

Risk factors

Stakeholders are advised to consider the summarised risks described below in conjunction with other information including the consolidated annual financial statements of the Netcare Group and the related notes thereto included elsewhere in this annual report.

Shortage of skilled nursing staff

We are currently suffering from an acute shortage of qualified nursing staff. While this problem is not unique to Netcare, the effect is that the decreased supply results in annual increases for affected staff within the industry at rates greater than inflation.

The national nursing shortage in South Africa is chronic, and poses a serious risk to the ability to grow our operations in South Africa. It has been exacerbated by a massive reduction in the number of students being trained in South Africa in the late 1990s, as well as a concerted recruitment effort by developed countries such as the UK, US, Australia, New Zealand, Canada and the Middle East. South African nurses are well trained and highly sought after internationally – so much so that there are an estimated 10 000 (of the 99 000) registered South African nurses currently working in the UK.

Despite training about 1 500 basic and over 400 post basic students every year, we have not been able to keep up with the demands of our growing business. The vacancy rate for registered nurses currently approximates 23%, and in our highly specialised units (e.g. ICU) this figure has risen to above 30%. We have been able to mitigate that risk to an extent with agency nurses, but we still believe this to be a constraint and risk to our future operating performance and growth. If we are unable to adequately source suitably qualified nursing staff, the growth and development of our business may be limited, which could have a material adverse effect on our business, results of operations and financial condition.

Exposure to exchange rate volatility

As Netcare is a South African listed company, our reporting currency is Rand. While the rand has enjoyed appreciation against major currencies over recent years, any significant and sustained depreciation of the Rand would similarly increase the cost of imported supplies. To the extent that those additional costs could not be recovered through increased selling prices, the effect may be an adverse affect on our margins. We would expect that any adverse effect on our margins would be temporary, and that our margins would remain largely unaffected over the long term. The effect of a depreciation of the Rand would also give rise to an increased cost of imported equipment. This would also give rise to increased depreciation in future years as the assets are written off over their expected useful lives. A deterioration in the value of the Rand could have a material adverse effect on our business, results of operations and financial condition.

Dependence on senior management and key employees

Our strategic development and growth depends in part on the continued contributions of a relatively small number of senior executive officers and key employees. The loss of the services of certain of these senior officers and key employees could have a material impact on our business, results of operations or financial condition, and on our ability to develop and grow our business. In addition, as our business develops and expands, we believe that our future success will depend on our ability to manage, attract and retain skilled and qualified personnel.

Additional capital expenditure required to expand and develop

The development and expansion of our business and operations is likely to continue to involve significant capital expenditure. Our capital expenditure plans are likely to require further financial resources, which may be met from our own resources, further issues of

debt instruments, equity-linked instruments or ordinary shares, borrowings, or a combination of these instruments. We cannot be assured that financing will be available to us when and in the amounts we may require, on terms acceptable to us, or even at all. In addition, our ability to borrow and spend funds is limited by South African exchange control regulations. If we do not have sufficient financial resources or funding available to us when required to fund our capital expenditure, the growth and development of our business may be limited, which could have a material adverse effect on our business, results of operations and financial condition.

Subject to various government regulations in the markets in which we operate

Our operations are subject to various laws and regulations in the jurisdictions in which we operate, relating to such matters as health and safety, anti-competitive behaviour, employment and environmental issues. Historically, compliance with these laws has not resulted in material costs or expenditure, or had any material adverse effect on our operations. However, if we fail to comply with any such laws or regulations, we could be subject to liability such as mandatory shut downs, damages, criminal prosecutions, financial penalties, loss of trade agreements or key contracts and injunctive action, which could have an adverse effect on our financial condition or results of operations. Future changes in such laws and regulations could also have an adverse effect on our financial condition or results of operations.

Black Economic Empowerment (“BEE”) is a programme launched by the South African government to redress the inequalities of the past by giving previously disadvantaged groups in South Africa (black Africans, Coloureds and Indians) economic opportunities previously not available to them. It includes

measures such as employment equity, skills development, targets for ownership, management and preferential procurement. BEE reaches far further than the affirmative action programmes in other countries. It sets quotas for black ownership of companies across various significant economic sectors in South Africa. BEE is actively supported in South Africa, and has many benefits such as preferential supplier status to government and other compliant businesses. Should Netcare fail to manage or comply with BEE charters, insofar as they are implemented, or fail to appropriately manage BEE compliance and the required business return on investment, the result of our operations and ultimately our profitability may be adversely affected.

In addition, we are regarded by the South African anti-trust authorities as having a large market share in the South African private healthcare market, and our South African operations are subject to certain anti-competition legislation and regulatory oversight. Certain expansions of our operations in South Africa through acquisitions may require regulatory approval. While to date all of our South African acquisitions have been approved by regulatory authorities, it is possible that in future we may not receive approval to make additional acquisitions or that such approval may be subject to various conditions, which could affect our ability to expand our operations in that market. In addition to refusing to grant approval for certain potential acquisitions, the anti-trust authorities may take other actions that could prevent further growth of our market share in South Africa in other ways.

Political or economic instability in South Africa or regionally

We incorporate and own significant operations in South Africa, and approximately 70,5% of our total revenues were derived from our Southern African operations for the financial

year ended 30 September 2006. As a result, political and economic risks relating to South Africa could affect an investment in the bonds and the ordinary shares.

Large parts of the South African population do not have access to adequate education, healthcare, housing and other services, including water and electricity. Government policies aimed at alleviating and redressing the disadvantages suffered by the majority of citizens under previous governments may require us to implement certain costly procedures in order to be compliant and this could have an adverse impact on our operations and profits. In recent years, South Africa has experienced high levels of crime and unemployment. These problems have impeded fixed inward investment into South Africa and have prompted the emigration of skilled workers. If these conditions continue, our South African operations may have difficulties attracting and retaining qualified skilled employees, as well as securing raw materials.

For the years 2003, 2004 and 2005, gross domestic product ("GDP") growth was 3%, 4,5% and 4,9% respectively; inflation rates were 6,8%, 4,3% and 3,9% respectively; and unemployment rates were 28%, 26,2% and 26,7% respectively. While the appreciation of the rand over 2003, 2004 and 2005 resulted in a reduction in the bank prime lending rate in South Africa, the cost of capital, should we have wished to borrow funds in South Africa, was still higher than that of Europe or the USA. This is even more the case following the recent increases in interest rates in South Africa.

In the late 1980s and early 1990s, inflation in South Africa reached record highs. In recent years, the inflation rate has decreased from those

levels. A return to significant inflation in South Africa, without a concurrent devaluation of the rand, could significantly increase our operating costs and have a material adverse effect on its operating results and financial condition.

Labour disputes or changes in labour laws in the various jurisdictions in which we operate

We have large numbers of employees in South Africa. Over the last few years, South African labour laws have changed in ways that may adversely affect our operations. In particular, laws enacted since 1995 provide for mandatory compensation in the event of termination of employment for operational reasons and impose large monetary penalties for non-compliance with administrative and reporting requirements in respect of employment equity compliance, which could result in significant costs to us. As of 30 September 2006, approximately 42,1% of our employees in South Africa belonged to unions. Labour laws may continue to change in South Africa in future years in a manner which could adversely affect our business. Accordingly, we are at risk of having our operations in South Africa disrupted for indefinite periods due to health and safety issues, strikes called by unions and other labour disputes. In addition to strikes, we may also experience work stoppages based on national trade union protest actions called to promote or defend socio-economic interests of workers, or so-called "stay away" days, which may be called regardless of the state of relations with our workforce. Significant labour disruptions at any of our operations could have a material adverse effect on our business, operating results and financial condition.

AIDS poses risks to us in terms of lost productivity and increased costs in our operations in southern Africa

The incidence of AIDS in southern Africa, which is forecast to increase over the next decade, poses risks to us in terms of potentially reduced productivity, our ability to recruit skilled employees and increased related costs. In addition, the increased incidence of AIDS may lead to a decrease in consumer spending within the local population which could adversely affect the demand for our services and products in southern Africa. The potential impact of AIDS on our operations and financial condition will be determined by a variety of factors, including the incidence of HIV infection among our employees, the progressive impact of HIV on infected employees' health, and the medical and other costs associated with the disease, most of which are beyond our control. It is estimated that approximately 18 % of the South African workforce is infected with HIV/AIDS. Significant increases in the incidence of AIDS in southern Africa or among our workforce could adversely impact our operations and financial condition.