



**This year's results are characterised by a strong performance of the South African business, improved profitability of the UK business and several corporate actions to improve capital efficiencies.**

**Peter Nelson** *Chief Financial Officer*

A handwritten signature in black ink, appearing to read 'Peter Nelson', on a white rectangular background.

This review provides further insight into the financial position, performance and recent major developments of Netcare, and should be read in conjunction with the annual financial statements presented on pages 101 to 174.

### **Corporate activity**

A number of corporate transactions were concluded during the year under review. These included:

- Successful listing of R1,7 billion 6% convertible bonds due 2011 on the Singapore Stock Exchange;
- Acquisition of the remaining interest in Community Hospital Group (effective 2 October 2007);
- Rebalancing of shareholder interest in General Healthcare Group;
- Repayment of facility A of the offshore debt (£83 million);
- Issuance of R400 million redeemable preference shares;
- Continued successful refinancing of short-term debt through the domestic medium-term note programme at attractive rates; and
- Extinguishing of the Netpartner debt through the issuance of 47,4 million Netcare shares.

The profitability of all operations was largely in line with Netcare's communicated expectations and capital expenditure on South African based operations remained at high levels reflecting Netcare's continued belief in and support for the growth of the home base. Particularly pleasing was the commissioning of two new hospitals, namely Blaauwberg and Alberlito, which are expected to deliver positive cash flow during 2008. Significant expenditure has been spent on medical equipment (R633 million) and IT (SAP infrastructure).

### Acquisition of the remaining shares in Community Hospital Group (CHG)

In August 2007 the Competition Tribunal ruled in favour of Netcare acquiring the remaining 56,3% interest in CHG, which owns five private hospitals (three located in Gauteng and two situated in Cape Town) with 682 licensed beds. With effect from 2 October 2007 CHG became a wholly owned subsidiary of Netcare and will be consolidated from this date. The results of CHG have been equity accounted for the 2007 financial year. The acquisition consideration was settled through the issuance of 14,2 million Netcare shares on 5 October 2007 at the closing Netcare share price of R11,89 at the acquisition date. In addition, Netcare assumed debt of approximately R140 million.

### Rebalancing of shareholder interest in General Healthcare Group (GHG)

On initial acquisition of GHG on 12 May 2006, Netcare acquired a 52,6% interest in the UK's leading private hospital operator. It was noted at the time that this holding was expected to dilute to 50,1% following the allotment of equity to GHG local management. After a process of significant restructuring within the UK operations the GHG Local Management Equity Participation Programme was finalised in July 2007. Whilst Netcare's direct interest in GHG reduced to 50,1% as originally envisaged, Netcare continues to account for an effective interest of 52,3% due to the consolidation into the Netcare group of the entities (SPVs) housing local management's interests.

The allotment of preference shares set aside for GHG local management was not fully subscribed. Consequently, there was an imbalance amongst the original consortium members in respect of their preference share investments. In order to restore equilibrium amongst the partners, Netcare acquired a further 9 736 390 preference shares with a face value of £1 each for a consideration of R137 million, thereby increasing its direct interest in the preference capital of GHG to 54,2%.

### Elimination of the cross holding in Netpartner

In December 2006 the final tranche of the Netpartner debt comprising a R315 million loan and a R255 million derivative liability was repaid through the issue of 47,4 million Netcare shares. This brings to a satisfactory conclusion the complex cross holding arrangement that existed with Netpartner whilst providing the added benefits of simplification of the accounting and supporting structures and improved transparency of the Group.

## Operating results

### Financial targets

A number of financial targets were set at the end of the 2006 financial year, as detailed below:

30 September	Target	Actual 2007	Actual 2006
SA Revenue growth (%)	11,0 – 12,0	<b>14,9</b>	11,3
UK Revenue (£m)	650 – 700	<b>689</b>	265
SA EBITDA margin (%)	19,0 – 20,0	<b>19,0</b>	19,4
UK EBITDA margin (%)	26,0	<b>24,8</b>	14,7
SA Net debt:EBITDA (times)	3,0	<b>3,1</b>	3,6
UK Net debt:EBITDA (times)	10,0	<b>10,3</b>	19,1
SA CFROI® (%)	12,0	<b>14,8</b>	13,1
SA Capex (Rm)	800 – 900	<b>800</b>	849
UK Capex (£m)	40 – 50	<b>42</b>	20

We are pleased to report on the successful attainment of most of these targets. The SA net debt:EBITDA ratio fell only marginally short of the stated goal. The UK EBITDA margin was negatively impacted by non-recurring costs of R79 million (see UK operating results). The exclusion of these costs improves the UK net debt:EBITDA ratio to 10 times, which is in line with target, and the UK EBITDA margin to 25,6%, slightly short of target.

### South Africa

The key financial performance indicators are as follows:

30 September	2007 Rm	2006 Rm
Revenue	<b>8 869</b>	7 720
EBITDA	<b>1 685</b>	1 494
Depreciation and amortisation	<b>279</b>	256
Operating profit	<b>1 406</b>	1 238
Net interest paid	<b>456</b>	152
Profit before tax	<b>951</b>	1 210
Taxation	<b>278</b>	322
Profit for the year from continuing operations	<b>673</b>	888

The South African business delivered excellent results with revenue up 14,9% to R8 869 million boosted by a particularly strong last quarter and two new hospitals. Operating profit was up 13,6% to R1 406 million whilst the operating profit margin remained relatively flat at 15,9% compared to 16,0% in 2006. The operating leverage was offset by the start-up operating losses of R16 million from the two new hospitals opened during the year and increased nursing salaries and training expenditure. The 2006 operating profit was positively impacted by the release of the R85 million deferred lease liability relating to the Umhlanga property, offset by the negative impact of the HPFL BEE share expense of R65 million.

Net interest paid for the South African operations at R456 million is significantly higher than the prior year of R152 million, driven largely by the financing of the Group's significant capital expenditure programme including the commissioning of two new hospitals. Consequently interest cover has declined from 8,1 times in 2006 to 3,1 times in the current year.

Depreciation and amortisation of R279 million is 9,0% higher than the prior year's figure of R256 million, reflecting the steadily increasing levels of capital spend on infrastructure and medical equipment.

## United Kingdom

The key financial performance indicators are as follows:

30 September	2007 Rm	2007 £m	2006 <sup>1</sup> Rm
Revenue	9 738	689	3 432
EBITDA	2 411	171	504
Depreciation and amortisation	765	55	286
Operating profit	1 646	116	218
Net interest paid	1 734	123	679
Loss before tax	(64)	(5)	(531)
Taxation	(377)	27	(93)
Profit/(loss) for the year	313	22	(438)

<sup>1</sup>Includes the results of GHG for the period 12 May 2006 to 30 September 2006

The exchange rates applicable for the conversion of the international results from Pound Sterling to South African Rand are as follows:

	2007 R:£	2006 R:£
Closing rate at 30 September	14,03	14,53
Average rate (1 October – 30 September)	14,13	11,90
Average rate (12 May 2006 – 30 September 2006)		13,04
Acquisition rate at 12 May 2006		11,73

Fluctuations in exchange rates have had a significant impact on the reported results quoted in South African Rand. The average rate of exchange applicable for the 2007 results weakened by 8% against the prevailing rate for the 2006 period, whereas the year end rate for balance sheet purposes strengthened by 3%.

Revenue for the UK business was R9 738 million (£689 million) driven by a 1,7% increase in total caseload year-on-year. A strong operational focus translated into EBITDA of R2 411 million (£171 million) and an operating profit of R1 646 million (£116 million). The results were negatively impacted by the following items:

- ➔ Restructuring and retrenchment costs of R34 million (£2 million);
- ➔ Transaction costs of R25 million (£2 million); and
- ➔ NHS mobilisation and bid costs of R20 million (£1 million).

The 2006 results included restructuring costs of R280 million (£21 million) and NHS bid costs of R39 million (£3 million).

The operating profit margin adjusted to exclude these costs is 17,7% (2006: 15,6%) and the EBITDA margin is 25,6% (2006: 24,0%).

Net interest paid, amounted to R1 734 million (£123 million), and was impacted by favourable movements in that portion of the interest rate swaps recognised in the income statement of R58 million (£4 million).

GHG benefited from a deferred tax release of R372 million (£27 million) due to an announced 2% reduction in the UK statutory rate of tax. Excluding this amount the UK business results reduced the Group headline earnings per share by 15,3 cents.

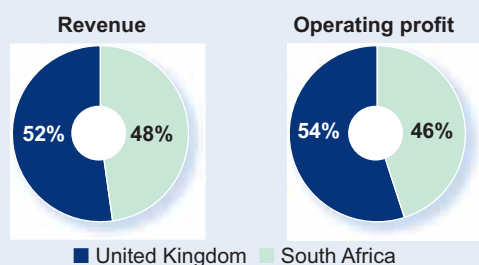
## Group

The Group results for the year ended 30 September 2007 reflect revenue, EBITDA and operating profit significantly ahead of the prior year. The prior year results include GHG for the period from 12 May 2006 (ie four-and-a-half months) and Prime Cure Holdings Limited from February 2006 (ie eight months).

The key financial performance indicators are as follows:

30 September	2007 Rm	2006 Rm	% change
Revenue	<b>18 607</b>	11 152	66,8
EBITDA	<b>4 034</b>	2 120	90,3
Operating profit	<b>2 990</b>	1 578	89,5
Return on ordinary shareholders' equity (%)	<b>30,0</b>	23,0	30,4

The Group revenue and operating profit contribution for the year ended 30 September 2007 can be analysed as follows:



Attributable earnings of associates at R32 million are 14,3% ahead of prior year (R28 million). This includes primarily attributable earnings from Healthshare Health Solutions and Community Hospital Group.

The Group tax line reflects a credit of R99 million. This is a consequence of a deferred tax release of R372 million (£27 million) following the announcement of a 2% reduction in the UK statutory tax rate. The effective tax rate of the SA operations is 27,4% due to assessed losses which have been fully utilised by September 2007. As such the tax rate in future years will be more closely aligned to the statutory rates of the UK and South Africa.

The 2007 basic HEPS for the group increased to 77,6 cents per share. The South African operations contributed 77,1 cents to Group HEPS, reduced by GHG to the extent of 15,3 cents before the effect of the UK tax rate reduction, which added 15,8 cents. Headline earnings for the year ended

30 September 2006 have been restated to comply with the recently issued SAICA Circular 8/2007, *Headline Earnings*. This circular applies to financial periods ending on or after 31 August 2007. In terms of this circular long-term debt reorganisation costs (previously excluded from headline earnings) are not recognised within the definition of re-measurements and are consequently now included in headline earnings. The effect of the change has been to reduce the 2006 headline earnings per share (HEPS) from 56,2 cents to 44,3 cents.

## Balance sheet

The key balance sheet performance indicators are as follows:

### Group

30 September	2007 Rm	2006 Rm
Total equity	<b>8 582</b>	6 236
Total liabilities	<b>41 957</b>	44 302
	<b>50 539</b>	50 538

The Group's investments are funded primarily from operating cash flow. Any shortfalls are usually short term and are funded from banking facilities.

Equity increased by R2,3 billion during the year. This is due to the issue of 47,4 million shares (R617 million) on the Netpartner unwind and R1 136 million (including minority interest) arising on cash flow hedge reserves due to the increase in UK long-term interest rates as well as growth in retained earnings.

The appreciation of the South African Rand against the Pound Sterling impacted the balance sheet reducing total equity by R226 million and total debt by R983 million.

Netcare's debt comprises the following:

30 September	2007 Rm	Non-recourse debt Rm	Debt with recourse to Netcare Rm	2006 Rm
Long-term debt	<b>28 944</b>	25 510	3 434	29 224
Short-term debt	<b>2 086</b>	464	1 622	2 953
Total debt	<b>31 030</b>	25 974	5 056	32 177
Less net cash	<b>(900)</b>	(1 090)	190	(1 009)
Net debt	<b>30 130</b>	24 884	5 246	31 168

Total net debt decreased by 3,3% from September 2006 to R30 130 million at the year end. R24 884 million of the net debt relates to GHG and is without recourse to the South African business and is secured against assets in the United Kingdom.

Net financial liabilities of R1 318 million at 30 September 2006 moved to a R297 million net financial asset position by 30 September 2007. This is mainly as a result of the favourable movements in the mark-to-market value of the UK long-term floating-to-fixed interest rate swaps in line with the increase in long-term interest rates in the UK.

The cost of debt can be summarised as follows:

#### South Africa

30 September	2007 Rm	2006 Rm	Average cost of debt** (%)
Convertible bond (debt portion)	1 446		6,0
Promissory notes	1 550	1 550	9,3
Foreign debt	1 363	2 593	11,4
Other debt	697	1 474	9,5
<b>Total debt</b>	<b>5 056</b>	<b>5 617</b>	<b>8,9</b>

#### United Kingdom

30 September	2007 £m	2006 £m	Average cost of debt** (%)
PropCo	1 644	1 650	6,3
OpCo	214	214	7,7
Other	7	3	5,2
<b>Total debt</b>	<b>1 865</b>	<b>1 867</b>	<b>6,4</b>

\*\*Including hedging

The UK debt has been converted to fixed rates through long-term floating-to-fixed interest rate swaps covering the full PropCo borrowings and a notional £200 million of OpCo debt. These arrangements have protected the Group's interest rate risk exposure during the financial year in which Libor increased by 1,2% to 6,3% at 30 September 2007. In light of the rising interest rate environment and the recent liquidity crisis, the existing borrowing facilities have locked-in terms that are more favourable than those currently available in the financial markets.

The UK property market softened in the fourth quarter of 2007 as interest rates rose and financial liquidity diminished. Given these developments the Group deferred any decision with regard to the sale of all or part of the UK property portfolio.

#### Cash flow

Cash generated from operations remains strong at R3 974 million (2006: R2 129 million) reflecting strong cash flows from all operations as well as better utilisation of working capital. South African creditor payments were accelerated for year end purposes, resulting in a once-off outflow of R300 million. Taking this into account, working capital is well within expectations. This is particularly pleasing given the higher net finance costs for the year.

Material cash outflows during the period include: investment in the Group's capital expenditure programme amounting to R1 389 million (2006: R1 014 million); interest paid of R2 355 million (2006: R838 million) and reductions of capital of R347 million (2006: R391 million). Major capital expenditure items comprise loans to various business associates and ongoing capital maintenance expenditure at the hospitals.

Significant capital expenditure included amounts spent on:

- Two new hospitals – Alberlito and Blaauwberg;
- Investments in the ICU units at Parklane, Linksfield and Akasia;
- Trauma units at Pretoria East and Sunward Park;
- Neuro vascular unit at Unitas;
- Cardiac catheterisation laboratories at St Augustine's and St Anne's; and
- Acquisition of the Harbour Hospital property from the NHS Trust in the UK.

The ongoing investments reflect Netcare's commitment to delivering high quality healthcare to its patients through continued investment in healthcare technology and hospital infrastructure.

#### Cash Flow Return on Investment ("CFROI<sup>®</sup>")

The Group continues to monitor performance, and evaluate potential investments using the Holt method of CFROI<sup>®</sup> as the dominant measure. South African CFROI<sup>®</sup> of 14,8% has improved from that achieved in 2006 of 13,1%. We expect this to improve further in coming years as the benefits from planned operational improvements within GHG begin to bear results. In addition, the Group continues to focus on cash value add investment returns which improve the balance sheet structure and generate cash flows. CFROI<sup>®</sup> is a registered trademark in the United States of Credit Suisse First Boston or its subsidiaries or affiliates.

## Accounting policies

The accounting policies adopted are consistent with those applied in the prior year except for the following accounting standards, interpretations and amendments to published accounting standards which were adopted prior to their effective dates.

- IAS 23 *Revision of International Accounting Standard 23 Borrowing costs*
- IFRIC Interpretation 10 *Interim Financial Reporting and Impairment*
- IFRIC Interpretation 11 *Group and Treasury Share Transactions*
- IFRIC Interpretation 12 *Service Concession Arrangements*
- IFRIC Interpretation 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- *Circular 8/2007 Headline Earnings*

The requirements of the new standards do not have a significant impact on the Group and are detailed on pages 118 to 119. Headline earnings at 30 September 2006 have been restated as a result of Circular 8/2007. The effect of this has been detailed in note 30 to the annual financial statements set out on pages 152 to 153.

The fair value of assets and liabilities of GHG at acquisition date has been reviewed as required by IFRS3 – *Business Combinations*, and where necessary, these values have been amended and the balance sheet at 30 September 2006 restated. The most significant change was to provide for deferred tax assets at acquisition of R161 million (£14 million). The adjustment recognises that the assessed losses in GHG at acquisition date have value, which is highly probable of being realised in the short term, and accordingly needs to be brought to account.

## Risk management

Netcare is exposed to a number of external risks which could significantly impact on results. These risks are monitored on an ongoing basis and, where possible and in line with our strategy, appropriate derivative instruments are entered into to mitigate risk.

Financial risks to which the group is exposed are outlined in note 31 to the annual financial statements set out on pages 154 to 156.

## Forward looking information

Agreements are currently being concluded to dispose of Netcare's 50% interest in the Ampath Holdings Trust, a trust which manages the Ampath pathology practices and services rendered. Ampath will continue to be proportionately consolidated until the Competition Authorities approve the sale.

Our 50% interest in the results of Ampath are separately disclosed in the table below:

30 September	2007 Rm
Revenue	507
Operating profit	127
Operating profit margin (%)	25,0
EBITDA	137
EBITDA margin (%)	27,0

As already noted, the results of Community will be consolidated into Netcare with effect from 2 October 2007.

The impact of new accounting standards, interpretations and amendments to published accounting standards which are not yet effective and have not been adopted in the current year are set out on page 130.

## Reduction of capital

The board of directors has declared a final reduction of capital out of share premium of 18 cents per ordinary share, payable to shareholders recorded in the register of the Company as at Friday, 18 January 2008. Taken together with the interim reduction of capital of 13 cents per share, the total reduction of capital paid and to be paid in respect of the 2007 financial year, amounts to 31 cents (2006: 27 cents) per ordinary share, an increase of 14,8% over the period.