



I have great pleasure in presenting my Chairman's Review for 2007, a year appropriately described as one of significant achievement and a year inspired by great commitment, enthusiasm and enterprise.

Michael Sacks *Non-Executive Chairman*

A handwritten signature in black ink, appearing to read 'Michael Sacks', with a small flourish below it.

At the outset I wish to pay tribute to the people of Netcare, who in their respective roles, have worked extremely hard during the year in delivering the Group's broad range of products and services. Today there are more than 27,000 loyal Netcare group team members who provide this support and serve to promote the Group's reputation and credibility in the eyes of the medical profession, the general public and the investor community.

When one considers that our network of hospitals, clinics and trauma centres are open for business 24 hours a day, 365 days a year, every year, it is gratifying that patients who are in need of healthcare services can, at any time, rely on a Netcare facility for specialised medical care and a quality of treatment and clinical outcomes that rank among the best in the world.

Our doctors, specialists, nurses, pharmacists and paramedics are the visible members of the Netcare family, but our administration, technical and support staff play an equally important role behind the scenes facilitating seamless access to the Group's centres of excellence and its broad range of healthcare services. These services were provided to more than five million patients during the year, not only to the affluent or medically insured but, in South Africa to thousands of indigent patients from all communities. For example, services to the indigent included the treatment by Netcare 911 paramedics and trauma personnel of 15,300 roadside emergency patients with no formal medical aid.

Performance

The acquisition of the General Healthcare Group (GHG) in the United Kingdom during May 2006 transformed the Netcare Group into one of the largest doctor and hospital networks in the world. The financial information contained in this annual report includes the first full year of trading of our United Kingdom subsidiary and for some perspective of size of the Group in both geographies, at year end, the Group enjoys an asset base in excess of R50 billion.

The disciplined management and the resultant operational efficiencies once again positioned the Group to deliver strong organic and acquisitive growth. In the year under review, total revenue from the South African and United Kingdom operations rose 66,8% to R18,6 billion yielding an EBITDA contribution of R4,0 billion. Core headline earnings per share increased by a more than satisfactory 27% to 61,8 cents.

Overall revenue growth in South Africa was 14,9% to R8,9 billion, with operating profit up 13,6% amounting to R1,4 billion. This arose substantially through a 4,5% increase in patient days in the hospital division and a 9,5% growth in our primary care visits, indicating an escalating demand for private healthcare in general and a growing preference for Netcare health services. This preference is specially revealed in the growth in self-pay revenues.

In the United Kingdom, the evolving introduction and application of Netcare's business models have proved to be highly effective and further efficiency gains are expected in the coming year. Revenue in the United Kingdom for the year was R9,7 billion resulting in a R1,6 billion contribution to group operating profit.

In addition to the improving operating performance in the United Kingdom and its capacity and potential for significant growth, the GHG owns a high-quality portfolio of hospital and related properties, an asset base already highly rated by the market and which ownership is expected to ensure significant advantage to the Group. The South African property portfolio is no less impressive and was recently valued at R9,6 billion. Given the balance sheet value of these properties at 30 September 2007 of R2,8 billion, Netcare's strategic choice of property ownership rather than rental has proved to be of immense value and these assets will likewise provide substantial benefit to the Group in due course.

Sector issues

This past year presented a number of challenges for hospital service providers and I am pleased to report that Netcare management dealt with each in an orderly, systematic and professional way. Healthcare issues are always controversial and given the enduring and perhaps logical non-alignment of interests between health funders and providers, this discord does erupt from time to time.

Allegations of impropriety were levelled at the hospital sector in regard to certain of its pricing structures, these allegations substantially borne out of a misguided belief and frustration that the traditional sector-pricing models are in some way prejudicial to the interests of their members. In addition and notwithstanding factual statistics, there is a reluctance by funders to accept and appreciate the real reasons for greater utilisation of hospital services and consequently the increasing spend on hospital expenditure.

While it took some time for the market to understand the issues, the candour and integrity of Netcare's billing models were finally understood and accepted. Notwithstanding this, Netcare had been debating the construction of its pricing policies since late 2006 and had been in the process of changing such models.

The economics of the private hospital industry and the enormous capital investment required for such enterprise makes "size and scale" a crucial feature for appropriate feasibility. Scale provides private hospital groups with the ability to optimise efficiencies, rationalise costs and standardise and maintain the highest quality of care. This must be of immense advantage to medical schemes and their membership, yet the private hospital sector continually faces ambiguous and emotional objection when there is rational opportunity for expansion.

More regular and direct engagement with medical scheme trustees should take place for a better appreciation of fundamental healthcare economics which would be in the reciprocal interests of both medical scheme members and healthcare providers.

Another area of concern that requires clarification is the misleading assertion, regularly promoted by funders and associated organisations, that the disproportionate aggregate annual cost of private healthcare at R75 billion for a mere 7 million members, compared to the public sector spend of R59 billion for 38 million people, reveals an abuse and exploitation by private hospital and healthcare providers of the reimbursive resources available. Without expanding on the detail, when one eliminates from the spend on private healthcare, value-added taxation at 14%, the cost of capital, the cost of infrastructure, the massive private sector cross-subsidy of drugs and pharmaceuticals, the distorting hospital cost of trauma and accident, the variances in labour costs, the sustainable capacity in the private sector for any and all services, the quality of outcomes and many other costs, features, advantages and benefits which should be eliminated for appropriate comparison, one must conclude that the real comparison of public/private spend is reasonable, that private healthcare in South Africa provides good value for money and is a national asset to be intentionally preserved.

Sustainability

In 2007, Netcare achieved a BEE rating of level five for Netcare and level four for Prime Cure, putting us in the top 10% of the top 200 listed companies in South Africa. Our transformation committee has recently been elevated to a main board committee and our continuing transformation processes will now carry the endorsement of the board as opposed to policy interpretation of individual managers. The board is confident that Netcare will achieve a level four BEE accreditation in the coming year.

The annual report contains comprehensive details of the Group's commitment, its support for and its diverse activities related to black economic empowerment, matters of sustainability, corporate governance and community and social investment. For a greater appreciation and understanding, I would respectively refer readers to those sections specifically dealing with these matters. What I will record, however, is that Netcare management has never needed to be prompted by charters or other such regulations to meet the imperatives of these corporate characteristics and the progress and initiatives in each case have always been unanimously supported and endorsed by the Group's board of directors.

Corporate Governance

During the year the Public Investment Corporation (PIC) published a framework for corporate governance and proxy voting policy. In September 2007, we met with the PIC to discuss the framework and to ensure that Netcare satisfactorily meets all their requirements.

We have worked hard to improve both our sustainability measures and the reporting thereof and this year we have taken cognisance of the Global Reporting Initiative (GRI) guidelines and have aimed to meet the requirements of a Level C reporter. In November 2007, the JSE announced that Netcare had met the requirements to be included in the 2007 JSE SRI Index.

Reduction of capital

Given the Group's solid performance, the board of directors declared a final reduction of capital (number 17) out of share premium of 18 cents per share, payable on 21 January 2007 to shareholders recorded in the register on 18 January 2007. This, together with the interim reduction of capital of 13 cents per share, reflects an increase in the annual distribution by 15,0% to 31 cents per share.

Prospects

The prevalent drivers of demand for private healthcare worldwide include the growing demands of an ageing population compounded by new technology which is designed to support longer life expectancy. Demand in South Africa will also likely be driven by an increased incidence of lifestyle diseases, underpinned by increasing affluence as South Africa's

economy continues to develop, improving the prospects of growth in both the medically insured and self-pay markets. This is already evident in the increase in medical aid membership in 2007 and this growth will continue to be strengthened by the expansion of the Government Employees Medical Aid Scheme (GEMS).

In the United Kingdom, our primary challenge for 2008 is revenue growth. A strong platform for growth has been established and the board is confident that with the new energy and experience of our management team, they will achieve their top-line growth objectives and further efficiency gains. On balance, prospects in the UK private healthcare are healthy, with differentiated private healthcare being relatively underdeveloped. The same demand drivers being experienced globally are also present in the UK and GHG is well positioned to capture its share of that market. Furthermore GHG, has a significant geographic presence in the UK which dovetails well with the British Government's Extended Choice programme.

Appreciation

Netcare is a unique South African institution. There is no other South African healthcare company that I know that has so enthusiastically embraced the tenets, the vision and the principles of South Africa's transformation and its approach to normalising South African society. It is a privilege for me to serve as Chairman of such an organisation and in that capacity I wish to pay tribute to the doctors and nurses and our entire management and staff – both in South Africa and the United Kingdom – for their loyalty and dedication to the Netcare Group in general and their respective subsidiary enterprises in particular. All of your efforts are recognised with extreme gratitude.

Under the leadership of our Chief Executive Officer, Dr Richard Friedland, our senior management conducted themselves with true professionalism, great insight and integrity, continuing to position the Group for its new era of growth and progress.

I would also like to thank the Chairman of our UK subsidiary Sir Peter Gershon, for his contribution to the developing success of General Healthcare Group and for the wisdom and direction he provides to the board and management of that company.

Norman Weltman's status as an executive director changed to non-executive director from 1 September 2007 and Dr Ryan Noach resigned as an executive director in December 2007. I thank them for their contribution and dedication to Netcare over the years.

Finally, I would like to extend appreciation and thanks to the members of the board of Netcare, particularly our respected non-executive directors, for always formally and informally being available and for their resourceful, enterprising and accomplished guidance and advice provided during the past year.

Chief executive officer's review



It has been a year of intensive activity on all fronts. In the first year of Netcare's second decade, we have so much to be proud of, and much more still to do.

Dr Richard Friedland *Chief Executive Officer*

A handwritten signature of Dr Richard Friedland in black ink on a white background.

Health impacts every aspect of a nation's development and is equally important at every stage of an individual's life. Globally, there is a fault line that separates those who have access to affordable quality healthcare and those who do not. Where people do not have the means to access healthcare, their choices are constrained and their quality of life impaired. People on the wrong side of the fault line find it difficult to escape the cycle of poverty and disease. Those on the other side, however, with access to a wide range of healthcare services at every stage of their lives, from primary care to sophisticated surgery, are able to develop and prosper – to live longer and fuller lives.

Throughout the developed and developing world, one of our biggest challenges is to make affordable, accessible quality healthcare a reality for the present, not a hope for the future. This is a challenge that the governments in both our markets rightly take very seriously. As a leading healthcare organisation in South Africa and the United Kingdom, we are just as serious about participating in meeting this crucial challenge.

We also appreciate that our ability to contribute meaningfully to viable and sustainable healthcare solutions is contingent on creating value for our shareholders. It is a mark of the skill and compassion of Netcare's people that we have again managed to strike the delicate balance required to both respond to healthcare challenges as well as sustain our profitable growth as a healthcare company.

The case studies that are interwoven throughout our annual report this year provide stirring examples of the many ways in which Netcare is making a profound, positive impact on people's lives at many different levels. They also illustrate what we all can ill afford to forget while the debate about the quality of healthcare delivery and expenditure rages on: the fact that there are real people behind those statistics and it is their needs that should hold our attention.

Strategic review

In both our markets, growing demand for private healthcare is being driven by the increasing incidence of lifestyle diseases such as obesity, high blood pressure, high cholesterol and type-2 diabetes. The phenomenon of ageing populations is also resulting in increased use of our facilities and lengthier stays. As advances in medical technology enable earlier diagnosis and new treatment protocols are developed for conditions that previously were inoperable, these too drive demand.

South Africa

South African healthcare is facing major challenges such as a chronic skills shortage, an underfunding of public health and an increasing burden of disease; all within the framework of an inherited healthcare system characterised by over 40 years of inequity. The key challenges that stem from this are those of access, affordability, quality of outcomes and skills.

Netcare is firmly committed to addressing this inequity and ensuring that the private sector plays a responsible and constructive role in addressing these issues. To significantly widen the avenues of access and build sustainable healthcare delivery models, we need to accelerate the implementation of Public Private Partnerships (PPPs) and Public Private Initiatives (PPIs). In our PPPs with government, we advocate moving away from the traditional model of build, operate and transfer towards the provision of full clinical services on a similar basis to those provided for the National Health Services (NHS) in the UK.

We believe that well-considered PPIs can provide meaningful and targeted improvements to healthcare delivery. Again, we have the experience gleaned from the model applied in the UK, where the private sector provides clinical services to the public sector which include making capacity available to reduce waiting lists for elective surgery, such as hip replacements and cataracts, as well as rolling out mobile healthcare services to rural areas. An important opportunity exists to assist the public health system where capacity is available. A good example of private and public sector cooperation was provided during the public service strike in South Africa, in which the necessity of

urgent intervention encouraged the effective and coordinated utilisation of resources. We are committed to extending and building on this level of cooperation in order to contribute to widening healthcare access.

In terms of affordability, much criticism is placed on the private sector in terms of the escalation of hospital expenditure. Detailed analysis proves that this is not purely as a result of the consolidation of the hospital sector and the perception of related price escalation, but rather has much to do with the increased utilisation driven by an ageing population and increased prevalence of lifestyle diseases. Netcare's hospital weighted average price increase for the past year was 5,7% and at a primary care level the average effective price increase was 2,6%, both well below the average consumer price index of 6,3%.

In the year we were widely criticised for our pricing model, one used by the sector for many years and currently used by at least 70% of private hospitals. In terms of this model, rebates on surgical and consumable goods were offered by suppliers on commercial terms. In turn these discounts cross-subsidised the under recovery in ward, theatre, equipment and accommodation fees (some 55% of an average hospital bill but approximately 70% of costs). While this cross-subsidisation billing system was poorly understood, it was neither illegal nor unethical. We acknowledge, however, that it did not provide full transparency of pricing and we have committed to removing all rebates on surgical consumables from January 2008.

Much mention has been made of the importance of Alternative Reimbursement Models (ARMs) as a potential solution to addressing increases in healthcare expenditure. Alternate methods of reimbursement aim to transfer risk to healthcare providers and in so doing, align incentives between the medical scheme and healthcare provider. Netcare has undertaken to convert a substantial portion of our fee-for-service pricing model into an alternative reimbursement and risk sharing model with funders. By January 2008, approximately 40% of all procedures will be on an alternative reimbursement model and we aim to achieve 60% by the end of 2008.

We commend government for initiating the National Health Reference Price List (NHRPL), which will provide an enhanced understanding of the cost drivers in private healthcare. Together with industry, we are working on an appropriate pricing model for hospital providers in terms of the NHRPL.

Adherence to the highest standards of quality in healthcare delivery is underpinned by clinical governance protocols that promote best clinical practice and mitigate clinical risk. Netcare

has invested significantly in clinical governance in recent years and our quality assurance board committee has now been elevated to a full board committee. We also continue to benchmark ourselves against stringent international standards. Netcare's performance is world class, evidenced by a number of quality indicators. In terms of hospital acquired infection, against an international benchmark of nearly 9,3 per 1 000 patient days, Netcare achieved 2,6. Similarly, our mortality rate in relation to admissions is 1,1% against an international average of 1% to 3%. Looking ahead, we will be presenting our performance against these quality indicators to government on a quarterly basis.

South Africa's chronic skills shortage is aggravated by the high demand for our nurses overseas, particularly in Canada, Australia and the Middle East. While this is testimony to the quality of training they receive in South Africa, it creates a challenge that cannot be addressed by increasing nurses' salaries.

In the year, our overall cost of training in South Africa was R100 million. We trained over 3 200 nurses and some 500 paramedics and we are the largest private nursing and paramedic training institution in the Southern Hemisphere. We continue to implement new models of care to optimise the utilisation of skilled nursing staff. We are also part of the Homecoming Revolution campaign to bring South Africans home and have repatriated around 60 nurses this year alone, with another 100 expected in the near future. Although we have accelerated our training efforts, there is obviously a lag factor in the training pipeline. Accordingly, we have applied to the Department of Health for a licence to import nurses from central Europe, the United Kingdom and India.

United Kingdom

The market has undergone significant changes over the past year. New entrants into the private hospital sector will increase the competitive landscape and potentially lead to a consolidation of the sector. The NHS has also moved away from centrally procured outsourcing contracts to more locally driven procurement of clinical services and procedures.

Importantly we have been able to transfer much of Netcare SA's DNA to the UK. Netcare's performance-driven ethos, certain operating models, including our doctor-centric approach and nursing staffing models have been adopted by our UK management team and in certain cases improved upon. In the last year, the two-way flow of intellectual capital, management expertise and practical experience between our South African and UK businesses has already proved valuable.

Within GHG, an organisational metamorphosis has occurred. We now have an almost entirely new executive management team at the helm. We continue to restructure and align the

business both at an operational and corporate level. Strong headway has been made in streamlining the business and extracting efficiencies, consolidating our central services functions including finance, IT and HR, into one central location. We have focused on strengthening each of our hospital's local identity and have established individual business and marketing plans for the next financial year. Marketing plans will promote the consistency of service and confidence associated with the GHG brand.

To promote our 5 000 self-employed doctors in the UK and to differentiate our service offering further, in 2007 we roll out further practice development groups, bringing together doctors with specific specialist expertise with the related ancillary services. Our aim is to consolidate our strengths in these areas thereby creating centres of excellence. We are confident that the centres will attract increasing numbers of leading doctors and we are launching partnership schemes to help achieve this.

There are a number of new services ranging from cosmetic surgery and weight loss to more major surgery providing opportunities for GHG. We also see opportunities in the private medical insurance field and are working in partnership with funders to find innovative access routes to increase the private medical insurance base in the UK, which has been flat for the last five years.

This year also saw us successfully mobilise three new NHS contracts. While we were disappointed to see some of our central "Phase 2" NHS contracts cancelled, GHG is well positioned to benefit from the trend to localised procurement, given its extensive geographic network and proven ability to deliver quality outcomes cost effectively. All our hospitals will be IT enabled by the end of 2007. This will enhance our ability to service the government's Extended Choice Programme, which will give NHS patients who have been on a waiting list for definitive treatment for longer than 18 weeks, an extended choice of providers. While the numbers of patients on waiting lists for elective procedures in the NHS continues to decline, as of June 2007 it was estimated that approximately 54% of patients on such lists were waiting longer than 18 weeks from the time of GP referral to definitive surgery.

Financial review

Netcare's performance in the year under review was characterised by significant organic growth in South Africa and substantially improved operating efficiencies in the United Kingdom.

Group operating revenue from continuing operations increased significantly as a result of including GHG for the full year. This increase of 66,8% to R18 607 million was also driven by strong revenue growth of 14,9% in South Africa. Group operating profit from continuing operations increased by 89,5% to R2 990 million with South African operating profit growth of 13,6% to R1 406 million, and UK operating profit of R1 646 million. The Group operating profit margin expanded from 14,1% to 16,1% as a result of the full year consolidation of GHG with comparatively higher margins than those in South Africa. In the UK, our efficiency initiatives translated into core earnings before interest, taxation and depreciation growing around 14% compared with the comparative 12-month period.

Group headline earnings per share increased 75,2% to 77,6 cents per share. In South Africa, basic headline earnings per share increased by 18,3% from 65,2 cents (restated) to 77,1 cents per share. As expected, GHG reduced headline earnings per share by 15,3 cents to 61,8 cents per share, before considering the credit to income arising from the change in the UK corporate tax rate. The tax credit improved headline earnings per share by 15,8 cents to 77,6 cents. Adjusted Group headline earnings per share increased by 26,6% from 48,8 cents to 61,8 cents.

Looking ahead

In South Africa, we will continue to engage with government pro-actively and constructively to address government's concerns regarding affordability of private healthcare and the inequity of public private healthcare provision and our proposed solutions.

The two main drivers of growth will remain the increase in the medically insured population and higher demand for private health care from a self-pay market, reflecting the growing affluence of the emerging middle class. We expect these trends to continue, particularly in view of the impact of the Government Employee Medical Schemes (GEMS), which has been the most significant contributor to growing the country's traditional medical aid base.

With 48 acute hospitals across the country, GHG is already the leading private healthcare provider in the UK, and Netcare UK is an established partner of choice to the NHS. Looking ahead, we will actively build on these platforms. Close alignment with Private Medical Insurers (PMIs) in order to grow the number of lives covered by PMI is a major priority for the Group.

Management priorities

In 2007, our management priorities in the UK included reviewing our diagnostics services and actively engaging with

consultants. We completed our diagnostic services review and identified ways to rationalise our services in certain areas and extend our services in others. Initiatives implemented as a result of our doctor-centric model included establishing several practice development groups.

Priorities for the year ahead include increasing our share of business from new NHS activities, and strengthening the growth platform we have established by enhancing our competitive position. This will entail dedicated focus on building out our doctor-centric model and on customer service. We believe we can strongly differentiate GHG in terms of service and have identified several opportunities, from hospital pre-admission through to discharge and follow-up procedures.

In South Africa, our priorities were the commissioning of the two greenfields hospitals, which we achieved. We also made progress in a key strategic initiative, the roll-out of SAP. The Community Hospital Group (CHG) has established a track record of providing high quality, cost-effective medical care, and in 2008 a key priority will be to complete the integration of CHG into Netcare. An important priority on the pricing front will be to implement the new risk sharing models with our funders.

An ongoing priority is to strengthen our partnership with Government to accelerate the provision of accessible and affordable healthcare. As we build a South Africa we can all be proud of, accelerating transformation remains a priority – not only in seeking an improved BEE accreditation but in our desire to influence real change in the hearts and minds of our employees and other stakeholders towards a society that celebrates its diversity and is free of discrimination.

Appreciation

Once again it has been a year of intensive activity on all fronts. In the first year of Netcare's second decade, we have so much to be proud of, and much work still to do.

As we look ahead to another year of exciting opportunities and complex challenges, I know the people of Netcare will once again demonstrate their diverse talents and deep humanity both in taking this organisation forward and providing a critical service to the citizens we serve. My heartfelt thanks to all our employees for your dedication in making Netcare the market leader it is today, and your commitment to our higher cause.

I extend my thanks to our Chairman, Mr Michael Sacks, for his steadfast commitment to Netcare and wise counsel. I also thank the board for their ready support and critical input as we move into a new era.



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*

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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	14,9	11,3
UK Revenue (£m)	650 – 700	689	265
SA EBITDA margin (%)	19,0 – 20,0	19,0	19,4
UK EBITDA margin (%)	26,0	24,8	14,7
SA Net debt:EBITDA (times)	3,0	3,1	3,6
UK Net debt:EBITDA (times)	10,0	10,3	19,1
SA CFROI® (%)	12,0	14,8	13,1
SA Capex (Rm)	800 – 900	800	849
UK Capex (£m)	40 – 50	42	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	8 869	7 720
EBITDA	1 685	1 494
Depreciation and amortisation	279	256
Operating profit	1 406	1 238
Net interest paid	456	152
Profit before tax	951	1 210
Taxation	278	322
Profit for the year from continuing operations	673	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 ¹ 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)

¹Includes 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.

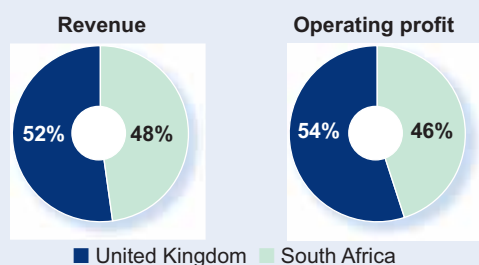
Group

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	18 607	11 152	66,8
EBITDA	4 034	2 120	90,3
Operating profit	2 990	1 578	89,5
Return on ordinary shareholders' equity (%)	30,0	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	8 582	6 236
Total liabilities	41 957	44 302
	50 539	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	28 944	25 510	3 434	29 224
Short-term debt	2 086	464	1 622	2 953
Total debt	31 030	25 974	5 056	32 177
Less net cash	(900)	(1 090)	190	(1 009)
Net debt	30 130	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
Total debt	5 056	5 617	8,9

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
Total debt	1 865	1 867	6,4

**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[®]")

The Group continues to monitor performance, and evaluate potential investments using the Holt method of CFROI[®] as the dominant measure. South African CFROI[®] 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[®] 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.

Five year review

Balance sheet	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
ASSETS					
Non-current assets					
Property, plant and equipment	26 683	27 246	3 109	2 880	2 704
Goodwill and intangible assets	16 380	17 016	350	227	170
Associated companies, investments and loans	298	255	791	597	491
Financial asset – Derivative financial instruments	1 453	834			[^] 427
Deferred taxation	514	396	19	43	41
Total non-current assets	45 328	45 747	4 269	3 747	3 833
Total current assets	5 211	4 791	2 013	1 759	1 949
Total assets	50 539	50 538	6 282	5 506	5 782
EQUITY AND LIABILITIES					
Ordinary shareholders' equity	4 132	2 237	3 342	2 722	2 867
Preference share capital and premium	644	644			
Minority interest	3 806	3 355	76	74	72
Total shareholders' equity	8 582	6 236	3 418	2 796	2 939
Non-current liabilities					
Long-term debt	28 944	29 224	493	793	922
Financial liability – Derivative financial instruments	1 156	2 152			
Post-retirement benefit obligations	115	294	65	55	44
Deferred lease liability	63	64	159	153	141
Deferred taxation	6 073	6 399	62	203	227
Total non-current liabilities	36 351	38 133	779	1 204	1 334
Total current liabilities	5 606	6 169	2 085	1 506	1 509
Total equity and liabilities	50 539	50 538	6 282	5 506	5 782

The financial results of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) from the beginning of the 2005 financial year.

Comparative figures are restated where practicable for changes to accounting policies subsequent to the adoption of IFRS.

[^]Other financial asset

Income statement	Compound growth %*	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
CONTINUING OPERATIONS						
Revenue	32,6	18 607	11 152	7 534	6 853	6 013
Cost of sales		(10 856)	(6 376)	(3 651)	(3 490)	(2 753)
Gross profit		7 751	4 776	3 883	3 363	3 260
Other income, administrative and other expenses		(4 761)	(3 198)	(2 693)	(2 416)	(2 337)
Operating profit	34,2	2 990	1 578	1 190	947	923
Financial income and expenses	87,4	(2 135)	(927)	(138)	(102)	(173)
Attributable earnings of associates		32	28	63	25	
Profit before taxation	4,3	887	679	1 115	870	750
Taxation		99	(229)	(300)	(216)	(169)
Profit for the year from continuing operations	14,1	986	450	815	654	581
DISCONTINUED OPERATION						
Profit for the year from discontinued operation		109	87			
Profit for the year		1 095	537	815	654	581
Attributable to:						
Ordinary shareholders		927	729	813	652	580
Preference shareholders		30	12			
Minority interest		138	(204)	2	2	1
		1 095	537	815	654	581

Cash flow statement	Compound growth %*	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
Cash generated from operations before working capital changes		4 252	2 179	1 452	1 191	1 129
Working capital changes		(278)	(50)	156	(88)	(250)
Cash generated from operations	45,8	3 974	2 129	1 608	1 103	879
Interest paid		(2 355)	(838)	(176)	(199)	(270)
Taxation paid		(286)	(234)	(466)	(358)	(154)
Preference dividends paid		(30)	(12)			
Reductions of capital paid		(347)	(391)	(308)	(246)	(183)
Net cash from operating activities	36,9	956	654	658	300	272
Net cash from investing activities	21,6	(1 664)	(17 818)	(601)	(705)	(760)
Net cash from financing activities	(3,9)	614	19 273	90	109	719
Translation effects on cash and cash equivalents of foreign entities		39	(1 393)			
(Decrease)/ increase in cash and cash equivalents		(55)	716	147	(296)	231
Cash and cash equivalents at beginning of year		1 009	293	146	442	211
Cash in disposal group held for sale		(54)				
Cash and cash equivalents at end of year	19,5	900	1 009	293	146	442

*Four year compound growth percentage per annum

The financial results of the Group have been prepared in accordance with IFRS from the beginning of the 2005 financial year.

Comparative figures are restated where practicable for changes to accounting policies subsequent to the adoption of IFRS.

Ratios		Compound growth % *	2007	2006	2005	2004	2003
Ordinary share performance							
Number of shares in issue (net of treasury shares)	million		1 245	1 183	1 446	1 426	1 531
Weighted average number of shares	million		1 230	1 448	1 431	1 480	1 429
Diluted weighted average number of shares	million		1 293	1 469	1 474	1 540	1 497
Attributable earnings per share	cents						
– Basic		16,7	75,4	50,3	56,8	44,0	40,6
– Diluted		16,7	71,7	49,6	55,2	42,3	38,7
Headline earnings per share	cents						
– Basic		17,7	77,6	44,3	60,0	45,4	40,4
– Diluted		17,6	73,8	43,7	58,3	43,6	38,6
Reductions of capital per share	cents	19,9	31,0	27,0	25,0	19,0	15,0
Reductions of capital cover	times		2,5	1,6	2,4	2,4	2,7
Ordinary shareholders' equity per share	cents	15,4	331,9	189,1	231,1	190,9	187,3
Market capitalisation	R million		21 963	22 056	11 203	7 059	6 277
Earnings yield	%		6,5	3,6	9,2	9,2	9,9
Distribution yield	%		2,6	2,2	3,8	3,8	3,7
Price : earnings ratio	times		15,4	28,0	10,9	10,9	10,1
Profitability and asset management							
Operating profit margin	%		16,1	14,1	15,8	13,8	15,4
Operating profit return on net assets	%		8,0	7,7	30,0	25,0	28,0
Return on ordinary shareholders' equity	%	5,7	30,0	23,0	28,0	24,0	24,0
Liquidity and leverage							
Current ratio	:1		0,9	0,8	1,0	1,2	1,3
Quick ratio	:1		0,8	0,7	0,8	1,0	0,5
Interest cover	times		1,4	1,9	9,3	8,1	4,9
Debt : equity ratio	%		351,1	499,9	32,6	43,2	30,6
Total liabilities to ordinary shareholders' equity	%		10,2	19,8	0,9	1,0	1,0
Debt coverage	times		0,1	0,1	1,4	0,9	1,0
Stock exchange performance							
Market prices per share							
– at 30 September	cents		1 193	1 240	655	495	410
– highest	cents		1 677	1 318	670	535	440
– lowest	cents		1 150	611	470	400	265
– weighted average	cents		1 368	950	560	463	337
Number of share transactions			114 167	77 800	39 596	33 321	16 614
Value of share transactions	R million		15 964,3	10 042,2	4 452,9	3 143,1	1 769,7
Volume of shares traded	million		1 166,9	1 057,0	795,7	680,0	525,0
Volume traded to issued	%		93,7	89,3	55,0	47,7	34,3

*Four year compound growth percentage per annum

The financial results of the Group have been prepared in accordance with IFRS from the beginning of the 2005 financial year.

Comparative figures are restated where practicable for changes to accounting policies subsequent to the adoption of IFRS.

Definitions

Attributable earnings

Earnings attributable to ordinary shareholders.

Current ratio

Current assets divided by current liabilities.

Debt coverage

Cash generated from operating activities divided by net debt.

Debt : equity ratio

Net debt to total shareholders' equity.

Distribution yield

Reductions of capital per share divided by the closing share price on the JSE.

Earnings yield

Basic headline earnings per share divided by the closing share price on the JSE.

Headline earnings

This comprises the earnings attributable to ordinary shareholders after adjusting for re-measurements specifically included as defined in Circular 8/2007 issued on 31 July 2007 by the South African Institute of Chartered Accountants.

Interest cover

Operating profit divided by net interest paid.

Quick ratio

Current assets less inventory divided by current liabilities.

Market capitalisation

Closing share price on the JSE times ordinary shares in issue before deducting treasury shares.

Net debt

Long-term debt, short-term debt and bank overdrafts net of cash and cash equivalents.

Operating profit return on net assets

Operating profit and pre-tax income from associates divided by average total shareholders' equity and net debt.

Price : earnings ratio

The closing share price on the JSE divided by basic headline earnings per share.

Reductions of capital cover

Basic headline earnings per share divided by reductions of capital per share.

Return on ordinary shareholders' equity

Headline earnings attributable to ordinary shareholders divided by average ordinary shareholders' equity.