

Annual General Meeting – Managing Director and CEO’s Address

23 November 2015

I would like to take this opportunity to reflect on our highlights from the 2015 financial year as well providing you with an overview of our priorities for the 2016 year ahead.

FY15 highlights

The 2015 financial year was a successful one for Healthscope.

In the Hospital division our strategies around case mix, labour and procurement continued to deliver and, as the Chairman mentioned earlier, we invested significantly in future growth.

We also continued to be the market leader in quality and clinical outcomes whilst actively promoting the transparent reporting of this data.

Our International Pathology business had an exciting contract win, being awarded the contract to provide pathology services to the greater Wellington region in New Zealand. The awarding of this contract means Healthscope now provides pathology services to 13 of the 20 District Health Boards in New Zealand.

Finally, in July 2015, we divested our underperforming non-core Australian Pathology operations. Whilst exiting a business is always difficult given the close relationship we have with our staff, this divestment has allowed us to focus management time and resources on our core businesses. The proceeds from the sale are being invested in our hospital expansion program.

As the Chairman mentioned, we were pleased to deliver on our prospectus earnings forecasts for the 2015 financial year.

The Group generated robust earnings growth, with Operating EBITDA increasing 8.7% and Operating EBIT increasing 9.4%.

If we exclude the discontinued Australian Pathology operations, Operating EBITDA increased by 10.0%.

We also continue to deliver strong cash flow results with Group Operating EBITDA to cash flow conversion of 97%.

Capital position

Our balance sheet is strong with gearing of 2.47x net debt to Group Operating EBITDA as at 30 June 2015. This excludes the benefit of the \$92.5 million of cash proceeds we received in July from the divestment of the Australian Pathology operations.

I’m also pleased to report that we have recently completed the refinancing of our \$1.3 billion senior debt facility. The previous facility, which had a single maturity date in 2017, has been refinanced with facilities which have maturities split over three, four and five years, mitigating any potential future refinancing risk.

Hospitals

I will now spend some time discussing the performance of Healthscope's largest division, Hospitals, which contributed 81% of Group earnings in FY15.

The Hospitals division delivered a strong result, with revenue growth of 5.7% and Operating EBITDA growth of 10.4%. Revenue growth was largely organic with only 23 new beds opened in the last two years.

The Hospitals division Operating EBITDA margin increased by 80 basis points to 17.7%. This strong margin uplift reflected revenue growth, combined with continued progress in relation to our labour and procurement initiatives. Over the last four years, these operational strategies have delivered a total margin uplift of 2.7% and we are confident that further upside will result from ongoing and continuous improvement.

Relationships with health funds

Over the past 12 months there has been a lot of noise around health funds and their relationships with private hospital operators so I think it is important to address this issue.

We understand the well-publicised challenges that health funds face around the affordability of their products and that increasing utilization is inevitable with an ageing population. It is only natural that health funds are looking at ways to control outlays and their desire to pay-for-quality healthcare outcomes is a sensible mechanism.

It is important to note that incorporating quality and clinical target benchmarks into health fund contracts is not new. We were the thought leader on this and have been actively encouraging pay-for-quality discussions with health funds since 2012.

We also believe strongly in transparency and consistency across the industry and have led by example. We were the first private hospital operator in Australia to publicly report quality and clinical outcomes with the launch of the MyHealthscope website in 2011. Some of our peers now report a limited number of performance indicators, and others are still yet to report any of this information publicly. Today Healthscope reports 22 quality and clinical indicators for each of our hospitals and, where this information is more broadly reported, we outperform the public sector and our private peers on the vast majority of these indicators. This information is publicly available on our website for our patients, doctors, health funds and other stakeholders.

We believe health fund contracts should reward outstanding clinical outcomes in recognition of the superior experience for patients and the greater efficiency for the industry. We currently have three health fund contracts that have pay-for-quality clauses and four contracts which incorporate what we refer to as 'never events'.

We continue to successfully renew all health fund contracts, typically well in advance of their expiry dates. I am pleased to be able to announce that we have just completed negotiating a new two-year agreement with Medibank Private which commences in March 2016 when our current contract expires. Our leadership in promoting the quality agenda continues to serve us well in collaborating with our major partners such as Medibank Private and BUPA, and importantly, is delivering positive commercial outcomes for Healthscope. We have also recently renewed our multi-year contract with HCF who is our fourth largest insurer partner.

We believe it is important and beneficial for us to collaborate with health funds outside of the traditional funding relationship. Therefore we are actively engaging in areas such as primary care, innovation and the use of health information and e-commerce.

At the end of the day, the relationship between private hospital operators and health funds is symbiotic – we rely on health funds for the majority of our revenue and health funds rely on us to provide quality private hospitals for their members.

Hospital expansion program update

As the Chairman highlighted, our hospital expansion program is fundamental to our growth. Over the last year we maintained our disciplined approach to investment and have continued to assess potential opportunities using our proven framework and methodology.

The hospital expansion projects highlighted in our full year results release in August remain on track.

The new intensive care unit at Geelong Private Hospital has recently opened. In early 2016 we will open 60 additional beds at Knox Private Hospital, as well as 41 new beds and three new operating theatres at National Capital Private Hospital.

In addition, the relocation from Allamanda Private Hospital to the new 284-bed Gold Coast Private Hospital, which is located in the Gold Coast Health and Knowledge Precinct, will take place over Easter 2016. Given this relocation is a major logistical operation, significant planning is already underway to ensure a seamless transition for our patients, doctors and staff. Smaller projects at Nepean Private Hospital in New South Wales and Darwin Private Hospital in the Northern Territory are also scheduled for completion in the 2016 financial year.

International pathology: New Zealand

Healthscope's International Pathology business, which contributed 15% of Group earnings in FY15, had another successful year delivering Operating EBITDA growth of 13.7%.

Our New Zealand business is the largest provider of human pathology services to New Zealand's District Health Boards. It generates a reliable revenue and earnings stream and continues to deliver cost efficiencies. Operating EBITDA growth was 9.5%.

In FY16 earnings will be further supplemented by our contract win to provide community pathology services to the greater Wellington region. This contract was awarded in April and we commenced providing services at the beginning of this month. Our new state-of-the-art laboratory in Wellington was a major development project that was delivered ahead of time and budget, and I'm pleased to report that the transition of services has been seamless for the communities of the greater Wellington area.

International pathology: Malaysia and Singapore

Both the Malaysian and Singaporean businesses performed well in FY15 delivering Operating EBITDA growth of 17.6% and 5.9% respectively.

In Malaysia, we are focused on utilising our expertise to secure additional private hospital contracts and there are opportunities to centralise more testing through a hub and spoke model.

In Singapore, the market is growing strongly, and we have continued to invest in laboratories which will lead to further cost efficiencies. We are also targeting increased penetration of specialist, commercial and hospital markets.

Both of these businesses lend themselves to bolt-on acquisitions. Pathology is a scale business and we have the capacity for additional volumes in our existing major laboratories. We will continue to assess potential opportunities in these markets.

Medical centres

Healthscope's Medical Centres business nationally comprises 46 medical centres, five skin clinics and one specialist breast diagnostic clinic. Whilst this business is currently a small contributor to Group earnings, it remains strategically important and we continue to evaluate further opportunities for growth.

In FY15 the Medical Centres business delivered revenue growth of 0.8% and strong Operating EBIT uplift of 16.8%.

Our culture and our people

Quality healthcare relies upon the knowledge, skills, empathy and dedication of our people.

We partner with over 17,000 doctors across Australia to provide high quality clinical outcomes for our patients. We value our doctors tremendously and I would like to thank each of them for their ongoing individual contributions and their support of Healthscope.

I would also like to take this opportunity to acknowledge the fantastic work and commitment of our employees who provide outstanding care and service in our healthcare facilities.

As the Managing Director, it is important for me to have a strong executive team in place to help drive and grow the business going forward. Therefore, since listing, we have made a number of appointments to expand and supplement our outstanding existing executive team. Anita Healy joined us in November last year as the General Manager for Business Development and Investor Relations and brings extensive experience in mergers and acquisitions and equity capital markets. Dr. Bennie Ng started with us recently as the General Manager of Partnerships and Strategy and will assist with Healthscope's domestic and international business development. Dr. Ng was most recently the Head of Social Policy within the Office of the Prime Minister and has also advised the Hong Kong Hospital Authority on a number of strategic matters. Richard Herman has been appointed to the newly created role of Head of Assurance, responsible for enterprise risk management and internal audit. Richard brings detailed knowledge and experience in governance, risk and compliance.

Over the last three years, we have also implemented a range of leadership training programs to enhance skill development and further engage Healthscope leaders and staff. In FY15, selected staff received formal leadership development through our Supporting Leaders and Leadership Foundations programs for high potential managers. A select group of General Managers also participated in a US hospital study tour designed to share best practice operating systems and processes and develop global relationships. The success of these programs is reflected in significant improvements in staff retention, as well as doctor and patient satisfaction.

Healthscope aims to attract and retain a diverse workforce. We have a wide range of policies, practices and employment conditions in place which support diversity. We also enable diversity through flexible work arrangements with permanent part time and casual staff representing 75% of our total workforce. Although women are well represented across all of our management groups, we are determined to extend this representation further at a senior executive level.

In addition to supporting our workforce, we also have a long term commitment to supporting our local communities. All of our hospitals have strong links to their communities. They partner with local stakeholders including schools and sporting clubs in providing educational programs, health screening programs and support for various community initiatives. At a corporate level, our focus is on making strategic contributions to indigenous health. Last year, we signed a Memorandum of Understanding with the Cape York Partnership to provide healthcare, medical assistance and educational opportunities to indigenous communities in the remote regions of Cape York. As part of this partnership, we recently sent a team of 11 clinicians to an indigenous school in Gordonvale, near Cairns. Over a two week period, the team assessed 95 of the most at risk students. This assessment has identified students with special needs which will enable the school to access funding for additional resources to support their learning goals. We are pleased that discussions have already commenced around how we can continue to support this initiative.

At Healthscope we also maintain a high standard of environmental care in conducting our business activities. As an organization, we are committed to reducing waste, ensuring efficient use of resources and contributing towards a sustainable future.

Priorities for FY16

Our strategic priorities for the 2016 financial year are very clear.

We will deliver hospital expansion projects on time and on budget.

We will continue to work collaboratively with health funds on successful contract outcomes that promote high quality clinical practices and are value creative for both parties.

We will continue to deliver labour and procurement efficiencies across all of our businesses.

We will support and actively contribute to the Government healthcare reviews that are currently underway and look forward to hearing about the outcome of these reviews.

We will continue to keep an active watching brief on potential business development opportunities in Asia, which may include bolt-on acquisitions for our pathology businesses or hospital management opportunities in the region.

Outlook

Finally, Healthscope's outlook statement remains unchanged from that provided at the time of announcing our FY15 results.

FY15 was a successful year for Healthscope and our revenue strategies, combined with our cost strategies around labour and procurement, will continue to deliver further improvements in FY16.

During the second half of FY16 we will also commission a number of large capital projects which will lay the foundation for accelerated growth in FY17 and beyond.

Managing Director and CEO's address



FY15 highlights

Delivered on operational strategies and invested significantly in future growth

- Case mix, labour and procurement initiatives continued to deliver
- Significant investment in hospital expansion program
- Continued to be the market leader in quality and clinical outcomes
- Awarded contract to provide pathology services to greater Wellington region in New Zealand
- Divestment of underperforming non-core Australian Pathology operations
- Delivered on prospectus earnings forecasts

1. Continuing operations consist of the hospital, international pathology and medical centre divisions.

8.7% 

Operating EBITDA

9.4% 

Operating EBIT

10.0% 

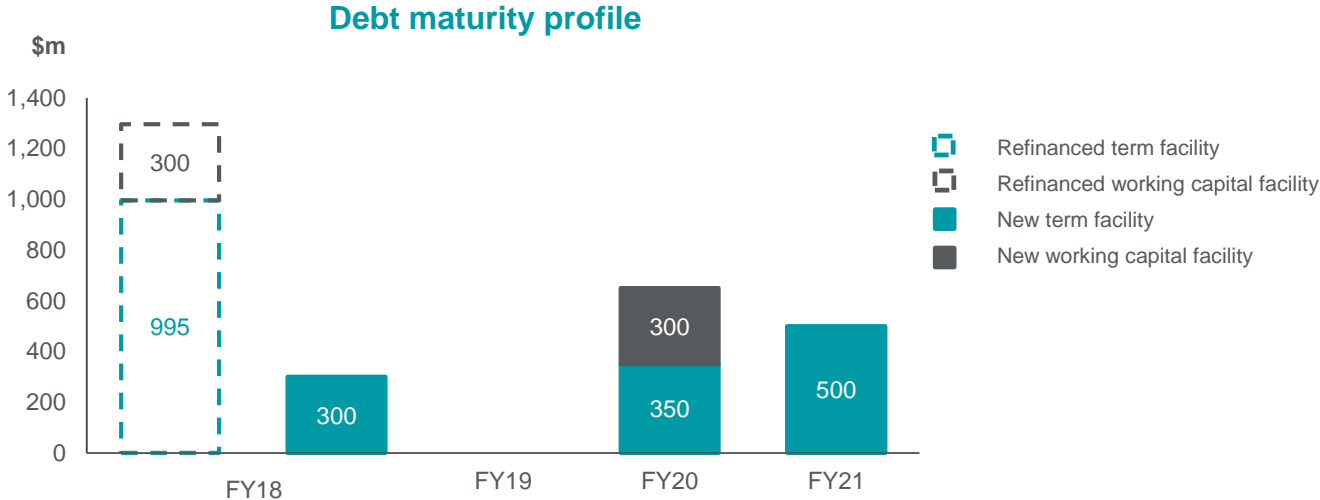
EBITDA from
continuing operations¹

Capital position

Strong balance sheet with improved maturity profile

- \$1.3 billion senior debt facility refinanced to mitigate potential future refinancing risk
- Maturity profile now split over three, four and five years

2.47x
Gearing¹



1. Net debt to Group Operating EBITDA.

Hospitals

5.7% 

Revenue

\$1,852.5m

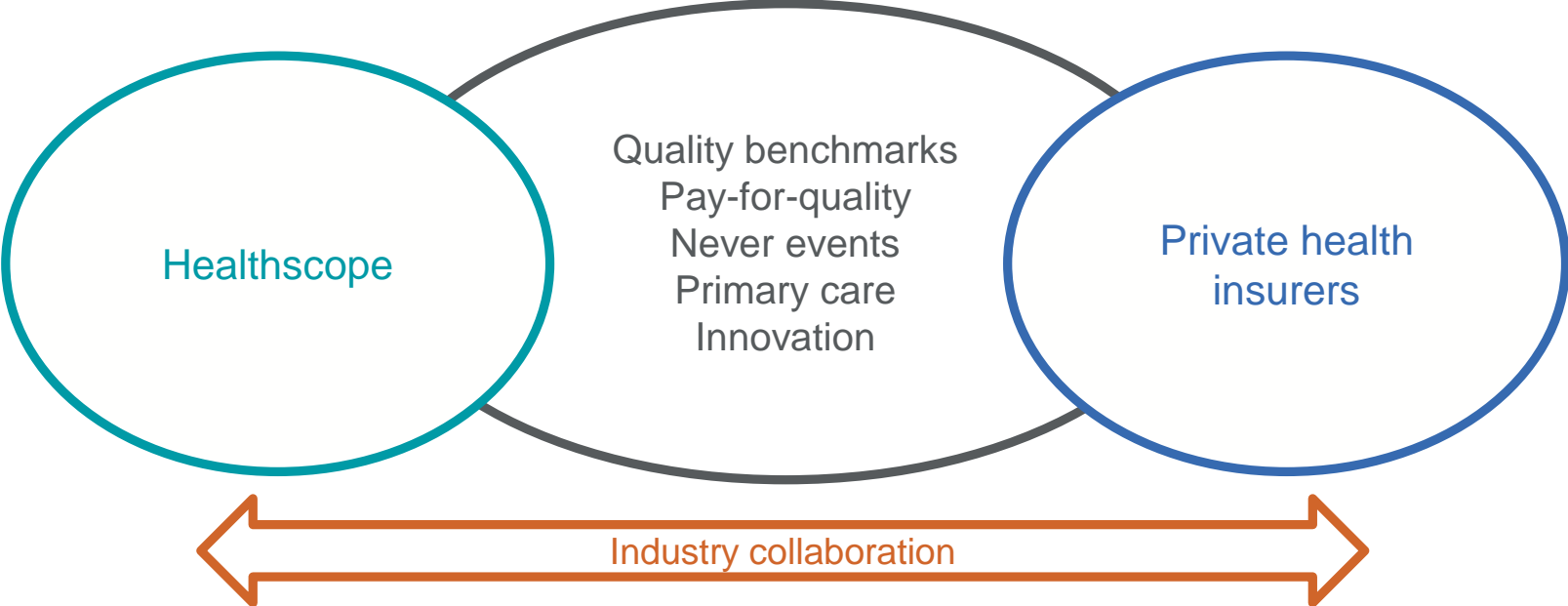
10.4% 

Operating EBITDA

\$327.6m

- Contributed 81% of Group Operating EBITDA
- Revenue growth largely organic with only 23 new beds opened in the last two years
- Strong Operating EBITDA margin uplift of 80 basis points reflected revenue growth and ongoing progress from labour and procurement initiatives

Relationships with health funds



Hospital expansion program update



International pathology: New Zealand

5.5% 

Revenue

- Generates a reliable revenue and earnings stream
- Continues to deliver cost efficiencies
- Recently awarded contract to provide community pathology services to the greater Wellington region

9.5% 

Operating EBITDA

Note: Based on results in local currency.

International pathology: Malaysia and Singapore

Malaysia

0.4% ↑

Revenue

17.6% ↑

Operating EBITDA

- Focused on securing additional private hospital contracts
- Explore opportunities to centralise more testing through hub and spoke model

Singapore

7.9% ↑

Revenue

5.9% ↑

Operating EBITDA

- Continued to invest in laboratories which will lead to further cost efficiencies
- Targeting increased penetration of specialist, commercial and hospital markets

Note: Based on results in local currency.

Medical centres

0.8% ↑

Revenue

\$60.9m

16.8% ↑

Operating EBIT

\$8.7m



Our culture and people



Priorities for FY16

- Delivery of hospital expansion projects on time and on budget
- Continue to work collaboratively with health funds on successful contract outcomes that promote high quality clinical practices and are value creative for both parties
- Continue to deliver labour and procurement efficiencies across all businesses
- Support and actively contribute to Government healthcare review processes
- Continue to explore Asian business development opportunities in pathology and hospitals

Outlook

- Outlook statement unchanged
- Revenue strategies, combined with cost strategies around labour and procurement, will deliver further improvements in FY16
- During the second half of FY16 a number of large capital projects (Gold Coast Private, Knox Private and National Capital Private) will be commissioned, laying the foundation for accelerated growth in FY17 and beyond

