



Netcare  
Annual Results Presentation Transcript  
24 November 2008

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***Jerry Vilakazi - Chairman***

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I'm not going to make any speech this morning because the purpose of this meeting is to present the results. We are very excited to be able to present to you the results audited for end of September 2008. We are very much aware that we present the results at a time when the economy globally is very depressed, and faced with major challenges. But we remain as a company very confident and upbeat that private healthcare demand will continue in our markets or within South Africa, as well as in our UK market. And as we present these results we want to assure you of our confidence as to the future outlook, as you will see even from the results in a number of areas that will be highlighted this morning where we have made significant progress. We also remain committed to play our important role as good corporate citizens in this country in ensuring equitable access to private healthcare as well as to healthcare in general, but also to increase shareholder returns. I'm going to call upon the Chief Executive Officer, Richard, who is going to make the first presentation. And after his presentation he will then guide us who is going to take over. I'm certain it's going to be Peter who is going to come in, the Chief Financial Director, who is going to make the next presentation. And thereafter we'll have an opportunity to take questions. Over to you, Richard.

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***Richard Friedland - CEO***

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Good afternoon, ladies and gentlemen, and may I also welcome our colleagues in the United Kingdom who are listening in, and from elsewhere in other parts of the country. This has been rather an uneventful year for Netcare. Things have gone swimmingly. We haven't had any regulatory pressures; there have been no operational challenges, we haven't had some senior people leaving our ranks, and generally speaking these are extremely easy results to present. The truth as you know, ladies and gentlemen, is that we've probably had one of the toughest years in Netcare's history, and it is testimony to the resilience of our teams on the ground – both here in South Africa and in the United Kingdom, for very different reasons – who have held the ship together, who have rolled up their sleeves. And from the outset I want to thank our management teams on the ground throughout South Africa and also in the UK for the enormous achievements this year. As Jerry said, I'm going to take you through the first part of this presentation, which is essentially looking at some of the group highlights, a detailed review of our South African operations and our United Kingdom operations. Healthcare wouldn't be the same if we didn't comment on regulations, and there will be a slide on that. And then I'll hand over to Peter Nelson to take us through the financial review in some detail, and also our outlook for 2009.

I put this slide up to show you that we had about six million patient visits during the year, treating about four million patients. I mention this, ladies and gentlemen, not just to demonstrate the depth and the breadth of our organisation and the number of patients we treat in the United Kingdom and in South Africa, but also to demonstrate the enormous contribution of Netcare and the private sector in looking after our citizens in both the United Kingdom and South Africa. Despite all that has happened this year in both countries we have been very busy in terms of new acquisitions. In South Africa we acquired the remaining shareholding in the Community Hospital Group, and also a small maternity hospital known as Linkwood. And in the United Kingdom we were successful in purchasing some nine hospitals from the Nuffield Charitable Trust earlier this year. Two of them were subsequently sold in order to meet the Office of Fair Trading requirements. We then purchased a small specialist clinic known as The Oxford Clinic. I'll talk a bit about that later. And if that wasn't enough in the United Kingdom post year end we've purchased another hospital in Darlington in County Durham known as the Woodlands Hospital. Again, I'll talk to that a bit later. I think one of the outstanding features of our results must be and is the outstanding performance of our United Kingdom operations under the guidance of Adrian Fawcett and his team. It's a sterling performance – if you'll excuse the pun – and we'll talk to that a bit later.

As we commit ourselves to transforming Netcare and normalising our company as we normalise our very own society here in South Africa we're very proud to announce today that we've been awarded a level three compliance in terms of the DTI codes on broad-based black economic empowerment. It's equivalent to Empowerdex AA rating, and it's a significant improvement year on year from the level five that we achieved last year. In fact, that rating will almost certainly put us within the top ten empowered companies within South Africa. This was a good year for Netcare 911, recognised as the leading healthcare brand in South Africa, a testimony to the incredible work it does both for indigent, public and private patients. And a very significant event for us, particularly as we seek to cooperate with governments in Africa and elsewhere, is that we were awarded together with our consortium partners the largest public private partnership in Africa, supported by the World Bank and the IFC in Lesotho. This is to build a 390 bed hospital, design it, construct it, manage it, operate it and importantly, run all of the clinical services. A real first, and if you look at it, Lesotho may be a small country; they have put 80% of their healthcare budget, their trust in us, in order to do that. The contract was signed post year end on the 27th October.

Just looking at some of the group financial highlights, and I'll unpack this through each of the divisions both in South Africa and the United Kingdom, and the subdivisions beneath this. But just to take you through it, we've had a very pleasing growth in revenue, some 17.1% attributable to South Africa. 16.8% of that is attributable to the United Kingdom. The currency impact, in other words the translation of Pounds into Rands given the increased exchange rate is about 2.2% on that number, but nonetheless a very pleasing result. Looking at our operating profit, a 13% increase in operating profit. And a margin decline from some 21.7% to 21.2%. There are lots of reasons for that, and I'm going to unpack that for you later. We saw margin improvement in the United Kingdom, and the margin being contracted here in South Africa, and I'll speak to that in some detail a bit later. I think one of the most pleasing aspects of our results, ladies and gentlemen, is the 17% increase in cash generated from operations, and a conversion of some 101%, up from some 98% last year. And then I'm going to leave our debt and total assets to Peter when he discusses the balance sheet in more detail.

As you would have seen from our trading statement, we said that our headline earnings per share would be approximately 20.7% down year on year. This is essentially as a result of the very large once-off deferred tax benefit that we achieved in the United Kingdom, resulting from UK corporate tax reducing from 30% to 28%. That was equivalent to some 15.9c alone at this line. But importantly – and I'm showing you this statistic here at the bottom of adjusted diluted headline earnings per share – if you strip out of both 2007 and 2008 all of the once-off items, both positive and negative, the net impact of that is that we were able to produce, despite the environment we've had, a 3% increase on a year on year basis. You'll find some slides in your pack later on, and Peter will take you through the reconciliation of those items. Just looking at the geographical contribution between the United Kingdom and South Africa, it largely remains unchanged, some 52.2% being attributable to group revenue from the United Kingdom, and some 57.8% in terms of operating profit.

Now turning to the South African operations, I think I've spoken about the challenging operating environment that we've been through in South Africa. In the hospital division we changed our entire tariff structure effective 1<sup>st</sup> January, and I think right across the board in all of our divisions we only achieved sub-inflationary tariff increases. I think we underestimated the extent of the inflationary pressures in South Africa over the past year. To compound that issue you will remember that Netcare was alone in this industry in honouring the request of our former Minister of Health to keep our tariffs to the November CPI level of some 7.9%, and we reduced our tariffs to that in February. It's now a moot point that had any of the other industry players followed suit we may have been able to avoid the regulation and the amendments to the draft health bill coming out. We entered into a process of trying to consult and engage with the department. That didn't get us too far, and in July we took a decision to take our tariffs back up to the 8.4% level, again well below inflation for this year, and certainly at the time.

I think beginning in September last year we started experiencing a lot of regulatory pressure in the sector from the Department of Health, the Council of Medical Schemes and the Board of Healthcare Funders. And a lot of that culminated in draft legislation being put before parliament in terms of the medical schemes amendment act. And a lot of that has fortunately subsided with the appointment of our new minister, and also indeed with the focus rather on national health insurance and increasing universal cover in South Africa. And I will talk to that a bit later, but nonetheless, a huge focus and a lot of pressure on the sector, certainly for the first six months of our financial year. We took the opportunity this year to relook at the alignment of our operations, particularly between our head office and our business units. I think every company goes through this cycle of centralising and decentralising, but I'm happy to say that we've now focussed our operations into three core divisions, a hospital division, emergency services and primary care. Obviously we integrated the remaining part of the community hospitals and our new acquisition. That's happened this year. I think a feature of South Africa which has certainly been below expectation has been the results of our primary care division. Although showing very strong growth of some 26% in revenue, some 32% in new lives and 8% in GP visits, unfortunately the bottom line results were very disappointing. I'll talk to that. Importantly, these are not structural issues that we're dealing with. They are once-off issues. I believe we have corrected them, and that division will recover very healthily into the New Year.

I've mentioned the Lesotho PPP contract. And despite the difficult operating environment we were still voted one of the top ten large companies to work for in South Africa, our fifth year in a row of participating in this independent benchmark of what our employees are saying to us. This is not what management is saying. It's not the boxes that we tick as senior executives, it's what staff and employees within the group are saying. I put this last point up about how many people we train in South Africa, some 3,365 nurses, emergency services personnel and pharmacy interns and assistants, because of our enormous commitment to the rate limiting step of growth and development in our country and the provision of healthcare, which is skills. We are voted as one of the top ten skills providers and trainers in South Africa. It's interesting to note that if you take Netcare, its market share as a proportion of the public and of the private sector, we only have 7% of the market share in terms of hospital beds. And yet we train more than 25% of the nurses that graduate in South Africa. This, ladies and gentlemen, at a cost of some R90 million this year.

Having a look at the South African results, stripping out from the group results, I think you can see what we referred to earlier. Good growth of some 17.1%, driven by acquisitions but also by very good growth in our primary care division, albeit it at very much lower margins. That, together with the sub-optimal tariffs and some of the once-off items we've seen, resulted in our EBITDA growth only increasing by some 3.2%. Pleasingly, we managed to contain capital expenditure this year, down some 14% from R800 million to R687 million. And you will see that given our strong emphasis on capital expenditure, but more importantly on working capital, we were able to reduce our debt position in South Africa from some R5.2 billion to some R4.8 billion this year. That after taking some R200 million worth of debt additionally as a result of the Community acquisition and of Linkwood. And again, a very pleasing result in terms of cash generated from operations, up some 28.3%. In fact, if you look at the South African results our cash conversion from operations was 113% for the year, and in the last six months alone was some 167%.

The EBITDA margin declining somewhat, and I think this was somewhat disappointing. Some 230 odd basis points. We had guided the market that we would approximately be at 100 to perhaps 200. When you dissect our results, 120 basis points of this is really a result of the hospital emergency services. But the remainder of 110 basis points ascribed primarily to the disappointing performance in primary care as I've said, and we will show you in guidance an area of huge improvement for next year. We also exited a lot of our non-core businesses and converted some of our existing loans and investments into cash. Importantly, although these margins declined our EBITDA was in line with expectations, thanks largely to the higher than forecasted revenue that we achieved in South Africa.

Just going on to each of the divisions and now unpacking South Africa in our hospitals, our primary care and emergency services, and just showing you the results individually, we appointed Jacques du Plessis in May of 2008. I am extremely confident that he is already making an enormous contribution and will add huge value to this division. We did put a new tariff structure in from January. It meant that we are now charging for all of our surgical consumables at cost. All of the remaining pharmaceuticals and volatile gasses are charged at single exit pricing. And we also took a decision to take more risk in terms of our billing and agreements with funders. 40% of our billings are now on alternative reimbursement. We have reduced our fee for service billings from 80% to 60%. The acquisitions resulted in an 11.4% increase in our registered beds and footprint in South Africa, and I'm pleased to say that our two newly-built hospitals, Alberlito and Blaauwberg, are now profitable at the EBITDA level. We are experiencing some occupancy limitations in one or two of our hospitals, and our weekday occupancy has now gone greater than 70%.

If we look at our emergency services, Tumi Nkosi was appointed Managing Director of this division in 2008. He has done an outstanding job for us this year. It has been a difficult year with a 53% increase in fuel costs and other operational costs, and I believe that 911 is in a lot better shape as a result of his involvement and his team's involvement this year. I put these statistics up, ladies and gentlemen, on the slide just to demonstrate to you the size and the scale of this operation in South Africa. We are running some 240 emergency response vehicle and fixed-wing aircraft; some 7.5 million people rely on this service in South Africa alone; over 200,000 emergency calls are dispatched at a brand-new 100 seat call centre. And despite all of this, this division continues to innovate. This year we launched in South Africa the very first electronic patient record, automated, available real-time from the scene of an accident and uploading to the call centre or hospital. We're also one of the largest trainers of emergency personnel. We're the first to be accredited by the Health Professionals Council of South Africa in a very modern training facility in Midrand. Again, testimony to our commitment to the skills shortage here in South Africa.

Let's unpack the hospital services and emergency services for you in some detail and have a look at the financial results. A 15.9% increase in revenue, 11.6% of this organic and some 4.3% acquisitive and new hospitals growth. I raise the new hospitals in terms of Alberlito and Blaauwberg. They have been open for longer than 12 months, but they haven't been in our results on a comparative basis for more than 12 months. So from an accounting perspective we still separate them out. But they certainly have been operational for more than a year. Our revenue per patient day increased by only 6.2% against the kind of inflationary pressures we've seen this year. You will now understand the squeeze at the EBITDA margin and the sub-inflationary increases that we enjoyed this year. Total patient days increased by some 13%, 3% in the existing business and 10% in the community hospitals and new hospitals, if you include those as well. Again the margin was diluted because of the factors mentioned, but also because the Community Hospital Group does run at a lower EBITDA margin, as do the two new hospitals. And operating margin was also further diluted, but mainly as a result of a 25% increase in depreciation as a result of the acquisitions and new builds.

I think this is a slide I'd like to spend some time on, on the Primary Care division. We were delighted to appoint Dr Charmaine Pailman as MD in July 2008. She was out and out our outstanding hospital manager in 2007. She has a long history in the public sector, and then in the private sector. And I believe this division will achieve good health underneath her, and is already beginning to show signs of that. But if you have a look at the revenue here you will see this division grew some 25.6%, largely due to an exponential growth in lower income lives coming in on a full risk basis. And that's an important point. Now only were these lower income lives coming in, but they were coming in on a totally different risk basis. Previously most of the business we were doing was purely at the primary and secondary level, and as I'll show you from the next slide, most of the business we are now doing is full risk business, primary, secondary and tertiary or hospital and specialists as well. We also had good growth through our 101 clinic facilities in Medicross and Prime Cure, and we grew our visits by some 8% to about 3.7 million primary care lives during the year.

Unfortunately you can see what happened at the EBITDA line, a massive decline in EBITDA. But that doesn't really tell you the full story because we had some abnormal items in this year that related to the prior year, and indeed related to 2006. These came late to us in the year. But there was an item of some R28 million in our results this year that in effect really relates to 2007, and indeed some of that to 2006. Not big enough to restate our numbers, but certainly from a management account perspective worth showing to you. We had a lot of once-off items as well. So I think it's more prudent to look at the adjusted EBITDA line, where we declined some 50% from R81 million to R40 million. That gives you a view of what the normalised earnings should be, and I'm very confident that this business will recover. We've put a lot of steps in place in terms of mitigating that, and I believe that that will improve substantially next year. I think the primary care division was also hit by sub-optimal increases in GPs, their consulting fees, of some 5.4% this year. Again, well below CPIX for the year.

I think these two graphs really show you what has happened in Primary Care since we acquired Prime Cure itself. And you can see that since we've acquired Prime Cure we've had at least 30% growth in lives, managed care lives, in the last two years. But the graph on the right really tells you what has happened here. Initially we were only taking 10% of these lives with full risk. It increased to some 52% last year, and this year that's increased to some 60%. I think we've taken the remedial steps to ensure that we fully risk manage this, and that we have the actuarial models in place to make sure that this business is done in a profitable manner.

I think the last slide on South Africa that I really want to deal with is our score card or our rating in terms of the rating and accreditation that Empoweredex has given us. And just to highlight how we achieved the level three rating, some 75 points, you will see that there was a very significant increase in preferential procurement. In fact, all of our indices improved. Enterprise development declined very marginally, but now 56% of our spend is with accredited BEE suppliers. It was far lower in 2007. It translates into some R2.8 billion worth of purchases of some R4 billion purchases in our company. Our purchases are actually some R5 billion, but we have to strip out our inter-company purchases for the purposes of this calculation. And I think that overall a very pleasing result for us. We also measured ourselves in terms of the draft health charter, even though this is yet to be published. But we have set ourselves targets to meet the targets within the charter, and I'm pleased to say that in terms of employment equity we will reach the 2010 targets in 2009.

Turning to the United Kingdom, and again paying tribute to an outstanding performance by our colleagues in the UK this year, and just taking you through some of these pertinent features of the UK. I think just looking at it for those of us who don't understand the breadth and extent of the geographical footprint in the UK, just to show you, these were the 48 BMI hospitals. BMI is the brand of our hospital division in the United Kingdom. You can see them stretching to these three here in Scotland down here to England and Wales. There are some 48 existing BMI hospitals. Again, there are three existing Netcare UK NHS sites, in Stracathro in Scotland, in Manchester and also in Leeds. We also added eight new sites this year, the seven Nuffield hospitals and also one hospital in Oxford. You can see it down over here. A total of some 311 beds, adding about 11% increase in beds. So some 12% increase in beds in South Africa; 11% increase in beds in the UK. And then since year end we've added three new sites. We've purchased a hospital called the Woodlands Hospital up here in Darlington, County Durham. It's the only private hospital in that area.

We've also opened up a very large primary care centre for GP services and specialists or consulting services and imaging in Nottingham. It's a real first foray in partnership with GPs and in primary care in the UK, and we're watching it very keenly. And then we also in terms of expanding our strategy have opened up consulting rooms and imaging services in London as well. And then finally, this is our mobile ophthalmic unit. For those of you who haven't seen it, I'm showing it to you on the graph over there. You can now claim that you've actually seen the mobile ophthalmic unit. It finishes operation in March next year, having successfully completed some 44,000 cataracts across the length and breadth

of the United Kingdom. This was the first ever independent sector treatment project that was issued in the UK, and it's almost been five years in the running. So a very impressive network that we have continued to expand since the acquisition of GHG in May of 2006.

I think looking at the highlights it's clear to us that we have a very strongly focused and aligned team in the United Kingdom. Most of the senior executives that are in place now are not the ones that were with us when we took over this acquisition, and I believe that this team that we have in place is responsible and will be responsible for driving even further growth and improvement in our organisation. Later this afternoon on our international conference call we'll be joined by Adrian Fawcett and the Chief Financial Officer, Phil Wieland, who will cast more colour on the UK results and the outlook for 2009. I believe that's at about 4pm this afternoon. We saw very pleasing revenue growth of some 12%, and I will unpack that for you in terms of what was existing business versus acquisitions. But significantly we continued to derive operational efficiencies in this organisation, and there is a lot of operational leverage. And that's why the reported EBITDA, in other words including once-off items, has risen to some 18%. And despite all of this focus on cost savings and efficiencies our quality metrics are at an all-time high. We also went through a rebranding exercise in BMI. The brand was somewhat tired, had never really been worked on. It has now been rebranded as the consultant's choice. Market research guided us very strongly in terms of that and what consultants – or specialists, as we call them in South Africa – were saying.

Just having a look at the income statement, I will break this out in terms of the existing and the acquisitions. But again, a 12% increase in revenue, a very good growth in EBITDA and again the reported EBITDA after including the non-recurring items was up some 18%. And if you do your math on this you can see our margins are very healthy the United Kingdom, some 26% EBITDA margin here after non-recurring items, some 25.6% after non-recurring items and some 26% before these once-off items. Probably the most important thing for us here is that our UK operations are profitable, and a profit after tax here of some £11.1 million, and outstanding performance in the UK. It does include – and Peter will talk to this later – some tax credits in the UK, utilising previously trapped losses and some deferred tax credits, and we will show you that in some more detail when Peter gets up to present.

Now, looking at this slide on the existing and new business I think it tells a very interesting story. You will see that the existing businesses have performed outstandingly. And if it were for the existing businesses alone without the acquisitions we would have reported a £15.4 million profit after tax. You can see EBITDA growing very significantly year on year here, and you can see again a very significant margin improvement in the existing business. But just having a look at the breakdown, this is the Nuffield acquisition. Again, although producing a loss after tax in line with our business case and in line with our forecast, you can see that of the 12% revenue growth in the UK 7% is attributable to our existing operations and 5% to new sites. The EBITDA before one-off items was 15% and as a result of existing operations was 4%. Importantly, after once-off items, of the 18% increase in EBITDA our existing operations produced some 16%. So our existing operations are in excellent shape, and obviously we will be doing much during the year to bring the hospitals that we've acquired up to the same level.

I put his slide up here to show you the growth trajectory prior to acquisition and post acquisition, both in terms of the margin improvement and also in terms of the EBITDA growth as a percentage. Now, what you will see on this slide here on the left, the existing sites, is that this business was in steady EBITDA margin decline. We bought a business on 12<sup>th</sup> May 2006 that had been significantly dressed up for sale. As you can see from these results it had almost fallen off a cliff when we acquired it. There hadn't been a focus on the operations for some months. And over the last two years we have substantially taken that margin from some 23.9% to 26.6% in the existing operations. If you just look at the EBITDA growth, this graph includes some of the new acquisitions. A pedestrian 2.7% growth from 2003 to 2005, and in these numbers is the acquisition of one or two hospitals as well, and certainly

you can see the improvement, the average EBITDA growth of some 15.1% since acquisition. I think these two graphs tell a story pre- and post-acquisition of where we are taking this group.

Total patient volumes continue to increase, some 7% increase on our case load, 2% like for like. It's certainly well ahead of our existing growth rates. It's really as a result of our GP focussed strategy in the UK as well as our rebranding. And we are adding quite a number of NHS volumes, certainly on a marginal contribution basis. If you look at this, these are the total number of cases. My apologies, that should be in hundreds of thousands. So that is 1.1 million cases, of which 302 represent the in-patient and day patients. Despite this increase in volume one of the pleasing aspects of the network that we have purchased is as a result of the efficiency drive we've had. We still have significant surplus capacity to support growth. You can see that we've broken it down here in the various divisions, be they theatre or wards or consulting rooms. And this really means for us that we don't need to spend more and increase our capital expenditure excessively in order to provide more capacity.

When you look at our revenue mix you can see from this slide that the PMI or private medical insurance has remained stable throughout the year. There has been a natural offset between self-pay and NHS volumes. They were only 2-3% of our volumes previously. That has more than doubled. We have probably seen about a 170% increase in NHS cases over the year. And we've seen a 75% decline over the year to September on the self-pay side. Fortunately, the case mix between NHS and self-pay is very similar. It's because we don't do that much cosmetic work that we haven't been hit by that falloff in the market. We remain cautiously optimistic about the growth in NHS. The UK treasury is under enormous pressure. We believe the NHS will not enjoy the funding it has enjoyed in the past. It has reached a peak. And we believe that the demographic trends in the UK underpin increased demand for healthcare.

I think this slide really demonstrates how we have been able to improve significantly the EBITDA margins and the operating performance. A list really of the programme of operational efficiencies and tasks we've undertaken since acquisition, and just really a progress report of where we are. You can see where the three ticks – ward, labour and head office consolidation. This is consolidating four or five different head offices including Netcare UK into BMI – those are well underway, including our non-nursing headcount. And we have been able to derive efficiency gains from that over the last two years. We're still in the process of financial shared services and standardising and aligning procurement throughout the group. We expect further efficiencies from that. And we're yet to see the full benefit of the rollout of this radiological imaging system (RIS) across the country, the closure of the defined benefit pension scheme and the savings that will result from that, as well as theatre utilisation. And importantly for us, a change in the nursing skill mix, which we believe is very rich, in favour of registered nurses versus non-registered nurses in the UK if we compare it to any other country, including our own in South Africa.

And so really these operational efficiencies have supported our margin growth over the last two years, and I believe will be very important in the coming years to ensure that we at least maintain, if not increase margins going forward. We're aiming to maintain our margin in 2009. And as I said earlier, despite all of this focus on cost, it hasn't impacted on our quality or capability, and it's evidenced really by these graphs coming up to you now. You will see that our performance metrics in terms of quality and patient care are at an all-time high, both in the decrease in complaints, unplanned returns to theatre indicating complications, patient satisfaction increasing, and a very important indicator for our colleagues in the United Kingdom, the level or incidence of the so-called superbug or MRSA in our hospitals compared to the NHS, a somewhat unfair comparative, given the fact that we do not do the kind of trauma and polytrauma that the NHS does, but importantly in and of itself a very, very good result. So overall an outstanding result from the United Kingdom.

I said I would end off on the regulatory updates before handing over to Peter. And really just to contrast the different type of regulatory pressure in the United Kingdom and in South Africa, as I said

we faced a lot of this pressure from September last year and for the first few months of this year. We've now seen deferment of the various healthcare bills to 2009. There has been a very significant focus post the ANC's conference in Polokwane on national health insurance. We have been very fortunate to be part of that debate, and we believe that that has taken centre stage, and so much of those negotiations will probably be postponed to next year. We continue to cooperate with the department in terms of benchmarking a national hospital reference price list, and we have spent an inordinate amount of time as an industry developing those benchmarks.

We welcome the appointment of the new Minister of Health. We think she brings a very fresh, constructive and open approach in terms of dialogue and in terms of solving the problems that we all face in healthcare delivery in South Africa. There has been a very importantly consultative process run by the Development Bank of Southern Africa together with the ANC sub-committee on health and education and the minister in which civil society, organised labour, the private sector and various government departments have been engaging and looking at what the real issues are that we're facing in South Africa, and how we tackle those constructively and together. There is a ten point plan that has come out from that which is currently being debated in the various circles. It's certainly something that we welcome. In the United Kingdom the focus on regulation is all about patient safety and patient care and outcome. It has very little or in fact nothing to do with price control. We are governed by the Healthcare Commission in the United Kingdom, and we are now about to see over the next 18 months to two years an amalgamation of the regulatory bodies to ensure the same standards apply to the NHS and the private or independent sector. We are engaging in a process of more and more self-regulation within the independent or private sector within the UK, and pleasingly GHG has embarked on a process of really beginning, together with the rest of the sector, to standardise and agree patient outcomes. I am hoping in the months going forward in South Africa we will be able to agree a similar process with our colleagues in the private sector and in the public sector.

I'm going to end there and hand over to Peter Nelson. I think at this stage I want to pay tribute to Peter Nelson. He is moving on to Telkom. Peter, thank you for your years of service at Netcare, for the outstanding contribution that you've made, for the policies, the procedures, the discipline that you've brought within Netcare. We are deeply appreciative. We wish you every success at Telkom. Over to Peter. On that note, and before Peter takes over, we have appointed Vaughan Firman, who was our Director of Finance in South Africa, as our acting Chief Financial Officer. Vaughan is an outstanding individual. He rolls up his sleeves. He knows every aspect of the detail. He is backed up by an incredible team that has been part and parcel of producing the results, and we have every confidence in Vaughan in taking Netcare forward. Thank you very much.

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### ***Peter Nelson - CFO***

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Thank you very much, Richard, and good morning ladies and gentlemen. Morning to colleagues across the world. It has been a very busy year. Clearly you've seen that from what Richard has presented. I think team finance has basically tried to demystify and to simplify some of the analysis of these numbers so that we can understand them more readily. It has been a difficult year. To deal with some of the issues we have accounted for the consolidation of Community Hospital Group. It was acquired on 2<sup>nd</sup> October, so it is a full 12 month period. We issued 14.2 million Netcare shares, and we have assumed debt of R171 million in these accounts, plus we assumed responsibility for capital commitments with another R53 million. When we look through the numbers, Community has been positive to our bottom line this year. We acquired the Linkwood clinic. It was fairly small. We took over debt and credit there. And we acquired seven Nuffield hospitals, 251 beds. For those, we paid £140 million plus £10 million of cost, and we used £40 million of our own cash. And we sold two of nine hospitals for £30.5 million, some R465 million. You will see big numbers relating to goodwill, because

this was an asset acquisition, and you will see the assets and goodwill coming on to the balance sheet.

Just to give you some idea of the type of returns, we've set out there what the revenue was for the eight months and what the operating profits were. And that should help you in some of your analysis. Very big on our results, as always, and we spend time every year on this particular subject, the exchange rate when we acquired GHG was R11.73, and we're pretty much hedged out at plus or minus R12. Last year the exchange rate closing at the end of September was R14.03 to the Pound. This year it was R14.76. That gives rise to some very big movements through our balance sheet, and we will touch sides on that a bit later. But just to look at some of the underlying items, firstly when we made that acquisition from South Africa we paid £219 million. We covered that in full in a cross-currency swap. Part of that cross-currency swap was repaid last financial year, and the balance was repaid during the current financial year. That was the R188 million that we started the year with, which basically was repaid, so at the end of the year we have no currency swap derivative on our balance sheet.

What we've also discussed are these interest rate swaps in the UK. We've got very long-term swaps, effectively some 23 years to run, one swap from year three to year ten, and the second swap from year 11 to year 25. What has happened in the UK is that interest rates have come down quite dramatically in the last 12 months, and the value of these derivatives have moved from what was an asset value into a net liability position of 1.1 billion. That movement of 1.2 has flowed through the hedge accounting because we hedge account it, and we hope to be able to hedge account them through to the 25 year period. I must just say to you that the world markets are in turmoil. People are looking at how hedge accounting is applied, and accounting bodies across the world are looking at standards that relate to the hedging. So I'm not sure what the future will hold, but in this particular year we've been able to hedge account our hedges. And in the previous year we had a small proportion of one of these hedges which was ineffective, and which used to be accounted 10% through the income statement. From March we've been able to 100% hedge account all of our derivatives. So we've got a very minimal effect going through the income statement this year in relation to these hedges. So just to look at the net of these derivatives, what used to be a net asset basically is now a net liability.

If you look at the income statement at group level, group revenue is up 16.8%. The impact of new acquisitions if we look through the group was 5%, new builds 2.3%. So in a sense our organic business has increased just under 10% at the revenue line. If we take that through – this is a very positive income statement in terms of growth all the way down to the tax line. And I will come back to the tax because the tax is quite complicated – operating profit goes up 12.7% and then finance expenses go up 13.7%. Let's just stop and unpack that a bit. Last year we had a R58 million swap profit relating to the 10% on one of the hedges which was ineffective and had to be accounted for through the income statement. This year we've got a R15 million swap loss on that instrument up until the end of February, after which it became 100% hedged. We also in this net financial expense line because of our acquisitions a lot of debt in these acquisitions, and the debt to make the acquisitions, we basically see the year on year impact of higher debt levels coming through, giving rise to that 13.7% increase on that line.

The attributable income from associates which was R32 million has gone down to R2 million. Let's have a discussion around that. Last year's figure we were basically still equity accounting our Community hospitals. This year we are consolidating them, so their profits have gone up into the trading profits. And we have also absorbed our share of fair value type adjustments at Community when we made the acquisition. We've got to fair value their assets and align their accounting policies with ours. We absorbed an R8 million loss on this line relating to these items. Ordinarily if it was an acquisition you would just make it completely unrelated. That R8 million would have gone to goodwill. But in our case because we equity accounted and this was an associate we had to expense our share of that. So we've booked an R8 million cost on that line. Not in the income statement, going directly to

the balance sheet, we benefited R93 million by our share of the increased value in their land and buildings. But that basically has to be accounted for directly to the balance sheet. Unfortunately the R8 million has to be accounted for as an expense.

So profit before tax then was up 6.5% at R945 million. And here you start to see the big movements in the tax line. Last year Richard spoke about the R372 million credit that sat in that line as a result of the tax rate change in the UK. This year in the R68 million we basically do have a very low effective rate of tax. We booked £7.5 million of deferred tax profit as a result of post-acquisition restructuring in GHG. In terms of IFRS this goes through your income statement. Restructure has allowed us to access previously capped losses, and as a consequence that goes through into our earnings per share. But in terms of our understanding of the numbers I'm just pointing out what that is. And we also had £3.7 million of pre-acquisition assessed losses which previously when we raised our deferred tax asset in this acquisition we only look forward for a period of two years in terms of what losses we expect to utilise in two years. And beyond that we basically didn't book at acquisition. But as time goes by we keep looking two years ahead, and as a consequence of going further we've been able to bring to credit there £3.7 million of deferred tax. That £3.7 million is matched exactly by an adjustment out of goodwill, which comes through the amortisation and is included in operating profit, but excludes this tax line. The £3.7 million has a zero income statement effect. So if we look through that then basically you get these big movements here. Discontinued operation is Ampath. We still propose to sell that. We're hopefully in the final stages of negotiation. Profit for the period then excluding the discontinued item is R982 million, 10% down year on year.

We do need to stop and have a look at the non-recurring items in this group. I've set out the South African non-recurring items there, the UK non-recurring items here, and then I've brought the UK in at cents per share. So I'd like to start with the UK, and let's have a look at that. We've got 2007 there in this column and 2008. In 2007 we had some R79 million of restructuring costs in the UK. You will remember we had a lot of mobilisation costs and the likes that we wrote off there. This year we've got R123 million of restructuring costs in the UK, a big move towards centralisation and quite a sizeable retrenchment type cost coming through there. The Nuffield transaction, this year we booked R53 million of costs which we had to book through the income statement, and then we made a R76 million profit of the curtail of the pension fund in the UK. That's another quirk of IFRS that requires you to take that through the income statement, but in total net costs of R100 million going through the income statement versus last year's R79 million. Then just to be clear, last year we had R58 million swap profits which I spoke about previously. This year we've got R15 million of swap losses through the income statement. I've normalised the tax because of all these movements on the deferred tax that are difficult to understand. If we go right through that and we normalise tax, you will find that last year we would have taken out R401 million of abnormal credits, and this year we have taken out R211 million of credits on the deferred tax. Minority interests come out because we only own 51.1% of that business. After minorities we basically would have had that effect last year, R200 million credit, and a R48 million credit this year. If you bring that to cents per share, last year it added 16.3c to our shares, and this year 3.8c. And these are the numbers I bring through there.

On the South African side, the abnormal items, we've booked R8 million of losses on Community, which I've spoken about, R12 million on retrenchments and R28 million on the Prime Cure underwriting costs/IBNR provisions. So R48 million of costs in total in South Africa, versus last year's R20 million profits. We take off the tax effects of that and we drop that out, and we calculate the earnings per share impact on South Africa. A fairly small impact on the South African side. When I add the two together then we're saying last year's earnings per share boosted by 17.5c, of which 15.9c was the tax rate credit change alone, and this year's earnings per share boosted by plus or minus 1c. If we bring these numbers forward now to headline earnings per share so that we understand these numbers, we've published basic earnings per share of 63.5c. Headline adjustable items were 2c in a group context this year. This relates mainly to the profit on sale of properties. Last year we had a cost of 2.2 which we later made into impairments. So basic headline earnings per share this year was 61.5c. It was 20.7% down year on year, and this was the reason technically why we had to issue a

trading statement. At that line if you're going to be more than 20% down year on year, irrespective of what market expectations are and the likes, technically because we are more than 20% down year on year we had to publish that trading statement.

Then I make the adjustment for the non-recurring items which I discussed on the previous slide, and we dropped down and said adjusted HEPS would have been 60.5c compared to 60.1c last year, a small decrease of 0.7%. If we look at how that is made up, Richard put up a slide earlier which showed the diluted earnings per share up 3%. There is a quirk this year that basically we issued a lot of share options, and if you look at the price of the options we issued at you basically get a 3% increase at Richard's line and 0.7% down on headline earnings per share. South African earnings per share were 55.3c for the year. South Africa carries the cost of financing the GHG acquisition. We carry about 15c per share in that line. In other words we would have been at maybe 70c had we not carried and absorbed the GHG acquisition there. So at the South African earnings per share level we've gone down from 60.9c to 55.3c, a decrease of about 9.2% year on year. And the UK this year contributed 5.2c positive to our earnings per share of 60.5c. And all of these are based on that number of shares in issue. So I hope when you analyse the numbers and think about them that these sides will be helpful.

We look at the balance sheet first of all, setting out all the impact of acquisitions with R3.1 billion of total Rand value attributable to assets because of our acquisitions we've made during the year. And included in that is quite a big number of goodwill, quite a lot of that coming out of the Nuffield acquisition, and of course there is a bit of goodwill coming out of the Community acquisition. So that's the acquisitions effect. We disposed of the two hospitals out of the Nuffield acquisition, so we take that out. And then have a look. Currency has added R2.1 billion to total asset value on our balance sheet this year because of the weakening Rand. We've got a number of other movements. The only one I want to single out is this financial asset where we sold our cross-currency swap, and you can see the impact year on year where we go from R1.4 billion to R500 million, mainly as a result of the cross-currency swap. If we look at the liabilities it's the same thing. You can see R800 million is the impact of our acquisitions. We take off R480 million on our disposals. If you look at the currency impact it's R1.2 billion, and other movements coming through in that line. So quite a big change to our balance sheet, and you need to look at those quite carefully.

Group debt, always on top of a lot of people's mind, particularly in the current circumstances. At year end we had facilities of R37.9 billion in place. We have only utilised R32.5 billion, in other words about 86% of our facilities are utilised. We met all of our covenants across the group in all of our various loan structures. Our total debt at the end of the year was R32.5 billion. Cost, if we look at the cost of this debt you can see that the UK cost of debt is marginally up from 6.42% to 6.45%. The acquisition of Nuffield came in at slightly more expensive debt, but still very good terms in any which way that you look at it. But driving the overall cost up a little bit, 6.42% to 6.45%. And the South African cost of debt is up from 8.9% to 10%. We have certainly seen the rate increases in South Africa with some of the debt we've taken on. But in total if you look at the debt across the group, our increase in cost from 6.85% to 7% is very modest in current day terms. We're still very significantly hedged. The UK debt is 98% hedged. The bulk of the debt rests in the prop co. The prop co is 100% hedged. We've got some Op co debt which we take a different view on. In South Africa we are 68% hedged at the end of the year on our debt. If we look at all of our debt across the whole group we are 95% covered on fixed rates and 5% floating.

The South African debt position, I think Richard has alluded to the significant improvement in this since March. We show the makeup of the debt. At the end of the year we were at R4.8 billion. At March we were R6.1 billion, and at September last year we were R5.2 billion. So we have had a very significant improvement in the debt position on the South African side. We have still maintained very favourable ratings etc. so a very big feature of our results this year. On the UK situation, just to help your analysis, you can see that the debt position at the end of September was £1.948 billion. The bulk

of that lies with prop co which is worth £1.634 billion. You can see the op co debt that we have, and then the net acquisition that results from the acquisition of Nuffield, an £82 million increase in debt. Although we did use some £50 million of our cash, £40 million directly and £10 million to pay expenses, and that is why you see that decrease in cash. So the net debt basically is ending the year at £1.8 billion.

Capital distributions, we stayed with an unchanged final dividend, although we have to call it a reduction in capital technically. We had increased the interim dividend from 13c to 14c, and we stayed unchanged. I think given the current circumstances we still have a high level of debt, although we're comfortable at every level. We do basically have to pay a certain minimum dividend into our health partners for life structures in order to enable the repayment of vendor financing which we provided to those structures. I think there is still the issue of Ampath, we're still expecting some proceeds to come in there. But just generally it's time to be cautious, and we would never easily contemplate decreasing a dividend, but on the other hand we didn't think it was the time to increase the dividend either. So we stayed with an unchanged dividend.

And then finally just to touch sides on the guidance I think it's very difficult for any corporation to give any really narrow guidance in these circumstances. The world is a different place out there today. We're seeing constant revisions to growth rates, more and more talk of recessions across the world. And I don't know that everybody understands what these impacts are going to be on their own businesses, so I'm just exercising some caution there. What we do know is that the needs for healthcare don't go away. People get sick; they still need to be made better. And even in difficult economic times healthcare remains quite a defensive stock. While that helps, we don't know how much it will help us to push back on some of the negatives in the economy. But on the South African side we were saying we would expect to see revenue growth at 10% plus. We would expect to claw back on our margins into the 17% to 18% range at EBITDA level. I think when we've restored our position at primary care and we've clawed back a bit on the sub-optimal tariffs which we had during the year, I think that should be achievable.

And then on capex, we're still saying some R700 million. It's early days for us. Last year we were on R687 million. A lot of the capex we spent last year, I think it was some R65 million, was just to restore generating capacities at our hospitals to be a bit more redundant or robust in these difficult times. So I'm thinking that R700 is probably a good number for South African capex. What I do think you'll see next year on the South African side is that the capex that we spent this last year and the year before, we're beginning to see a bit of a ramp up in the bed days that are coming from that in our budgets next year. So I think that's the South African position. On the UK side it's very difficult to call in the UK. I think they will be more affected by the economic recessions than we will. We're looking at revenue growth of some 5% to 7%, expecting to maintain margins. It's going to be a very difficult time to try and further improve the margins, although it's uppermost in the objectives and strategies. But at best I think if we can maintain our margins we will be very delighted with that. And I think there is always capex and things we can spend in the UK, we pretty much put a lid on about £50 million because that's a good amount of capex to spend, and we do want to start showing some de-gearing and start repaying some debt there. So with that I will conclude. I wish Netcare all the luck. Thanks for your kind words, Richard. Colleagues at Netcare in South Africa and the UK, best of luck for next year. I will watch this with a great deal of affection. Thank you.

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***Jerry Vilakazi – Chairman***

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Thank you, Peter. Shall we open for questions? At this stage both Richard and Peter will take the questions, unless there are specific questions that they would like part of the management team to

respond to. If there are no questions I think the team is available. You can have a chat with them. We'd like to invite all of you to join us for drinks and lunch. Thank you.

*ENDS*

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