

United Kingdom operating review



Adrian Fawcett *Chief Executive Officer, GHG*

GHG has undergone significant restructuring to ensure that the business is well positioned to adapt to a changing healthcare environment and deliver accelerated revenue growth



Principal operations

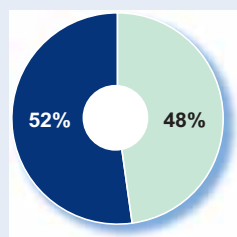
Private hospital services through BMI Healthcare (BMI), the largest private acute care hospital provider in the United Kingdom operating 48 acute care private patient hospitals with 2 606 registered beds, 152 operating theatres and 37 pharmacies.

NHS services through Netcare UK, an established independent service provider to the NHS operating two surgical centres, mobile ophthalmic units, a commuter walk-in centre and a diagnostic centre.

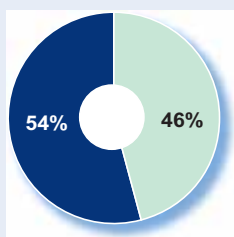
Highlights

- ➔ Successful integration of General Healthcare Group
- ➔ Opened three new NHS facilities in the United Kingdom
- ➔ Reorganised GHG regional structure and created new business development structure
- ➔ 28 BMI hospitals have been IT enabled for the NHS Extended Choice Network
- ➔ Expanded Practice Development Groups to 60 across the UK hospitals

Share of revenue
30 September 2007



Share of operating profit
30 September 2007



■ United Kingdom ■ South Africa

30 September	2007 £m	2007 Rm	2006 Rm
Revenue	689	9 738	3 432
EBITDA	171	2 411	504
Operating profit	116	1 646	218
EBITDA margin (%)	24,8	24,8	14,7
Operating profit margin (%)	16,9	16,9	6,4
Capital expenditure	42	589	189
Employees	8 853	8 853	8 814



Hailey Tait, scanning radiographer at The BMI Meriden Hospital

BMI Hospitals are amongst the best equipped in the UK, providing a full range of services and sector -leading quality control procedures which ensures that BMI achieves an enviable proportion of successful clinical outcomes and some of the lowest infection rates in UK hospitals. The reputation for high quality is achieved through differentiation, clinical outcomes, sophisticated technology and lower rates of infection. BMI has 75 laminar airflow operating theatres and 106 dedicated ICU or High Dependency Unit beds, which allow it to treat some of the most complex cases. Almost 60% of our facilities are equipped with MRI (Magnetic Resonance Imaging) and 50% with CT (Computerised Tomography) scanners.

Description of business

Netcare owns a controlling 50,1% interest in General Healthcare Group Limited (GHG). The other equity partners in GHG are Apax Partners Worldwide LLP (31,7%), London and Regional Properties Limited (7,4%), Brockton Capital LLP (3,0%) and management (7,8%). GHG owns BMI Healthcare, the largest private acute care hospital provider in the United Kingdom operating 48 acute care private patient hospitals with 2 606 registered beds, 152 operating theatres and 37 pharmacies, admitting 230 000 patients and attending to 892 500 outpatients during the year. GHG also provides NHS services through Netcare UK, an established independent service provider to the NHS operating two surgical centres, mobile ophthalmic units, a commuter walk-in centre and a diagnostic centre.

BMI has nationwide geographic coverage and a presence in most major centres and areas of high PMI concentration and is particularly strong in the south east of England where private medical insurance (PMI) is the highest. Its hospitals are located within an average distance of 1,7 miles from the nearest NHS hospital. BMI has also established eight partnerships with NHS facilities allowing it to operate smaller hospitals that benefit from NHS capabilities and proximity to NHS consultants. 95% of the acute care beds are provided in single bedrooms and of these 92% have en suite facilities.

BMI provides a comprehensive range of medical and surgical procedures, except for maternity and accident and emergency (A&E) services. The top medical specialties are orthopaedics, general surgery, oncology, gynaecology and urology. The majority of BMI's surgeries are provided to patients with PMI, but lifestyle surgeries, particularly plastic surgery is provided to self-paying patients.

Performance

Netcare's United Kingdom (UK) business contributed 52,3% and 53,9% to revenue and operating profit, respectively from continuing operations for the year ended 30 September 2007. The UK operations employed 8 853 employees.

Revenue from the UK business was R9 738 million (£689 million) for the year ended 30 September 2007. Revenue growth was 6% against the comparative 12-month period. The overall case load in the UK grew by 1,7% year-on-year with outpatient and self pay volumes both increasing by 3,1%. As expected the NHS cases reduced following the completion of the NHS general surgery contracts in 2006. Having successfully commenced the transformation of the business into an efficient, compliant network with standardised processes, there is increased focus on driving sales and marketing initiatives across the organisation to stimulate higher growth in future admissions, both from private medical insurers and the NHS.

Operating profit for the year was R1 646 million (£116 million) and the operating profit margin was 16,9%. Operating profit was negatively impacted by £5,6 million of non-recurring costs. These included restructuring and retrenchment costs of £2,4 million, transaction costs of £1,8 million and NHS mobilisation and bid costs of £1,4 million. Excluding these abnormal costs, GHG's core operating profit was R1 724 million (£122 million) with a core operating profit margin of 17,7% and core earnings before interest, taxation, depreciation and amortisation (EBITDA) was R2 489 million (£176 million). The significant progress made in transforming the business is evidenced by the 14,3% growth in core EBITDA against the comparative 12-month period.

Capital expenditure for the year ended 30 September 2007 was R589 million (£42 million) due to the upgrade of facilities, the purchase of new diagnostics imaging equipment, the redevelopment of operating theatres and the addition new consulting rooms.

BMI has further invested in the establishment of Practice Development Groups (PDGs) during the year, where leading doctors work together to provide an enhanced level of patient service, clinical excellence and financial return. Doctors are recognised as leaders in their field which drives higher levels of referrals. In total there are now more than 60 PDGs operating within BMI facilities.

BMI has developed a number of more segmented products that are often marketed directly to patients, particularly in rapidly growing segments of the market, such as cosmetic surgery, fertility treatment and other BMI-branded initiatives such as weight-loss surgery, back pain, women's health and varicose veins.

BMI remains committed to maintaining its reputation of high quality services and achieved successful outcomes as measured by the infection rate of 0,4% and the mortality rate of 0,2%. The prevention of infection is a key factor in ensuring consistently high clinical outcomes and critical to maintaining BMI's reputation. BMI operates detailed patient feedback and has surveying systems to measure patient satisfaction. In January 2007 HWA Consulting completed a patient satisfaction survey where over 68% of the respondents rated the quality of care as 'excellent' and 95% as 'excellent' or 'very good'.

Netcare UK opened a surgical unit in Stracathro, the first Independent Sector Treatment Centre (ISTC) in Scotland and together with the surgical centre in Manchester and the mobile cataract units, 12 166 procedures were performed for the NHS during the year. In February 2007 Netcare's first primary care Commuter Walk-in-Centre (CWIC) in Leeds was opened, seeing close on 13 000 patients in the period. In April 2007 a



Dr Saxena, neurosurgeon and theatre team at The BMI Meriden Hospital

BMI recognises doctors' critical role and has made the development of strong long-term relationships with the quality practitioners central to its operations and operational approach. BMI invests heavily in providing the highest quality facilities, equipment and staff and training, to ensure that doctors have immediate access to the technology and skills they desire. BMI has advanced both its Practice Development Groups and doctors benefit schemes to recognise those doctors who develop and grow their private practices at BMI hospitals.

diagnostics centre in London was opened. Netcare UK has now been fully integrated into GHG resulting in a reduction of back office and corporate office functions.

The Department of Health for England (DH) has formally confirmed by public announcement that three of the Phase 2 NHS procured schemes in which Netcare UK was participating have been terminated, or substantially amended. The Cumbria & Lancashire (C&L) CATS, and the North East Yorkshire and North Lincolnshire (NEYNL) CATS schemes have both been terminated and the Manchester 'A' scheme has been significantly downsized and Netcare UK will not be participating further in that scheme.

Healthcare sector overview

The independent sector is an integral part of the UK healthcare market providing both services and funding across the spectrum of healthcare provision. Primary care in the UK is provided, for the most part, by the National Health Service (NHS) through general practitioners (GPs) and Accident and Emergency (A&E) departments. Following initial contact, a patient may then be referred to an NHS or independent hospital/clinic for a diagnostic test, outpatient consultation and/or elective procedure (acute care). In 2005A, the acute healthcare provision was worth £101 billion, of which independent acute care provision was worth approximately £5,4 billion¹.

Since 2000, the government has initiated a period of significant investment and real increases in spending, and public health expenditure is now in line with other G8 and Western European countries. However the UK still lags in private expenditure, at 1,2% of GDP against the average of 3,0% of GDP, even when compared to other countries with comprehensive state provision². The investment in funding and service provision has been accompanied by several policy initiatives designed to improve clinical outcomes and patient experience such as reduced waiting list and improved accountability. Whilst funding increases have improved the NHS service levels, the end-to-end waiting times are still significantly above those of the independent sector.

The independent acute market is relatively concentrated into four major national providers: General Healthcare Group (GHG), Nuffield, Bupa and Capio. GHG is the leading provider in the independent acute care healthcare sector by beds, revenue, profit and numerous other metrics.

Independent provision of acute care is purchased mainly through private medical insurance (PMI) or by patients out of their own funds (self-pay patients), although the proportion procured by the NHS is increasing. The PMI and self-pay markets are expected to grow driven by demand for premium levels of care from an ageing and increasingly affluent population and by independent operators developing new services to address consumer demand.

Private medical insurance

Patients with PMI are generally treated in independent sector hospitals. There are currently 3,6 million PMI subscribers in the UK with policies covering approximately 6,5 million people (approximately 11,0% of the population) and around one million more whose treatment is covered by Third Party Administrators (TPA) schemes, resulting in a total penetration of 12,6% of the population. In 2005A, 66% of subscriptions to PMI and TPA were paid for by corporates on behalf of employees³. The number of people covered under PMI and TPA schemes grew at a CAGR of 0,8% between 1995A and 2005A.

Self-pay

In 2005A, there were between 200 000 and 250 000 patients who purchased their own care. Self payors agree fees with their chosen hospital and consultant, which the patient settles directly. Some patients not covered by PMI chose to finance their own treatment to avoid lengthy waits for NHS treatment. These patients are frequently affluent elderly patients who have lost employer-provided PMI and whose premiums have become unattractively expensive. Self-payment for treatments that are not generally funded by the NHS or covered by PMI policies such as cosmetic surgery, weight loss surgery and fertility treatment are increasingly popular. In 2005A, an estimated 19,0% of independent acute care revenue came from self-payors, a market worth around £512 million per annum.

NHS

In July 2000, the NHS Plan was published, setting out a vision for a modernised NHS which utilised the independent sector as a contractor of services and removed any ideological objections to its involvement in treating NHS patients. The government introduced a number of measures that directly or indirectly increases the involvement of the independent sector. Independent acute care revenue funded by the NHS has grown consistently at 8% to 10% per annum over the recent past until 2005A. Historically NHS procurement was primarily through spot purchasing and was complemented by central ISTC contracts and more recently the introduction of Extended Choice Network (ECN).

ECN is a system of negotiated procurement contracts with selected independent providers to increase capacity for elective procedures and to reduce the maximum waiting time to 18 weeks from GP referral to the start of treatment by the specialist by December 2008. ECN increases the number of providers that GPs and their patients can choose from.

¹Laing and Buisson (2006 – 2007), OHE Compendium (2007)

²OECD Health Data (2006), Laing and Buisson (2006 – 2007)

³Laing and Buisson (2006 – 2007)