

Transformation report

Since listing ten years ago, Netcare has implicitly understood the importance of transformation, not only within the Group, but also of the broader society in which it operates. Recognising that broad-based black economic empowerment (“BEE”) is a framework that not only redresses the exclusions and imbalances of Apartheid, but also drives South Africa’s sustainable growth into the future, we continue to support and interact with government and sector bodies to address South Africa’s transformation challenges, specifically as they relate to the healthcare sector.

Background

To address social and economic inequities, the South African government has focused on developing a regulatory environment to drive national and sectoral transformation. The Broad-Based Black Economic Empowerment Act of 2003 was promulgated on 14 April 2004 and offers a definitive legislative framework for the promotion of BEE. The Act allows government to issue Codes of Good Practice (“the Codes”), which provide an overarching legislative guide for companies in terms of transformation.

The Codes provide a core set of indicators and criteria to define and measure BEE. The Act also requires the Codes to provide guidelines on how to establish sector transformation charters and targets to achieve meaningful, effective and broad-based BEE. In order for sector charters to attain the status of law, they must be harmonised with the principles set out in the Codes and then gazetted. The Codes were published for public comment in December 2004 by the Department of Trade and Industry (“DTI”), and they are still in the process of being finalised.

Central to the Codes is a balanced scorecard approach, which measures an enterprise’s BEE contribution across a range of indicators.

The DTI BEE scorecard, with associated weightings, is as follows:

| Description | Weighting |
|------------------------------------|-----------|
| Equity ownership | 20% |
| Management | 10% |
| Employment equity | 10% |
| Skills development | 20% |
| Preferential procurement | 20% |
| Enterprise development | 10% |
| Residual (sector-specific) element | 10% |

The Health Charter

Within the structure of the Codes, government has introduced the opportunity for sector-specific charters that set out agreed targets and timelines for BEE. The voluntary nature of these agreements, driven through a process of negotiation and consensus building has allowed unprecedented interaction to take place between public and private players with the healthcare sector being no exception.

Managing a myriad of healthcare challenges effectively and ensuring a healthy workforce that can participate productively in the economy forms the cornerstone of sustainable economic growth and one which the BEE Charter for the Healthcare Sector (the Health Charter) seeks to achieve. While the Health Charter has not yet been finalised, the development process has been critical in shifting relationships within the sector. It has catalysed information sharing and open discussion between the public and private sector and fostered partnerships in a previously fragmented industry.

As with other industry charters, the Health Charter measures the transformation progress on a variety of indicators contained in a scorecard relevant to the sector. Broadly these cover three main areas:

- **Access**
- **Equity**, including human resource development and employment equity;
- **BEE**, including ownership, management control, procurement, corporate social investment and enterprise development.



Netcare's Sight-for-Life initiative providing cataract procedures for underprivileged patients.



Netcare's Cleft Lip and Palette programme with Vodacom and the Smile Train, sponsor surgical procedures to repair cleft lip and palette deformities in underprivileged patients.



What differentiates the draft Health Charter from other sectoral charters is that improved access is considered equally as important as broad-based black economic empowerment. The scoring differs from the Codes in that 10% is allocated to preferential procurement and 20% to the residual category, which includes access initiatives.

A Public Health Enhancement Fund ("PHEF") has been created as a means of ensuring greater access to healthcare, whilst capitalising on the partnerships within the healthcare industry. The fund will attempt to finance a select group of projects that aim to improve access, while creating a united approach to financing healthcare. The Health Charter will also recognise existing projects for measurement in the scorecard.

In addition, participants are working together towards developing a Basic Healthcare Package ("BHP") as part of the charter

process. This is an attempt by the public and private sectors to identify a basic package of healthcare services that would be available to all South Africans, regardless of their ability to pay. Netcare is closely involved in this process, considering that it is important that such a package must be developed within defined parameters and appropriate healthcare research. Progress in terms of the Low Income Medical Scheme ("LIMS") are positive signs that the package will be appropriately developed, without placing an unsustainable financial burden on private healthcare companies.

Netcare's strategy for broad-based BEE

Established in 2005, Netcare's BEE and Transformation Committee comprises members from different divisions and grades in the Group. It drives a Group-specific, holistic BEE and transformation strategy based on a perspective grounded in socio-political, business and moral imperatives, and includes clear and achievable targets. The Group's BEE and transformation strategy is reviewed annually.

Our transformation strategy is built on the eight pillars outlined in the draft Health Charter. A company champion has been appointed in each area, and is held accountable for progress in that specific area through key performance indicators on his or her executive scorecard. Each team is expected to develop its approach based on the Group strategy and is expected to present progress to the Committee on a regular basis.

Review of progress

In the year to September 2006, we made strong progress in most aspects of BEE.

Access

Netcare supports the important objective of improving universal access to basic healthcare services and the quality of healthcare enjoyed by every South African.

Our strategy to promote equity of access to quality healthcare is based on four pillars:

- Increasing access to private healthcare for a larger portion of the population by developing affordable services;
- Helping to improve the quality of healthcare delivered by the public sector;
- Developing skills to the benefit of the public and private sectors; and
- Developing Public Private Partnerships.

Government-driven initiatives, such as the introduction of a Government Employee Medical Scheme (“GEMS”) and a Low Income Medical Scheme (“LIMS”) present an opportunity for private healthcare players to extend services to previously uninsured people. Our acquisition of Prime Cure during the past financial year, a network of primary healthcare clinics, ideally positions Netcare to deliver affordable medical care to these lower income customers. The Group will be providing services to members of the GEMS from 2007. Netcare has also successfully negotiated with Discovery to provide affordable medical care to members of Discovery’s low-income scheme, KeyCare.

In addition, Netcare’s Medical Scheme’s contribution tables have been restructured to enable lower income employees to access medical cover. The Board of Trustees also agreed to waive any underwriting for employees joining the scheme on or before 1 June 2006, and 16% of the 3 109 eligible employees took advantage.

Equity

Employment equity

We continue to make good progress in transforming the Group’s workforce profile to reflect the demographics of the country. In Netcare South Africa, 83% of our employees are women, with black representation at 57%. We aim to transform our overall demographic profile to 60% black employees by 2010.

Netcare’s executive and the three unions that have representation in the Group – DENOSA, HOSPERSA and NEHAWU – have approved an employment equity strategy for the five years to 2010. Percentage-based targets have been set for senior, middle and junior management for the years 2010 and 2014, as per the draft Health Charter.

Further details on our employment equity initiatives can be found in the Employee Report on pages 82 to 93.

Non-managerial employees

Demographic representation has already been achieved in the lower employee bands, where most of the employees are black women. These bands are mainly made up of caregivers, administration and support staff and supervisors. Appropriate representation is close to being achieved in the higher band that includes categories such as unit managers and senior specialists.

Management

Netcare has adopted a holistic approach to the transformation of management levels within the Group. A talent management strategy has been developed and implemented to facilitate this process. Special emphasis has been placed on increasing the number of black employees and women in the higher salary bands. The Chairperson of the Transformation Committee must approve all appointments that do not promote representivity at these levels. At executive level, the Group is on track to achieve its targets of 28% black and 15% women executive management by 2010; and 50% black and 30% women representation by 2014. The new Executive Committee, appointed in 2005, has 15% black and 23% women representation.

The proportion of black managers at senior and middle management levels will be increased to 25% by 2010, with 15% women representation. Netcare aims to have 30% black representation at junior management level by 2010, with women accounting for 15% of positions.

The targets for all levels of management across senior, middle and junior positions have been set at 50% black and 30% women representivity by 2014.

Board of directors

The composition of the Netcare board of directors currently includes 29% black and 7% black women representation. Plans are in place to increase the proportion of black directors on the board to 33% by 2008.

Non-executive directors hold eight of the 14 seats on the board (62%), of which five are independent. Three of the five independent non-executive directors (60%) are black.

People with disabilities

Netcare aims to ensure that by 2010, 2% of its total employees are people with disabilities.

Human resources development

A key objective of the Netcare Education Division is the training, education and development of Netcare employees. This forms an integral part of our transformation strategy, ensuring fair and equitable access to career planning, talent management and succession planning.

All permanent employees have access to human resources development programmes, through in-house education providers and outsourced agencies. Steady progress has been achieved in various human resources development programmes during the past year.

We plan to increase the number of black and women learners enrolled in learnerships to 85%, while ensuring that 100% of the Adult Basic Education and Training learners are black. The Group intends to grow the percentage of black and women learners across all other programmes to 50% by 2010.

A detailed, formal training need analysis has been conducted which will be used as input to our Work Skills Plan, which is fully integrated with our employment equity targets.

Full details of our human resources development activities can be found in the Employee Report on pages 82 to 93.

Black economic empowerment

Ownership

Since listing on the JSE Limited ten years ago, Netcare has actively included shareholders reflective of the demographics of South Africa. Previously disadvantaged individuals, together with several BEE and community institutions currently control, either directly or indirectly, approximately 24,4% of Netcare's issued share capital. This figure excludes shareholding by the Public Investment Corporation and empowered fund holders. Netcare has also implemented a staff share option scheme, where the majority of scheme members are historically disadvantaged individuals.

Following the successful conclusion of the Health Partners for Life BEE transaction in 2005, 160 million shares were transferred to a range of beneficiaries in a deal worth R1 billion. Over the past financial year, R1 billion in value has been created for these shareholders, including women and children's, sports, nursing and doctor organisations.

The Health Partners for Life transaction was structured to ensure a credible and transparent financing structure. It rewards participants for value creation and ensures the retention of scarce resources through vesting and lock-up periods.

Procurement of goods and services

Netcare's preferential procurement policy aims to increase procurement spending with BEE businesses. The Group endeavours to use the scale of its procurement needs for

goods and services, including professional services, to promote BEE in the South African healthcare industry. Hospitals are encouraged to support preferential procurement in their local geographic areas.

A register of all suppliers, including details of their BEE status, is in the process of being compiled. The accreditation of suppliers remains a challenge; however, there are no accreditation agencies registered with the DTI as yet.

Netcare South Africa achieved BEE spend of 37% (excluding discretionary spend) in the year under review and plans to procure 40% of its supplies from black-empowered companies by 2008.

Enterprise development

We are involved in numerous partnerships with businesses owned by previously disadvantaged individuals. The most notable of these is Community Healthcare Holdings Limited ("CHH"), a 100% black-owned healthcare investment company. Netcare and CHH are shareholders in Community Hospital Group ("CHG"), which operates six private hospitals in Gauteng, Free State and the Western Cape. Netcare has provided CHH with support such as funding, specialised services and skills transfer – helping to create a viable, empowered player in the private hospital sector.

Our approach to enterprise development has been to provide management support, the transfer of skills, equity participation, and to assist empowered companies with finance and/or the provision of guarantees. Participation in these initiatives is governed by Netcare's standard investment criteria, which include providing support for businesses with promising intellectual capital, commitment and vision consistent with that of the Netcare Group.

Full details of our PPP activities can be found in the South African operating review on pages 38 to 45.

Corporate Social Investment

As a responsible corporate citizen, we acknowledge that Netcare's success is closely aligned to the equitable development of communities we serve. Considerable emphasis is placed on committing meaningful resources to community- and nation-building initiatives. The bulk of our corporate social investment ("CSI") activities are in the healthcare arena. Preference is given to initiatives that provide health services to indigent patients, health science education both at undergraduate and post-graduate level, support to faculties of health sciences, community projects, wellness programmes and sport development.

A Netcare CSI policy has been developed, in terms of which our indicative target for CSI expenditure is 2,5% of profit before tax.

Full details of our CSI involvement can be found in the Corporate Social Investment Report on pages 94 to 99.

HIV/AIDS

Netcare recognises the significant potential impact of HIV/AIDS, not only on its business, but on the communities it serves and on the broader economy.

Internally, Netcare has implemented an HIV workplace policy to manage the health of our employees who are infected with HIV. In addition to access to medical aid, prophylaxis is provided to staff who are exposed to needle stick injuries at work.

Through HIVCare International, an operating division of Prime Cure, Netcare works with government, international funders and non-governmental organisations to increase



Netcare employees building houses for underprivileged people with "Habitat for Humanity"



The Group is also cognisant of the importance of ensuring that its BEE strategy remains aligned with its overarching business strategy and that these two components continue to work together to offer increased value to customers, shareholders, employees and other stakeholders. Netcare's BEE strategy will be reviewed by the board on an annual basis, enabling revision where necessary.

We will continue to invest resources in advancing its BEE strategy in a sustainable and meaningful way, focusing on becoming a reliable and trusted partner to the South African government. We are committed to playing its part in transforming the South African private healthcare industry in partnership with the public sector, contributing significantly to a healthier, more productive nation.

treatment and care to South Africans living with HIV and Aids.

In partnership with provincial health departments, as well as funders such as the President's Emergency Programme for Aids Relief (PEPFAR), HIVCare has been mandated to establish clinics to increase access to antiretrovirals.

A range of community outreach programmes are driven by the teams established at every Netcare hospital, which work with community-based organisations to provide education and support to HIV-positive individuals and their families.

Looking forward

We recognise the importance of regularly assessing and measuring the progress and efficacy of its BEE strategy and looks forward to a completed framework to benchmark its progress.