



# FY18 half-year results

For the period ended 31 December 2017

**Gordon Ballantyne**  
Managing Director & Chief  
Executive Officer

**Michael Sammells**  
Chief Financial Officer



# Agenda

1	1HFY18 overview	Gordon Ballantyne
2	Financial results	Michael Sammells
3	Outlook	Gordon Ballantyne
4	Q&A	Gordon Ballantyne, Michael Sammells

# 1HFY18 financial overview

## Financial results – continuing operations

- Group revenue up 4.9% to \$1,222.1m
  - Hospitals revenue up 5.9% to \$1,070.1m
- Group Operating EBITDA down 8.8% to \$193.5m
  - Hospitals Operating EBITDA down 8.6% to \$170.7m
- Group Operating EBIT down 13.9% to \$136.8m
- Group Operating NPAT down 17.0% to \$78.2m
- Statutory NPAT down 12.8% to \$77.5m
- Strong operating cashflow conversion of 107.6% (1HFY17: 103.6%)
- Interim dividend 3.2 cps (1HFY17: 3.5 cps)

## Hospitals performance and outlook

- As indicated in the FY17 results presentation, 1HFY18 Hospitals Operating EBITDA was expected to decline yoy
- Hospitals Operating EBITDA decline of \$16.0m was due to:
  - softer private hospital market conditions with variability in patient casemix and a range of costs, including wages, which have increased faster than health fund price indexation
  - one-off planned brownfield expansion disruptions
  - performance of Holmesglen Private and Frankston Private
- Hospitals Operating EBITDA to grow in 2HFY18 due to:
  - recently completed and maturing brownfield sites
  - earlier than initially planned benefit from Group Hospitals Best Practice Project (GHBPP) of approximately \$6.0m
  - one-off 1HFY18 cost items will not re-occur
- Outlook for FY18 is unchanged with Hospitals Operating EBITDA for the full year expected to be broadly similar to FY17

Note: On this slide “Operating” results represent Statutory results from continuing operations before non-operating expenses – refer Appendix 1

# 1HFY18 operational performance

## “Must Wins” transforming hospitals performance

“Must Wins”	Target	Performance in 1HFY18
<b>Accelerate profitable topline growth</b>	<ul style="list-style-type: none"> <li>• Deliver above market revenue growth in FY18</li> <li>• Brownfields projects to accelerate revenue growth</li> <li>• Improve overall admissions growth and revenue per patient day</li> </ul>	<ul style="list-style-type: none"> <li>✓ Hospitals revenue growth of 5.9%, ahead of market<sup>1</sup></li> <li>✓ Brownfields<sup>2</sup> 1HFY18 revenue growth of 14.9% in line with expectations</li> <li>✓ Revenue growth predominantly driven by brownfields expansion</li> </ul>
<b>Drive greater operational efficiency</b>	<ul style="list-style-type: none"> <li>• Accelerate business improvement program – Group Hospitals Best Practice Project               <ul style="list-style-type: none"> <li>– Complete Stage 1 – Benchmarking review across 12 acute hospitals to identify savings targets and best practices. Program designed to implement and embed optimal practices and deliver savings</li> <li>– Stage 2 to follow – initially in 11 acute hospitals, to be rolled out across the group as appropriate</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Initial best practice implementation focused on theatre and ward efficiencies including improved flexing of labour in line with volumes</li> <li>✓ Stage 1 – Implementation of ‘best practice’ across 12 largest hospitals by revenue commenced</li> <li>✓ Approximately \$6.0m operational efficiencies to positively impact 2HFY18, with annualised impact of up to \$10.0m</li> <li>✓ Stage 2 – further 11 acute hospitals commenced with completion planned for end of FY18</li> </ul>

1. As indicated by the APRA Private Health Insurance Quarterly Statistics – December 2017

2. Hospitals include Darwin Private, Frankston Private, Gold Coast Private/Allamanda Private, Holmesglen Private/Como Private, Knox cluster (Knox, Bellbird, Ringwood), National Capital Private, Norwest Private and Newcastle Private

# 1HFY18 operational performance

## “Must Wins” transforming hospitals performance

“Must Wins”	Target	Performance in 1HFY18
<b>Optimise portfolio</b>	<ul style="list-style-type: none"> <li>Review of Victorian portfolio, to be completed by end of October 2017</li> <li>Broader portfolio review to identify new areas of investment to be completed by December 2017</li> </ul>	<ul style="list-style-type: none"> <li>✓ Portfolio review of all hospitals completed and will inform future capital investment decisions</li> <li>✓ Hospitals have been assessed as to invest / hold / potentially divest / repurpose / close / relocate in the context of creating a platform for future growth with detailed business cases being developed</li> <li>✓ New leadership appointed in Victoria / Tasmania with finalisation of business cases an immediate priority</li> </ul>
<b>Continue to successfully execute brownfields</b>	<ul style="list-style-type: none"> <li>Delivery of projects on time and on budget</li> <li>Achieving target ROIC of not less than 15% for each project by the end of year 3 of the capacity being open</li> </ul>	<ul style="list-style-type: none"> <li>✓ Delivery of current projects in line with expectations</li> <li>✓ Northern Beaches Hospital on track to open in October 2018</li> <li>✓ Managed through planned disruptions affecting Sunnybank Private and John Fawkner Private hospitals</li> <li>✓ Newcastle Private brownfields completed – 16 beds / 2 OTs</li> <li>✓ Commenced expansion of The Melbourne Clinic</li> <li>✓ ACHA brownfields commenced at The Memorial Hospital and Ashford Hospital (ACHA funded)</li> <li>✓ First three brownfield expansion projects completed in 2HFY16 ramping up in line with expectations as evidenced by stage 2 projects in progress at Gold Coast Private and National Capital Private</li> </ul>

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# Group results – continuing operations

## Strong Hospitals revenue growth

	1HFY18 (\$m)	1HFY17 (\$m)	Movement
<b>Revenue</b>	<b>1,222.1</b>	<b>1,164.9</b>	<b>4.9%</b>
<b>Operating<sup>1</sup> EBITDA</b>	<b>193.5</b>	<b>212.1</b>	<b>(8.8%)</b>
Depreciation and amortisation	(56.7)	(53.3)	(6.4%)
<b>Operating EBIT</b>	<b>136.8</b>	<b>158.8</b>	<b>(13.9%)</b>
Net interest expense	(26.1)	(26.9)	3.0%
<b>Operating profit before tax</b>	<b>110.7</b>	<b>131.9</b>	<b>(16.1%)</b>
<b>Operating net profit after tax</b>	<b>78.2</b>	<b>94.3</b>	<b>(17.0%)</b>
Non-operating expenses after tax	(0.7)	(5.4)	\$4.7m
<b>Statutory net profit after tax</b>	<b>77.5</b>	<b>88.9</b>	<b>(12.8%)</b>
<i>Operating EBITDA margin (%)</i>	<i>15.8%</i>	<i>18.2%</i>	<i>(240bp)</i>
<i>Operating EBIT margin (%)</i>	<i>11.2%</i>	<i>13.6%</i>	<i>(240bp)</i>
Cash flow from operations	209.7	224.5	(6.6%)
<b>Operating cash flow conversion<sup>2</sup></b>	<b>107.6%</b>	<b>103.6%</b>	

- Strong revenue growth of 4.9% to \$1,222.1m driven primarily by brownfields expansions
- Operating EBITDA decline of 8.8% primarily reflects Hospitals performance
- Operating EBIT and NPAT impacted by increase in depreciation in line with outlook provided
- Margin dilution primarily driven by weaker Hospitals division earnings performance
- Cash conversion of 107.6% remains strong

1. "Operating" results represent Statutory results from continuing operations before non-operating expenses – refer Appendix 1

2. Cash flow generated from operations to Operating EBITDA including discontinued operations

## Strong revenue growth offset by increase in costs, predominantly labour related

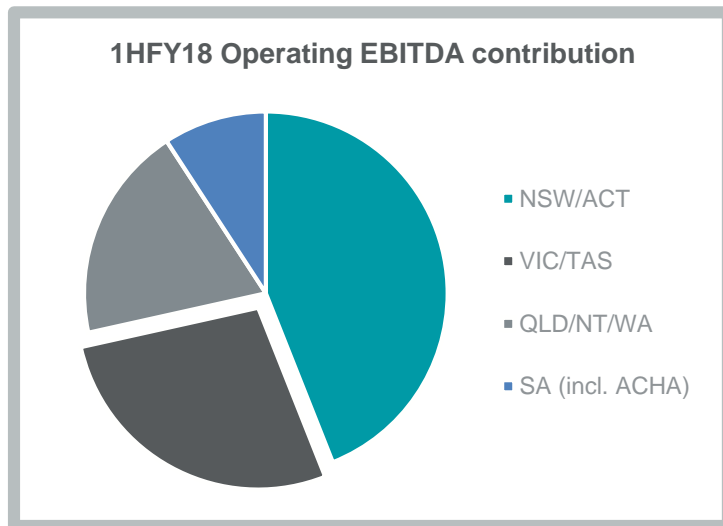
Segment results	1HFY18 (\$m)	1HFY17 (\$m)	Movement
Revenue	1,070.1	1,010.6	5.9%
Expenses	(899.4)	(823.9)	(9.2%)
Operating EBITDA	170.7	186.7	(8.6%)
Operating EBIT	124.3	144.4	(13.9%)
<i>Operating EBITDA margin</i>	15.9%	18.5%	(260bp)
<i>Operating EBIT margin</i>	11.6%	14.3%	(270bp)

- Strong revenue growth of 5.9% reflecting impact of brownfield expansion projects, both recently completed and maturing projects
- Organic revenue growth of 0.5% for the ex-brownfields portfolio, reflects challenging market conditions and casemix variability
- Cost growth mainly driven by an increase in volumes, fixed cost structures for new sites, labour rate growth driven by wage indexation and agency usage
- Hospitals Operating EBITDA declined \$16.0m, predominantly driven by VIC/TAS (\$11.4m) with performance of the balance of the portfolio in line with expectations

1. Contribution to Group Operating EBITDA from continuing operations, excluding corporate costs



## VIC/TAS performance remains challenging



- Revenue growth of 7.5% for VIC/TAS
- VIC/TAS Operating EBITDA declined \$11.4m resulting from:
  - \$5.4m impact from Holmesglen Private and Frankston Private developments, where fixed cost structures are in place (rent and core clinical services – ED/ICU)
  - \$1.6m planned brownfield expansion disruption at John Fawkner Private
  - \$0.8m decline at Geelong Private and The Victorian Rehabilitation Centre
  - \$3.6m decline due to softer organic revenue growth, casemix variability and increase in labour costs
- Frankston Private is performing below expectations, noting capacity has been open for 8 months

## 2HFY18 EBITDA growth from brownfield maturity and operating efficiency

### PORTFOLIO DRIVERS

- Continued revenue growth primarily driven by brownfield expansion projects, with maturity of additional capacity augmenting profitable growth
- Group Hospitals Best Practice Project initiatives to positively impact 2HFY18 by approximately \$6.0m

### STATE SPECIFIC DRIVERS

#### VIC/TAS | *Marginally EBITDA accretive*

- Holmesglen Private becoming accretive to EBITDA in 2HFY18
- Knox Private brownfields maturing delivering growth momentum
- One-off planned brownfield disruptions in 1HFY18 at John Fawkner Private complete

#### QLD/WA/NT | *Benefiting from brownfields and non-recurrence of one-off disruption*

- Gold Coast Private continues to grow
- One-off planned brownfield disruptions in 1HFY18 at Sunnybank Private complete
- Brisbane Private expected to benefit from the early opening of additional bed capacity of Stage 1 brownfields expansion

#### NSW/ACT | *Strong positive EBITDA growth momentum to continue*

- Norwest Private and Newcastle Private brownfield expansions the primary drivers of strong earnings momentum
- National Capital Private continues to grow
- Largest portfolio by earnings also major contributor to growth

#### SA incl. ACHA | *Cash flow timing impact to reverse*

- ACHA management fee cash flow timing which adversely impacted 1HFY18 to reverse



# New Zealand Pathology

## Slowing rate of growth, impacted by currency translation

Segment results	1HFY18 (\$m)	1HFY17 (\$m)	Movement
Revenue	119.3	122.9	(2.9%)
Expenses	(90.5)	(92.4)	2.1%
Operating EBITDA	28.8	30.5	(5.6%)
Operating EBIT	23.3	23.8	(2.1%)
<i>Operating EBITDA margin</i>	<i>24.1%</i>	<i>24.8%</i>	<i>(70bp)</i>
<i>Operating EBIT margin</i>	<i>19.5%</i>	<i>19.3%</i>	<i>20bp</i>

- On a local currency basis, revenue growth was 1.1% which translated to an Operating EBIT increase of 2.0%
- The results compared with 1HFY17 reflects the impact of re-contracting with selected DHBs
- Growth moderating with continued focus of generating operational efficiencies while growing community and veterinary revenues
- Continued investment in expanded commercial activities including commencement of non-invasive prenatal testing at the specialised molecular diagnostics laboratory in Auckland

1. Contribution to Group Operating EBITDA from continuing operations, excluding corporate costs



# Other<sup>2</sup>

## Strong organic growth

Segment results	1HFY18 (\$m)	1HFY17 (\$m)	Movement
Revenue	32.7	31.4	4.1%
Expenses	(23.1)	(22.6)	(2.2%)
Operating EBITDA	9.6	8.8	9.1%
Operating EBIT	7.5	6.8	10.3%
<i>Operating EBITDA margin</i>	29.4%	28.0%	140bp
<i>Operating EBIT margin</i>	22.9%	21.7%	120bp

- **Singapore pathology (revenue growth 9.3%, EBITDA growth 11.5%)<sup>3</sup>**
  - Higher revenue and EBITDA resulting from greater volumes across specialists, GPs and the corporate segment
  - Operational benefits from new procurement contract and investments in automation
- **Malaysia pathology (revenue growth 5.3%, EBITDA growth 14.0%)<sup>3</sup>**
  - Improved consumer confidence from strengthening economy
  - Growth opportunities being presented to provide laboratory services to new and existing private hospitals
  - Operational benefits from new procurement contract and investments in automation
- **Strategic review of Asian pathology operations underway**

1. Contribution to Group Operating EBITDA from continuing operations, excluding corporate costs

2. Medical Centres has been removed from 'Other' segment as business has been classified as a discontinued operation since 30 June 2017

3. Based on results in local currency

# Corporate

## Corporate costs in line with expectations

Segment results	1HFY18 (\$m)	1HFY17 (\$m)	Movement
Operating EBITDA expense	(15.6)	(13.9)	(12.2%)
Operating EBIT expense	(18.3)	(16.2)	(13.0%)

- Expect FY18 Operating EBITDA Corporate expense of between \$29 – 31m

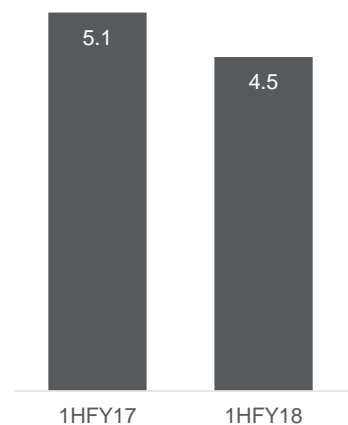
# EPS and dividends

## Interim dividend of 3.2 cps

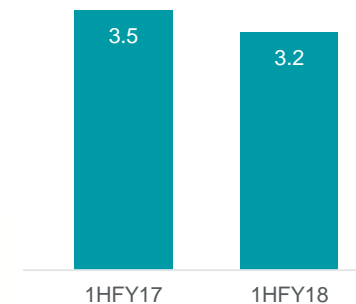
	1HFY18	1HFY17
<b>Statutory NPAT<sup>1</sup> (\$m)</b>	<b>77.5</b>	<b>88.9</b>
EPS <sup>1</sup> (basic) (cents)	4.5	5.1
<b>Dividend per share (cents)</b>		
Interim	3.2	3.5
Franking <sup>2</sup>	0%	0%
<b>Key dividend dates</b>		
Ex-dividend date	1 March 2018	
Record date	2 March 2018	
DRP election date	5 March 2018	
Payment date	23 March 2018	
DRP issue date	23 March 2018	

1. Continuing operations
2. Dividends are unfranked

Statutory EPS (cps)



Interim dividend (cps)

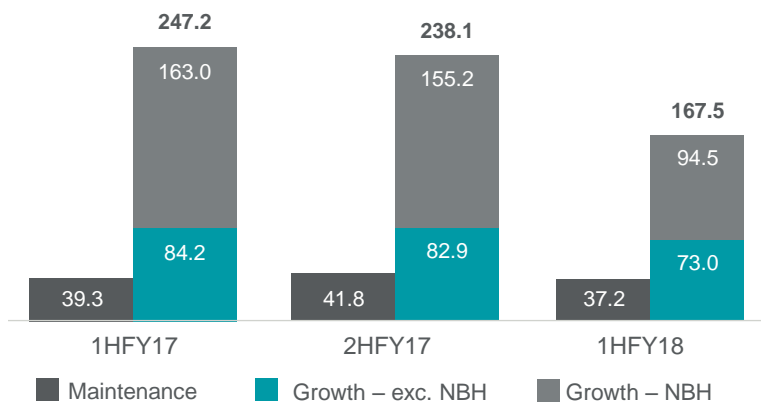


- Dividend represents a payout ratio of approximately 70% of Statutory NPAT after adjusting for non-cash impairments

# Capital investment

## Continued investment in growth capital to develop portfolio

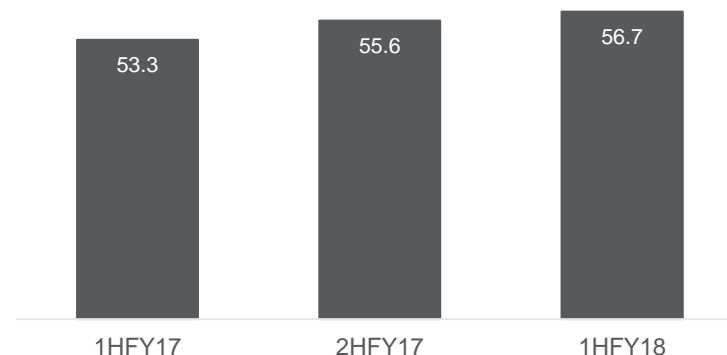
Capital expenditure (\$m)<sup>1,2</sup>



- Key projects under construction progressing well with Newcastle Private completed during 1HFY18
- FY18 growth capex expected to be \$330 – 350m (previously \$340 – 360m) inclusive of \$180 – 190m (previously \$170 – 180m) relating to NBH
- NBH build ahead of program resulting in additional capex to be incurred earlier than anticipated
- FY18 maintenance capex expected to be \$82 – 86m
- Seven projects under construction with a further three projects to commence in 2HFY18

1. Continuing operations  
2. Based on total costs accrued for the period

Depreciation and amortisation (\$m)<sup>1</sup>



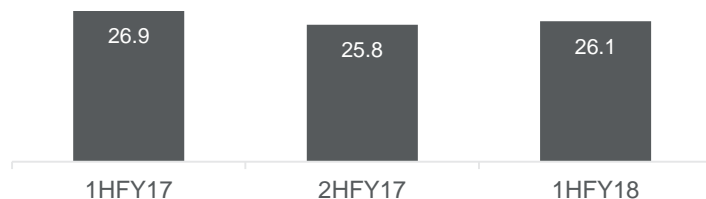
- Increase in depreciation reflects the hospital expansion projects completed, investment in New Zealand pathology business (eg. Wellington laboratory) and new hospital capital equipment and theatre technology
- FY18 depreciation and amortisation expected to be \$112 – 116m

# Balance sheet and gearing

## Balance sheet supported by strong cash flow from operations

Funding summary	31 Dec 17	30 Jun 17
Senior debt facilities (\$m)	850.0	850.0
US private placement (\$m) <sup>1</sup>	402.1	401.9
Northern Beaches project finance (\$m)	658.9	576.9
Finance lease liabilities (\$m)	13.9	12.5
<b>Total debt (\$m)<sup>2</sup></b>	<b>1,924.9</b>	<b>1,841.2</b>
Cash (\$m)	242.0	195.9
<b>Net debt (\$m)</b>	<b>1,682.9</b>	<b>1,645.3</b>
Net debt / net debt + equity	41.4%	41.0%
Net debt / LTM EBITDA (Group)	4.28x	3.92x
Net debt / LTM EBITDA (exc. NBH debt)	2.67x	2.66x
ICR (LTM EBITDA / LTM net int exp)	7.57x	7.98x

### Net interest expense (\$m)



- High quality property portfolio underpins the balance sheet
- Net debt increasing as NBH nears completion
- Capex requirements for NBH to decrease towards the end of FY18 as building nears completion
- Growth capex (exc. NBH) funded through cash reserves and operating cash flow
- Comfortable headroom under senior debt covenants
- Northern Beaches Hospital project financing excluded from all bank covenants
- Net interest expense remains stable

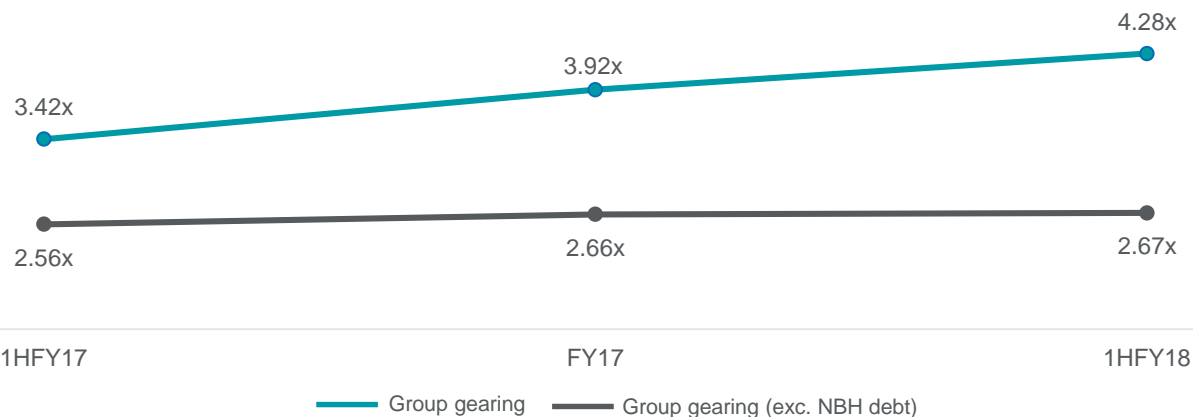
1. Represents draw down of US\$300 million which has been translated at spot rate and adjusted for the net impact of hedge accounting and the fair value of related cross currency interest rate swap used to hedge
2. Excludes capitalised facility costs



# Balance sheet and gearing

## Gearing increases as Northern Beaches Hospital nears completion

Gearing – Net Debt / EBITDA



- Group gearing continues to increase with NBH investment
- Capital payment for public portion of hospital and shared facilities to be received from NSW Government post transfer of patients from existing hospitals and key requirements are met (payment expected early CY19)
- At 30 June 2018 NBH project finance debt and NSW Government capital receivable will be classified as “Current”
- Following completion of NBH and first 12 months of operation, gearing to normalise at approximately 3.0x Net Debt / EBITDA
- Covenant measurement for first 12 months of NBH operation includes pro-forma EBITDA adjustment

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# Sector outlook

## Measures taken to ensure sustainability of private healthcare

### Industry fundamentals

- Medium to longer-term fundamentals of the industry are unchanged and support continued growth in demand for hospital admissions
- Our focus on quality clinical outcomes, transparency in reporting key indicators and operational efficiency positions Healthscope favourably in addressing fundamental challenges of the sector
- Current private hospital sector growth subdued due to:
  - increasing costs of PHI, out of pocket costs and policy exclusions weakening consumer participation and utilisation
  - growth of private patients in public hospitals

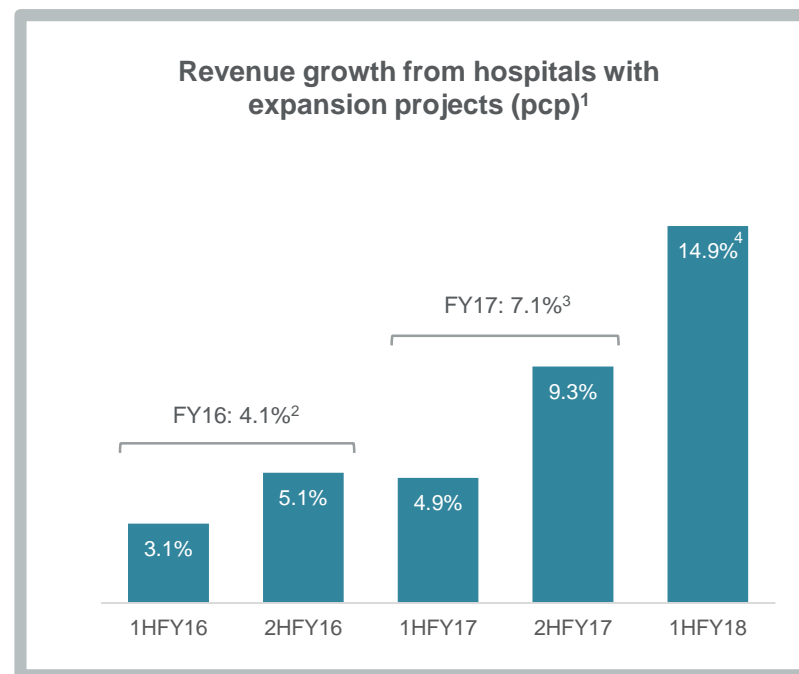
### Political support for private healthcare

- Government policy has long supported private health insurance participation and pursuing a balanced public-private healthcare system
- Australian Government taking action to support the private healthcare industry with a substantive private health insurance reform package announced in October 2017
- The Government approved an average PHI premium increase of 3.95% which is the lowest since 2001
- Proposed Heads of Agreement for a new National Health Agreement announced in February 2018 to include a review of private patients in public hospitals

# Hospital growth strategy

## Hospital expansion strategy underpins revenue growth over the period

- Revenue growth shows that capital is being deployed in the right catchments
- Hospital expansion is the main driver of above market revenue growth for the Hospitals division in 1HFY18
- A number of the major projects with brownfields expansions completed since FY16 have now completed their first full year of operations with stage 2 underway at 2 hospitals
  - **Gold Coast Private (completed 2HFY16):** Continues to demonstrate revenue and profit growth. Stage 2 due to complete late in 2HFY18
  - **Knox Private (completed 2HFY16):** Strong occupancy with strategies in progress to improve case mix
  - **National Capital Private (completed 2HFY16):** Stage 1 exceeded revenue and return targets. Stage 2 construction to commence in 2HFY18
  - **Norwest Private – Stage 2 (completed 2HFY17):** Progressing in line with expectations



1. Chart includes revenue from Darwin Private, Frankston Private, Gold Coast Private/Allamanda Private, Holmesglen Private/Como Private, Knox cluster (Knox, Bellbird, Ringwood), National Capital Private, Norwest Private and Newcastle Private, being hospitals where a brownfield or relocate and grow project, with capital invested of greater than \$10m, was completed in either FY16, FY17 or 1HFY18
2. These hospitals accounted for 36.7% of Hospital division revenue in FY16
3. These hospitals accounted for 38.0% of Hospital division revenue in FY17
4. These hospitals accounted for 40.6% of Hospital division revenue in 1HFY18

# Hospitals expansion program – future growth

## Construction pipeline

Financial year			FY18		FY19	
	Beds	OTs	1H	2H	1H	2H
<b>Recently completed projects</b>						
Newcastle Private (NSW)	16	2				
	<b>16</b>	<b>2</b>				
<b>Projects under construction</b>						
Gold Coast Private – Stage 2 (QLD)	30	8				
Sydney Southwest Private (NSW)	-	2				
Sunnybank Private (QLD)	-	2				
Northern Beaches (NSW)	450	20				
Brisbane Private (QLD)	29	2				
John Fawkner Private (VIC)	41	2				
The Melbourne Clinic (VIC)	44	-				
The Geelong Clinic (VIC)	7	-				
The Mount Private (WA)	-	2				
National Capital Private – Stage 2 (ACT)	18	1				
	<b>619</b>	<b>39</b>				

1. Shaded area in table indicates project construction completion during the relevant period
2. Does not include ACHA funded hospital expansions

# Continue to successfully develop Northern Beaches

## Landmark Northern Beaches Hospital remains on time and budget

### NBH overview

- Healthscope was contracted by NSW Government to design, build, operate and maintain NBH in 2014
- The hospital will be licensed as a single private hospital treating public and private patients
- Healthscope has a 40 year ground lease for the private patient portion of the facility and a 20 year contract to treat public patients
- Services from two existing public hospitals will be transferred to NBH – Manly (will close) and Mona Vale (will continue to provide sub-acute services)

### Progress summary

- Construction substantially completed with focus on opening on 30-31 October 2018
- Key executive roles have been filled
- Strong response from Manly and Mona Vale hospitals' staff to initial recruitment processes to transfer to NBH
- Doctor engagement continues to be strong

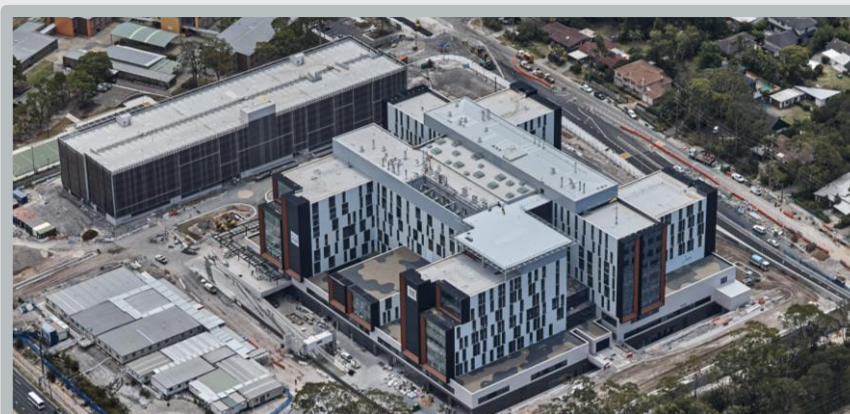
**Manly Public Hospital**  
(147 beds, 4 OTs)



**Mona Vale Public Hospital**  
(211 beds, 4 OTs)



**Northern Beaches Hospital** (250 public / 200 private beds, 20 OTs)



# FY18 Outlook

## Hospitals division

- Subject to there being no material change to external market conditions and barring unforeseen circumstances:
  - 2HFY18 Operating EBITDA expected to deliver growth yoy with that momentum to carry forward into FY19 and beyond
  - FY18 Operating EBITDA for the Company's Hospitals division is planned to be broadly similar to FY17



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# Appendices

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# Appendix 1: Reconciliation of Statutory net profit to Operating EBIT and Operating EBITDA

Continuing operations	1HFY18 (\$m)	1HFY17 (\$m)
<b>Statutory net profit after tax from continuing operations</b>	<b>77.5</b>	<b>88.9</b>
<i>Add back</i>		
Non-operating expenses after tax	0.7	5.4
<b>Operating NPAT (Operating net profit after tax)</b>	<b>78.2</b>	<b>94.3</b>
Income tax expense	32.5	37.6
Net finance costs	26.1	26.9
<b>Operating EBIT (Operating earnings before finance costs and income tax)</b>	<b>136.8</b>	<b>158.8</b>
<i>Add back</i>		
Depreciation and amortisation	56.7	53.3
<b>Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)</b>	<b>193.5</b>	<b>212.1</b>

## Appendix 2: Non-operating expenses

Continuing operations	1HFY18 (\$m)	1HFY17 (\$m)
Restructure and other costs	0.4	1.4
Loss relating to voluntary administration of supplier	0.2	5.5
Hospital commissioning costs	0.4	0.8
<b>Total pre tax</b>	<b>1.0</b>	<b>7.7</b>
Tax	(0.3)	(2.3)
<b>Total post tax</b>	<b>0.7</b>	<b>5.4</b>

# Appendix 3: Weighted average number of shares

	1HFY18	1HFY17
No. of shares	1,737,124,964	1,735,093,472
Performance rights	7,486,363	6,226,099
<b>Total</b>	<b>1,744,611,327</b>	<b>1,741,319,572</b>

- Weighted average number of shares used as basis for determining EPS

# Glossary

<b>ACHA</b>	Adelaide Community Healthcare Alliance
<b>Cash flow conversion</b>	Cash flow generated from operations to Operating EBITDA including discontinued operations
<b>Continuing operations</b>	Excludes Medical Centres which Healthscope has agreed to divest and the Australian pathology operations which were divested on 6 July 2015
<b>DHB</b>	District Health Board (New Zealand)
<b>DRP</b>	Dividend reinvestment plan
<b>ED</b>	Emergency department
<b>EPS</b>	Earnings per share
<b>ICR</b>	Interest coverage ratio
<b>ICU</b>	Intensive care unit
<b>NBH</b>	Northern Beaches Hospital
<b>PCP</b>	Previous corresponding period
<b>Operating</b>	Excludes non-operating expenses
<b>OTs</b>	Operating theatres

# Disclaimer

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