

United Kingdom operating review

Year ended 30 September

	2006 £m	2006 Rm	2005 Rm
Revenue	263	3 432	181
EBITDA ¹	63	824	35
Operating profit ¹	41	537	28
EBITDA ¹ margin (%)	24,0	24,0	19,3
Operating profit ¹ margin (%)	15,6	15,6	15,5
Number of employees	8 550	8 550	181

¹ Before restructuring costs of R280 million and NHS bid costs of R39 million (2005: R12 million)

Management team

Jo Le Couilliard (43)
Chief Operating Officer
MA
Joined GHG in 2005

Jonathan Simpson-Dent (40)
Financial Director
MA
Fellow of Institute of Chartered Accountants
Joined GHG in 2006

Mark Adams (42)
Netcare UK Chief Executive Officer
ALIA (dip)
Joined Netcare UK in 2005

Stephen Collier (49)
Legal and General Council GHG
LLb, LLm
Joined GHG 2005

Tony Lundin (54)
Integration Director
ACIS
Joined Netcare SA in 1996

Catherine Ward (48)
Human Resources Director
MSc Organisation Behaviour; BSc Biology
Joined GHG in 2006



44
BMI
hospitals
qualified for
Extended
Choice
Network
programme

Netcare owns a controlling 52,63% interest in General Healthcare Group Limited (“GHG”). The other equity partners in GHG are Apax Partners (36,44%), one of the world’s largest private equity firms, London & Regional Properties (7,81%), one of the largest private property companies in Europe, and Brockton Capital (3,12%), a UK-only opportunity fund.

GHG owns BMI Healthcare (“BMI”), the UK’s largest independent provider of acute care. GHG also provides NHS services through Netcare UK, an established independent service provider to the NHS, operating a surgical centre and mobile ophthalmic units. Since the acquisition of GHG, the NHS service arm of GHG, Amicus Healthcare, has been merged with Netcare UK.

GHG owns a substantial portfolio of freehold and long leasehold hospital properties, valued at £2,055 million. Subsequent to the acquisition GHG was reorganised into an operating company (“OpCo”) and a series of property companies holding GHG’s property assets (collectively, “PropCo”). Each PropCo entered into a 25-year lease agreement with OpCo for an initial aggregate rent of £113 million, increasing at 2,5% p.a. for the life of the lease. The acquisition debt has been refinanced with long-term OpCo and PropCo facilities lent to these separate legal entities.

GHG has a head office support function which provides technical support to each of its operating units in areas such as management of property and major projects, IT, legal, procurement, finance, human resources, marketing and risk management.

Private hospital services

Description of business

At 30 September 2006, BMI operated 49 hospitals, comprising of 2 454 available beds (2 658 registered beds), 37 pharmacies and 152 theatres.

BMI revenues are mainly derived from acute care services and are broadly in line with the

market in terms of payer-type segmentation, with a higher concentration in the private medical insurance (“PMI”) segment accounting for 70% by value compared to a national average of 66%. Payer concentration is high, with the top three PMI payers providing 72% of BMI’s PMI inpatient and day case revenue.

BMI’s hospitals serve most UK conurbations and cities, and are particularly strong in the south east of England where PMI penetration is highest. Many of the properties benefit from being in close proximity to a major NHS hospital (on average within 1,5 miles).

Elective surgery consisting of orthopaedic, general surgery, gynaecology, urology and ophthalmic account for approximately 70% of total cases and are the principal procedures performed in BMI hospitals. BMI has recently introduced collaborations of consultants and specific areas of expertise through the creation of “Chambers of Excellence” at selected hospitals, creating nationwide recognition for BMI in a number of specialist medical procedures.

Following an initial GP visit and consultant referral, patients requiring testing have access to a full range of diagnostic facilities, with the majority of the hospitals providing MRI and CT scanning services.

The independent UK acute care sector has a long track record of stable growth. Between 2000 and 2004 the sector grew at an average rate of 10,5% per annum. Independent acute care providers have benefited from both continuing growth in private-funded acute care and from outsourcing of publicly-funded care to the independent sector.

Volumes are expected to rise as PMI coverage increases driven by both an aging population demanding more acute care and medical advances allowing new surgical treatments. It is anticipated that the population of persons over the age of 60 years will increase from 12,5 million (2005 estimate) to in excess of

14,5 million by the year 2015. Previous trends reflect that 65% of all healthcare costs are incurred in the over 60 age group.

Provision of private medical insurance is a permanent feature of large corporates in the UK, providing a stable source of fees paid to independent hospitals, and although the PMI industry has matured in the last 10-15 years in terms of numbers of subscribers, revenue to hospitals continue to experience good growth.

The self pay market consists of patients who finance their own treatment to avoid lengthy NHS waiting lists and patients seeking treatments that are not generally funded by the NHS or covered by PMI policies, such as cosmetic and obesity surgery and fertility treatment.

BMI has agreements in place with all of the major private medical insurers and third party administrators ("TPAs"). These agreements vary in duration but are typically from one to three years.

Effective 31 July 2007, all sterile service organisations (including hospitals) within the NHS and private sector health care organisations must be fully compliant with the Medical Devices Directive (MDD 93/42 EEC) in order to continue operating. BMI has taken the decision to outsource this service to a European sterilisation specialist organisation. However, whilst decontamination is not BMI's core business it is recognised as a business-critical function. GHG will therefore form a close working relationship with the service provider to ensure that sterilisation services and hospital operations are not compromised in any way.

Performance

Revenue from the UK private hospital network, BMI, was R3 159 million for the four-and-a-half month period since the acquisition on 12 May 2006. This period is not indicative of the full year revenue potential given the low seasonal level of activity typically experienced over the summer holiday period. During the period, private patient demand was steady as reflected in self-pay and private medical insurance volumes. Operating profit was R496 million before the R280 million restructuring costs for the separation of GHG into an operating company and property companies. The restructuring costs consist of stamp duties and legal fees. The operating profit margin before such charges was 15,7%.

We are focused on growing revenue in BMI through a range of initiatives which are aimed at substantially differentiating its private healthcare offering. The launch of new niche products and services such as cosmetic surgery, weight-loss surgery and varicose vein services are expected to promote future growth. BMI launched its first private casualty service in August 2006 at the Alexandra Hospital in Cheadle and we will be looking to further increase this service and the range and complexity of our clinical service offering. During the four-and-a-half month period we attracted 59 new consultants to our BMI hospitals.

Forty-four BMI hospitals qualified for the Extend Choice Network ("ECN") programme with the NHS. Under this programme, NHS patients who have waited more than 18 weeks for elective surgery will be able to choose an alternative provider.

Year ended 30 September

	2006	2006
	£m	Rm
Revenue	242	3 159
EBITDA ¹	59	771
Operating profit ¹	38	496
EBITDA ¹ margin (%)	24,4	24,4
Operating profit ¹ margin (%)	15,7	15,7

¹ Before restructuring costs of R280 million

NHS services

Description of business

Netcare Healthcare UK Ltd ("Netcare UK") was established in 2001 to provide clinical services to patients under contract with the National Health Service ("NHS"). The successful execution of these contracts afforded management the opportunity to leverage operations. In May 2006, following the acquisition of GHG, the activities of Amicus Healthcare UK Ltd ("Amicus"), GHG's public sector division, was merged with Netcare UK.

Netcare UK currently operates two contracts as part of the Wave 1 NHS procurement programme. Over the past five years, Netcare UK has participated in waiting list initiatives in Morecombe Bay, London, Southport and Portsmouth.

In December 2003 Netcare UK was awarded its first Independent Sector Treatment Centre ("ISTC") contract by the NHS to provide the mobile ophthalmic chain. This is an innovative solution using mobile theatres to provide some 45 000 cataract procedures throughout England over a five-year period. The mobile units undertake pre-operative assessment, surgery and post-operative care and employ around 30 staff. They travel nationwide, rotating between different locations, to maximise coverage and minimise patient inconvenience.

Netcare UK opened its second facility in Manchester in May 2005 having been awarded an ISTC contract by the NHS for some 45 000 procedures over a five-year period. The Greater Manchester Surgical Centre, located in Trafford, is a newly built 48 bed facility employing almost 150 clinical personnel. The facility provides inpatient and outpatient procedures, including general surgery, ear nose and throat specialists and orthopaedics.

During 2006 Netcare UK extended its involvement in the UK healthcare market into primary care. Netcare UK has secured contracts to run Commuter Walk-in-Centres on behalf of the NHS in Leeds city centre and near Kings Cross station in London. These will serve both the local community and the commuter population, and aim to increase access to the types of services available from GP surgeries. They will each treat around 50 000 patients per year and will be closely integrated into the local health economy.

The UK government continued its five-year programme to bring resourcing in the NHS up to European levels, improve quality and consistency of the service, and reduce waiting times. Spending on the NHS in the UK in 2005-2006 as a whole was projected to rise by 9% to around £90 billion.

In parallel, the government continued its programme of reform. The essence of this programme is to introduce mechanisms for patient choice, more diversity of providers, incentives for quality of care, and value for money, and a separation of the role of commissioners and providers.

Major developments during the year included:

- the launch of phase 2 of the ISTC procurement programme which is expected to deliver up to 250 000 procedures per year through an estimated 24 projects;
- the launch of the diagnostics procurement programme with seven schemes put out to tender;
- a re-organisation of the NHS, to create a new regional and local commissioning structure; and
- the publication of the government's white paper for primary and community care, which included the objective of modernising the primary and community care infrastructure and increasing the amount of diagnostics and treatments carried out in community settings.

The NHS made further progress in bringing down waiting lists and is aiming to meet an overall target of an 18-week maximum wait from referral to treatment by the end of 2008. At the same time financial pressures for the NHS to spend its budget effectively continue to be significant.

These trends and developments create ongoing opportunities for external providers to offer the NHS solutions in terms of a modern service infrastructure that improves quality for the patient and value for money for the taxpayer.

Performance

Year ended 30 September

	2006	2006	2005	%
	£m	Rm	Rm	change
Revenue	21	273	181	50,8
EBITDA ¹	4	53	35	51,4
Operating profit ¹	3	42	28	50,0
EBITDA ¹ margin (%)	19,4	19,4	19,3	0,5
Operating profit ¹ margin (%)	15,4	15,4	15,5	

¹ Before NHS bid costs of R39 million (2005: R12 million)

Revenue from our NHS services, Netcare UK increased 50,8% to R273 million as a result of the increase in the number of procedures performed. Operating profit, before NHS bid costs, increased 50,0% to R42 million. Bid costs of R39 million (2005: R12 million) substantially increased given the extent of bids completed by Netcare UK and GHG's Amicus division.

The ophthalmic chain performed 5 916 procedures during the year (23 493 in aggregate) and in June treated its 20 000th patient. Netcare's ophthalmic chain was awarded the Best Healthcare Operational Project at the 2006 Public Private Finance Awards.

The Greater Manchester Surgical Centre performed 6 300 procedures during the year and strong relationships have been built with local stakeholders.



Netcare UK's ISTC centre, Greater Manchester Surgical Centre, and its mobile ophthalmic unit.



The Commuter Walk-in-Centres are being mobilised with the Leeds centre due to open in January 2007 and the Kings Cross centre expected to be operational shortly thereafter.

In October 2005, phase 2 of the ISTC programme was launched. Netcare UK has been actively involved in this programme and has achieved preferred bidder status on the Cumbria and Lancashire CATS Scheme. Convergence discussions are underway on three further schemes. Netcare UK also won the first Independent Sector Treatment Centre contract with the Scottish Health Executive to provide an independent treatment centre in Stracathro. This pioneering contract is due to be operational by January 2007. Netcare UK, through a joint venture agreement, has been successful in winning NHS diagnostics contracts for London and the east of England. These contracts are to provide 500 000 diagnostic procedures over five years and will be delivered through BMI hospitals and mobile units.