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Netcare Investor Day

Web cast - Transcript:



Victor Litlhakanyane - Netcare: Head of Group Stakeholder Relations

Thank you very much. A very tough task to follow. I hope that will preserve my employment for a while. I thought we will try to be a bit informal for once. Let me say, for those of you who find this a very dull topic, the [unclear] project is too big for us in Netcare. Remember we exist in a very regulated market, and therefore it is important to understand exactly what government is doing and how we can work with government to ensure that we can sustain our business. Maybe I should start with a conclusion to make it easy for you. Firstly of all we need to acknowledge that building partnerships is a very complex, difficult, long process. It doesn't come easily. It has very good days and there are some bad days, but it is something we work on on a daily basis. I'm sure most of us are in some sort of relationship and we know that very well. That that is one conclusion I want to bring upfront. The next one is about trying to find a balance between the return for investors in a group as well as ensuring that we are seen as a trusted partner, and that is a very good corporate citizen of the country that wants to drive South Africa into the next millennium. Therefore we need to find that balance between the two. So that's the conclusion. I hope you can stay with me.

Ok basically the outline is to cover three important areas. One is to look at general government relations, the structures that are there, our strategy towards government relations and how we interact with government. Then we go away from the talking and to the doing, and talk about examples of how we interact and what we do and how we do that. So basically it's the walk as well as the talk, if you look at it that way. I think it is important first of all to understand that the private sector exists as part of a national health system. We don't exist in isolation; we are part of a bigger system. This is actually law in terms of the National Health Act. They put out that the national system is composed of both the public and private sector, and that the Minister is custodian of the whole system. And therefore the Minister is the Minister of the whole national health system. Her job is to ensure that the whole system functions in an efficient and accessible way, and that is both private and public. It's a very interesting set up here. In many industries where the Minister regulates the industry the Ministries are not actually players in the industry but sit and regulate from outside. In our case the Department of Health is also a player because it provides health care. It looks after more people than the other sector. But also they finance that system. They also provide financing into the private sector to ensure that there is some funding or incentives for the private sector.

I think it is important to realise that the Minister has a stewardship role to make sure that the whole system functions properly. Now I think it is also important to realise how policy comes about. It depends on where you think the policy came from. First of all the ANC has its own policies that are put into a national manifesto that comes into government when they win elections. In the case of our

sector they essentially have a blueprint which they call the ANC health plan for South Africa. It is referred to as the green book, and was produced in 1994. What is happening now is based on that original document. I had the privilege of sitting with some of the commissioners who drafted that document. If you go to national meetings they refer to that document a lot. So you need to understand the core of that policy and where it comes from. It actually acknowledges the role of the private sector and its coexistence with the public sector.

Then obviously the department takes over those policies and develops those into white papers and acts of parliament, which obviously are passed by parliament. Parliament ensures the whole process of implementation. The social distinction between national and provincial departments is that national is there to develop policy and provinces actually provide healthcare. National does not directly provide healthcare. It does not manage any hospitals; it does not directly employ nurses. We also know there are some [unclear] that also manage and provide public healthcare through their own clinic services. So there are different distinctions. If we talk about government relations, how we interact with government at a national level is different to how we interact with government on a provincial level. They play different roles. You need to understand that. The other issue is that there are also councils created by statute that are being created by the health department, for example the [unclear] medical schemes, the various provisional councils, pharmacy council and the [unclear] council. All of them have specific acts of parliament which explains their role in the sector. It is important to understand their role and know exactly when to interact with them on specific issues.

Therefore it is important for us when moving to government relations to understand policy. We need to accept that we are part of a national health system, and we need to acknowledge the past. We are living in a country that has a certain past, and we cannot just ignore that. We come from 40 years of oppression that has impacted on South Africans in different ways. We need to therefore embrace that in our interaction. Now our strategy as Netcare in terms of government relations is to position ourselves as a trusted and reliable partner to government, in particular the health department. We want to ensure that we include the national policies into our own policy development, in other words, to ensure that we are aligned as much as possible. We won't always be aligned with national government. We have other issues that are not what we believe are the right things to do. We try and ensure that we understand that policy when we do our own policies. Or else we will go in a different direction and won't be able to sustain our business.

The next issue is that we also try to influence policy development. We can propose changes. That has to be done in a constructive manner, in a way that is done positively and not negatively. We need to find a way of doing that which is a challenge to all of us. We also want to influence how policy is

implemented. I'm sure that many of the policies are very good policies, not just in health but across many sectors. But it is about how those are being implemented, and I think we have a role to play there to make sure they are implemented in a way that ensures that South Africa can move ahead. So our approach is to analyse and understand health policy. Melanie will talk about that part and explain it to you. We try to understand the history behind that and spend time with the people involved to ensure that we have a very deep-seated understanding.

We then want to know people in government and to understand their roles. We must understand their objectives, their goals, and try and find those common grounds with what we are trying to achieve. And try to find how we can together create a win-win situation. I think it is important always to come across in a very respectful manner and respect cultural diversity and respect protocol. Some of the stuff here may look very simple, but it is important to understand that they all have different ways of being addressed in how they are approached and so on. If you make mistakes at this level here you can mess up the whole relationship. Now let me talk about how we actually interact. We interact with different levels. We have very formal structures and very formal interactions. We have industry-wide organisations. For example, we are a member of HASA. Currently we chair HASA. Through HASA we get to deal with a lot of things from government. This is the organisation that government recognises as the mouthpiece of our industry and they talk to them on a regular basis. The other issue is that we also attend the healthcare charter forum. I have the privilege of sitting on that charter forum. And their role is to interact on a very close basis with the department of health and to work together to ensure that we can come with a charter that will transform and ensure more people in South Africa can have access to healthcare.

Let me just mention to you that the health charter are actually proposing what we believe are challenges to the sector in South Africa. One of them is access. In other words, what needs to be done to improve access to healthcare in this country? The other is about equity. It is about distribution of resources, like geographical urban/rural issues. We talk about human resource issues and how we can work together to ensure we have enough human resources to look after our people. We talk about issues of financing. How can we finance the national system in a way that is sustainable going forward? We talk about transformation. It is a very interesting charter. I don't know if some of you have seen the draft charter. Unlike other charters, transformation is a small part of that charter. The bigger part is about actual health services. And I think that is the biggest part in terms of what we have been trying to do with the department of health. We also have the honour of sitting on the national 2010 forum where we begin to look at what needs to be done to ensure that we can meet the requirements that are set by FIFA for the 2010 world cup. We recently had a meeting with the Minister. She called a meeting to discuss what is going on in the media about pricing and those issues. After that meeting

the Minister announced that there will be a health sector indaba held next month and we will interact with the department to ensure that we can find common solutions.

We have other formal interactions as well. We don't only work through those structures. For example, we have been to the Minister to talk about issues. What happens was that when we went the first time the department had a list of things they said they weren't happy about. The following things are happening in the sector, and what are we doing about it? We came back to Netcare, looked at our own issues and resolved those issues and went back to them and said this is what we have done. And we have had very positive feedback about that interaction. At other levels we have a lot of interaction between people in different directorates and we interact with them on different issues as well. Also I think formal interactions where if we need something we can formally chat over the phone and e-mails and so on. For example we have been dealing with human resources, which is done on a very informal basis but we're doing very important work. I think it is important to realise that even on a service level there are also interactions. Our staff is interacting with the public sector. Hospitals have informal training arrangements with the local public hospital where they do things together. If you look at 911, if you go out with them in the field you realise how closely they work with the emergency services from the public sector. So our employees on a day to day basis interact closely with our colleagues from the public sector.

Ok let me just give you some practical examples about this interaction and move away from the theoretical stuff. I think first of all it is important to say that we had the privilege of leading a study tour to the UK to look at what we are doing in the UK and Netcare UK's relationship with the NHS. We took twelve officials from national treasury, national health as well as the provinces with us on this tour. It was very successful. We are now looking at a few projects that could be implemented in South Africa. For example we have put together a proposal to the Eastern Cape health department on how we could assist them in terms of a mobile solution. As you know we have a similar service in the UK. We have made proposals on a focus team which is for surgery to the Western Cape as well as the Free State. We have a proposal on thoracic surgery for the Gauteng health department. We also have other public/private interactions where we actually work together. We train paramedics for the public sector. We have been training for the Free State, the North West and Mpumalanga. National education: we provide short as well as long-term courses for the public sector. Short term courses like infection control and also longer courses like theatre technique and so on. We also provide that type of training on a very collaborative manner to the department.

And interesting one is in terms of vaccinations of children. One of our divisions worked with the national health department to ensure that we have access to free vaccines from government that we

can provide within our services. The most important to ensure that it protects all of us by making sure everybody is vaccinated. So we are very glad that we also have a role to play in that project. [unclear] is a very interesting PPI. In a small town the Gauteng health department does not have any hospital beds. If they had to admit anybody they had to take them to Pretoria which is about 60 km away. Now we offer them empty beds for their patients. It is a very small project but a very good project on how we can use our facilities to improve access to issues in the public sector.

Now those are more short-term and less formal. We then have a serious of what we call private/public partnerships. This is in term of the public finance management act which says our colleagues in any sector must go into private/public partnerships. We signed an agreement with the Eastern Cape to implement a PPP in the Eastern Cape at two hospitals. One is Port Alfred and the other one is Settlers Hospital in Grahamstown. At Port Alfred we are building a new hospital which will have a public side of 60 beds and a private side of 30 beds as well. So it is a [unclear] model. It is a long-term concession of 17 years. We will operate a private hospital next to a public hospital and we also provide certain services to the public sector hospital, for example we will maintain the building, provide catering, laundry services and they will just look after their patients. The total investment for that is about R220 million, and Netcare is putting in R40 million as we are part of a bigger consortium that includes local empowerment partners as well.

And then we have another PPP project in the Free State at the Universitas hospital. In this case the Universitas had unused beds and they also had space at Pelonomi hospital which we then took over as part of our PPP over 20 years. And the good thing about this project is that it has helped the Free State to attract and retain highly specialised staff. When this project started they had high vacancy rates among consultants, especially within the public sector. But now as they could add money by doing work outside the public service in these private wards, they were then able to accept appointments and stay on at this hospital. So this has been a very good project. Universitas is actually running very well. Pelonomi is currently busy with a second phase to extend the hospital and that will be open later in the year. The first phase is already operational.

We all know that we participated in helping government join the public sector strike. We were contacted directly and also through HASA to assist during the strike, and we were able to admit patients in our hospitals at a reduced tariff. And we saw more than 370 patients during that period. The good thing is that there was a real spirit of cooperation. We set up an operations centre and were working closely with various hospitals in public service. It was amazing how people worked across the sector and put patients first in the whole process. We were very proud that we could assist. There are also other projects that we do that also have government access to healthcare. Examples are the

Sight for Life project where we do cataracts in our hospitals. We take patients from the public sector waiting lists and do their cataracts within our hospitals. This is funded by us as well as Vodacom, and we have done more than a thousand patients to date. A very good project indeed. Then we also have the cleft lip and palate project that runs at Parkleigh hospital. This is also funded by Vodacom as well as us. We take patients that are on the waiting list for government and do them in the private sector. We recently had the privilege of contributing to the building of a new theatre at the Red Cross hospital in Cape Town. As you know this is the only children's hospital in the Southern Hemisphere, and we felt that it was also our responsibility to assist in that regard. Another important project is our Walter Sisulu paediatric surgery unit at Sunninghill hospital, where we do cataract operations not just for South Africa but for all over Africa. We are proud that even here we are also able to improve access to patients that are waiting for operations in the public sector. We also had the honour of Madiba as well as Mr Clinton coming to the unit a few years ago.

We have talked about our transformation issues. If you recall in 2005 Netcare had the initiative called Health Partners for Life which was our BEE transaction. 10% of Netcare was made available for a broad-based empowerment transaction. And as part of that transaction we catered for four trusts. The fourth one was only for employees in Netcare. I don't want to talk about these three trusts because they are not just empowerment in terms of saying to people you have shares. We actually ensure that the whole transaction has a direct impact on the lives of people out there, for example the Vision Partnership trust, except the shares we gave to our own doctors in Netcare. Some shares were put aside so that we can also help government attract and maintain academics in the medical schools and give shares to doctors working in the public sector in rural settings without any question of them coming to work for Netcare. So are able to attract and maintain doctors within the public sector. The other one is that we also put some shares aside, and the dividend that comes from those shares is used to do some good things. For example we established the Hamilton Naki scholarship that will be used to fund doctoral as well as post-doctoral training of specialists so we can have a pool of academics in the top line of specialists in the future. Some of you might not know who Hamilton Naki was. Hamilton Naki was an assistant to Christian Barnard when he did his heart operations in Cape Town. And it's a name that we really want to honour for the work he has done. It is actually the forty anniversary of the heart transplant and there will be a big event coming up in Cape Town and we will launch the scholarship as well.

The [unclear] trust which was created for women empowerment, we put aside certain shares used for community development projects. We now have a project with a foundation called [unclear] where we focus on the youth dealing with issues like teenage pregnancy, drug abuse and things that are challenging our youth currently. We believe that goes a long way to ensure the country can go

forward. The lifestyle trust was created to promote a healthy lifestyle. You will recall the Minister's call to get all of us to become healthy. I must lose weight as well, I know. And therefore it is important that we also do our bit there. What we have done there so that we work with SASA to promote soccer development 2010 and beyond. We have also put aside some shares and the dividend from those shares is used for projects in the community. We look at projects that make sure we get more people to participate in sport or activities that promote a healthy living.

Now what I really want to conclude again is to say building a relationship based on trust is not easy. It is a very complex process, especially if you consider that we have a difficult task. We are seen as a sector that focuses on the issues which it sets. And therefore we are not adjustable on that. We want to make sure that more people have access to healthcare. I think the biggest hurdle is about ideology, where we believe that the market cannot fully address the challenges that have been pushed onto us. The department sometimes have a social solidarity approach. You cannot be well when somebody else is not well. And we need to play our role in that sense as well. So we are showing our commitment to this partnership and we have become a good corporate citizen. As I said before, while we pursue those good goals to make sure we have good returns for our shareholders we also need to invest in the future of private healthcare and a peaceful South Africa. I thank you.

Richard Friedland - Netcare: Chief Executive Officer

Victor thank you for that outstanding presentation and that in-depth insight into our desire to partner with our government and to acknowledge our responsibilities here in South Africa in terms of healthcare and broadening access and affordability. Are there any questions that you might have for Victor?

Audience member

[Inaudible question]

Victor Litlhakanyane - Netcare: Head of Group Stakeholder Relations

I expect that they will increase because the national treasury has been working hard to convince the various sectors to embrace PPP's. The issue is that these are normally not initially by us but by the department of health. And therefore we tend to follow their beat specifically. But what we tend to do is to try and propose ideas about how PPP's can be put together. And then they go out there and

[unclear]. The problem is that we expect them to increase going forward. We are hoping that something will happen in Gauteng very soon. We're not sure if it will happen or not, but we are looking forward to those PPP's.

Audience member

[Inaudible question]

Victor Litlhakanyane - Netcare: Head of Group Stakeholder Relations

It is a very interesting market. There is one in Lesotho. It's not in South Africa now. We are currently looking at the results from Lesotho, our neighbouring country here, who have put out a tender requesting proposals from the private sector to replace the current tertiary hospital as well as to provide healthcare, which is different from the models in South Africa so far. In South Africa we have been involved in building hospitals as well as providing the soft services around the hospitals, but not actual clinical care. The one in Lesotho is a very interesting model. It is a bit of what we are doing in the UK where there is actual clinical care. That was in October and we are looking at that seriously. If that works we believe that will be the market for the developing world. It is basically a model where government funds healthcare for its citizens but that healthcare is provided by a private party. It is an interesting model. We hope it works well and we can be successful in implementing that in South Africa and also the rest of Africa and other emerging markets.

Audience member

[Inaudible question]

Victor Litlhakanyane - Netcare: Head of Group Stakeholder Relations

No I mean they are not as predictable. Obviously we do not do a PPP without getting any returns, but the returns are not the same. But as I said it is also about partnering. It is not a CSI project. We are not doing it for free. We do want some return for that, but we don't expect the return to be the same as a pure hospital.

Audience member

About refurbishing the Port Alfred and Settlers Hospitals, is that the going rate?

Victor Litlhakanyane - Netcare: Head of Group Stakeholder Relations

This is not just the building side of things. We also have to improve the hospital. And they obviously want the latest technology put in as well. We also have to maintain the hospital and provide all the soft service. It's not just the bricks and mortar basically. So we have to be careful about how we compare. At Port Alfred it's completely a new hospital. At Settlers hospital we are refurbishing an existing hospital but then adding an additional private ward as well.

Audience member

But the cap ex is about a million Rand per bed?

Richard Friedland - Netcare: Chief Executive Officer

Correct. In fact it's probably closer to about R1.2 million per bed equipped to build a hospital today. That was our cost at Blaauwberg. If we had to do it today it would probably be close to R1.4 million per bed equipped. We will talk about that a bit later. I think Ryan will talk to some of those returns and some of those capital costs, and Peter will talk to the valuation of our property portfolio of the hospitals. Any other questions ladies and gentlemen? Victor thank you very much.

ENDS

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