

Black economic empowerment

Introduction

Since listing 10 years ago, Netcare has implicitly understood the importance of transformation, throughout all its operations and within the broader society in which it operates. Recognising that broad-based black economic empowerment (B-BBEE) is a framework that redresses the exclusions and imbalances of apartheid and is a key driver of South Africa's sustainable growth into the future. Netcare continues to support and interact with government and sector bodies to address South Africa's transformation challenges, specifically as they relate to the healthcare sector. Netcare remains committed to the finalisation of the Health Sector Charter process.

Established in 2005, Netcare's Black Economic Empowerment (BEE) and Transformation Committee comprises members from different divisions and grades in the Group. In 2008, the BEE and Transformation Committee will be elevated to a main board committee and will be chaired by an independent non-executive director.

Netcare completed its internal scoring according to the Department of Trade and Industry (DTI) Broad-Based Black Economic Empowerment Codes of Good Practice (the DTI B-BBEE Codes) in April 2007, and in August 2007 external verification agency, Empowerdex, rated Netcare (incorporating Netcare 911 and Medicross) a level 5 (BBB) and Prime Cure a level 4 (A) contributor. The Empowerdex rating was based on data for the year ended 30 September 2006, excluding skills development where the training year ended 31 March 2007 was used.

Areas that will receive top management attention during the coming year include employment equity at management levels and preferential procurement. Netcare is aiming to achieve a level 4 (A) rating in 2008.

Netcare's B-BBEE scorecard

Element	Weighting	Empowerdex score
Ownership	20	13,6
Management control	10	5,1
Employment equity	15	4,4
Skills development	15	11,8
Preferential procurement	20	1,1
Enterprise development	15	15,0
Socio-economic development	5	5,0
	100	56,0

Ownership

In 2005 Netcare concluded a BEE transaction transferring 160 million shares to the Health Partners for Life (HPFL) trusts for a range of beneficiaries in a deal worth R1 billion. Coupled with the BEE retail and company holdings, Netcare's BEE share ownership was 17,3% (2006: 17,8%) and black women ownership of at least 7,0% of votable shares at 30 September 2007.

Netcare's BEE shareholding comprises:

- ➔ 65,9 million shares allocated to black beneficiaries under the HPFL BEE transaction;
- ➔ 18,7 million shares held by black retail shareholders, largely resulting from the previous black doctor ownership in Netpartner now directly owning Netcare shares; and
- ➔ 22,6 million shares held by black trusts and companies including Community Healthcare Holdings Limited and the South African Medical and Dental Practitioners Association (SAMP).

As at 30 September 2007, 109,2 million of the 160 million HPFL shares had been allocated, of which 65,9 million shares or 68,5% were allocated to black beneficiaries.



Sister Roshni Essakjee with patient Sfiso and family at Netcare Park Lane Hospital

Although cleft lip and palate deformities are fairly common, not many people realise that it can be easily rectified. This condition, which affects children across South Africa, causes facial disfigurement and impedes speech. Through a fairly simple surgical procedure, cleft lip and palate deformities can be rectified. Netcare, in association with Vodacom, has launched the “Smiles for You” initiative, which offers free cleft lip and palate treatment for anyone who can’t afford it. Children like Sfiso Mlambo featured here with her mother Emily, father Luke and Sister Roshni Essakjee, unit manager of paediatric ward at Netcare Park Lane Hospital, have benefited from the programme.

HPFL value created

Since the HPFL transaction almost R900 million in equity value has been created for the HPFL beneficiaries and capital distributions of R88 million have been paid in respect of the 160 million shares.

	Share price R	Value of shares Rm	Value of debt Rm
September 2005	6,42	1 027	994
September 2007	11,93	1 909	915

The HPFL trusts are funded in the form of preference shares to the value of R861 million subscribed for by Netcare and in respect of R100 million subscribed for by a third party financier. Dividends on the preference shares subscribed for by Netcare are payable at 72% of the prime rate and the debt will be settled over time by the trusts out of the receipt of dividends and other payments by Netcare. This means that ultimately the trusts will own Netcare shares free of any funding obligations. The external financier's preference shares attract a dividend at a fixed rate of 8,77% and are repayable in full by 28 February 2013. The shares under the control of the trusts have full voting rights, provided that the trustees qualify as independent trustees and have secured the direction of the beneficiaries as to the manner in which these shares should be voted. The beneficiaries of the trusts hold trust units which will entitle them to a specified number of Netcare shares in tranches of 20% per annum over five years commencing in October 2010.

Management control

The Netcare board comprises 13 directors of which four are black directors, including a black woman. Three of the five independent non-executive directors are black. Netcare's board nomination committee aims to increase the level of black participation on the board as members retire in the future. The South African executive committee of nine employees includes two black men.

Employment equity

Black representation in Netcare's employees in South Africa was 61,5% (2006: 59,2%) and black women representation was 49,0% (2006: 48,6%) at 30 September 2007. Netcare's black representation in senior top, middle and junior management

was 10,5%, 20,6% and 46,8%, respectively. The 2008 black representation targets for management have been set at 25%. Employees with disabilities represent 0,4% of total employees, of which 21,9% are black employees.

Netcare's employment equity report for the period ended 30 September 2007 was signed by its unions, DENOSA, HOSPERSA and NEHAWU, on 26 September 2007 and was submitted to the Department of Labour on 1 October 2007.

Skills development

Netcare has a well-established education division operating five training academies across the country together with the Netcare 911 School of Emergency and Critical Care and other programmes focused on pharmacy, catering, general skills and management development training.

The total value of Netcare's training initiatives was R65 million in the training year ended 31 March 2007. This value has been calculated in accordance with the DTI B-BBEE Codes and the enhanced recognition criteria of the Adult Basic Education and Training (ABET) programmes. The total value of training initiatives for black employees is 3,3% of leviabile payroll, ahead of the DTI target of 3% and 768 black employees were registered on learnership programmes, 4,6% of total employees compared to the DTI target of 5%.

Preferential procurement

For the year ended 30 September 2007, Netcare's BEE procurement spend from all suppliers with a recognition level in accordance with the DTI B-BBEE Codes was R886 million (2006: R220 million) or 20,3% (2006: 4,2%) of total measured procurement spend of R4 376 million, compared to the DTI target of 50%. Netcare has a preferential procurement policy in place to increase spending with black-owned and BEE compliant businesses. However, the current preferential procurement score is limited by the relatively low level of adoption of the DTI B-BBEE Codes amongst suppliers. An external consultant has been engaged to assist in increasing the level of compliance with the DTI B-BBEE Codes by suppliers.

Enterprise development

Netcare has been involved in numerous partnerships with black-owned healthcare groups, providing financial support, investment and skills transfer. Netcare's partnership in Community Hospital Group (CHG) with Community Healthcare Holdings Limited (CHHL), a 100% black-owned healthcare investment company is one of the most successful enterprise development case studies in the healthcare sector. In 2002, Netcare acquired a 50% interest in CHG, the hospital division borne out of the Macmed liquidation, owning five hospitals with 682 beds. In August 2007, the Competition Tribunal approved the acquisition by Netcare of the remaining interest of CHG from CHHL for 14,2 million Netcare shares. Today CHHL is one of the leading empowerment companies with interests in several sectors.

Netcare's average annual enterprise development spend over the five years ended 30 September 2006 was R33 million, or 4,9% of South African net profit after taxation, ahead of the DTI target of 3%.

Socio-economic development

In the year ended 30 September 2007, Netcare's group socio-economic development spend was R37 million (2006: R29 million), 4,7% of South African net profit after taxation. In the year ended 30 September 2006, Netcare's cost of socio-economic development projects for black beneficiaries as measured for the Empowerdex rating was estimated at R15 million or 1,5% of South African net profit after taxation, ahead of the DTI's target of 1,0%.

Netcare's socio-economic development is focused on increasing accessibility to private healthcare and supporting the local communities where hospitals and clinics are located. At the heart of Netcare's commitment to providing greater accessibility, is Netcare 911's response to all requests for emergency assistance regardless of a patient's financial standing. Netcare 911 spent R18 million in 2007 (2006: R18 million) attending to approximately 15 300 indigent patients.

Working in partnership with other corporates Netcare has several programmes to ensure the provision of private healthcare services to indigent and rural patients including "Sight for Life" (cataract operations); "Netcare Vodacom Smiles for You" (cleft lip and palate); "Hear for Life" (cochlear implants) Walter Sisulu Paediatric Cardiac Centre for Africa (cardiac operations); and Phelophepa Train (dental services).

Netcare believes that meaningful partnerships with government will go a long way to ensure that we address the inequities in the provision of healthcare. Netcare has two public private partnerships with government in hospital management in the Free State and the Eastern Cape and has several public private initiatives in the training of healthcare professionals. Netcare has agreed to contribute R2 million over a period of four years to assist government in building new operating theatres for the Red Cross Children's Hospital in Cape Town.

Community involvement projects include Habitat for Humanity, Water Playpumps, Operation Warm-up and free health screening and awareness activities that coincide with the health calendar.