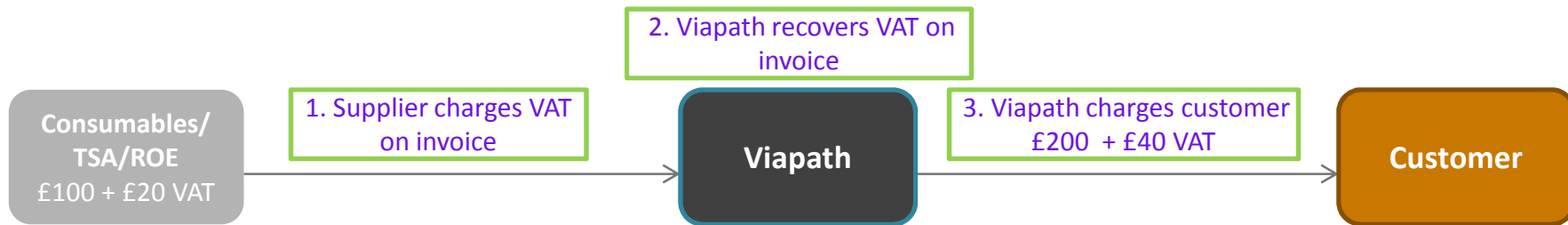


Project Pathway Overview from VAT perspective



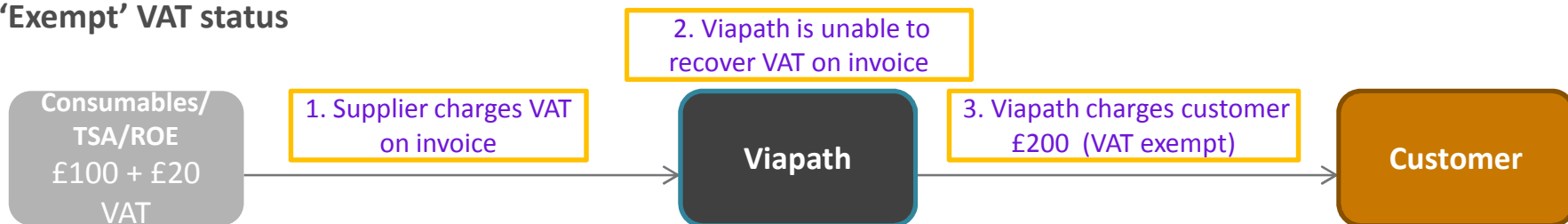
A simple VAT example

'Standard rated or Taxable' VAT status



- As Viapath charges VAT on its invoices to customers, it is able to recover all the VAT it is charged on its purchases – the only costs are the VAT exclusive price of its purchases (£100).
- 'Profit': £200 - £100 = **£100**

'Exempt' VAT status



- As Viapath services to customers are exempt (i.e. no VAT is charged), it cannot recovery any VAT it incurs on purchases – so its costs are the VAT inclusive price of its purchases (£120).
- 'Profit': £200 - £120 = **£80**

IMPACT OF EXEMPT STATUS FOR VIAPATH = £13M PER ANNUM



Chronology of events to date

- **2008-10** – three letters received from HMRC confirming GSTS' VAT status is "Standard Rated"
- **Sept 2012** – HMRC meeting with GSTS to review of VAT status for all independent pathology providers
- **19 January 2013** – letter received from HMRC, proposing a change to the GSTS VAT status to 'standard rated' effective 1 May 2013 – expected impact c£13m pa
- **22 April 2013** – GSTS successful in High Court Judicial Review, removing 1 May 2013 date and allowing the 'point of law' to be heard in a Tribunal. GSTS given a 'reasonable' amount of time to restructure itself if unsuccessful. 3 months allowed in first instance
- **9 July 2013** - GSTS commences with 'One Organisation' programme – 8 separate workstreams of activity
- **31 July 2013** – First Tier Tribunal lasts 3 days to hear the points of law. Judgment expected September 2013
- **19 February 2014** – First Tier Tribunal rules that pathology is inherently linked to healthcare and as such should be 'exempt' from VAT
- **24 February 2014** – HMRC give clearance to GSTS' proposed restructuring plan – expected impact c£1m pa
- **14 May 2014** – Judicial Review hearing to consider GSTS application for 1 January 2015 implementation date

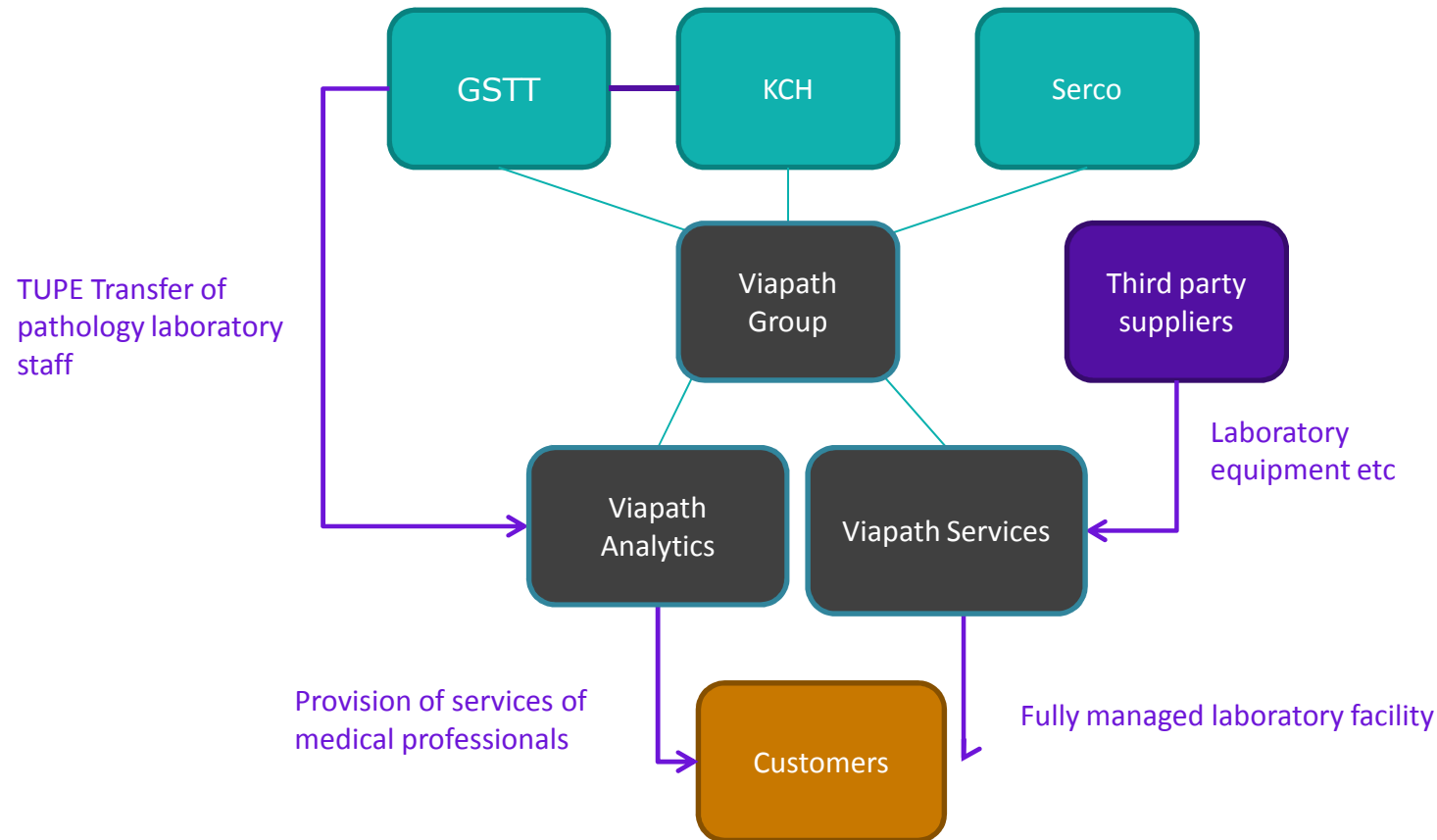


Board considerations

- Board has been advised by KPMG since January 2013
- A number of structural options were considered
- The overriding objective of the new structure was to allow the organisation to deliver on its strategic objectives in the best way possible
- A preferred structure was agreed in April 2013 – staffing model was still under consideration
- Pensions change was announced with effect from 1 April 2014 which meant that TUPE was the preferred option of the Operating Board at the March 2014 meeting



What will the new structure for Viapath look like?



The assignment of the PSA and TSA contracts from Viapath Group to Viapath Analytics or Viapath Services creates a TUPE 'trigger'



What will each company do?

| Viapath Group | Viapath Analytics | Viapath Services |
|--|---|--|
| <ul style="list-style-type: none"> •Strategic Direction and Vision; •Development of relationships with potential future customers; •Links with Department of Health and key industry players; and •Corporate Support Services to provide a cost effective service delivery by subsidiaries | <ul style="list-style-type: none"> •The running of an urgent or routine pathology laboratory; •Expertise in Blood Sciences, Microbiology, Histopathology, Cytology, Molecular Pathology and Genetics; •Expertise and processes required to comply all necessary accreditation; •Technical pathology training; and •Clinical innovation | <ul style="list-style-type: none"> •Provision of a fully managed laboratory facility including: •Full accredited estates and infrastructure; •Facilities Management Services; •Equipment and Reagents; •Consumables; •Integrated Logistics; •Laboratory Information Management Systems (LIMS); and •Support for R&D, Training and operational improvement. |





Staff contracts

| GSTS Workforce Breakdown | | |
|--------------------------|-------|-----|
| Workforce Status | No | % |
| Directly employed | 442 | 42% |
| Directly employed (TUPE) | 54 | 5% |
| Seconded (GSTT) | 335 | 32% |
| Seconded (KCH) | 217 | 21% |
| Total | 1,048 | |

- There are currently 552 Trust staff seconded to GSTS
- All seconded and directly employed staff are affected by the proposed structural changes
- The approximate workforce split by entity can be seen in the table on the right. The majority of staff would be in Viapath Analytics

| VIAPATH GROUP | | |
|-----------------------------|---|--------------|
| Commercial | Including: Commercial Director | 4 |
| Business development | | 3 |
| Executive | Including: CEO | 5 |
| Finance | Including: CFO | 21 |
| Governance | | 2 |
| HR | | 12 |
| OPMS | | 2 |
| | Subtotal | 49 |
| VIAPATH SERVICES | | |
| Procurement | | 17 |
| IM&T | Including: CIO | 25 |
| Commercial | | 2 |
| Governance | Including: Quality and Governance Manager | 1 |
| Business development | | 1 |
| | Subtotal | 46 |
| VIAPATH ANALYTICS | | |
| Commercial | | 1 |
| Business development | | 1 |
| Executive | Including: COO | 2 |
| Administration and Clerical | | 68 |
| Clinical Support Workers | | 62 |
| Laboratory Support | | 262 |
| Operation Management | | 63 |
| Scientists | | 478 |
| Unclassified | | 16 |
| | Subtotal | 953 |
| | TOTAL | 1,048 |

Timelines – to 1 January 2015

| | Mar-14 | Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 | Oct-14 | Nov-14 | Dec-14 | Jan-15 | Feb-15 | Mar-15 | Apr-15 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Financial Year end | | | | | | | | | | 31-Dec | | | | |
| Viapath Brand Launch | | | 01-May | | | | | | | | | | | |
| Shareholder board approvals | | | | | | | | | | | | | | |
| Contracts and Pricing | | | | | | | | | | | | | | |
| Establish Legal Forms | | | | | | | | | | | | | | |
| Governance Arrangements | | | | | | | | | | | | | | |
| Operational Implications | | | | | | | | | | | | | | |
| Staffing Changes | | | | | | | | | | | | | | |
| Accounting and Tax implications | | | | | | | | | | | | | | |
| IT system changes | | | | | | | | | | | | | | |
| Final shareholder sign-off and contingency period | | | | | | | | | | | | | | |
| Go Live date for new Structure | | | | | | | | | | | 01-Jan | | | |

- This timeline would facilitate an effective transition period for the business
- This allows sufficient time for employee consultation around a TUPE transfer and a smooth and safe transition for the operation





Project Structure and Governance

- Project Sponsor – David Brown
- Project Lead – Sarah Zilik
- Project Manager – Darren Dacosta
- HR lead – Mary Fitzgerald
- Operations lead – David Wells
- Internal Communications lead – Debbie Bowman
- External Communications lead – Deirdre Cumberbatch
- VAT lead – Chris Knight
- Legal advice – Anthony Hodgson, supported by Bird & Bird
- SAP Systems changes – Serco Finance/Project Management

