



Michael Sacks Non-Executive Chairman

This 2006 annual report marks the 10th anniversary of Netcare's listing on the JSE, and the end of a decade characterised by remarkable progress and achievement.



R1bn
value
created
for Health
Partners for
Life BEE
share-
holders

I would record without hesitation, that the growth and success of the Netcare Group could never have occurred without the opportunities set in motion by South Africa's political transformation in 1994, guided and inspired by the supreme statesmanship of former president, Nelson Mandela.

Netcare's commencing portfolio of assets in 1996 comprised only four hospitals and two day clinics. Over the past 10 years however, skilful management and enthusiastic public shareholder support has enabled Netcare to become the largest healthcare organisation in South Africa, providing comprehensive services through, inter alia, a national footprint of hospitals, primary care centres, emergency medical services, and specialised centres of excellence. There are now 120 hospitals and clinics in the Group, 68 hospitals and clinics in South Africa and 52 hospitals more recently acquired in the United Kingdom (General Healthcare). The Group today has 26 268 employees with assets of R50,5 billion and a market capitalisation of approximately R22,1 billion. The 10 year compound annual growth rate in headline earnings per share (HEPS) is an impressive 38%. I would respectfully submit that these are exceptional growth and performance statistics by any measure.

Netcare's success over the years has been attributable largely to its doctor centric model, which places professional satisfaction at the centre of its operations. Part of this strategy involves ensuring high quality nursing, continuous training and quality controls, new technologies and operational support. In this way, we continue to provide our medical professionals with every opportunity for greater proficiency and personal growth. We intend to use this very same model to ensure that General Healthcare Group (GHG) is aligned within the larger Group and becomes fit for purpose in a changing UK market.

The nature and composition of Group assets at year end and the financial results for 2006, are evidence of management's commitment to building a business for long-term sustainable progress. Group operating revenue for the year under review increased by 54% to R11 616 million, driven by acquisitive growth in revenue of R3 159 million from GHG and solid organic revenue growth of 11,3% in South Africa. The strong performance of the

South African operations is revealed in the 20% increase in the year-on-year, stand alone, adjusted headline earnings per share of 70,5c.

Industry and regulatory

Demand for private healthcare continues to grow. The increased use of Netcare services during the year were driven substantially by common world trends. These are the continuous application of new and better technologies, including more regular treatment required by an aging population. In addition, there are large numbers of people from the South African emerging market now entering the formal sector of employment, moving up the LSM bands of prosperity and accessing and consuming private healthcare. Notwithstanding this greater consumption, hospital costs per episode or admission have been well contained within the inflation rate.

Probably the single most important initiative to have occurred in the South African private healthcare industry for many years, is the constitution of the Government Employee's Medical Scheme ("GEMS"). This will bring more than a million new lives into the medically insured market. Netcare has worked closely with government in this initiative and we are expecting a positive impact at Prime Cure, Netcare 911 and in our hospital network, divisions within Netcare which are contracted to provide services to members of GEMS.

The Netcare Group will begin implementing the new, tiered pharmaceutical dispensing fee in January 2007 across all its operations, and will continue working with government on international benchmarks for drugs and pharmaceuticals constructively seeking to introduce the most appropriate model for South Africa's unique healthcare challenges.

Netcare has also engaged with the Council for Medical Schemes to productively participate in the formulation of national tariffs which will serve as a guide and benchmark for the healthcare industry. The accuracy, integrity and responsible determination of such tariffs, will be of enormous importance to the stability and sustainability of the private healthcare industry going forward.

In the past there has been a tendency to superficially focus on the rand value of hospital profits, without considering many factors such as reinvestment, return on capital and the

retention of skills. There could also be a serious risk of instability to private healthcare in South Africa, should any structural or systemic pricing changes be imposed on private hospitals for the wrong reasons. Private healthcare is a national asset and a regulatory environment that will faithfully protect South Africa's world-class standards, while broadening access, will ensure the most appropriate framework for the country going forward.

In the United Kingdom, government funding for the National Health Service (NHS) will be decreased from 2008. The NHS has accordingly taken a policy decision to become a volume purchaser of healthcare services and not just a provider. Netcare has already been a significant beneficiary of the policy of additionality and this determination presents a number of exciting opportunities for GHG and the Netcare Group. Bidding has already commenced for a number of new NHS contracts across a variety of outsource services.

Government-driven initiatives both in South Africa (GEMS) and the United Kingdom (NHS) represent an exceptionally positive opportunity for private healthcare, heralding a new era of collaboration between health authorities and private sector providers.

Sustainability

The Netcare Group has never needed prompting or prescripts in terms of Black Economic Empowerment ("BEE") ownership, social upliftment, transformation or enterprise development. These imperatives have always been an entrenched characteristic in Netcare's business model and constitution.

Our BEE equity ownership now stands at 24,4% following the Health Partners for Life ("HPFL") transaction and the Netpartner unwind. In the HPFL, Netcare shares 160 million were allocated to over 45 000 beneficiaries at a price of R6,42. The value of the equity transfer was approximately R1 billion with a current value in excess of R2 billion, which resides in various trusts for the benefit of each trusts' beneficiaries. Netcare's overall employment equity ratio for the South African division is 57%. During the year Netcare has also contributed more than R61 million towards corporate social initiatives which included R18 million for services to indigent patients.

In order to help transform the private hospital sector in South Africa, Netcare continues to assist black owned and managed hospital groups, providing strategic input, specialised skills transfer, management information systems and financial support. The Community Hospital Group is one such example and the success of this classic model of empowerment should be used as a case study for BEE in the healthcare industry.

The significant fixed cost component in the business of private hospitals dictates a need for scale in order to be feasible or to at least be competitive. Given the efficiencies and economic advantages patients and medical schemes enjoy through private hospital scale and consolidation, new licensees, particularly black entrepreneurs with a single concession, find it extremely difficult to enter the market competitively, more particularly to raise finance to build or acquire a new hospital without the backing of an existing hospital operator. We would urge the competition authorities to consider the reality of these financial complexities. Competition authority rulings that sanction established hospital groups partnering with smaller new entrants, would certainly enhance the prospect of a more diverse, competitive and sustainable private healthcare sector.

Corporate governance and directorate

Netcare's corporate culture is predicated on an organisational environment where sound corporate governance becomes a way of life for each member. This is and has been achieved by entrenching four key practices in Group strategy: compliance with the law and commercial legitimacy; fair treatment of employees and business partners; responsibility to the environment and the community in which we operate; and probity, integrity and business ethics in operational practices.

During the 2006 financial year, Netcare established a formal Nominations Committee and made significant progress in corporate governance best practice in terms of diversity and transformation. Of the Group's 14 directors, eight are non-executives (of which five are independent). Furthermore, four of the board members are from previously disadvantaged backgrounds and two are female.

Professor TR Mokoena, Advocate K Moroka and Dr AA Ngcaba were appointed as non-executive independent directors. They bring a diverse set of skills to the board and we look forward to their contribution towards the future direction of the Group. I would also extend a warm welcome to Sir Peter Gershon, the recently appointed non-executive chairman of our UK subsidiary, General Healthcare.

In addition to the non-executive director appointments, Dr RN Noach, the South African Chief Operating Officer of Hospitals, Emergency Services and Group Services, was appointed to the board. During the year under review, Dr Jackie Shevel and Professor MB Kistnasamy resigned from the board.

Capital distribution

The board of directors declared a final capital distribution (number 15) out of share premium of 15 cents per share, payable on 22 January 2007 to shareholders recorded in the register on 19 January 2007. This together with the interim distribution of 12 cents per share reflects an increase in the annual distribution by 8%.

Prospects

Given the stimulating government initiatives in both our geographic markets, as well as the continually increasing demand for private healthcare in general, prospects for the industry remain strong. The negative impact of the now finalised single exit pricing on pharmacy operations should be partially offset by a recapture of our traditional market share, given the return to tariff certainty and the lack of pricing competition.

In the United Kingdom, the restructuring and re-engineering of GHG is progressing well. Management is confident of the growth potential and contribution by GHG over the medium term. The performance of the UK operations for 2007 is nevertheless likely to be partially dilutive. Group earnings, however, will be beneficially enhanced as a result of the Netpartner unwind, the nature and effect

of which constitutes a sizeable buyback of Netcare shares.

The year ahead will see a continued focus on delivering on our strategy to ensure quality healthcare services off a sustainable platform for growth within our chosen markets. As we move into an exciting new era for the Netcare Group, we remain committed to fulfilling the expectations of all our stakeholders.

Appreciation

I would like to thank our senior management for the extraordinary job they have done this year. Not only has the team successfully managed an immense business, but it has engaged in numerous corporate actions, including restructures, acquisitions and capital raisings, each demanding detailed and complex regulatory compliant circulars and agreements. The year 2006 was a year of many challenges and our management has come through with flying colours.

I would also like to pay special tribute to our new Chief Executive Officer, Dr Richard Friedland, who, in his first year in that position, has demonstrated considerable strategic and operational insight. His energy and commitment to the Company's affairs, locally and in the UK, has been an inspiration to everyone. Under his stewardship, and with the support of his loyal and talented management, Netcare is certainly poised to enter a new era of growth and development. In addition, I would like to record my gratitude to our loyal and talented doctor and specialist body, as well as our extraordinary nursing staff for their contribution to the success of Netcare and to the overall health and well-being of millions of our patients.

Finally, I would like to thank the board of directors of Netcare for their dedication and interest in the Company's affairs, and particularly the non-executive directors for their valued contribution, their availability at all times and for their guidance and wisdom in all our meetings and deliberations.

Sincerely,

Michael Sacks
Chairman