

# Network Healthcare Holdings Limited

**Interim results**  
for the six months ended 31 March 2007





# Outline

## **Business update**

Group CEO, Dr Richard Friedland



## **Group financial review**

Group CFO, Peter Nelson





# Group interim highlights

- Strong revenue growth in South African business
- Commissioned two new hospitals in South Africa
- Extending reach of affordable quality healthcare to more South Africans
- GHG efficiency initiatives starting to yield results
- Two new UK NHS facilities opened

**14%**

growth in  
South African  
revenue

**13%** growth

in SA basic  
adjusted<sup>1</sup>  
HEPS

**26%**

GHG EBITDA<sup>2</sup>  
margin

**8%** growth

in interim  
dividend

1. Before HPFL BEE share based expense and GHG financing expenses
2. Before Netcare UK bid and mobilisation costs



# Business update

South Africa

Netcare SA





# Solid results from South Africa

- Strong demand for private healthcare services
- Investing capital in attractive demographic areas
  - Two new hospitals
  - Parklane neo-natal, Linksfield ICU, Pretoria East and Sunward Park trauma units
- Signed PPP agreement for Port Alfred/Settlers
- Key clinical governance initiatives completed
- Key patient focused initiatives

## South Africa

Six months ended R million	31 Mar 2007	31 Mar 2006	%
Revenue	4 427	3 880	14
EBITDA <sup>1</sup>	827	740	12
EBITDA <sup>1</sup> margin	18.7	19.1	
Capex	368	242	52

1. Before HPFL BEE share based expense of nil (2006: R57.6m)



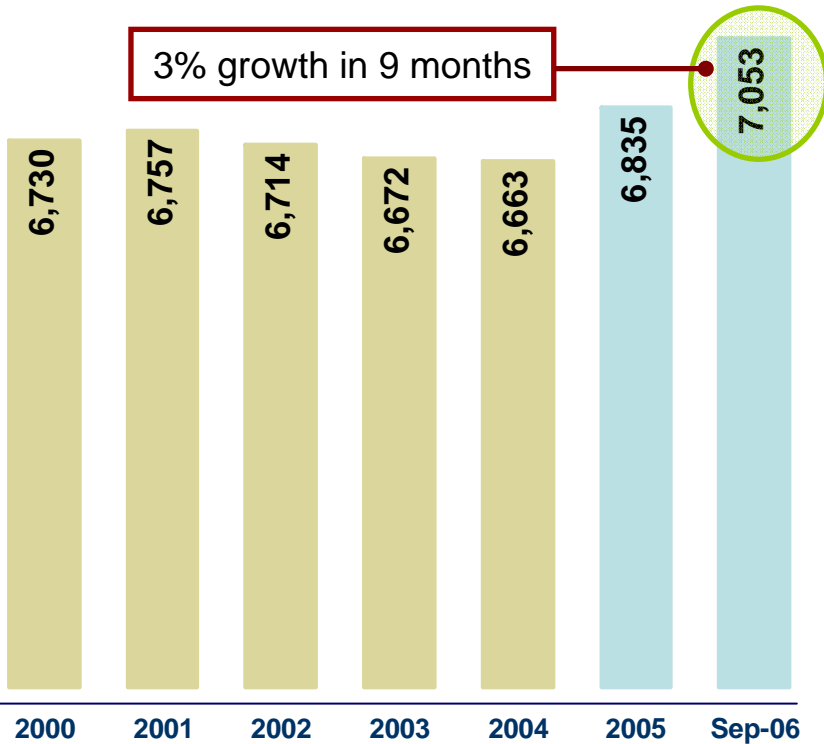
Netcare Blaauwberg Hospital



# Growth in private medical aid membership

## Growing medical aid membership

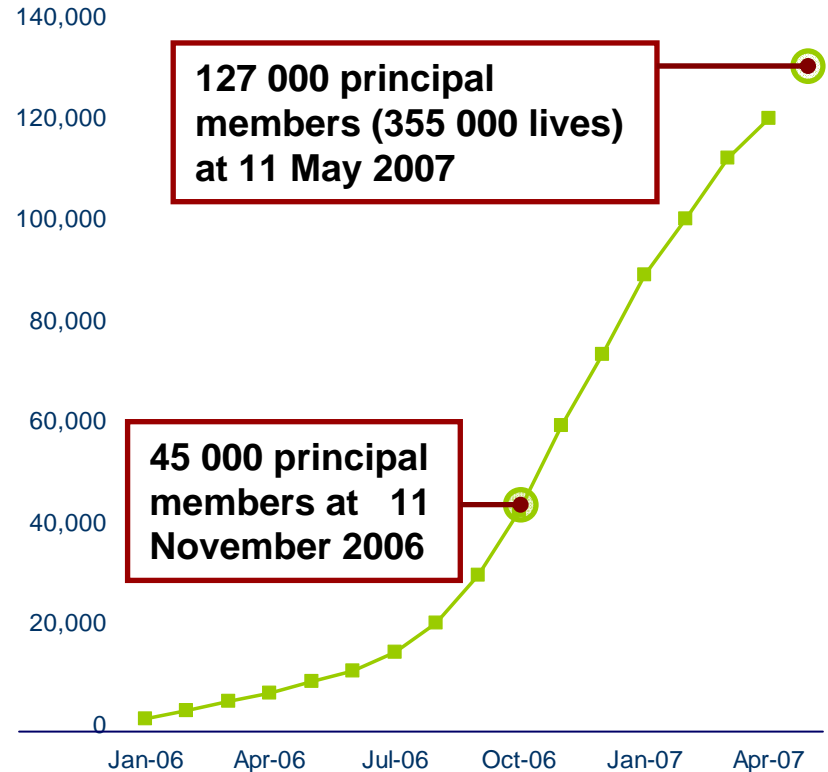
Registered medical scheme beneficiaries (000s) at December



Source: Council for Medical Schemes

## GEMS now ranked top 4 medical aid scheme

GEMS principal members

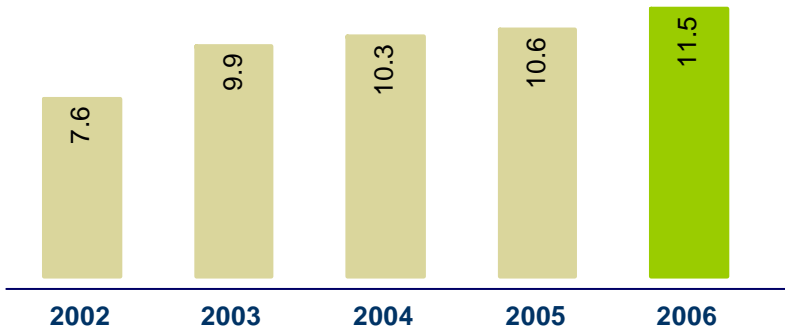


Source: GEMS

# Increased utilisation underpinning demand

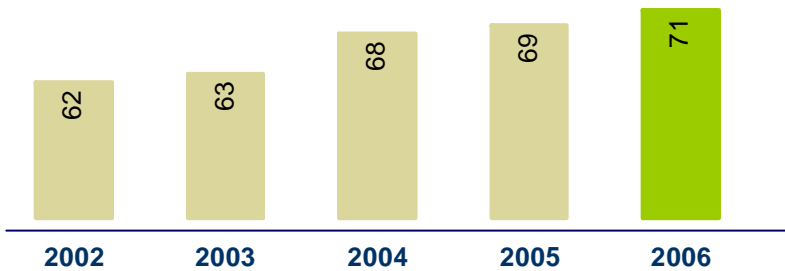
## Change in disease patterns

Respiratory admissions as a % of total admissions (%)



## Increased use of technologies

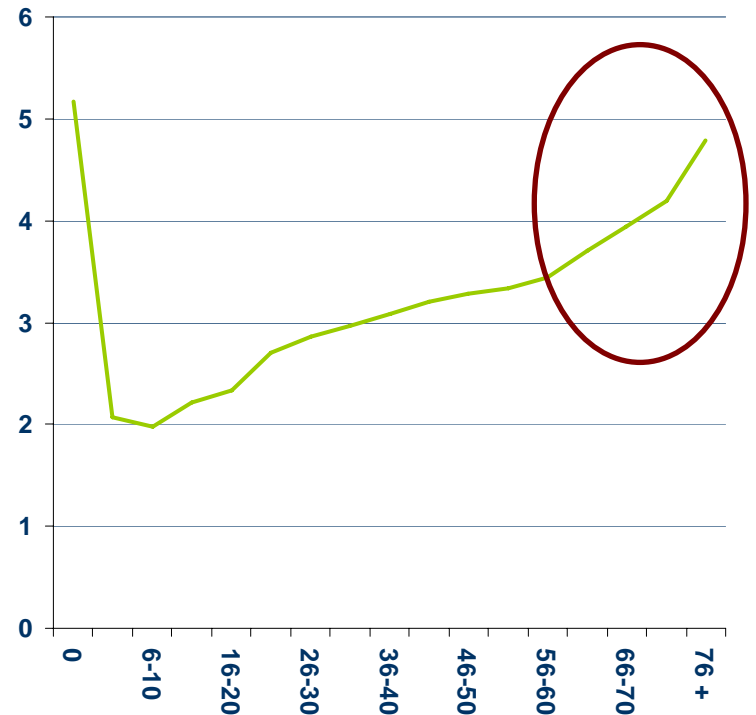
Percentage C-sections of maternity admissions (%)



Source: Netcare

## Longer length of stay in older age categories

Average length of stay in days (inpatient average 2000-2006)



Source: Netcare

# Demand driving hospital and trauma growth

- Attracted 121 new specialists
- Strong growth in self pay revenue as evidenced by
  - 6.4% growth in maternity cases
- 22% growth in patients attended to by Netcare 911
- Margin impacted by
  - Increased training and retention costs
  - Commissioning costs for new hospitals
  - Increased number of medical cases

**8%** growth  
in total  
admissions

**4%** growth  
in hospital  
patient days

## South Africa: Hospitals and Trauma

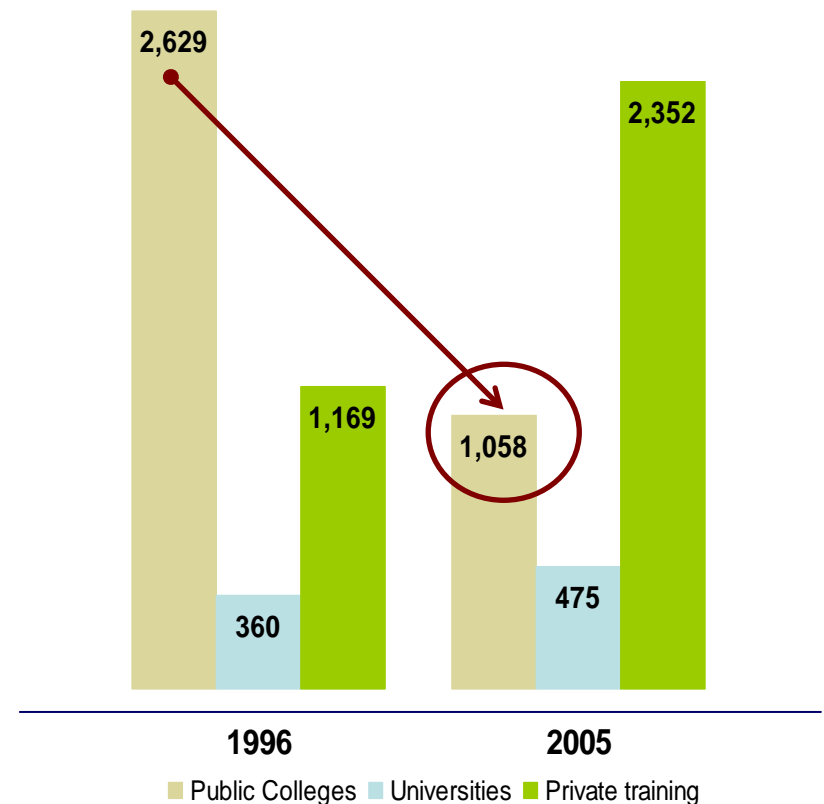
Six months ended R million	31 Mar 2007	31 Mar 2006	%
Revenue	3 480	3 116	12
EBITDA <sup>1</sup>	652	587	11
EBITDA <sup>1</sup> margin	18.7	18.9	

1. Before HPFL BEE share based expense of nil (2006: R5.9m)

# Aggressively addressing the skills shortage

- Nurse training budget for 2007 increased to R59m
  - 49% increase on the prior year
- 3 410 nurses and paramedics in Netcare's training academy in 2007
- Increased employee retention costs
- Employing new model of care
- Department of Health plans to dramatically increase training

## Output of professional nurses



Source: Nursing Council of South Africa

# Building an extensive primary care network

- Strengthened the primary care network
  - 100 primary care facilities nationally, 41 retail pharmacies
  - Opened flagship Medicross centres in Rustenberg and Edenvale
- Increased doctors and dentists
  - 643 doctors and dentists
  - Almost doubled network of compliant doctors and dentists to 2,909 nationally
- Increased managed care lives to 155,000
  - 34,000 GEMS lives under management
  - 40% of lives on full risk



Medicross Rustenberg

# Successfully growing lower income model

- Strong revenue growth fuelled by Prime Cure acquisition
- Decline in EBITDA margin
  - Closure costs for non-viable Prime Cure facilities
  - Increased contribution from Prime Cure at a lower margins
- Achieved integration savings
  - Centralised credit control, finance and human resources

**10%**  
growth in GP  
and dental  
visits

**155 000**  
managed care  
lives

## South Africa: Ancillary healthcare services

Six months ended R million	31 Mar 2007	31 Mar 2006	%
Revenue	947	764	24
EBITDA <sup>1</sup>	174	153	14
EBITDA <sup>1</sup> margin	18.4	20.0	

1. Before HPFL BEE share based expense of nil (2006: R51.7m)



# Regulatory and legal update

## Regulatory

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- Drug dispensing fee challenged by pharmacists
  - SEP dispensing fee expected to be implemented by August 2007
- Draft NHRPL regulations issued in January 2007
- International benchmarking of drug prices expected in 2007
- New DTI BEE codes gazetted in January 2007
- Considering various Ampath exit options

## Legal

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- Community acquisition to be heard by Competition Tribunal in June 2007

# Ensuring compliance with new DTI BEE codes

## Netcare's internal BEE scoring

Element	Weight	Netcare Score	
Ownership	20	18.6	<ul style="list-style-type: none"> <li>18.7% BEE shareholding</li> <li>R571m value created for black HPFL shareholders (after debt)</li> </ul>
Management control	10	3.3	
Employment equity	15	5.2	<ul style="list-style-type: none"> <li>59% of employees are black</li> <li>Focus on top management</li> </ul>
Skills development	15	11.1	
Preferential procurement	20	2.9	<ul style="list-style-type: none"> <li>4.6% of payroll is spent on training black people, ahead of the DTI BEE code target of 3%</li> </ul>
Enterprise development	15	15.0	<ul style="list-style-type: none"> <li>Procurement will increase as we drive compliance in suppliers</li> <li>Significant contributions to black hospital groups and projects to increase access</li> </ul>
Socio-economic development	5	5.0	
	100	61.1	

**Netcare ranks as a Level 5 contributor**

(80 cents per R1 recognition factor)

# Management priorities for South Africa

## Performance against 2007 priorities

Commission two Greenfield hospitals	✓ ✓
SAP rollout	✓
Review of central costs	✓ ✓
Develop high-volume, lower cost model	✓
Integrate Prime Cure	✓ ✓

✓ Progress made    ✓ ✓ Largely complete



# Business update

United Kingdom

General Healthcare Group (GHG)



# GHG integration gaining good traction

- New experienced senior management team in place
  - Chairman, Sir Peter Gershon
  - CEO, Adrian Fawcett
- New strategic objectives and key performance indicators implemented
- 8 efficiency programmes implemented and achieving meaningful results
- Introduced Netcare's doctor centric model
- Comprehensive review of property portfolio completed

**£88m**

EBITDA<sup>1</sup>  
achieved in  
first 6 months

**26.1%**

EBITDA<sup>1</sup>  
margin for  
GHG

## United Kingdom

Six months ended 31 March 2007	£m	Rm
Revenue	337	4 749
EBITDA <sup>1</sup>	88	1 240
EBITDA <sup>1</sup> margin	26.1	26.1
Capex	17	239

1. Before bid costs of £0.7 million (2006: £0.1) and mobilisation costs of £0.7 million (2006: nil)

# Private Hospital (BMI) performance

- Improved EBITDA margin to 26.5% from 24.4% at 30 September 2006
- Commenced preparation for Extended Choice Network
- Launch of Spinecare, Women's Health and Varicose Vein products
- Opened A&E unit at the Alexandra
- Outsourced decontamination and sterilisation
- Implementing Picture Archiving and Capture System and Radiology Information System

**26.5%**

EBITDA  
margin

**5%**

reduction in  
headcount

## United Kingdom: Private hospitals (BMI)

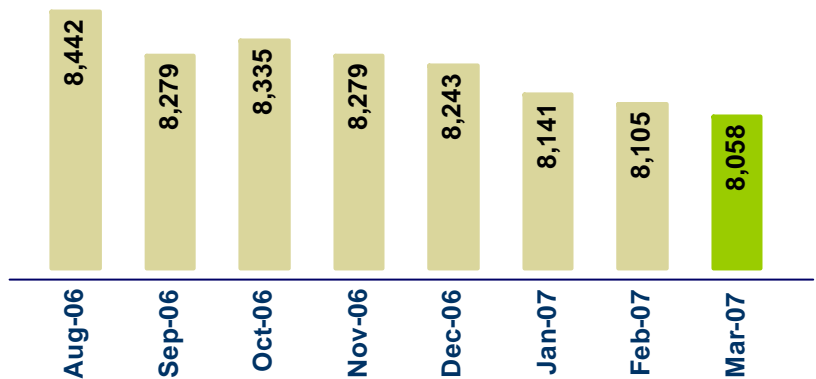
Six months ended 31 March 2007	£m	Rm
Revenue	326	4 582
EBITDA	86	1 214
EBITDA margin	26.5	26.5

# An intense focus on driving efficiencies

- Control of nursing hours and management of unproductive time expected to save £5m from ward labour
- Efficiencies through centralised procurement and consolidating suppliers estimated to be £5m
- Further savings realised in catering, utilities and insurance
- Numerous areas still to be targeted in next 6 months

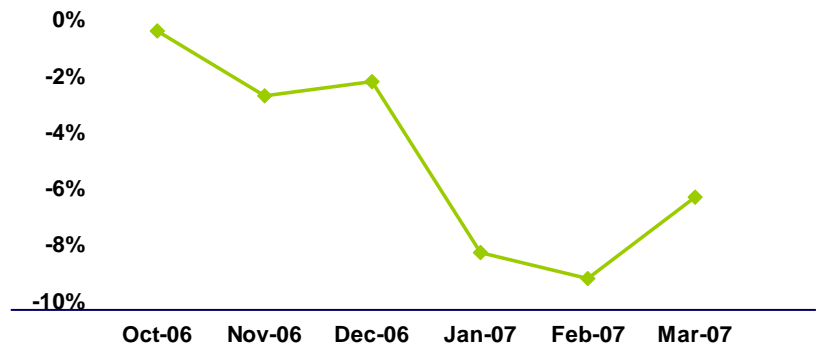
## 5% reduction in BMI employees

Full time equivalent employees



## Improvement in ward cost per patient day

Wards cost per patient day % change over prior year



# Netcare UK results impacted by mobilisation costs

- Commissioned a new NHS facility in Scotland, Stracathro in Jan 2007
  - 8 000 procedures over 3 years
- Opened Commuter Walk-in-Centre in Leeds in Feb 2007
  - 150 patients/day over 5 years
- Awarded preferred bidder for North and East Yorkshire and North Lincolnshire (NEYNL) scheme
  - 5 year contract for an estimated 70,000 procedures

**5 634**

NHS  
procedures  
performed

**15.1%**

adjusted<sup>1</sup>  
EBITDA margin

## United Kingdom: Public services (Netcare UK)

Six months ended R million	31 Mar 2007	31 Mar 2006	%
Revenue	168	130	29
EBITDA	6	17	(62)
EBITDA <sup>1</sup>	25	18	44
EBITDA <sup>1</sup> margin	15.1	13.6	

1. Before bid costs of £0.7 million (2006: £0.1 million) and mobilisation costs of £0.7 million (2006: nil)



# A strong NHS contract pipeline

- Estimated total £400m (est £80m per annum) revenue contribution from new projects commencing in 2007 and 2008
- Diagnostics London commenced in April 2007
- Commuter Walk-in-Centre in Kings Cross expected to be open by December 2007
- Manchester and Cumbria & Lancashire Capture, Access, Treatment and Support Schemes and NEYNL ISTC expected to be mobilised by January 2008
- Delays to certain contracts

## New NHS projects

Project	Est start date	No of years	No of procedures
Stracathro	Jan-07	3	8 000
CWIC Leeds	Feb-07	5	150 ppd
Diagnostics-London	Apr-07	5	130 000
CWIC Kings Cross	Dec-07	5	180 ppd
Manchester A	Jan-08	5	90 000
CATSS C&L	Jan-08	5	160 000
NEYNL	Jan-08	5	70 000

ppd – patients per day



# Management priorities for United Kingdom

## Performance against 2007 priorities

Continue integration of GHG	✓
Doctor engagement model	✓
Diagnostics services review	✓
Rollout of Extended Choice Network systems	✓
Mobilise new NHS contracts	✓
Review property portfolio	✓ ✓

✓ Progress made    ✓ ✓ Largely complete



# Group Financial Review





# Group financial highlights

- Margin uplift from GHG
- Refinancing of SA debt – convertible bond
- Repayment of Netpartner debt and unwinding of zero cost collar
- Finalised GHG PropCo and Opco debt
- R1.1bn hedge profit recognised directly in equity<sup>2</sup>
- SAP rollout on track
  - Financials rolled out
  - Logistics currently underway

**13%** growth  
in SA basic  
adjusted<sup>1</sup>  
HEPS

**22%**  
group  
EBITDA  
margin

**R1.5bn**  
cash  
generated from  
operations

**R1.1bn**  
favourable  
mark-to-market  
movements  
(derivatives)

1. Before HPFL BEE share based expense and GHG financing related costs  
2. Statement of Recognised Income and Expense



# Summarised group income statement

Six months ended R million	31 March 2007	31 March 2006	%	Year ended 30 September 2006
Revenue	9 176	4 009	129	11 616
<b>Operating profit</b>	<b>1 519</b>	571	<b>166</b>	1 568
Financial income	196	51		699
Financial expenses	(1 318)	(118)		(1 531)
Attributable earnings of associates	15	21		28
<b>Profit before taxation</b>	<b>412</b>	525	<b>(22)</b>	764
Taxation	(110)	(153)		(227)
<b>Profit for the period</b>	<b>302</b>	372	<b>(19)</b>	537
<b>Headline earnings per share (cents)</b>	<b>23.7</b>	25.6	<b>(7)</b>	56.2
<i>Weighted average number of shares (m)</i>	<b>1 219</b>	1 448	<b>(16)</b>	1 448

Benefit of Netpartner transaction  
– repurchase of shares

# Earnings per share impacted by GHG dilution

Cents per share	31 March 2007	31 March 2006	%	30 September 2006
South African basic adjusted <sup>1</sup> headline earnings per share	32.4	28.7	13	70.5
Abnormal item – HPFL BEE share expense		(4.0)		(4.5)
South African basic <sup>2</sup> headline earnings per share	32.4	24.7	31	66.0
GHG dilution to headline earnings	(8.7)	0.9		(9.8)
Basic headline earnings per share	23.7	25.6	(7)	56.2

1. Before abnormal item (HPFL BEE share expense) and GHG financing related costs

2. Before GHG financing related costs

Financing costs for GHG investment and GHG loss of £1.7 million

Core SA HEPS growth of 13%

# Summarised group balance sheet

R million	31 March 2007	30 September 2006	Currency impact
<b>Assets</b>			
Non-current assets	45,556	45 747	(808)
<i>Goodwill</i>	16 409	16 735	
<i>Deferred taxation</i>	368	406	
Current assets	4 749	4 791	(50)
	50 305	50 538	(858)
<b>Equity and liabilities</b>			
Ordinary shareholders' equity	3 631	2 237	(116)
Preference shares	644	644	
Minority interest	3 795	3 355	
Non-current liabilities	38 197	38 133	(638)
<i>Deferred taxation</i>	6 275	6 399	
Current liabilities	4 038	6 169	(104)
	50 305	50 538	(858)

IFRS 3 adjustments to initial accounting

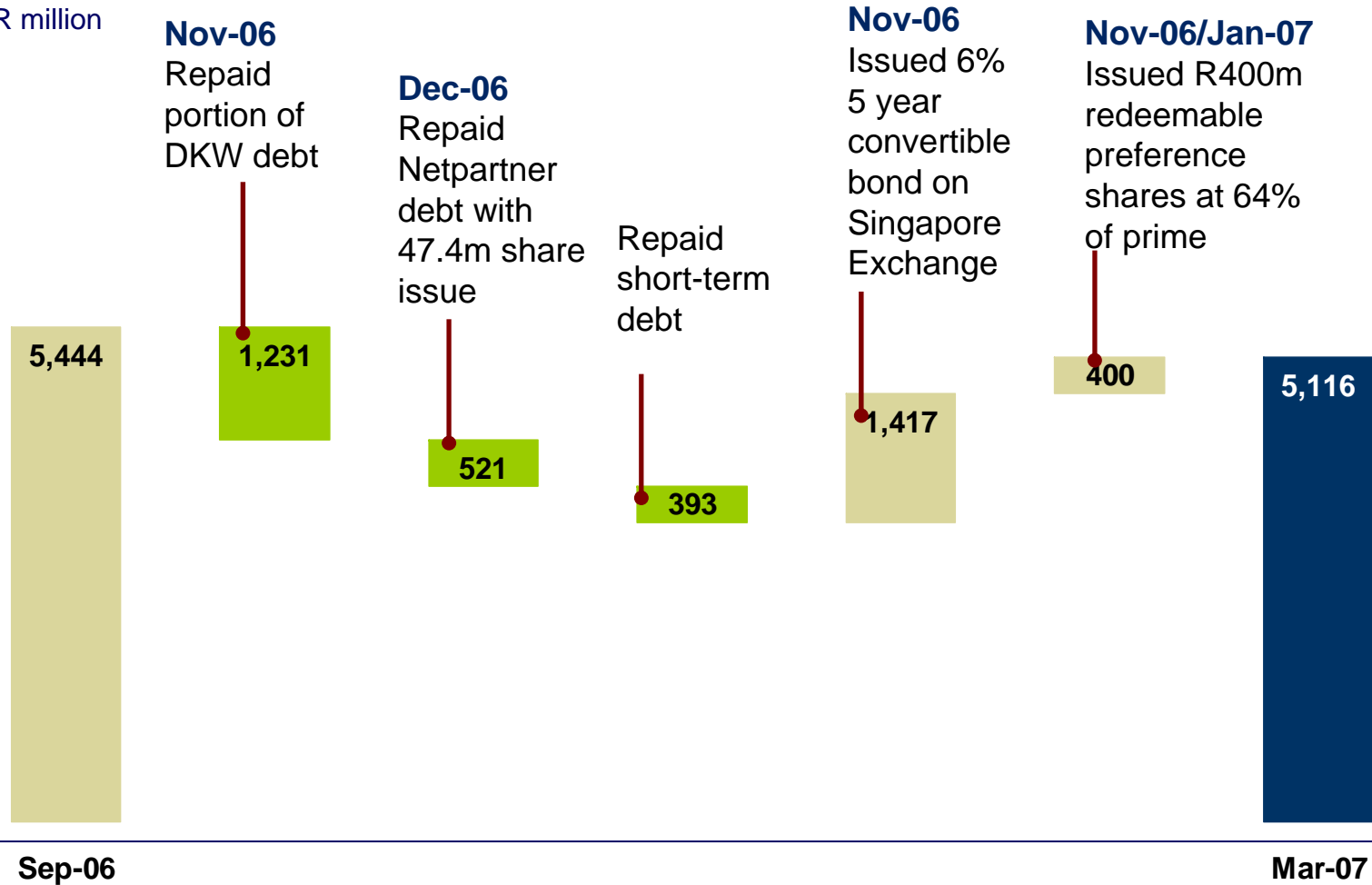
Issue of 47.4m shares  
Mark-to-market of derivatives  
Option premium on convertible bond

Balance sheet impacted by appreciation of the Rand from R14.53:£1 at 30 Sep 06 to R14.24 :£1 at 31 Mar 07



# Movement in South African net debt

R million



# Restructured GHG debt

- UK debt is ring fenced to the United Kingdom operations
  - no recourse to Netcare SA
- UK debt is fully hedged with interest rate swaps (25 years)
- UK propco debt is secured against a property portfolio valued in excess of £2.1bn
- Met debt covenant tests

## UK net debt

31 March 2007	£m	Rm
Propco debt	1 648	23 474
Opco debt	214	3 041
Other debt	3	43
<b>Total debt</b>	<b>1 865</b>	<b>26 558</b>
Cash	(62)	(890)
	<b>1 803</b>	<b>25 668</b>
Prepaid costs and accrued interest (net)	(15)	(220)
<b>Net debt</b>	<b>1 788</b>	<b>25 448</b>

# Successfully structured debt to lower cost

- SA net interest increased due to
  - financing of GHG acquisition
  - acquisition of Netpartner debt
- SA average interest rate of 8.67%
- Libor rates are fixed
- UK average interest rate of 6.42% (fixed libor plus margin)

## Net interest expense

6 months ended R million	31 March 2007	31 March 2006
<b>SA net interest expense</b>	<b>212</b>	59
<i>SA interest cover (times)</i>	3.0	9.5
<b>UK net interest expense</b>	<b>896</b>	-
<i>UK interest cover (times)</i>	1.0	-
<b>Group net interest</b>	<b>1 108</b>	59

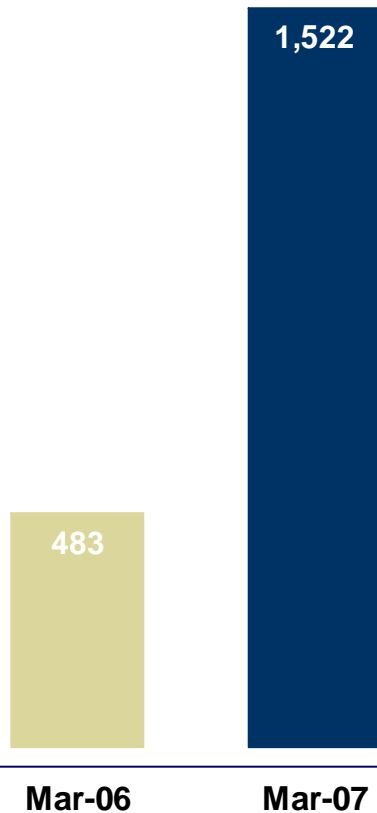
(times)	31 March 2007	30 Sep 2006
SA net debt to EBITDA	<b>3.1</b>	3.4
UK net debt to EBITDA	<b>10.4</b>	19.1



# Strong cash flow generation

## Group cash generated from operations

R million



## Net working capital for the group

R million	31 March 2007	30 September 2006
Inventory	597	571
Accounts receivable	2 915	2 706
Accounts payable	(2 256)	(2 624)
Taxation	(219)	(138)
	1 037	515

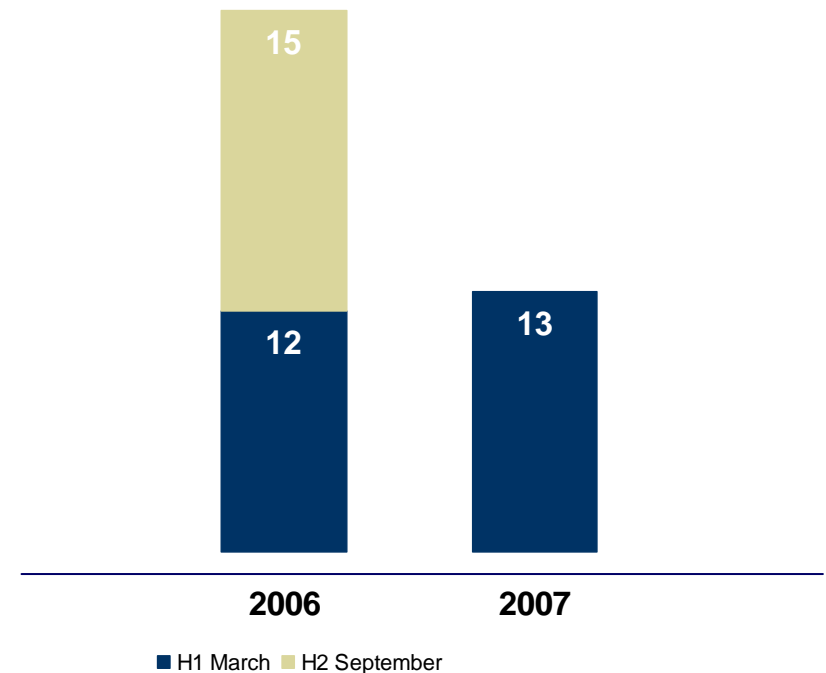


# Growth in interim capital distribution

- 8% increase in the interim capital distribution
  - 13 cents per share
- Distribution cover of 1.8 times
- Capital distributions determined after having regard for
  - Degearing benefits
  - Leverage ratios
  - Investment opportunities
  - BEE shareholder requirements

## Distribution per share

Cents per share



# Updated South African guidance

## Original guidance

## Updated guidance

①  
**Revenue growth**

SA revenue growth target of 9% to 11%

SA revenue growth target of 11% to 12%

②  
**Operating efficiencies**

EBITDA target margin of 20%

EBITDA margin target of 19%-20%

③  
**Capital expenditure**

Capital expenditure between R800-R900 million

Capital expenditure between R800-R900 million

# Updated United Kingdom guidance

Original guidance

Updated guidance

①

Revenue growth

GHG group revenue of £650 - £700 million



GHG group revenue of £650 - £700 million

②

Operating efficiencies

EBITDA target margin of 26%



EBITDA target margin of 26%

③

Capital expenditure

Sustaining capital expenditure between £20-£30m



Capital expenditure between £40-£50m (£25-£30m sustaining)



# Investor Relations

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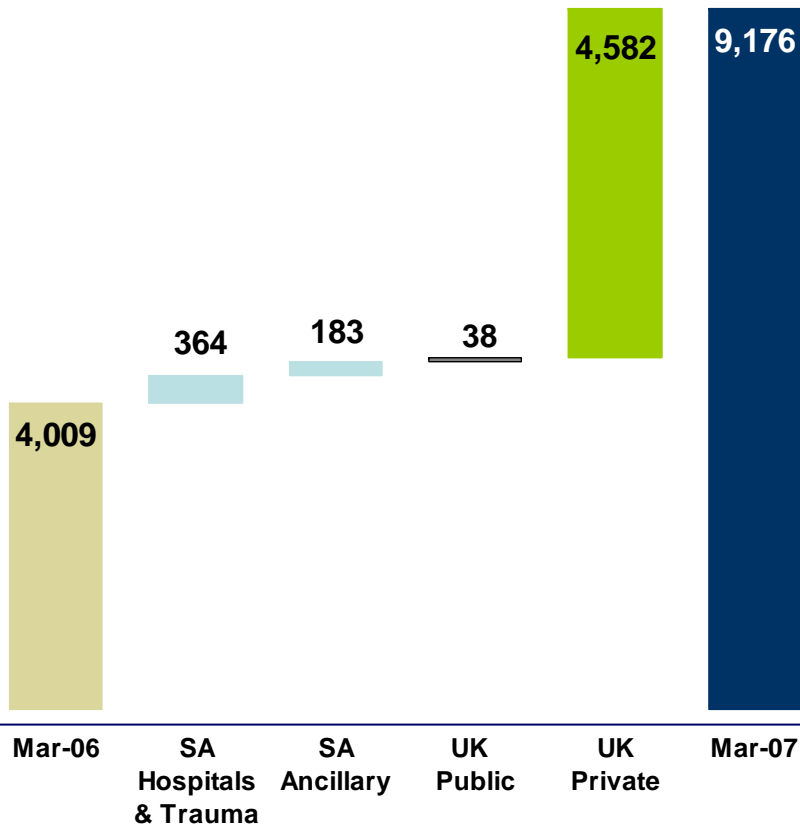
**[www.netcareinvestor.co.za](http://www.netcareinvestor.co.za)**



# Strong organic and acquisitive revenue growth

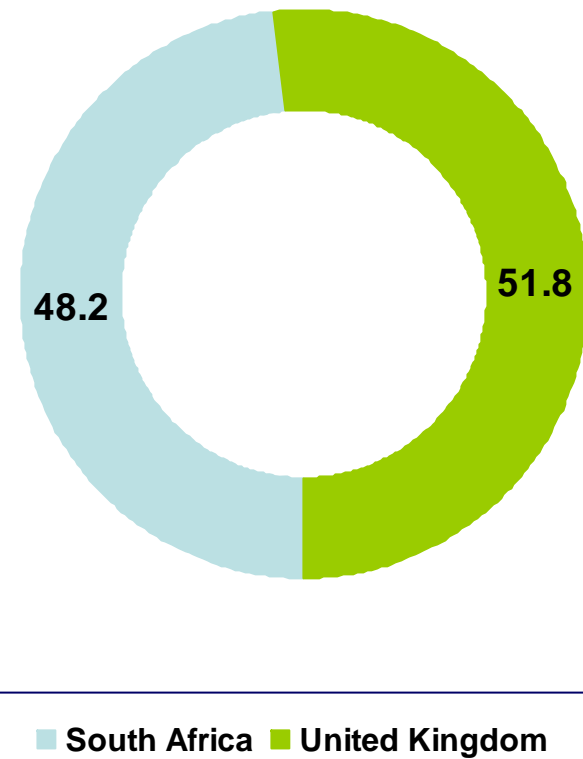
## Group revenue growth

R million



## Group revenue contribution

%

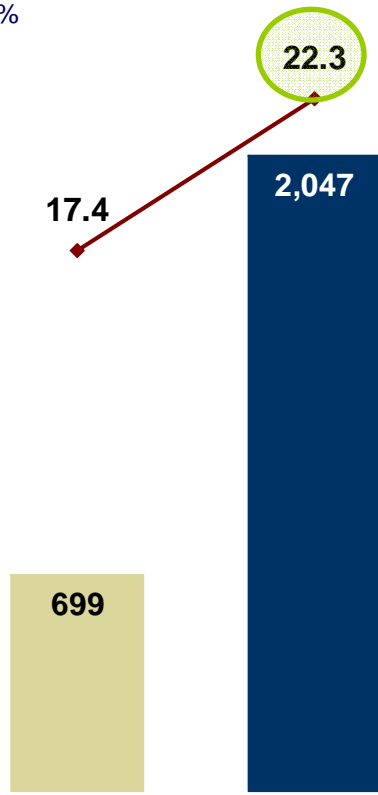




# GHG acquisition enhances margins

## Group EBITDA and margin

R million | %



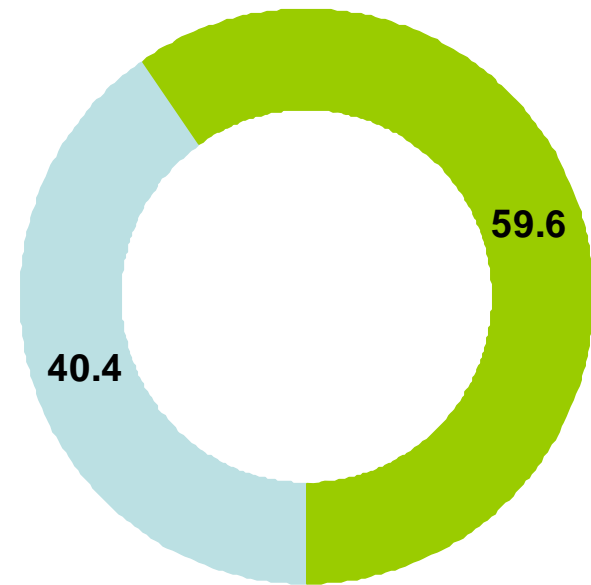
Mar-06

Mar-07

■ EBITDA (Rm)    ◆ EBITDA margin (%)

## Group EBITDA contribution

%



■ South Africa    ■ United Kingdom



# Favourable movement in derivative instruments

- Zero cost collars unwound
- UK interest rate swap liability revalued from £100m to £22m
  - UK 10 year swap rates increased from 4.89% to 5.32% over 6 month period
  - £2.2m gain recognised through the income statement, balance recognised in equity
- Reduction in cross currency swap asset
  - Rand currency strengthened from 14.53:£1 to 14.24 :£1

## Net derivative instruments

R million	31 March 2007	30 September 2006
Zero cost collar	-	(288)
Net interest rate swaps	(316)	(1 452)
Cross currency swaps	200	422
	(116)	(1 318)