

Corporate governance report

Netcare's corporate governance philosophy

Netcare approaches corporate governance holistically by applying the Group's strategic decision-making processes to maximise shareholder value, whilst recognising the firm's ultimate purpose of meeting the healthcare needs of the markets in which it operates. The Group acknowledges that in return for its ability to function, it is subject to the rules and constraints of society and stakeholder imperatives. In combining the twin requirements of conformance and performance, the Group strives to maintain the highest standards of discipline, integrity and transparency in supporting an appropriate legal, regulatory and institutional foundation. The Group's objective is to create an organisational culture where sound corporate governance becomes a way of life for each member; this is achieved by embedding the undermentioned 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 it operates; and
- probity, integrity and business ethics in operational practices.

Netcare's corporate governance target is to engender the organisation's integrity, trust, reputation and accountability to its stakeholders in the fulfilment of its business objectives.

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 14 directors, eight are non-executive (of which five are independent). Furthermore, four of the Board members are from PDI backgrounds and two are female.



A handwritten signature in black ink, appearing to read 'Joel Wolpert', written in a cursive style.

Joel Wolpert
CA(SA), FCMA, FCIS
Company Secretary

Introduction

The Netcare Group subscribes to the highest level of corporate governance tenets and processes and is committed to complying with the recommendations contained in the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance for South Africa 2002 ("King II"), most elements of which are either formally or informally in place. In addition, Netcare's corporate governance standards are incorporated into the Group's overall balanced scorecard performance appraisal programme.

Netcare complied with the King Code throughout the year ended 30 September 2006, except for the following:

- The Chair of the Board is not independent (During the year, the independent component of the Board increased from two to five members. The Chair, whose position became non-executive on 1 March 2005, is a founding shareholder of the Group and his skills, experience, competence and business and corporate network are regarded as value adding in his position as Chair).
- The Audit Committee is Chaired by a non-executive director who is the senior partner of the Group's external legal advisers and is therefore not independent.
- The Audit Committee does not have a majority of independent non-executive directors. Two members of the Audit Committee are Chartered Accountants (SA) and one is an economist. The Chief Financial Officer (who is an executive director of the Company), is also a member of the Audit Committee – his appointment is relevant in terms of technical financial and accounting aspects inherent in the Audit Committee agenda.
- The Remuneration Committee does not have a majority of independent non-executive directors and is Chaired by a non-executive director who is also the Chair of the Audit Committee.
- The Risk Committee does not have a majority of independent non-executive directors.

- The Nominations Committee is composed of a majority of independent non-executive directors and is not Chaired by the Board Chair, but by an independent non-executive director (Board Chair is not independent).

The Group recognises the dynamic nature of the corporate governance environment and, in applying its corporate governance philosophy, policies and practices, has categorised its approach in terms of the following distinct but related elements, which affirm the correlation between sound corporate governance and profitability:

- Role and composition of the Board
- Institutional best practices
- Audit, accountability and control
- Communication protocols
- Business risk management
- Sustainability and socio-economic responsibility

Netcare is cognisant of the dynamic nature of corporate governance and reviews current and emerging trends in benchmarking the Group's governance systems against local and international best practice.

Role and composition of the Board

Netcare has a unitary Board structure and the Netcare Board is considered to comprise an appropriate balance of executive and non-executive directors (total Board membership is 14 directors). The classification of directors into executive, non-executive and independent, is reflected on pages 18 and 19.

During the year under review, the following changes occurred in the composition of the Board:

- On 22 November 2005, Dr J Shevel resigned from the Board;
- On 20 June 2006, Professor MB Kistnasamy resigned from the Board;
- On 17 July 2006, Professor TR Mokoena, Advocate K Moroka, Dr AA Ngcaba and Dr RN Noach were appointed to the Board.

Board of directors – role and functions

The governance structure of the Group is reflected in the diagram on page 65.

The Board currently comprises eight non-executive and six executive directors. Five of the eight non-executive directors are classifiable as independent.

The Board Chair is a non-executive director.

A Board Charter is in place and defines the Board's responsibilities for:

- approving corporate philosophy, vision, mission and ethical values;
- approving strategic plans, operating policies and implementing organisation structure;
- identifying appropriate performance indices;
- monitoring and evaluating performance against plans;
- ensuring compliance with relevant legislation, regulations and corporate policy;
- approving internal and external communication protocols and monitoring relations with shareholders and other stakeholders;
- implementing risk management and internal control;
- establishing appropriate Board committees;
- selecting, monitoring, evaluating and compensating directors and key management personnel;
- succession planning; and
- assessing the Board's own effectiveness.

The Board retains full and effective control over the organisation and decisions on material matters are reserved by the Board. The Board meets at least four times annually and more frequently if circumstances or decisions require. Standing subcommittees of the Board have been appointed, details of which are set out below, while ad hoc subcommittees are created as and when necessary. The Board has also adopted, and regularly reviews, an authority policy governing the authority delegated to the management of the Group and setting out which matters are retained for decision by the Board.

No executive director has a service contract exceeding two years. Generally, directors have no fixed term of appointment but retire by rotation every three years and, if available, are considered for re-appointment at the annual general meeting; the CEO is not required to offer himself for re-election.

Committees of the Board

Governance committees

Audit Committee

Members

- HR Levin (Chair)
- APH Jammine
- PG Nelson
- MI Sacks

Membership of the Audit Committee comprises three non-executive directors, including the Board Chair, as well as the Group Chief Financial Officer. The Committee Chair is a non-executive director. One of the non-executive directors is independent.

Terms of reference

- Review of internal and external financial reporting;
- Monitoring internal control systems;
- Management of internal audit processes;
- External audit scope and relationship; and
- Review of compliance with legislation, regulation and internal policies.

For the year under review the committee satisfied all its responsibilities in compliance with its terms of reference.

Remuneration Committee

Members

- HR Levin (Chair)
- APH Jammine
- MI Sacks

Membership of the Remuneration Committee comprises three non-executive directors including the Board Chair. The Committee Chair is a non-executive director. One of the members is an independent non-executive director.



Terms of reference

- Development of remuneration philosophy and strategy for the Group;
- Determination of Group policy regarding executive remuneration; and
- Determination of specific remuneration packages for executive directors and senior management.

Independent external studies and comparisons are used to ensure that remuneration is market related and is linked to both individual and company performance.

For the year under review the committee satisfied all its responsibilities in compliance with its terms of reference.

Risk Committee

Members

- JM Kahn (Chair)
- Dr RH Friedland
- PG Nelson
- MI Sacks

Four directors, two of whom are executive directors, comprise this committee. The Committee Chair is an independent non-executive director. The Board Chair is also a member.

Terms of reference

- Determination of policy regarding Group Risk appetite;

- Determination of nature, role, responsibility, authority and scope of risk management function in the Group;
- Development of procedures to quantify and measure risks;
- Development of risk mitigation action plans; and
- Identification and assessment of risks facing the Group.

For the year under review the committee satisfied all its responsibilities in compliance with its terms of reference.

Nominations Committee

Members

- APH Jammine (Chair)
- JM Kahn
- MI Sacks

Three non-executive directors, two of whom are independent, comprise this committee. The Committee Chair is an independent non-executive director. The Board Chair also serves on this committee.

Terms of reference

- Review structure, size and composition of the Board and its committees;
- Evaluate leadership needs of organisation and succession planning; and
- Identify and nominate candidates for Board appointment.

For the year under review the committee satisfied all its responsibilities in compliance with its terms of reference.

Operating committees

Executive Committee ("ExCo")

Members

Directors of Network Healthcare Holdings Limited

- Dr RH Friedland (Chief Executive Officer)
- IM Davis (Group Pharmacy Director)
- Dr V Litlhakanyane (COO: Primary Care, Partnerships and Diagnostics)
- PG Nelson (Chief Financial Officer)
- Dr R Noach (COO: Hospitals, Emergency and Group Services)
- N Weltman (Group Funder Relations Director)

Group executives (Article 35 of the Company's Articles of Association provides for the appointment of divisional, associate and branch directors)

- C Blunden (HR Director – SA)
- I Boninelli (Group HR Director)
- E Brannigan (Group Nursing Director)
- M da Costa (Health Policy Executive)
- Professor DJ du Plessis (Group Medical Director)
- J du Plessis (CEO Medicross)
- V Firman (Finance Director – Netcare SA)
- B Huddle (National Nursing Manager)
- HC Mackay (CEO Hospital Division)
- B Mncwango (CEO Netcare 911)
- K Tokarzewski (Chief Information Officer)

Terms of reference

- Strategic direction;
- Competitive landscape;
- Business philosophy and practices;
- Human resources management;
- Information systems management;
- Business plans/annual budget;
- Operational policies and procedures;
- Design and monitoring of key performance indicators; and
- Evaluation of performance against targets.

Transformation Committee

Members

- Chair – Dr VLJ Litlhakanyane (executive director)

Membership comprises five executive directors, various ExCo members and other senior managers.

Terms of reference

- Participation in development of Healthcare BEE Charter and the codes of good practice;
- Implementation of transformation strategies at Netcare;
- Review of BEE legislation/regulations; and
- Liaison with relevant stakeholders regarding BEE targets.

Clinical Governance Operations Committee

Members

- Chair – Professor DJ du Plessis (ExCo member)

Membership comprises various ExCo members and other senior managers.

Terms of reference

- Evaluate the impact and effect of the medico-legal regulatory environment on the Netcare Group;
- Advise management on clinical governance and medico-legal matters within Netcare's business units;
- Develop and maintain the strategy for clinical governance throughout the Netcare Group; and
- Performance manage the effectiveness of clinical governance processes and structures in the Group.

Finance and Investment Committee

Members

- Chair – PG Nelson (executive director)

Membership comprises five executive directors, the non-executive Chair and a member of ExCo.

Terms of reference

- Capital raising and administration of banking facilities and relationships;
- Evaluation of acquisitions and capital expenditure;
- Determination of budget parameters;
- Treasury protocol;
- Accounting policies;
- Taxation;
- Dividend policy; and
- Transaction approval frameworks.

Professional advice

The directors are also entitled, at the Group's expense, to seek professional advice about the affairs of the Group and have unrestricted access to all Company information, records, documents and property.

Appointment mechanisms

The Nominations Committee considers executive succession planning and makes appropriate recommendations regarding appointments to the Board. This process encompasses an evaluation of the skills, knowledge and experience required to implement Group strategy as well as relevant consideration of transformation imperatives. All recommended appointments are processed in terms of a formal and transparent procedure and are made by the full Board of directors acting within its powers under the Articles of Association.

Institutional best practices

Company secretary

All directors have access to the advice and services of the Group's Company Secretary who is responsible to the Board.

The Company Secretary provides the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Company. The Company Secretary provides a central source of guidance and advice to the Board and the Company, on matters of ethics and good corporate governance.

The Company Secretary is qualified to perform his duties in accordance with the applicable legislation and is considered by the Board to be fit and proper for the post.

Closed periods

The Company operates a closed period between its interim and year-end reporting dates and the publication of its interim and final results, and also at times cautionary notices are extant.

During these periods, directors, officers and other designated members of Group management who may have access to price-sensitive information, are precluded from dealing in the Company's shares.

All directors' and designated managers' share dealings require the prior approval of the Chairman or the CEO.

Audit and accountability

Audit committee

The Audit Committee is responsible for overseeing on behalf of the Board and reporting to the Board on the financial reporting process, the audit thereof, the internal control of the business and its review.

The Audit Committee meets formally three times per annum to consider financial reporting issues and to advise the Board on a range of matters, including corporate governance practices, internal control policies and procedures, and internal and external audit management. The external auditors attend the Audit Committee meetings and also have unrestricted access to the chairman of the Audit Committee. Fees in respect of non-audit services are reviewed by the Audit Committee.

Financial statements

The Board is responsible for preparing the financial statements and other information presented in reports to shareholders in a manner that fairly presents the state of affairs and results of the Group's business operations. The external auditors are responsible for carrying out an independent examination of

Attendance at Board/Committee meetings during the year ended 30 September 2006

	Board		Audit		Remuneration		Risk		Nominations	
	A	B	A	B	A	B	A	B	A	B
MI Sacks	6 <i>(Note 4)</i>	5 <i>(Note 5)</i>	3	3	2	2	2	2	2	2
IM Davis	6	5 <i>(Note 5)</i>								
Dr RH Friedland	6	6					2	2		
APH Jammie	6	6	3	3	2	2			2 <i>(Note 4)</i>	2
JM Kahn	6	6					2 <i>(Note 4)</i>	2	2	2
HR Levin	6	6	3 <i>(Note 4)</i>	3	2 <i>(Note 4)</i>	2				
Dr VJ Litlhakanyane	6	6								
Professor TR Mokoena <i>(Note 1)</i>	2	2								
Advocate K Moroka <i>(Note 1)</i>	2	2								
PG Nelson	6	6	3	3			2	2		
Dr AA Ngcaba <i>(Note 1)</i>	2	2								
Dr RN Noach <i>(Note 1)</i>	2	2								
Dr JA van Rooyen	6	6								
N Weltman	6	6								

Resigned during the year:

Dr J Shevel <i>(Note 2)</i>	1	1								
Professor MB Kistnasamy <i>(Note 3)</i>	4	2 <i>Rescued from 2 meetings</i>								

Notes

Column A – indicates the number of meetings held during the period the director was a member of the Board and/or committee
 Column B – indicates the number of meetings attended during the period the director was a member of the Board and/or committee

1. Appointed 17 July 2006
2. Resigned with effect from 22 November 2005
3. Resigned with effect from 20 June 2006
4. Committee Chairperson
5. Absent with apology

the financial statements in accordance with International Standards on Auditing.

The annual financial statements are prepared in terms of the Companies Act and JSE Limited listing requirements. In line with the listing requirements of the JSE Limited, the Netcare Group adopted International Financial Reporting Standards with effect from 1 October 2005.

The annual financial statements are based on appropriate accounting policies which have been consistently applied and are supported by reasonable and prudent judgements and estimates. The Board of Netcare is satisfied that the annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the profit and loss and cash flows for the financial year.

Going concern

The financial statements have been prepared on a going concern basis and there is no reason to believe that the Group will not continue as a going concern in the next financial year.

Internal control and internal audit

The Board is responsible for ensuring that appropriate internal control systems are maintained to ensure that Group assets are safeguarded and managed, and losses arising from fraud and/or other illegal acts are minimised. Control systems are continually monitored and improved in accordance with generally accepted best practices.

The internal audit department is a function established at Group level, reporting to the Audit Committee, to assist executive management and the Audit Committee in the effective discharge of their respective responsibilities, by means of independent financial, internal control and operational systems reviews.

During the year, significant fraudulent activities were identified in the area of payroll payments. Netcare internal auditors, working in conjunction with external forensic firm Deloitte South Africa, investigated and confirmed fraud

of approximately R28 million perpetrated by a payroll administrator over the period 1998 to 2006. In terms of Netcare's policy of zero tolerance towards crime, the employee was charged and found guilty of fraud. The impact on current year earnings is minimal having regard to insurance recoveries. The weaknesses in internal controls which facilitated the fraud have since been addressed.

Other than the above, nothing has come to the attention of the Board of directors to indicate that any material breakdown in the functioning of the Group's internal controls and systems has occurred during the year under review.

Communication protocols

Investor relations

The Board has established an Investor Relations ("IR") unit. Strict protocols are in place to control the nature, scope and frequency of Group communications with analysts, financial institutions and the financial community in general.

The primary goals of the Netcare IR programme are:

- to ensure that the market price of the securities of the Group accurately reflects the values of its assets and the expectations of future earnings;
- to maintain access to the capital markets at all times and on the most favourable terms possible;
- to maintain the most liquid market possible for the Company's securities under all market conditions; and
- to provide management with information regarding developments in the financial markets that may be of use in formulating the Group's long- and short-term plans.

The major activity of the IR unit continues to encompass regular telephonic interaction, meetings and conferences with both local and international analysts and fund managers and the arrangement of periodic site visits. In addition, the Netcare IR website (www.netcareinvestor.co.za) is upgraded

frequently to allow for transparent and timeous dissemination of meaningful investor information.

Disclosure policy

Netcare is committed to fair disclosure of information to its shareholders, the investment community and the public, while preventing selective disclosure of material, non-public information regarding the Netcare Group. Netcare and its management team believe it is in the Group's best interest to maintain active and open communication with shareholders and potential investors regarding Netcare's historic performance and future prospects. The company is also aware of its need for confidentiality regarding details of key business and operating strategies.

Netcare will endeavour to periodically and regularly communicate with its shareholders and other members of the investment community about its business operations. Netcare will communicate with the investment community and shareholders only through designated representatives. All new material information will be disseminated via a formal press release and SENS to ensure public disclosure.

Stakeholder communication and relationships

The Board considers that regular communication of the Group's activities to stakeholders is essential and endeavours to timeously present information when appropriate.

The Company adopts a proactive stance in disseminating appropriate operational information to stakeholders through print and electronic news releases and the statutory publication of the Group's financial performance.

All reports to stakeholders present a comprehensive and objective assessment of the Group so that all relevant stakeholders with legitimate interests in the Group's affairs, operations and conduct, are apprised of a

complete, fair and responsible account of its performance and impact.

During closed periods, no communication with the investor community by directors, officers and those designated members of Group management who may have access to price-sensitive information is permitted.

Business risk management

Risk management

The Board's risk management philosophy incorporates the necessary assurance requirements to satisfy all external stakeholders that the Board understands the business risks facing the Group and is managing them actively, whilst simultaneously integrating risk management in decision-making activity and performance. Fundamental risk analysis is incorporated into the formulation of annual business plans. Risk management practices are incorporated into business operations through control mechanisms, risk awareness training and compliance protocols.

The Board, in conjunction with senior executives, is responsible for overall risk management, which is a process of identifying and managing the risk factors across the Group, and the implementation of appropriate systems of internal control to mitigate risks to an acceptable level. The Risk Committee formalises and standardises this process by guiding management and assessing their effectiveness on risk management. The required management information and metrics to objectively assess exposure to the key risks are clearly defined.

The Group has an independent risk management department which is involved in the implementation and monitoring of processes designed to incorporate a risk management philosophy into the day-to-day activities of the Group. The Risk Management Department is responsible for the compilation of relevant policies and procedures on Risk Management as well as the financing of residual risks, including self-insurance.

The Group has identified the undermentioned key risks as the most significant:

- skill shortages (nursing/specialist medical faculty registrars)
- regulatory/legislative
- industry/market/competitive environment
- brand/medico-legal/reputation
- operational/technology
- relationships with medical professionals
- business model/structuring of fee pricing

The Board is satisfied that the Group's risk funding strategy and existing cover are adequate and appropriate in relation to the exposures identified. In addition, the Board has considered the effectiveness and efficiency of the risk management process, all of which have been corroborated by appropriate compliance reports. Furthermore, in the event of the occurrence of a disastrous incident, there is a documented and tested process in place that will allow the continuity of critical business processes.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of approval of the annual financial statements.

Sustainability and socio-economic responsibility

Transformation/black economic empowerment

Netcare's transformation and black economic empowerment strategies are contained on pages 76 to 81.

Human capital development

An employee report, detailing the Group's employees, employment equity, remuneration and training and development is contained on pages 82 to 93.

Environmental management, health and safety

A safety, health and environmental report is set out on pages 100 to 102.

Corporate social responsibility

Netcare's investment and commitment to the communities in South Africa and the United Kingdom, are contained in the corporate social investment report on pages 94 to 99.

Ethics and corporate culture

The Board ensures that Group executives and personnel uphold the highest ethical standards and nurture the appropriate culture when setting strategic goals. Furthermore, the Group practises its stated values of honesty and integrity in developing its business models. Netcare recognises that profitability is the reward for responsible risk taking.

The Netcare Group recognises that ethics in corporate governance extend beyond the letter of the law or regulation – it robustly embraces the letter and spirit of all these requirements in all aspects of its business operations so as to ensure the application of transparency, accountability and integrity in all its activities.

The Group recognises the added value from setting high standards which extend to the selection of the Group's business partners and suppliers; in any instance where ethical standards are called into question, the circumstances are investigated and, where necessary, dealt with by an appropriate executive.

The Group is mindful of the professional codes which govern the conduct and ethics of health professionals in South Africa. The Group supports the Health Professions Council of South Africa in all its endeavours to enforce any breaches of its code, its principles and its values.