

# South African operating review

## Management team

### Dr Victor Lithakanyane (42)

Chief Operating Officer:  
Primary Care, Partnerships and Diagnostics  
MBChB, MMed (Radiotherapy), MBA  
Joined in 2004

### Dr Ryan Noach (32)

Chief Operating Officer:  
Hospitals, Emergency and Group Services  
MBBCh, Dip PEC (SA)  
Joined in 2002

### Hector Mackay (50)

CEO Hospital Division  
BSc (Hospital & Health Care Administration)  
Joined in 1996

### Dr Bongani Mncwango (43)

Netcare 911 Chief Executive Officer  
DBA, MBA, PDM, BBA  
Joined in 2006

### Jacques du Plessis (42)

Medicross Chief Executive Officer  
BCom Accounting, BCompt (Hons) Accounting  
Joined Medicross in 1996

### Professor Dion du Plessis (64)

Group Medical Director  
MBChB, MMed(Chir), FCS (Uro) SA, MD(hc)  
Joined in 2001

### Norman Weltman (57)

Group Funder Relations Director  
CA(SA)  
Joined in 1993

### Bridgid Huddle (44)

National Nursing Manager  
RN, RM, RPN, ICU, DipHSM  
Joined in 1992

### Melanie da Costa (34)

Health Policy Executive  
MCom, CFA  
Joined in 2006

### Carolyn Blunden (36)

HR Director – Netcare SA  
Honours Degree in Industrial Psychology  
Advanced Labour Law Diploma  
Joined in 1995

### Vaughan Firman (43)

Financial Director – Netcare SA  
BAcc, HDip Tax Law, CA(SA)  
Joined in 2004

### Kris Tokarzewski (39)

Chief Information Officer  
Master of Business Administration degree  
MDP  
Automotive Engineering National diploma  
Joined in 2004

Year ended 30 September

	2006	2005	%
	Rm	Rm	change
Revenue	8 184	7 353	11,3
EBITDA	1 617	1 438	12,4
Operating profit	1 350	1 194	13,1
EBITDA margin (%)	19,8	19,6	1,0
Operating profit margin (%)	16,5	16,2	1,9
Number of employees	17 718	16 749	5,8



**11,3%**  
growth in  
SA revenue  
to R8 184  
million

Netcare's South African business contributed 70,5% and 86,1% to revenue and operating profit respectively, and employed approximately 17 700 employees. Revenue from the South African segment increased 11,3% to R8 184 million (2005: R7 353 million) and operating profit increased 13,1% to R1 350 million (2005: R1 194 million).

The South African business provides the following key services:

- *Private hospital and trauma services* through interests in 68 hospitals and same-day surgical units with 9 046 registered beds, 358 operating theatres and 82 retail and hospital pharmacies; and Netcare 911, the largest private emergency service with over 9 million members and a fleet of 237 response vehicles and ambulances, three helicopters and three fixed-wing air ambulances.
- *Ancillary healthcare services* including primary care services through Medicross' and Prime Cure's 106 centres and diagnostic services through an interest in Ampath, a nationwide administration and logistical services infrastructure servicing 300 high-tech pathology depots and laboratories.

Demand for private healthcare in South Africa continues to grow. The growth is in part driven by the more elderly population requiring tertiary care and an increasing demand for private healthcare from the emerging middle class who previously could not afford access. Employment is increasing and South Africans are becoming more affluent and the potential size of the market that can afford private healthcare is increasing. There are also early signs of a positive inflection point in the growth of the medically insured population in South Africa.

The most significant development of the year is the launch of the Government Employee Medical Scheme ("GEMS") and government's commitment to give formal medical cover to its civil servants, an estimated 1 million lives. The increased subsidisation of medical aid benefits for government employees through GEMS and the planned Low Income Medical Scheme ("LIMS") are expected to bring significant numbers of employed, but currently uninsured lives into the medical scheme pool.

In what has been a relatively static medically insured market over the past ten years, this offers a fresh opportunity for growth. Netcare is well positioned to service this market and has had early successes with Prime Cure being awarded a GEMS managed care contract and Netcare 911, the emergency services contract. Netcare hospitals have been included in a low-cost hospital network that will service GEMS Sapphire members where the designated service provider, the State, is not in a position to provide such services.

Aside from significant investments in existing facilities and new technology, Netcare will commission two new hospitals in South Africa in 2007. The Alberlito Hospital in KwaZulu-Natal and the Blaauwberg Hospital in the Western Cape will add 204 beds and seven operating theatres to the hospital portfolio. Netcare currently owns 43,75% of Community Hospital Group with approximately 780 beds and has reached an agreement to purchase the remaining 56,25% pending the approval of the competition authorities.

We have continued to invest in pre-hospital emergency care as demand for private care increased and Netcare 911 experienced a 10,9% growth in emergency cases. Netcare 911 has expanded its aero medical division to meet the increasing demand for medical evacuation out of Africa.

The ongoing development of a comprehensive primary care network is fundamental to the ability to provide cost effective and accessible healthcare. This year we increased the number of primary care centres with the acquisition of Prime Cure in February 2006 and now have some 106 facilities across South Africa treating in excess of three million patients.

Our hospitals and primary care facilities are supported by the Netcare pharmacy division, operating 82 pharmacies located within Netcare hospitals and Medicross centres nationwide. The pharmacies stock a full range of medicines, including chronic and specialist products and are open for extended hours. Three of the pharmacies are open 24 hours a day.

In 2005 Netcare decided to consolidate its legacy systems onto a fully integrated, enterprise-wide system, implementing SAP Enterprise Resource Planning (“ERP”) across the Group under the Netcare Integrated Platform (“NIP”) project. The aim of NIP is for a single ERP system to take care of operations such as human resources, finance, procurement, inventory management, dispensary, patient administration and billing. In June 2006 the first phase of the project entailing finance and indirect procurement went live at Netcare Operations Centre, Netcare 911, Medicross head offices and Sunninghill Hospital. In August 2006 the second phase entailing the warehouse and direct procurement went live. The third phase entails patient management and billing which is due to go live in 2007, following which the system will be rolled out gradually to all hospitals and clinics.

## Hospitals and trauma

### Description of business

The Netcare hospital division owns and manages 46 private hospitals across South Africa comprising a mix of full-service, acute-care, high-tech hospitals and same-day surgical units, representing a 26% market share<sup>1</sup> of private hospital beds. Many of the hospitals are equipped with accident and emergency units as well as retail pharmacies. The hospital division’s primary focus is to provide the highest quality medical care and customer service to all patients and to support a committed and expert doctor network who have selected Netcare facilities as their treatment centres of choice.

Netcare 911 is a wholly owned subsidiary of Netcare providing pre-hospital risk management emergency medical services (“EMS”) to a wide base of the South African and African population. Netcare 911 is staffed with six full time medical doctors and 1 150 experienced and qualified paramedical and administrative personnel. Netcare 911 owns and operates three fixed wing aircraft and operates two additional aircraft on a leased basis. These are used for long range flights. For shorter critical emergency calls and inter-facility transfers, the Company utilises three EMS helicopters which are operated and managed on a leased basis. On average, the 24-hour, 110-seat call centre answers 80 000 calls a month. There are over 500 contracted and owned emergency vehicles which get dispatched and directed by the control room based in Midrand, Gauteng.

### Performance

The hospital and trauma business accounts for 79,7% (2005: 80,6%) of the South African segment’s operating revenue and 84,9% (2005: 81,7%) of its operating profit. During the year ended 30 September 2006, revenue from the hospital and trauma division increased by 10,1% to R6 526 million and operating profit increased 17,6% to R1 147 million.

The strong market dynamics in South Africa and the increase of 159 new physicians during the year contributed to the 3,8% growth in patient days to 1 608 350. Total and inpatient admission increased 5,3% and 2,6% respectively. Maternity cases increased by 6,8%, theatre utilisation by 2,6% and the length of stay increased marginally to 3,23 days (2005: 3,20 days). The revenue contribution from Netcare 911 increased as a result of the strong growth in aero medical services, industrial contracts and road-side emergency services, with a satisfactory increase in capitation (a method of payment in which a provider is paid a fixed amount for each person served for a period of time, without regard to the number or nature of services) clients. Netcare 911’s number of emergency cases increased 10,9% to 167 057.

<sup>1</sup> Source: Hospital Association of South Africa



Netcare 911 operates the largest emergency service in Africa.



The operating profit margin grew to 17,6% from 16,4% due to improved efficiencies and capacity utilisation. Operating profit was favourably impacted by the release of R85 million deferred lease liability relating to the Umhlanga Hospital (previously leased) which was purchased during the year.

Netcare has pursued a specific strategic project to focus on customer service and customer satisfaction. With the rapidly changing trends of consumers' healthcare decisions, Netcare has ensured an open communication channel to all

patients to remove variability and inconsistency from the patient experience. With the advent of a dedicated Customer Service Call Centre on 0860-NETCARE and concurrent multiple service initiatives, Netcare is witnessing a growing satisfied and supportive patient customer base. Patients are requested to complete customer satisfaction survey forms for independent analysis, as a means to monitor patient experience relative to expectations.

Netcare's philosophy of sustainable trusting partnerships is particularly evident through its physician partnerships. An Excellence Programme provides an interactive feedback mechanism for specialists to communicate strengths and development areas at each specific Netcare facility. Each Netcare Hospital's doctor body elects a Physician Advisory Board ("PAB") which assumes responsibility for maintaining the highest quality service standards and peer review mechanisms. The doctor body is integrally linked to an in-service nurse training programme, which is designed to provide continuing professional development and to foster closer communication between these professional groupings. By leveraging the wealth of knowledge and expertise within the Netcare doctor grouping, nursing skills are constantly challenged and upgraded for the good of all patients.

During the year an activity based management project was completed to fully understand the revenue and cost drivers and to assist management across the hospitals. The analysis also assists in the negotiations with funders.

Year ended 30 September

	2006 Rm	2005 Rm	% change
Revenue	6 526	5 928	10,1
EBITDA	1 362	1 172	16,2
Operating profit	1 147	975	17,6
EBITDA margin (%)	20,9	19,8	5,6
Operating profit margin (%)	17,6	16,4	7,3

## Ancillary healthcare

### Description

Our ancillary healthcare services include primary care services through Medicross and Prime Cure. Medicross consists of 69 multi-disciplinary facilities with a national network of 585 doctor and dentist professionals. The facilities are complemented by 40 retail pharmacies, Pharmacross, and 12 day theatres. In February 2006, Medicross purchased 100% of Prime Cure for R125 million. The Prime Cure network comprises 37 facilities with 57 permanent professionals and a compliant network of 1 800 general practitioners and 678 dentists. The Prime Cure acquisition provides the Group with access to the lower income earning market and complements the existing network. In 2007 Medicross will be opening three new facilities in Rustenburg, Hout Bay and Venda.

Services provided by our primary care division include general practitioner, dental, pathology, radiology, optometry, physiotherapy services, complemented by pharmacies and day theatres and specialist clinics such as Well-Baby, Asthma and Diabetic. We also provide practice management services and operate as an accredited managed care organisation providing risk taking capitated services to 17 medical schemes covering 130 000 capitated lives, including 19 000 GEMs members.

The ancillary healthcare division includes our pathology and radiology business and the network of nine Netcare Travel Clinics.

Revenue is mainly derived from practice management administration fees, retail pharmacy sales, capitated annuity income and diagnostic services.

### Performance

Year ended 30 September

	2006 Rm	2005 Rm	% change
Revenue	1 658	1 425	16,4
EBITDA	255	267	(4,5)
Operating profit	203	219	(7,3)
EBITDA margin (%)	15,4	18,7	(17,6)
Operating profit margin (%)	12,3	15,3	(19,6)

The ancillary healthcare division accounts for 20,3% (2005: 19,4%) of the South African segment's operating revenue and 15,1% (2005: 18,3%) of its operating profit. During the year ended 30 September 2006, revenue from the ancillary healthcare division increased by 16,4% to R1 658 million. The increase in revenue can largely be attributed to the acquisition of Prime Cure and the increase to 106 facilities. The growth in the network and the related patient visits to 3,4 million (2005: 2,9 million) was partially offset by a 6,7% decline in the number of scripts to 1,8 million due to the higher pricing structures than competitors and the resultant loss in market share. Pathology laboratory requisitions were up 2,2% and laboratory procedures increased by 5,1%.

The operating profit decreased 7,0% to R203 million and the operating profit margin decreased to 12,3% from 15,3%. The decrease is due to the lower than usual year-on-year tariff increases, an increase in pathology employee costs, the impact of the weaker



The acquisition of Prime Cure expands Netcare's primary care network to 106 sites.



Rand on the consumables and the first-time provision for post-retirement medical liabilities.

### Joint venture investments

#### National Renal Care ("NRC")

Netcare's ancillary healthcare segment includes the results of our 50% joint venture with Adcock Ingram in NRC. NRC operates a national network of 50 units and yielded solid growth over the year due to an 18% and 8% increase in chronic and acute sessions, respectively. Three new units were opened during the year.

#### Attributable earnings from associates

Year ended 30 September

	Interest %	2006 Rm	2005 Rm	% change
Netpartner <sup>1</sup>	46,3	6	41	(85,4)
Community Hospital Group	43,75	10	13	(23,1)
Healthshare Health Solutions	45,0	12	9	33,3
		28	63	(55,6)

<sup>1</sup> Netcare's earnings are included in attributable earnings of associates up to 26 September 2006.

NRC is currently placing great emphasis on standardisation and employee training to ensure consistently superior clinical outcomes. NRC has upgraded equipment and standardised units to ensure that patients are guaranteed the same quality of care. NRC was recently awarded a one-year trial Public Private Initiative ("PPI") in KwaZulu-Natal. While the private sector has a fair amount of capacity, there are very few public renal units in South Africa, and often patients have to travel very long distances.

NRC has established a Healthy Start programme, which was launched to promote early diagnosis of kidney disease and delay the need for dialysis. By promoting early diagnosis, Healthy Start aims to help the patient stay as healthy as possible while simultaneously retaining high quality of life. Preventative strategies include early detection, meticulous hypertension control, strict glycaemic control, anaemia management and appropriate dietary and lifestyle changes. NRC has worked to create awareness among GPs to start screening patients at that level so that any problems can be detected early. Healthy Start also focuses on providing both patient and doctor education in respect of dialysis, as well as emphasising the key role that hypertension and diabetes play in predisposing individuals to kidney dysfunction.

#### Associate healthcare interests

Netcare has several interests in associate companies. Attributable earnings from associates decreased 55,6% to R28 million largely as a result of the restructuring and advisory costs incurred in Netpartner.

#### **Netpartner Investments Limited (“Netpartner”)**

Having regard for the positive steps undertaken by government to stimulate new medical aid membership within the healthcare sector, Netcare took a strategic decision to unwind the Netpartner cross holding and focus on our core business. On 26 September 2006, Netcare acquired the remaining 53,7% of Netpartner, making it a wholly owned subsidiary of Netcare. The only material assets in Netpartner at 30 September 2006 are the 20% interest in Medicross and the 340 million shares in Netcare, which are treated as treasury shares.

#### **Community Hospital Group (“CHG”)**

Netcare currently owns 43,75% of Community Hospital Group, operating six hospitals with approximately 780 beds, and has reached agreement to purchase the remaining 56,25% pending the approval of the competition authorities.

#### **Healthshare Health Solutions (“Healthshare”)**

Netcare’s 45% interest and participation in Healthshare, a healthcare services outsourcing business to the mining industry, continues to generate benefits for Netcare and its partners who seek to develop innovative models to improve access for their employees and their dependants to quality healthcare.

#### **Other**

Other associate investments include Kokstad Private Hospital, KOPM Investment Holdings (the holding company for Lesedi Hospital), Community Hospital Management, Carenet and Optimed.

### **Administration and logistical services**

#### **Public Private Partnerships (“PPPs”)**

As part of Netcare’s strategy to promote equity of access to quality healthcare, the Group actively pursues PPP opportunities in joint ventures with emerging and existing black economic empowerment (“BEE”) companies and community trusts in the locality of a PPP project.

The Group is already involved in several PPPs, notably:

- A co-location PPP agreement with the Free State Department of Health (“FSDoH”), awarded to a consortium comprising Netcare and black-empowerment company, Community Healthcare Holdings (“CHH”), that was commissioned in January 2003 and which allows Community Hospital Management (“CHM”)/Netcare to utilise spare capacity within Bloemfontein’s Universitas and Pelonomi Hospitals. The facilities operated by the consortium include approximately 270 private beds as well as six operating theatres. The first private patients were admitted to Universitas Private Hospital during October 2003, with the first being admitted to Pelonomi Private Hospital in September 2005. During the year, the CHM worked with the FSDoH as a joint venture partner in the new, state-of-the-art Level One Trauma Unit at Bloemfontein (the first of its kind in the Free State), which became operational on 5 June 2006.
- A three-year FSDoH contract awarded to the Netcare 911 School of Emergency and Critical Care for the provision of pre-hospital skills training to emergency care practitioners within the Free State Provincial Emergency Medical Service.
- Netcare has been named the preferred bidder for the Port Alfred and Grahamstown PPP in the Eastern Cape, which entails co-location, upgrade and refurbishment of the public hospital, effectively allowing the private sector to establish a private facility within the public hospital and has been short-listed a PPP in the Western Cape, involving the co-location, upgrade and refurbishment of Swellendam Hospital. The award of a private



Netcare's "Mother and Baby" hospitals include the services of a Wellness Clinic, "Stork's Nest".



hospital licence in East London to Netcare in April 2006 will give Netcare a footprint in the Eastern Cape, which will ensure appropriate levels of support for the above-mentioned PPPs in the province.

- The US State Department's Presidential Emergency Programme for Aids Relief ("PEPFAR"), in terms of which USAID has provided funding for anti-retroviral therapy ("ART") in South Africa. The multi-year project, undertaken in collaboration with FSDoH, began on 1 January 2005 with an initial funding allocation of US\$1,3 million and an initial target of 1 300 patients from disadvantaged communities. During the review period, the programme was granted additional funding until 2010.
- The Familial Cancer Research Unit at Femina Hospital, a public-private initiative ("PPI") between Netcare and the University of Pretoria, which conducts groundbreaking research into and predicts the risk of familial cancer in patients. Counselling services are also provided.