuates up to maybe 200 million, but at the moment is 172 million. And the cash at the end of the year is 58 million. When we took control of GHG it has 50 million of cash in the company which we weren't banking on or we weren't expecting to be there. And that came to our benefit. So the net debt in the UK is 1.764 billion or R25.7 billion. In South Africa our debt net of cash is R5.4 billion. The [unclear] or net debt to [unclear] is 3.8. It is a bit high and I would like to see that get below the 3 in due course. And our net debt to equity is 273%. It's higher than last year, but we've got to put two transactions in perspective. Firstly the Netpartner transaction; we took on a lot of debt in that process. That alone would have taken our debt equity from about 32% to 180% of that order. And then the GHG transaction takes us from 180% debt equity to the 273%. Just to confirm again, it is fenced in the UK. The UK debt is fully hedged, and I'm going to touch sides on this. In other words, floating interest rates have been covered to fixed interest rates for 25 years. So that takes out a lot of risk in the transaction. But it does put on our balance sheet a swap liability of R1.5 billion at the end of the financial year. The cost of this debt. Many of you have asked about the cost of this debt over time. I think we'll just give you the numbers because it saves us the question and answer. I

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hope there are no surprises in any of these numbers. The prop. Co debt of £1.6 billion, the rate is 4.75% fixed. There is another prop. Co swap instrument which extends from years 11 to 25. And when we get there that is going to cost us 5.8%. But at the moment we're not in that space. We're in the space of the 4.75%. And the op. Co. debt is costing us 5.05%. This is pretty low cost of debt, certainly by South African standards. Now on the South African side we've got plus or minus R5 billion of debt, and the average cost is 7.95%. You can cast your eyes down there and see the convertible bond at 6% and the redeemable preference shares at about 7% and there's a mix. The bar cap is expensive – that is 10.5% - hence we would like to pay it. And some of the Netpartner debt is still quite expensive. So yes those are our targets to get those paid down as quickly as we can. The swap accounting is incredibly complicated. I know at the date we make this acquisition we told all of you that we have hedged the risk around the interest rates. And we have hedged the risk. We've hedged the risk on day one. But that doesn't mean that from an accounting side that your hedging policy is in place, that hedging effectiveness can be proved and that you can account for it under hedge accounting regime from day one. And as it turned out for us, the hedges that we went into, basically we had to unwind and divide them into two. And then when the properties got re-established and carved out we then had to divide them into 36. So we could only establish and prove hedge effectiveness for accounting from a date in August. What does this mean? It means up to that date you have to expense the hedge loss of profit through your income statement, and from that date your hedged profit and loss can go through your changes in equity. From a balance sheet perspective it is the same end result. This is a question of what goes through your income statement and what goes directly through equity. And what I want to just point out here is that £6.6 million has been expensed through the income statement in the post-acquisition period. And this was because in that time we could either not prove hedge effectiveness for accounting purposes, or your hedging policy isn't in play. So if we go to the light blue bar here, it shows you what has come through the income statement, and the green bar shows you what has gone through the balance sheet through changes in equity. And the swaps that were entered into on day one needed to be expensed. 6.8 million. We then had two swaps – one for the years 1-10 and one for the years 11-15. The year one to ten was in the money, based

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on the interest rates etc. and there was £8.4 million of income of profit on that swap. On the year 11-15 there was a £6.4 million loss which goes through the income statement together with the £8.4m and £6.8m. The op Co. was small cheese. Now we've got to the point where we can hedge accounts, but there is no guarantee that in every accounting period going forward that the criteria and the market conditions won't change. But provided we can prove hedge effectiveness going forward, from now on all the profits and losses on these swaps go through changes to equity and not through the income statement. Interestingly on this particular long-term swap, because a lot of the costs have been deferred and pushed into the later swap, we can only prove 80% hedge effectiveness. So if everything continues as it is now that is going to go through the income statement. 20% of the profits and losses on that swap will go through the income statement. 80% will go through changes to equity. Ok? I hope that is as clear as mud, because it has been a major technical challenge for the teams going into year end. If we look at the offshore derivatives – because you're going to see these figures on our balance sheet and we've never had them before – you'll ask yourself what are these things? Let's just go through them. The first prop Co. 1-10 year swap for £1.65 billion, at 4.75% interest the fair value of the swap at the end of the financial year was 28 million. And in Rand it was R407 million. And you will find that on our balance sheet as an asset. The prop. Co. 11-15 year swap which is 5.8% rate, has a liability of £128 million. And that £128 million you will find on our balance sheet has a Rand liability of 1.8 billion. Now that doesn't mean...let me unpack that because you might think that is a major blunder and the hedging was clearly wrong. There was a £70 million liability in GHG on the day we assumed control because of previously swaps. And that £70 million liability had to be settled. The partners had a choice. They could but 70 million in cash, pay it and it's gone, or what they did in this instance was rolled it into the new swaps. So the end result is, whilst we've got R1.8 billion or £128 million of liability on our balance sheet, £70 million of that was embedded on the date of acquisition when we took over GHG. And the balance is a movement in the fair values. We've got some local derivatives but I think its small cheese in the bigger context. Just to say that all of the swaps that we do cover floating rate and fixed rate and they take a lot of uncertainty off our forecasting around cash flows for interest. We've been busy in the local

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market as well. We like to have a 50% -75% of our interest rate liability fixed, and we basically have gone into the market on R1.4 billion notional, and we have fixed an interest rate on that debt at 8.63%. That also has a fair value and an asset and a liability implication and that has come onto our balance sheet. Notably the bond is a fixed rate at 6%. And if you think that behind the bond we use those funds primarily to buy long-term assets, it is good to have fixed rates for long-term assets. It is a better hedging for us. If we look at the Netpartner unwind, the end result of the Netpartner unwind is that we own 100% of Netpartner. Netpartner owns 20% of Medicross and we own 80% of Medicross, so we now own 100% of Medicross. I've spoken about the negative goodwill or the profit that we made on the transaction of R819 million. But we have absorbed debt of R1.3 billion. But we're able to finance that debt very much cheaper than Netpartner ever could. And we've unwound the first collar, because theirs was financed by a collar. We still have got one remaining collar of 60 million shares, which we will deal with at the right time. I have no fixed ideas as to what we do with that. But we have 340 million treasury shares now and I think this was a great value adding exercise for Netcare shareholders. There have been a lot of movements in our shares, and I want to spend a few minutes going through this and leave you to work your way through cash flows and those sorts of things. We issued 160 million shares to the Health Partners for Life, the BEE transaction. We issued that at R6.42, hence the value uplift of about R1 billion which we've spoken about. Given that the share price is now R13.00 (after today). We've issued to Netpartner shareholders 77.6 million shares in the exchange which we did with them for their shares in Netpartner. We issued those at the record price of R12.50. In terms of share options we have issued some shares and we have bought and cancelled some shares. We have bought and cancelled 14 million shares, and we bought those at R9.33. And we've cancelled treasury shares. 116 million treasury shares we have cancelled and we have acquired 340 million shares in Netcare via Netpartner. Interestingly enough the Netpartner shares on average were accumulated at R4.78 – so it has been a wonderful value adding exercise as well. So let's look at the balance sheet. I have summarised the balance sheet. Our non-current assets are up to R45.7 billion. Of course we've gone in and re-valued the land and buildings. We have re-valued the intangible values which we are obliged to do in

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terms of IFRS3. The property and the fixtures and the land were valued in point at £1.6 billion for accounting purposes. Now many of you are going to say but what happened to the £2.1 billion which we spoke about when we announced this transaction. Well I think we must distinguish between different types of evaluations. What we want for the accounts and what we have to have for the accounts is the fair value at the date of acquisition. We can't take into that valuation any post-acquisition synergies and benefits which anybody is going to bring to this transaction. So we've gone out to third party valuers. We valued it at the given day and we've updated all of the assumptions that were made and come out at this value of £1.631 billion. It suits us because the lower the value the less the depreciation goes through our income statement. Clearly. So it's a number that suits us. But it is also the right number technically from an accounting point of view. So that has given the non-current assets a massive kick this year. And of course whatever we paid for GHG – less the fair value and the net assets and liabilities – the difference is goodwill. And there is a massive goodwill on our balance sheet post the GHG acquisition. We've got goodwill now at R16.9 billion. Current assets R4.7b and so we can go through. Ordinary shareholder equity takes a hit from our treasury shares. We've been buying a lot of treasury shares. And every time we buy treasury shares our debt goes up. But on the other hand we get a debit to shareholders equity. And our shareholders equity is coming down quite sharply in the period. So we're down to 2.2 of the shareholders equity. We have issued the preference shares at a cost of R644 million, and of course we've got minority interest big-time out of GHG coming onto the balance sheet. Then just to say you will see a massive increase in deferred tax, because as we've re-valued the land and buildings – more the buildings – we have got to go and take 29% of that uplift in value and put it into deferred tax. And over the next 50–75 years (the time that we expect to use those buildings) that big credit in deferred tax gets released as a credit to the tax line through the income statement. Current liabilities also are of course well up. But again just to say that in the UK all of the debt is secured against the UK properties and assets. Let's come to the dividends. Clearly we have maintained the final dividend at 15c. This gives us a total distribution of 27c. This is up 8% year on year. The distribution is the dividend cover of 2.2 times, and we try and stay away from having a formal policy and whatever. But that is more or

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less where we have been for the last while. We think it is prudent in the light of the recent acquisitions – we have taken on a lot of debt etc. But we also have a good number of investment opportunities in South Africa. We've made our announcement with regard to the community hospitals and we've got PPP's we are looking at. And at any one time there are a good number of investment opportunities which can provide us with growth and which we would like to pursue. And we have this tension between de-gearing the balance sheet and pursuing growth. And I think for the time being it is prudent to just stand flat on this dividend. Let's get through this year and the next year and see where we are. There are benefits for shareholders associated with de-gearing Netcare. And many of you have expressed that to us. And we have heard those messages and taken them on board. Just to finalise then on the outlook. South African revenue growth target we are saying somewhere between 9-11% growth. Inflation is on the rise, but on the other hand the SEP single exit pricing issues are coming in and the revenues on pharmacy are going to be pretty...let's say the revenue growth on pharmacy is going to be a bit slow for a while. Particularly if you just look at a year on year effect. We're going to commission two new hospitals in 2007. It was going to be in March for both of them – in Ballito and in Tableview. But I think when it stop raining in Natal we will give you a new opening date for Ballito. That should be around about March or April. On the operating efficiencies, on Netcare South Africa we still have 20% EBITDA clearly in mind. In the UK I think at the BMI we know the EBITDA margins are higher. They are closer to 25%. I don't think there is any reason why we shouldn't expect to see those sorts of numbers. And when you think about the BMI numbers for this period you should think that basically we have taken the opportunity to clean up the GHG balance sheet. We have looked at every legal obligation, every financial obligation. And if they were real we've made the necessary provisions and therefore going forward, I think we've got a very good and clean base on the GHG balance sheet. On the capital expenditure on the South African side I think it will be somewhere between R800 million and R900 million. We've got a lot of commitment. We've got somewhere like R467 million which we have already approved for projects. And we're in the phase of spending the money. Just to complete those projects which we have approved already is going to cost us about R460 million. So we haven't added a lot of other capital

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expenditure. We have been cognoscente that we have a pretty tight balance sheet. But somewhere between R800 million and R900 million. The UK cap ex is entirely dependant on their cash flows. In terms of our arrangements with the banks and the covenants that we have, we expect to spend about £20 million a year on replacement capital expenditure. If we generate a bit more EBITDA and a bit more profit we can maybe spend a bit more. Sometimes we get presented with the opportunity to spend some money on something that can bring growth. Something that can bring consultants closer to our business. And therefore we're not saying no to those capital expenditure requests if we can afford it at the time. We would like to be in a position to do that. But say some £20 million to £30 million of cap ex. To be clear on the GHG dividends, there won't be a dividend for a couple of years. We have to get the debt in GHG down. We have got covenants with the banks where they want to see the debt down before they see any dividends out of GHG. But you will see in the announcement that we made that part of our consideration when we bought GHG is by way of redeemable preference shares. And you might ask yourself why. Well, between us and the consortium partners that is the preferred route and a way of getting cash out of GHG. When the time is right, the debt is down and the cash flows are good we will immediately start redeeming those preference shares and get the cash flowing via that course. Just to back to the Netcare dividend policy. We have no formal policy. We consider everything every six months. We take all the views of the people who are on the board. We're just being prudent given where we are, what has happened and the type of money we have spent in the last little while. Thank you. We are happy to take any questions if anyone has any. No questions from the floor. Thank you very much ladies and gentlemen for attending this. We are available to chat afterwards, and we have some refreshments just outside. Please join us. And thank you once again to our Chairman Motty Sacks for what you have done over the last ten years and the anchor role you have played for our organisation. We appreciate it enormously. Thank you.

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