

**FULL YEAR ENDED 30 JUNE 2016**  
**INFORMATION GIVEN TO THE ASX UNDER LISTING RULE 4.3A**

**Reporting period**

Year ended 30 June 2016

**Comparative period**

Year ended 30 June 2015

**Results for announcement to the market**

| <b>From continuing and discontinued operations</b>                |      |       |    | <b>\$'m</b> |
|---|------|-------|----|-------------|
| Revenue from ordinary activities                                  | down | 5.9%  | to | 2,293.9     |
| Profit from ordinary activities after tax attributable to members | up   | 28.6% | to | 181.1       |
| Net profit/(loss) attributable to members                         | up   | 28.6% | to | 181.1       |
| <b>From continuing operations</b>                                 |      |       |    |             |
| Revenue from ordinary activities                                  | up   | 6.2%  | to | 2,290.9     |
| Profit from ordinary activities after tax attributable to members | up   | 18.9% | to | 182.8       |
| Net profit/(loss) attributable to members                         | up   | 18.9% | to | 182.8       |

| <b>Dividends and distributions</b>                  | <b>Amount per security</b> | <b>Franked amount per security</b> |
|---|----------------------------|------------------------------------|
| Interim dividend – year ended 30 June 2016          | 3.5 cents                  | nil                                |
| Final dividend – year ended 30 June 2016            | 3.9 cents                  | nil                                |
| Record date for determining entitlement to dividend |                            | 14 September 2016                  |
| Payment date for dividend                           |                            | 28 September 2016                  |

| <b>Net tangible assets (NTA backing)</b>                 | <b>30 June 2016</b> | <b>30 June 2015</b> |
|--|---------------------|---------------------|
| Net tangible assets per ordinary security <sup>(i)</sup> | \$0.25              | \$0.19              |

(i) Net tangible assets represent the consolidated net assets of Healthscope Limited after subtracting intangible assets and deferred tax balances, including any amounts classified within assets held for sale. The number of shares on issue at 30 June 2016 was 1,735,093,472 (30 June 2015: 1,732,094,836).

**Other information regarding the accounts**

The information contained in this Appendix 4E is based on financial statements, which have been audited. An explanation of the figures presented above can be found in the director's report and the notes to the financial statements.



**HEALTHSCOPE LIMITED**

**CONSOLIDATED  
FINANCIAL REPORT**

For the year ended 30 June 2016

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# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

The Directors present their report, together with the annual financial report of Healthscope Limited ('Healthscope') and its controlled entities for the financial year ended 30 June 2016 ('Healthscope Group', 'the Group').

### DIRECTORS

The Directors of Healthscope any time during or since the end of the financial year are:

| <b>Name</b>                   | <b>Position</b>                                   |
|-------------------------------|---|
| Paula Dwyer                   | Chairman  |
| Robert Cooke                  | Managing Director and Chief Executive Officer     |
| Antoni (Tony) Cipa            | Non Executive Director                            |
| Jane McAloon                  | Non Executive Director (appointed 1 March 2016)   |
| Rupert Myer AO                | Non Executive Director                            |
| Paul O'Sullivan               | Non Executive Director (appointed 1 January 2016) |
| Zygmunt (Ziggy) Switkowski AO | Non Executive Director (appointed 4 April 2016)   |
| Aik Meng Eng                  | Non Executive Director (retired 31 December 2015) |
| Simon Moore                   | Non Executive Director (retired 31 December 2015) |

The details of each current Director's qualifications, special responsibilities and experience are set out below.

#### **Paula Dwyer**

*BCom, FCA, SF Fin, FAICD*

Non Executive Chairman and Chair of the Nomination Committee from June 2014. Paula is an ex officio member of the Audit, Risk & Compliance Committee and a Member of the Remuneration Committee.

*Skills, experience and expertise*

Paula is an established Non Executive Director. Her executive career included roles in finance and senior positions in investment management, investment banking and chartered accounting with Ord Minnett (now JP Morgan) and PricewaterhouseCoopers.

*Current Directorships*

Chairman: Tabcorp Holdings Limited (from 2011, Director from 2005)

Director: Australia & New Zealand Banking Group Limited (from 2012) and Lion Pty Limited (from 2012).

Member: International Advisory Board of Kirin Holdings of Japan and Business and Economics Board of the University of Melbourne.

*Former Directorships include*

Deputy Chairman: Leighton Holdings Limited (2013-2014, Director 2012), Baker IDI Heart and Diabetes Research Institute (2003-2013)

Director: Suncorp Group Limited (2007-2012), Astro Japan Property Group Limited (2005-2011), Fosters Group Limited (2011), Healthscope Limited (2010), Promina Limited (2002-2007), CCI Investment Management Ltd (1999-2011).

Member: Takeovers Panel (2008-2014) and the ASIC External Advisory Panel (2012-2015).

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### DIRECTORS (*continued*)

#### **Robert Cooke**

*Bachelor of Health Administration, Grad Dip (Accounting & Finance)*

Managing Director & Chief Executive Officer (from 2010).  
Executive Chairman (from 2010-2014).

#### *Skills, experience and expertise*

Robert has had a 39 year career in the health industry, and has worked in management and corporate leadership positions in the public and private health sectors.

Robert's experience spans executive leadership of publicly listed and private healthcare companies, the management of private and public hospitals in Australia, and involvement in a number of due diligence teams for both Australian and international acquisitions.

#### *Current Directorships*

Managing Director: Healthscope Limited (from 2010).

Member: National Board of the Australian Private Hospitals Association.

#### *Former Directorships include*

Chairman: Spire Healthcare Group plc (UK, now listed on the London Stock Exchange) (2008-2010) and Healthscope Limited (2010-2014).

Managing Director and Chief Executive Officer: Symbion Health Limited (2005-2008).

Managing Director: Affinity Health Limited (2003-2005).

#### **Tony Cipa**

*BBus, Grad. Dip. Accounting, AGIA*

Non Executive Director since 2014. Chair of the Audit, Risk & Compliance Committee and Member of the Remuneration and Nomination Committees.

#### *Skills, experience and expertise*

Tony previously spent 20 years with CSL Limited in various senior finance roles. Tony was Chief Financial Officer, CSL (1994–2010) and was appointed to the Board of CSL Limited as Finance Director in 2000 until his retirement in 2010.

#### *Current Directorships*

Non Executive Director: Navitas Limited (from May 2014).

#### *Previous Directorships include*

Executive Director: CSL Limited (2000-2010).

Non Executive Director: SKILLED Group Limited (from April 2011 -2015) and Mansfield District Hospital (from July 2011-2015).

#### **Jane McAloon**

*BEC (Hons), LLB, GDipGov, FAICD, FCIS*

Non Executive Director since March 2016. Member of the Audit, Risk & Compliance and Nomination Committees.

#### *Skills, experience and expertise*

Jane's experience spans highly regulated industries including rail, energy, infrastructure and resources sectors. In her executive career, Jane held senior executive positions at BHP Billiton and AGL, as well as in NSW State Government.

#### *Current Directorships*

Director: Energy Australia Holdings Limited (from 2012) and Australian Defence Force Assistance Trust (from 2015).

Member: Monash University Industry Council of Advisers (from 2014).

#### *Former Directorships include*

Member: Australian War Memorial Council (2011-2014) and Australian Corporations and Markets Advisory Committee (2011-2013).

#### **Rupert Myer AO**

*BComm, MA, FAICD*

Non Executive Director since 2014. Chair of the Remuneration Committee and Member of the Audit Risk & Compliance and Nomination Committees.

#### *Skills, experience and expertise*

Rupert's background includes roles in the retail and property sector, healthcare, e-commerce, investment, family office, wealth management, philanthropy services, and the community sector. He previously worked as a Manager at Citibank Limited in London and Melbourne.

#### *Current Directorships*

Director: Amcil Limited (from 2000) and eCargo Holdings Limited (from 2014).

Chairman: Australia Council for the Arts.

Member: Business and Economics Advisory Board of the University of Melbourne.

Board member: The Myer Foundation, Jawun – Indigenous Corporate Partnerships, the Yulgilbar group of companies, Australian International Cultural Foundation and the Felton Bequests' Committee.

#### *Former Directorships include*

Deputy Chairman: Myer Holdings Limited (from 2012, director from 2006).

Chairman: The Myer Family Group.

Director: Diversified United Investment Limited (2002-2012).

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### DIRECTORS (*continued*)

#### Paul O'Sullivan

*BA (MoD) Economics, Advanced Management Program of Harvard*

Non Executive Director since January 2016. Member of the Audit, Risk & Compliance and Nomination Committees.

*Skills, experience and expertise*

Paul's experience spans the telecommunications, banking and oil & gas sectors, both in Australia and overseas. In his executive career, Paul held senior executive roles with Singapore Telecommunications (Singtel) and was previously the CEO of Optus. He has also held international management roles with the Colonial Group and the Royal Dutch Shell Group.

*Current Directorships*

Chairman: SingTel Optus Pty Limited (from 2014, Director from 2004).

Member: Board of Commissioners Telkomsel (Indonesia) (from 2010), St George & Sutherland Medical Research Foundation (from 2015), UNSW Bright Alliance Advisory Board (fundraising arm of the Prince of Wales Hospital) and HOOQ Pte Ltd (from 2016).

*Former Directorships include*

Member: Board Bharti Airtel (India) (2003-2010) and Board Australia Business Community Network (ABCN) (2005-2013).

#### Ziggy Switkowski AO

*BSc (Hons), Phd, FAICD, FAA, FTSE*

Non Executive Director since April 2016. Member of the Audit, Risk & Compliance, Remuneration and Nomination Committees.

*Skills, experience and expertise*

Ziggy is a former Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia. He has previously held positions as Chief Executive Officer of Telstra Corporation Limited and Optus Communications Ltd, and is a former Chairman and Managing Director of Kodak Australasia Pty Ltd.

*Current Directorships*

Chairman: Suncorp Group Ltd (from 2011, Director from 2005) and NBN Co Limited (from 2013).

Director: Tabcorp Holdings Limited (from 2006) and Oil Search Limited (from 2011).

Chancellor: RMIT (from 2011).

*Former Directorships include*

Chairman: Opera Australia (2005-2013).

### COMPANY SECRETARY

The Company Secretary is Ingrid Player. Ms Player was appointed to the position of Company Secretary on 8 November 2010. Ms Player is responsible for the legal affairs of the Healthscope Group and for all company secretarial matters. Prior to joining the Healthscope Group, Ms Player had over 10 years of experience working as a lawyer in Australia and overseas. She is a Graduate Member of the AICD.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### DIRECTORS (*continued*)

#### Meetings of Directors

The number of meetings of the Board of Directors and of each Board Committee held during the year, and each Director's attendance at those meetings, are set out below:

##### (i) Board of Directors Meetings

|                                  | SCHEDULED                 |                 |
|----------------------------------|---------------------------|-----------------|
|                                  | Number eligible to attend | Number attended |
| Paula Dwyer (Chair)              | 10                        | 10              |
| Robert Cooke                     | 10                        | 10              |
| Tony Cipa                        | 10                        | 10              |
| Jane McAloon <sup>1</sup>        | 4                         | 4               |
| Rupert Myer AO                   | 10                        | 9               |
| Paul O'Sullivan <sup>2</sup>     | 5                         | 5               |
| Ziggy Switkowski AO <sup>3</sup> | 3                         | 3               |
| Aik Meng Eng <sup>4</sup>        | 5                         | 4               |
| Simon Moore <sup>4</sup>         | 5                         | 5               |

<sup>1</sup> Appointed 1 March 2016

<sup>2</sup> Appointed 1 January 2016

<sup>3</sup> Appointed 4 April 2016

<sup>4</sup> Retired 31 December 2015

##### (ii) Board Committee Meetings

|                                  | Audit, Risk & Compliance Committee |                 | Remuneration Committee    |                 | Nominations Committee     |                 |
|----------------------------------|------------------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|
|                                  | Number eligible to attend          | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Paula Dwyer                      | -                                  | 4 <sup>1</sup>  | 2 <sup>7</sup>            | 2               | 4                         | 4 <sup>2</sup>  |
| Robert Cooke                     | -                                  | -               | -                         | -               | -                         | -               |
| Tony Cipa                        | 4                                  | 4 <sup>2</sup>  | 4                         | 4               | 4                         | 4               |
| Jane McAloon <sup>3</sup>        | 1                                  | 1               | -                         | -               | 2                         | 2               |
| Rupert Myer AO                   | 4                                  | 4               | 4                         | 4 <sup>2</sup>  | 4                         | 4               |
| Paul O'Sullivan <sup>4</sup>     | 2                                  | 2               | -                         | -               | 3                         | 3               |
| Ziggy Switkowski AO <sup>5</sup> | 1                                  | 1               | 1                         | 1               | 1                         | 1               |
| Aik Meng Eng <sup>6</sup>        | -                                  | -               | 2                         | 2               | 1                         | -               |
| Simon Moore <sup>6</sup>         | 2                                  | 2               | -                         | -               | 1                         | 1               |

<sup>1</sup> The Chairman is an ex-officio member of the Audit Risk & Compliance Committee

<sup>2</sup> Chair

<sup>3</sup> Appointed 1 March 2016

<sup>4</sup> Appointed 1 January 2016

<sup>5</sup> Appointed 4 April 2016

<sup>6</sup> Retired 31 December 2015

<sup>7</sup> The table shows attendance at meetings at which the Chairman was a member of the Committee. Prior to her appointment as a member of the Committee, she was an ex-officio member. The Chairman attended all Remuneration Committee meetings which were held during the year.

The table above records attendance of members of Healthscope's permanent standing Committees of the Board. Any Director is entitled to attend these meetings and from time to time Directors attend meetings of Committees of which they are not a member.

The Board also forms and delegates authority to ad hoc committees of the Board as and when needed to carry out specific tasks.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### PRINCIPAL ACTIVITIES

The principal activities of the Healthscope Group during the course of the financial year were the provision of healthcare services through the ownership and management of hospitals, medical centres and the provision of pathology diagnostic services.

### DIVIDENDS

#### Final dividend 2016

The Directors resolved to pay a final dividend of 3.9 cents per share. The record date is 14 September 2016. This dividend has not been included as a liability in these financial statements.

#### Dividend paid during the financial year

|                       | <b>Dividend per share<br/>cent</b> | <b>Dividend amount<br/>\$'m</b> | <b>Date of payment</b> |
|-----------------------|------------------------------------|---------------------------------|------------------------|
| Interim dividend 2016 | 3.5                                | 60.7                            | 10 March 2016          |
| Final dividend 2015   | 3.7                                | 64.2                            | 29 September 2015      |

The 2016 interim dividend of 3.5 cents together with the 2016 final dividend of 3.9 cents brings the total dividend in relation to the year ended 30 June 2016 to 7.4 cents per share.

Further details regarding dividends for the year ended 30 June 2016 are set out in Note 6 to the financial statements.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### OPERATING RESULTS

The consolidated profit of the Healthscope Group for the year, after income tax expense, was \$181.1 million (2015: \$140.8 million).

### REVIEW OF OPERATIONS

#### PRINCIPAL ACTIVITIES

Healthscope is one of Australia's leading healthcare providers, with 45 private hospitals and 48 medical centres and skin clinics across Australia, and is a leading provider of pathology services in New Zealand, Singapore and Malaysia.

Healthscope was originally formed in 1985 and listed on the Australian Securities Exchange (ASX) in 1994. In October 2010, the Healthscope business was acquired by a consortium of funds advised and managed by TPG and The Carlyle Group and subsequently de-listed from the ASX. On 28 July 2014, Healthscope was re-listed on the ASX. TPG and Carlyle retained a 38% shareholding in Healthscope following the IPO, which was subject to an escrow period concluding on 25 August 2015. TPG and Carlyle subsequently sold down their holdings to a range of institutional investors in a two-staged process with the final sale occurring on 24 November 2015.

#### Hospitals

Healthscope's portfolio includes 45 private hospitals and over 4,800 beds nationwide. Of these 45 hospitals, 30 facilities are owned by Healthscope, 12 are leased by Healthscope and three are managed on behalf of Adelaide Community Healthcare Alliance (ACHA).

Healthscope's portfolio comprises 32 acute facilities, seven mental health facilities and six rehabilitation and extended care facilities. The acute network includes large high acuity hospitals, with 11 co-located with public teaching hospitals.

The hospitals are concentrated in Australia's capital cities and large metropolitan centres with a presence in every state and territory.

In 2003, Healthscope entered into an agreement with ACHA to manage three acute hospitals in South Australia. ACHA is a not-for-profit community health organisation based in South Australia, and is the largest private hospital group in that State. Healthscope is responsible for daily management of the hospitals' operations, while ACHA retains responsibility for strategic direction and governance.

Healthscope has over 17,000 Accredited Medical Practitioners credentialed within our hospital network across Australia. The patients of these Accredited Medical Practitioners are the main source of admissions into Healthscope hospitals, and Healthscope hospitals have a range of attributes that are attractive to Accredited Medical Practitioners, including high quality facilities in attractive locations, high quality nursing staff, industry leading quality outcomes, on site consulting suites and a number of other support services.

All of Healthscope's hospitals are accredited under the National Safety and Quality Health Services Standards and Healthscope prides itself on providing market leading quality outcomes. Healthscope reports 25 quality outcomes publicly on the MyHealthscope website, and outperforms the industry benchmark and its peers on the vast majority of indicators.

#### International pathology

Healthscope has international pathology operations in New Zealand, Malaysia, Singapore and a small presence in Vietnam.

##### *New Zealand*

The New Zealand community pathology market is primarily based on exclusive contracts between pathology providers and government funded District Health Boards (DHBs). Healthscope operates under the Labtests, SCL and Northland brands. Healthscope also operates a veterinary pathology business in New Zealand, which is branded Gribbles Veterinary.

Healthscope holds contracts in 13 of the 20 DHB regions, including community pathology contracts for the major cities of Auckland, Wellington and Christchurch.

##### *Malaysia*

Healthscope, operating as Gribbles Pathology, is one of the largest community pathology providers in Malaysia, with 27 laboratories across the country. These laboratories serviced over 1.2 million patient episodes for the year ended 30 June 2016. Revenue is sourced from general practitioners, hospitals and government/corporate programs.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### *Singapore*

Healthscope, operating as Quest Laboratories, is one of the largest community pathology providers in Singapore, providing services to general practitioners, specialists and corporate screening clients. Healthscope has one central laboratory supported by two satellite laboratories and serviced over 1.5 million patient episodes for the year ended 30 June 2016. In FY16, Quest Laboratories became the first full-service private medical laboratory in Singapore to receive accreditation from the College of America Pathologists.

In Vietnam, Healthscope manages one laboratory in a private hospital outside Ho Chi Minh City specialising in women's and children's health. Given its size, this laboratory is managed as part of the Singaporean business.

#### **Medical centres**

Healthscope owns and operates 43 medical centres, four skin cancer clinics and one specialist breast diagnostic clinic in Australia. Through these operations Healthscope provides serviced medical centres to over 400 general practitioners.

General practitioners that operate in Healthscope's medical centres are not employed by Healthscope, but instead negotiate a service agreement with each individual medical centre. Under this agreement, Healthscope provides general practitioners with practice management services which typically include access to a consulting room at a serviced medical centre, nursing staff and other administrative support. As part of that arrangement, general practitioners pay Healthscope a service fee which is expressed as a percentage of the general practitioners' patient billings.

#### **Australian pathology**

Prior to 6 July 2015, Healthscope operated an Australian pathology business which included 30 laboratories and 560 collection centres across Victoria, New South Wales, South Australia and the Northern Territory. These operations were divested to Crescent Capital Partners.

### Summary of FY16 financial performance – continuing operations

|   | FY16    | FY15    | MOVEMENT |
|---|---------|---------|----------|
|   | \$'m    | \$'m    | %        |
| Revenue                                 | 2,290.9 | 2,156.6 | 6.2      |
| Operating EBITDA <sup>1</sup>           | 407.9   | 380.8   | 7.1      |
| Operating EBIT <sup>1</sup>             | 310.4   | 291.0   | 6.7      |
| Operating profit after tax <sup>1</sup> | 194.6   | 155.6   | 25.1     |
| Net profit after tax                    | 182.8   | 153.7   | 18.9     |
| Earnings per Share (EPS)                | 10.5    | 9.4     | 11.7     |
| Diluted EPS                             | 10.5    | 9.3     | 12.9     |
| Dividend per Share (DPS)                | 7.4     | 7.0     | 5.7      |

1. FY16 results have been presented before other income and expense items ("non-operating items") of \$11.8 million (tax-effected) in order to present the underlying trading performance of the business. FY15 results have been presented before other income and expense items ("non-operating items") of \$1.9 million (tax effected) on the same basis.

FY16 Operating EBITDA of \$407.9 million increased 7.1% year-on-year and Operating EBIT of \$310.4 million increased 6.7% over the same period. These results were driven by the strong performance of the hospitals and New Zealand pathology divisions. FY16 net profit after tax of \$182.8 million also increased by 18.9%, reflecting the operating performance of the business combined with a lower interest expense in FY16 due to the post IPO capital structure having been in place for the full financial year.

EPS from continuing operations of 10.5 cents was recorded in FY16 and a final unfranked dividend of 3.9 cents per share was declared taking the full year dividend to 7.4 cents per share. The full year dividend per share represents a payout ratio of 70% of net profit after tax after adjustment for non-operating expenses which is consistent with the payout ratio for FY15.

<sup>1</sup> As at date of divestment of 6 July 2015.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### Divisional FY16 financial performance

##### Hospitals

|   | FY16    | FY15    | MOVEMENT |
|---|---------|---------|----------|
|   | \$'m    | \$'m    | %        |
| Revenue   | 1,947.7 | 1,852.5 | 5.1      |
| Operating EBITDA                                | 354.9   | 327.6   | 8.3      |
| Operating EBIT                                  | 281.4   | 263.3   | 6.9      |
| EBITDA margin (including ACHA fee) <sup>1</sup> | 18.2%   | 17.7%   | +50 bps  |
| EBIT margin (including ACHA fee) <sup>1</sup>   | 14.4%   | 14.2%   | +20 bps  |

<sup>1</sup> Operating EBITDA and EBIT margins include prosthetics revenue and costs.

The hospitals division recorded revenue growth of 5.1% to \$1,947.7 million in the year ended 30 June 2016. Revenue growth was largely organic reflecting a combination of admissions growth, case mix changes and health fund rate increases.

The hospitals division Operating EBITDA increased 8.3% to \$354.9 million and the Operating EBITDA margin increased 50 basis points to 18.2%, largely driven by the revenue initiatives referred to above in addition to further cost efficiencies resulting from labour and procurement initiatives.

##### New Zealand pathology

|                  | FY16  | FY15  | MOVEMENT |
|------------------|-------|-------|----------|
|                  | \$'m  | \$'m  | %        |
| Revenue          | 222.7 | 182.2 | 22.2     |
| Operating EBITDA | 50.7  | 41.6  | 21.8     |
| Operating EBIT   | 40.1  | 31.1  | 28.9     |
| EBITDA margin    | 22.8% | 22.9% | (10) bps |
| EBIT margin      | 18.0% | 17.1% | +90 bps  |

The New Zealand pathology division recorded revenue growth of 22.2% to \$222.7 million and Operating EBITDA growth of 21.8% to \$50.7 million in the year ended 30 June 2016. These results were primarily driven by the successful implementation of a new pathology services contract in the greater Wellington region with Healthscope providing services to the region from July 2015. The divisional Operating EBITDA margin contracted by 10 basis points to 22.8%, reflecting the investment in the new state-of-the-art laboratory in Wellington, an upgrade and expansion of the core laboratory in Auckland and the structure of our DHB contracts.

##### Other

|                  | FY16  | FY15  | MOVEMENT  |
|------------------|-------|-------|-----------|
|                  | \$'m  | \$'m  | %         |
| Revenue          | 120.5 | 121.9 | (1.2)     |
| Operating EBITDA | 28.8  | 33.4  | (13.7)    |
| Operating EBIT   | 20.0  | 23.2  | (13.8)    |
| EBITDA margin    | 23.9% | 27.4% | (350) bps |
| EBIT margin      | 16.6% | 19.0% | (240) bps |

The other division includes Healthscope's pathology operations in Singapore, Malaysia and Vietnam and the Australian medical centre operations.

This division recorded a decline in revenue of 1.2% to \$120.5 million for the year ended 30 June 2016, and Operating EBITDA decline of 13.7% to \$28.8 million. The Operating EBITDA margin contracted by 350 basis points to 23.9%.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### Malaysia

The Malaysian pathology business recorded a decline in revenue of 3.8% and Operating EBITDA decline of 6.6% for the year ended 30 June 2016. Revenue and Operating EBITDA continued to be impacted by the introduction of a GST policy in April 2015 and reductions in health screening for foreign workers.

#### Singapore

The Singapore pathology business delivered revenue growth of 6.4% and Operating EBITDA growth of 5.3% for the year ended 30 June 2016, reflecting strong organic growth from further penetration in the specialist and commercial markets. This revenue growth was partially offset by an investment in the relocation of the core laboratory to larger premises with new state-of-the-art automation where a broader range of tests can be conducted.

#### Medical centres

The medical centres business recorded a decline in revenue of 4.7% and Operating EBITDA decline of 30.2% for the year ended 30 June 2016. The reduction in revenue and Operating EBITDA resulted from the divestment of six skin clinics as part of the divestment of the Australian Pathology operations in July 2015, general volume softness in the market and the reintroduction of a Medicare Benefits Scheme fee freeze in July 2015.

#### Financial position

The Group has a strong financial position with \$4.4 billion in assets underpinned by \$2.7 billion of shareholder funds. This position is further supported by \$200 million in unrestricted cash reserves and \$300 million in available debt facilities. With positive working capital and a gearing ratio of 35.2%, Healthscope Group has capacity to fund its strong pipeline of hospital expansion projects. Capital requirements for the Northern Beaches Hospital development is secured via project finance debt facilities which form part of the above facilities.

During the year, Healthscope also completed a refinancing of its debt facilities and a US Private Placement (USPP) to extend the maturity profile of the existing debt facilities and provide further funding flexibility in future.

#### Cash flow

Cash generated from operations of \$391.7 million represents an increase of 3.7% on FY15 resulting in cash conversion (cash generated from operations/EBITDA) of 96.0% (FY15: 99.2%).

#### Capital expenditure

Total capital expenditure of \$523.4 million was \$170.9 million higher than FY15 (\$352.5 million) primarily driven by increased brownfield capital investment associated with Healthscope's hospital expansion program, including the Northern Beaches Hospital project.

#### Business strategies and prospects for future years

Healthscope has a range of operational and growth strategies for each of its businesses, and these, together with favourable industry dynamics across each of the markets in which the Company operates, provide a robust outlook for growth.

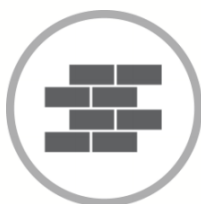
Key strategies for each of Healthscope's businesses are outlined below.

#### Hospitals

##### ORGANIC



##### BROWNFIELDS



##### RELOCATE AND GROW



##### PPPs / GOVERNMENT OUTSOURCING



##### INTERNATIONAL GROWTH



#### Organic growth

Organic growth will continue to benefit from increasing demand for private hospital services, coupled with the delivery of further operational improvements in relation to case mix and continued efficiencies resulting from labour and procurement initiatives.

Healthscope will also continue to focus on delivering market leading quality outcomes and the promotion of transparent reporting of these across the industry. The Company will continue to work collaboratively with private health insurance funds to explore additional pay-for-quality opportunities.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### *Brownfields and "relocate and grow" projects*

Healthscope has significant experience in designing and building private hospital facilities, and is well positioned to expand its hospital facilities to meet additional patient demand through brownfield projects and relocate and grow projects.

Brownfield projects are those where an existing hospital is expanded through the addition of new beds and theatres, and in some cases other additional infrastructure such as consulting suites and car parking. "Relocate and grow" projects involve the construction of a new hospital close to an existing hospital and the transfer of services from the existing hospital to the new facility which typically has increased capacity and higher quality amenities.

In FY16, Healthscope completed seven construction projects, including three major projects: Gold Coast Private (QLD), Knox Private (VIC) and National Capital Private (ACT) which delivered an additional 163 beds and nine operating theatres to the Group's portfolio.

Healthscope also has ten brownfield and "relocate and grow" projects currently under construction with a total estimated project cost of approximately \$1.2 billion.

|                                | Beds | Operating theatres | Other   |
|--------------------------------|------|--------------------|---|
| Northern Beaches (NSW)         | 450  | 20                 | ED, consulting suites, radiology, GP clinic           |
| Holmesglen Private (VIC)       | 147  | 8                  | Consulting suites, oncology bays, ICU, ED             |
| Norwest Private (NSW)          | 60   | 3                  | Consulting suites                                     |
| Frankston Private (VIC)        | 60   | 2                  | Oncology department, car parking                      |
| Brisbane Private (QLD)         | 29   | 2                  | Consulting suites, car parking, rehab gym, retail     |
| Newcastle Private (NSW)        | 16   | 2                  | Consulting suites, car parking                        |
| Darwin Private (NT)            | -    | 2                  | CSSD relocation                                       |
| Sunnybank Private (QLD)        | -    | 2                  | Consulting suites, car parking, day surgery expansion |
| Sydney Southwest Private (NSW) | -    | 2                  | Consulting suites, car parking                        |
| Northpark Private (VIC)        | -    | -                  | ED  |
| Total                          | 762  | 43                 |   |

In addition to projects under construction, Healthscope has a further two projects that are Board approved and in the final stages of planning.

|                            | Beds | Operating theatres | Other                   |
|----------------------------|------|--------------------|-------------------------|
| John Fawcner Private (VIC) | 41   | 2                  | Expand CCU, car parking |
| Gold Coast Private (QLD)   | 30   | 8                  | -                       |
| Total                      | 71   | 10                 |                         |

The Group has a number of other projects in planning stages, and it is expected that the project pipeline will be added to over time given the strong underlying demand dynamics and the development potential within the portfolio.

#### *Governments partnerships and outsourcing*

In response to growing demand for healthcare services and a public system under increasing pressure, it is expected that State and Territory Governments will increasingly seek to partner with private hospital operators for the construction and operation of public hospitals, such as the Northern Beaches Hospital, and outsourcing of some aspects of public patient service delivery to the private hospital sector. As Australia's second largest private hospital operator, with demonstrated leadership in quality outcomes and proven design and construction expertise, Healthscope is well positioned to capitalise on these opportunities.

In December 2014, Healthscope entered into a contract with the New South Wales Government to design, build, operate and maintain the new Northern Beaches Hospital in Sydney. The hospital will have 450 overnight beds, of which approximately 60% will be utilised by public patients. Construction of the hospital commenced in March 2015 and the hospital is expected to be operational in late 2018.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### *International expansion*

With growing demand for healthcare services in Asia, Healthscope is actively assessing opportunities to leverage our hospital management expertise in the region. The most likely entry point into the Asian hospital market for Healthscope would be through a management contract or joint venture, which enables Healthscope to leverage its operational expertise, knowledge and training capabilities.

#### **International pathology**

##### *New Zealand*

The priority for Healthscope in New Zealand is to maintain strong government relationships and continue to deliver a high quality and cost effective value proposition to the DHBs as well as driving operational efficiencies that generate benefits for both Healthscope and our DHB partners.

##### *Malaysia*

In Malaysia, Healthscope has identified a number of growth opportunities including pursuing additional hospital outsourcing contracts and new screening packages for community patients.

Healthscope operates 27 laboratories across Malaysia and there are opportunities to improve workflow and efficiency through automation, as well as more centralised testing at the main laboratory. Opportunities for procurement efficiencies are also being explored through further leveraging Healthscope's group buying power.

##### *Singapore*

In Singapore, Healthscope is investing resources into achieving greater penetration in the hospitals and specialists segments, increased labour efficiencies through automation and further procurement savings by leveraging Healthscope's group purchasing power.

#### **Medical centres**

In the medical centres business Healthscope continues to focus on strengthening the links between Healthscope's medical centres and hospitals and private health insurance funds. In addition, Healthscope is positioning the portfolio to respond to opportunities arising from the Federal Government's review of primary health care at the same time as managing the business' cost base to offset where possible the on-going Medical Benefits Scheme fee freeze.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### MATERIAL BUSINESS RISKS

Healthscope has a risk management framework in place that facilitates the identification, assessment and reporting of material business risks at a business and Group level.

Healthscope's risk management framework is reviewed annually by the Audit, Risk and Compliance Committee, and the Committee reports to the Board in relation to its effectiveness.

A review of the key strategic and operational risks is performed with the Senior Executives twice annually and considered by the Audit, Risk and Compliance Committee.

The material business risks that have the potential to impact achievement of the Group's strategic priorities and business objectives, with relevant mitigation strategies, are outlined below. The Company does not consider it has any material environmental risks (as defined by the Corporate Governance Principles and Recommendations (3rd Edition) published by the ASX Corporate Governance Council).

These risks should not be taken to be a complete or exhaustive list of the risks and uncertainties associated with Healthscope. Many of the risks are outside the control of the Directors. There can be no guarantee that Healthscope will achieve its stated objectives, that it will meet trading performance or financial results guidance that it may provide to the market, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

We have not included below the more generic risk areas that affect most companies or general economic factors that may impact Healthscope.

#### Government policy and regulation

Healthscope operates in healthcare industries which are subject to extensive laws and regulations relating to, among other things, the conduct of operations, the licencing and accreditation of facilities and the addition and development of facilities and services. There are a number of government policies and regulations that, if changed, may have a material adverse impact on the financial and operational performance of Healthscope. Healthscope monitors legislative and regulatory developments and engages appropriately with legislative and regulatory bodies to manage this risk.

#### Private health insurance funds

The majority of Healthscope's revenue is derived from private health insurance funds. The profitability of Healthscope's business is influenced by Healthscope's ability to reach ongoing commercial agreement with private health insurance funds. Failure to reach a satisfactory commercial agreement with a key private health insurance fund has the potential to negatively impact the financial and operational performance of Healthscope. Healthscope maintains a regular dialogue with each of the private health insurance funds and continues to work closely with them on various strategies, including pay-for-quality initiatives, to deliver mutually beneficial outcomes to both parties as part of our on-going contract negotiations.

#### Private health insurance fund membership and level of cover

A worsening economic climate, changes in economic incentives, annual increases in private health insurance premiums and other factors may cause the number of members in private health insurance funds to fall or result in members choosing to decrease their level of private health insurance coverage, which has the potential to reduce demand for Healthscope's services, resulting in decreased revenues.

If the profitability of private health insurance funds deteriorates, there is a risk that private health insurance funds may put increased pricing pressure on private hospital operators such as Healthscope. Healthscope monitors private health insurance participation rates and engages with the private health insurers on a regular basis.

#### Relationships with Accredited Medical Practitioners

Accredited Medical Practitioners tend to prefer to work at hospitals that have high quality facilities, equipment, nursing staff and clinical safety outcomes and are conveniently located, amongst other factors. In the event Healthscope's hospitals become less attractive to Accredited Medical Practitioners, there is a risk that Accredited Medical Practitioners will cease to practice at Healthscope's hospitals or refer patients to Healthscope's facilities. This, in turn, would adversely impact Healthscope's financial and operational performance. Healthscope seeks to maintain a strong relationship with its Accredited Medical Practitioners through regular engagement to understand their preferences and requirements and operates its hospital portfolio within a strict quality and clinical framework to mitigate the risk of poor quality outcomes.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### Licences and accreditation

If Healthscope is unable to secure or retain licences or accreditations for the operation of its hospitals and pathology laboratories (where required) in the future, or any of its existing licences or accreditations are adversely amended or revoked, this may adversely impact Healthscope's ability to operate its businesses. This risk is mitigated by Healthscope's comprehensive quality and clinical framework which seeks to ensure that facilities are maintained and operations are conducted to the standards required to retain licences and accreditation.

#### Competition

There is a risk that the actions of Healthscope's current or potential future competitors will negatively affect Healthscope's ability to:

- attract and retain Accredited Medical Practitioners to practice in Healthscope's hospitals;
- successfully tender for District Health Board contracts in New Zealand;
- attract community pathology work in Singapore or Malaysia; and
- attract and retain General Practitioners to practice in Healthscope's medical centres.

Healthscope is focused on providing high quality healthcare services across all its businesses and maintaining facilities to a high standard, so it can effectively compete in its each of its markets.

#### Nursing labour

The most significant cost in Healthscope's hospital operations is nursing labour. Increases in the cost of nursing labour or tightening of supply for nursing labour could have a material impact on the financial and operational performance of Healthscope.

Healthscope has a comprehensive recruitment program for nurses, including an active graduate recruitment program. Healthscope employs a range of nurses with different levels of experience and qualifications, so that nursing labour is matched to clinical needs.

#### Medical indemnity claims and associated costs

Current or former patients may, in the normal course of business, commence or threaten litigation for medical negligence against Healthscope. Subject to indemnity insurance arrangements, future medical malpractice litigation, or threatened litigation, could have an adverse impact on the financial performance and position and future prospects of Healthscope. Healthscope actively monitors and manages potential and actual claims and disputes.

#### Insurance

Insurance coverage is maintained by Healthscope consistent with industry practice, including workers compensation, business interruption, property damage, public liability and medical malpractice. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover all or any future claims. Healthscope's insurance coverage is managed by an experienced team who works closely with respective insurers, and also ensures that any claims are appropriately handled.

#### Development projects

Healthscope enters into development projects in its regular course of business such as brownfield and "relocate and grow" hospital developments. There are a number of risks associated with development projects, including business disruption during construction, cost overruns, and delays in anticipated revenues flowing from proposed developments. Healthscope has project specific risk management and reporting systems in place and the progress and performance of material projects is regularly reviewed by senior management and the Board.

#### New Zealand pathology contracts

Healthscope currently has contracts with 13 District Health Boards for the provision of pathology services in New Zealand. There is a risk that each time a contract becomes due for renewal, the relevant District Health Board enters into a new contract with another party or renews the contract with Healthscope but on less favourable terms. The majority of these contracts are multi-year contracts and Healthscope seeks to maintain strong relationships with each of the District Health Boards to mitigate the risk that a contract is not renewed or renewed on unfavourable terms.

#### International expansion

From time to time, Healthscope explores potential international expansion opportunities. There is no certainty that any of these opportunities will result in new revenue streams and there is a risk that any new business venture may not be successful which could have a negative impact on Healthscope's financial results and reputation. Healthscope undertakes comprehensive due diligence in relation to any prospective acquisition or partnership and takes a disciplined approach to investment of capital to mitigate these risks.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (*continued*)

#### Operating EBITDA

The following table reconciles the net profit for the year to Operating EBITDA which is the key performance metric used by management to assess the financial performance of each operating segment:

|   | Year ended<br>30 June 2016<br>\$'m | Year ended<br>30 June 2015<br>\$'m |
|---|------------------------------------|------------------------------------|
| <b>Continuing operations</b>  |                                    |                                    |
| Statutory net profit for the year   | 182.8                              | 153.7                              |
| <i>Add back</i>   |                                    |                                    |
| Income tax expense  | 68.7                               | 64.8                               |
| Net finance cost  | 43.8                               | 70.3                               |
| Depreciation and amortisation   | 97.5                               | 89.8                               |
| <b>Earnings before finance costs, income tax, depreciation, and amortisation (EBITDA)</b>   | <b>392.8</b>                       | <b>378.6</b>                       |
| <i>Add back</i>   |                                    |                                    |
| Other income and expense items  | 15.1                               | 2.2                                |
| <b>Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA) from continuing operations</b>   | <b>407.9</b>                       | <b>380.8</b>                       |
| <b>Discontinued operations (Pathology Australia)</b>  |                                    |                                    |
| Statutory net loss for the year   | (1.7)                              | (12.9)                             |
| <i>Add back</i>   |                                    |                                    |
| Income tax benefit  | (0.7)                              | (2.6)                              |
| Net finance cost  | -                                  | 0.2                                |
| Depreciation and amortisation   | 0.6                                | 11.7                               |
| <b>Earnings before finance costs, income tax, depreciation, and amortisation (EBITDA)</b>   | <b>(1.8)</b>                       | <b>(3.6)</b>                       |
| <i>Add back</i>   |                                    |                                    |
| Other income and expense items  | -                                  | 11.1                               |
| <b>Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA) from discontinued operations</b> | <b>(1.8)</b>                       | <b>7.5</b>                         |

The following table provides an analysis of the Operating EBITDA achieved by each reportable segment for the financial year ended 30 June 2016.

|   | Year ended<br>30 June 2016<br>\$'m | Year ended<br>30 June 2015<br>\$'m |
|---|------------------------------------|------------------------------------|
| <b>Operating EBITDA</b>   |                                    |                                    |
| Hospitals Australia   | 354.9                              | 327.6                              |
| Pathology New Zealand   | 50.7                               | 41.6                               |
| Other   | 28.8                               | 33.4                               |
| <b>Total all segments</b>   | <b>434.4</b>                       | <b>402.6</b>                       |
| Corporate   | 26.5                               | (21.8)                             |
| <b>Total of all segments after corporate costs, continuing operations</b> | <b>460.9</b>                       | <b>380.8</b>                       |
| Pathology Australia (now discontinued)                                    | (1.8)                              | 7.5                                |
| <b>Total all segments after corporate costs</b>                           | <b>459.1</b>                       | <b>388.3</b>                       |

Operating EBITDA represents profit before income tax expense, net finance costs, depreciation and amortisation adjusted for certain revenue and expense items that are unrelated to the underlying performance of the business. The Company believes that presenting Operating EBITDA provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating EBITDA is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information".

# **HEALTHSCOPE LIMITED**

## **DIRECTORS' REPORT**

### **STATE OF AFFAIRS**

#### **Divestment of Pathology**

On 6 July 2015, Healthscope completed the Sale of its Pathology Australia operations to Crescent Capital Partners for \$105.0 million. As part of the sale, Healthscope also transferred six skin centres from its medical centres operations to Crescent Capital Partners. The consideration of \$105.0 million comprised of \$92.5 million cash and a promissory note of \$12.5 million. No gain or loss was recognised in the current period as the net assets were written down to their recoverable amount in prior year based on the agreed proceeds from the sale.

The current consolidated net profit after tax includes the operations of Pathology Australia for the period 1 July 2015 to 6 July 2015 (loss of \$1.7 million).

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### SUBSEQUENT EVENTS

As at 31 July 2016, Management Shareholders held a total of 7,930,582 shares pursuant to voluntary escrow arrangements in connection with the legacy LTI plan and listing of Healthscope. The escrow period ended on 31 July 2016.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### FUTURE DEVELOPMENTS

#### Hospitals

Healthscope remains well positioned to continue to expand its hospital facilities to meet additional patient demand. Healthscope opened three new brownfield developments in FY16, providing the platform for growth over the next few years, while planning is in place for the expansion of a range of other major hospital facilities for the next 10 years. Where developments are planned, Healthscope continues to secure development approvals, consistent with the hospital's medium and long term plans. This is intended to allow hospital expansions (including beds and operating theatres) to be delivered in a staged approach to meet future patient demand. The Northern Beaches Hospital development continues to progress according to plan, and Healthscope will continue to assess other new development opportunities from State Governments as they arise.

#### New Zealand pathology

The priority for Healthscope in New Zealand remains to enhance its value proposition of high quality services and superior operational efficiencies to the DHBs. Operationally, Healthscope is focused on extracting further economies of scale, including cost synergies, through the operational integration of its expanded laboratory network, and share some of the long term efficiencies generated with DHB's. Healthscope will seek to secure additional DHB contracts as they become contestable, and is well positioned to replace existing providers given its reputation for quality and service.

#### Malaysia, Singapore and Vietnam pathology

In South East Asia, Healthscope is focused on further strengthening its market positions through an enhanced service offering and greater segmental market penetration. Across all its Asian pathology businesses, Healthscope has identified potential for greater laboratory labour efficiencies through increased benchmarking and laboratory automation. In addition to labour efficiencies, further procurement savings can be achieved by leveraging Healthscope's centralised purchasing power. Beyond its existing pathology operations, Healthscope will also look to capitalise on its knowledge and experience in the region by actively explore further opportunities for growth.

### ENVIRONMENTAL REGULATIONS

The Healthscope Group is not subject to any significant environmental regulations under a law of the Commonwealth or of a state or territory.

### INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Healthscope Group paid a premium in respect of a contract insuring the Directors of Healthscope Limited, the Company Secretary and Executives of the Healthscope Group against liability to the extent incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium are not to be disclosed.

The Healthscope Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Healthscope Group or of any related body corporate against liability incurred as such an officer or auditor.

### ROUNDING OFF OF AMOUNTS

The Company is an entity to which the ASIC Class Order 2016 / 191 applies, and in accordance with that the Director's report and financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise stated.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

# REMUNERATION REPORT

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# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 1 OVERVIEW

Over the course of FY16 Healthscope has continued its track record of delivering consistent earnings growth while providing high standards of healthcare to patients in Australia, New Zealand and South East Asia. A number of major hospital expansion projects were also completed this year, positioning the portfolio for further growth.

The Board believes the Company's success depends on the performance of all Healthscope employees. The structure of remuneration, particularly at the Senior Executive level, is a key component in driving positive outcomes for employees, shareholders, the Company as a whole and other health sector stakeholders. Healthscope's remuneration strategy and associated programs have therefore been specifically designed to align Senior Executive reward with the creation of shareholder value and achievement of quality health outcomes.

Healthscope delivered Operating EBITDA of \$407.9 million for the full-year ended 30 June 2016, a 7.1% increase on the prior corresponding period. This increase resulted primarily from earnings growth and margin expansion in the hospital and New Zealand pathology businesses. Remuneration outcomes in FY16 reflect this performance against financial targets and strategic drivers and the weighting accorded to various financial goals. Accordingly, Short Term Incentive (STI) awards to Senior Executives for FY16 performance ranged around the target opportunity. The Board considers awards are consistent with shareholder outcomes across the same period, which showed growth in key measures of shareholder value creation. No awards are vested under the Long Term Incentive (LTI) Plan, as performance periods are not yet complete.

As flagged in the 2015 Remuneration Report, key changes in Senior Executive remuneration were made in FY16 as a means of strengthening the relationship between remuneration outcomes and company performance and further aligning reward with shareholder interests. Key remuneration changes implemented in FY16 include:

- for the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), adopting a STI financial target based on Operating NPAT, to better align remuneration outcomes for these key executives with shareholders' interests;
- for all Senior Executives, supplementing financial targets with individually focussed non-financial STI targets (that account for 30% of the target reward) to create a balanced scorecard approach to short term remuneration outcomes;
- introduction of a deferred equity component for Senior Executives' STI reward, which will result in 30% of any STI award being awarded as STI Performance Rights, which are rights to receive fully-paid ordinary Healthscope shares, that are eligible for vesting after a two-year service period; and
- the maximum STI reward for the CEO and CFO has been reduced from 200% to 150% of Total Fixed Reward (TFR).

As advised to shareholders at our 2015 Annual General Meeting, for Senior Executives (other than the CEO and CFO), Healthscope's STI awards contain an EBIT measure that is based on Operating EBIT, being statutory EBIT from Continuing Operations excluding one-off major expenditures unrelated to business as usual operations. This target has been in place for several years and takes into account that there are certain matters of a non-operational or non-recurring nature which may not accurately reflect underlying performance.

In addition, in order to provide further transparency around Senior Executive remuneration, Healthscope has also committed to retrospectively disclose the EPS metrics used in the calculation of LTI awards at the conclusion of the relevant performance period.

While no material changes are currently planned to the remuneration structure for the coming year, in FY17, Healthscope will continue to develop and maintain a remuneration framework that is equitable and aligned with the long term interests of Healthscope and its shareholders.

### 2 WHO DOES THIS REPORT COVER?

This Remuneration Report sets out the remuneration arrangements for the Healthscope Group's Key Management Personnel (KMP) (who are listed in the table below). For the remainder of this Report, the KMP are referred to as either Senior Executives or Non Executive Directors.

| Name                           | Position  |
|--------------------------------|---|
| <b>Non Executive Directors</b> |   |
| Paula Dwyer                    | Chairman (Non Executive)                          |
| Tony Cipa                      | Non Executive Director                            |
| Jane McAloon                   | Non Executive Director (appointed 1 March 2016)   |
| Rupert Myer AO                 | Non Executive Director                            |
| Paul O'Sullivan                | Non Executive Director (appointed 1 January 2016) |
| Ziggy Switkowski AO            | Non Executive Director (appointed 4 April 2016)   |
| Aik Meng Eng                   | Non Executive Director (retired 31 December 2015) |
| Simon Moore                    | Non Executive Director (retired 31 December 2015) |
| <b>Senior Executives</b>       |   |
| Robert Cooke                   | Managing Director and CEO                         |
| Michael Sammells               | CFO   |
| Mark Briscoe                   | General Manager Operations                        |
| Anoop Singh                    | General Manager International Pathology           |

Except as otherwise noted, all Non Executive Directors and Senior Executives have held their positions for the duration of FY16. This Remuneration Report covers the entirety of FY16.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 3 FY16 REMUNERATION POLICY AND GUIDING PRINCIPLES

#### 3.1 Non Executive Director Remuneration

Healthscope's remuneration policy for Non Executive Directors aims to ensure that Healthscope can attract and retain suitably qualified and experienced Non Executive Directors having regard to:

- the level of fees paid to Non Executive Directors of other major Australian companies;
- the size and complexity of Healthscope's operations; and
- the responsibilities and work requirements of Board members.

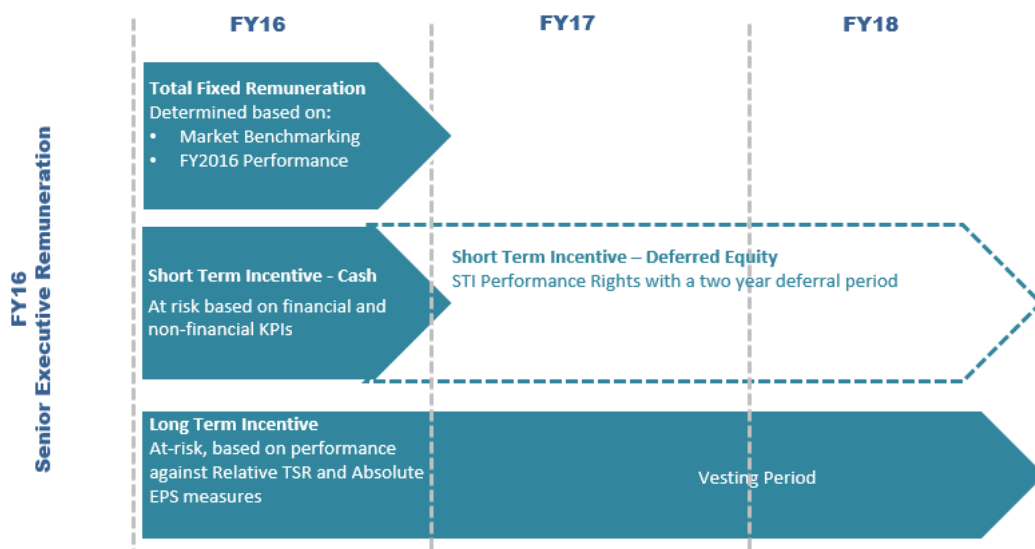
Non Executive Director remuneration does not include performance-based payments.

#### 3.2 Senior Executive Remuneration

The Board is committed to developing and maintaining a remuneration framework that is equitable and aligned with the long-term interests of Healthscope and its shareholders and which enables Healthscope to attract and retain skilled Senior Executives.

In FY16, Senior Executive remuneration was made up of three components.

- Fixed remuneration;
- STI comprising an award based on assessed performance against a financial hurdle and balanced scorecard; 70% paid in cash and 30% as STI Performance Rights deferred for two years; and
- LTI comprising an award of LTI Performance Rights with vesting after a three year performance period based on assessed performance against Relative TSR and Absolute EPS measures.



# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

The particular principles that guide the Board and the Remuneration Committee when setting Senior Executive remuneration and the links to the remuneration framework are illustrated below. These principles also guide remuneration of Healthscope's other executives.

### Remuneration principles

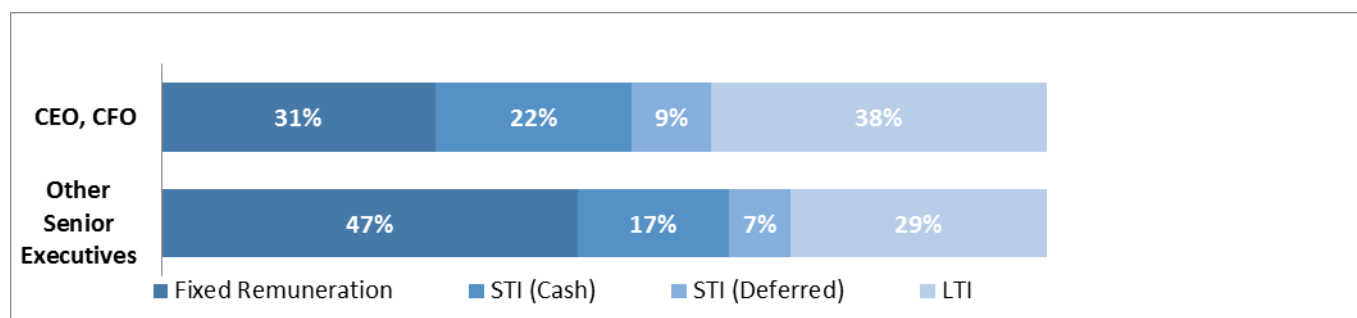
- Ensure remuneration structures are equitable, reflect performance and are aligned with the long-term interests of Healthscope and its shareholders;
- Attract and retain skilled Senior Executives;
- Structure short and long term incentives that are challenging and linked to the creation of sustainable shareholder returns; and
- Ensure any termination benefits are justified and appropriate.



### Remuneration framework FY16

| Fixed Remuneration reflects seniority, complexity, nature and size of the role  | At risk reward is performance-based, with a mix of STI and LTI aligned with Healthscope's strategic direction to deliver value to shareholders in both the short and long term  |   |
|---|---|---|
| FIXED   | AT RISK   |   |
| <b>Total Fixed Remuneration (TFR) - cash</b> <ul style="list-style-type: none"> <li>– reviewed annually</li> <li>– formal benchmarking against peer companies with Senior Executive Fixed Remuneration generally positioned around the peer median</li> <li>– influenced by individual performance</li> </ul> | <b>Short Term Incentives (STI) – cash and deferred equity in the form of STI Performance Rights</b> <ul style="list-style-type: none"> <li>– determined based on a balanced scorecard, including performance against financial and non-financial targets</li> <li>– a 'gateway' is applied – 90% of overall Company EBIT target must be achieved before any STI can be earned</li> <li>– for the CEO and CFO, STI target opportunity is set at 100% of Total Fixed Remuneration (TFR); maximum opportunity is set at 150% of TFR</li> <li>– for other Senior Executives STI target opportunity is set at 50% of TFR with maximum opportunity up to 100% of TFR</li> </ul> | <b>Long Term Incentives (LTI) – Performance Rights</b> <ul style="list-style-type: none"> <li>– the FY16 LTI grant was made in the form of Performance Rights (i.e. rights to receive shares in Healthscope if the TSR and EPS performance measures are satisfied at the end of the measurement period)</li> <li>– for the CEO and CFO, the LTI opportunity set at 120% of TFR</li> <li>– for other Senior Executives, the LTI opportunity set at 60% of TFR</li> </ul> |

Application of these principles has resulted in the following percentage mix of remuneration components for Senior Executives for FY16<sup>1</sup>:



<sup>1</sup> Assumes STI at target, full provision of the deferred STI in future and vesting of LTI at a value equal to the original award

The Board has broad "clawback" powers to determine that any Performance Rights granted under the LTI or STI Plans may lapse or be forfeited, or be repaid in certain circumstances (e.g. in the case of serious misconduct). This protects Healthscope against the payment of benefits where participants have acted inappropriately.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 4 REMUNERATION GOVERNANCE FRAMEWORK

#### 4.1 Role of the Board and Remuneration Committee

The Board is responsible for ensuring that Healthscope's remuneration structures are equitable and aligned with the long-term interests of Healthscope and its stakeholders. The Remuneration Committee, established by the Board, is made up of a majority of independent directors, with responsibility for reviewing key aspects of Healthscope's remuneration structure and arrangements.

The Remuneration Committee reviews and recommends to the Board:

- fixed remuneration and incentive arrangements for the Senior Executives and other executives reporting to the CEO;
- major changes and developments to employee incentive plans; and
- remuneration arrangements for Non Executive Directors.

#### 4.2 Remuneration consultants and other advisors

The Remuneration Committee consulted with various external advisers during the process of developing Healthscope's remuneration framework. The Committee intends to continue to obtain external independent advice when required, and will use it to guide and inform their considered decision-making.

Healthscope did not receive any 'remuneration recommendations' as defined under the Corporations Act 2001 in FY16.

### 5 NON EXECUTIVE DIRECTOR REMUNERATION

#### 5.1 Current Non Executive Director fee pool

The current Non Executive Director fee pool was set by Healthscope at a general meeting on 28 June 2014 at \$2,000,000 per annum and has remained unchanged over FY16, as have Non Executive Director fees.

#### 5.2 Non Executive Director fee structure

| Position               | Board Fees               | Board Committees                     |  |
|------------------------|--------------------------|--------------------------------------|--|
|                        |                          | Audit, Risk and Compliance Committee | Remuneration Committee      Nominations Committee <sup>(1)</sup> |
| Chairman               | \$475,000 <sup>(2)</sup> |                                      |  |
| Non Executive Director | \$150,000                |                                      |  |
| Committee Chairman     |                          | \$30,000                             | \$30,000   |
| Committee Member       |                          | \$20,000                             | \$20,000   |

Notes: All director fees include superannuation, as applicable. The Non Executive Director nominated by the Carlyle Group, Simon Moore, had waived his entitlement to any Board and Committee fees up to the date of his retirement effective 31 December 2015. The Non Executive Director nominated by TPG, Aik Meng Eng, had waived his entitlement to any Board and Committee fees from the date of listing up until his retirement effective 31 December 2015.

<sup>(1)</sup> Included in Board fees.

<sup>(2)</sup> Fee includes service on all committees.

Other payments may be made for additional services outside the scope of Board and Board Committee duties.

Non Executive Directors are also entitled to be reimbursed for all travel and other expenses reasonably incurred in attending to Healthscope's affairs.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 6 COMPANY PERFORMANCE AND SENIOR EXECUTIVE REMUNERATION IN DETAIL

#### 6.1 Company performance for FY16

Healthscope has continued to demonstrate strong performance in FY16 against key metrics as shown below, with comparison to FY15. Group Revenue, Operating EBITDA and Operating EBIT from continuing operations all increased on the prior year, reflecting continued organic growth and operational productivity improvements in core operations.

It is not possible to address the statutory requirement that Healthscope provides a five-year discussion of the link between performance and reward in this Remuneration Report as Healthscope has not been listed for sufficient time.

|             | Share Performance         |                          |                        | Earnings Performance |                        |                      |                      |                      |
|-------------|---------------------------|--------------------------|------------------------|----------------------|------------------------|----------------------|----------------------|----------------------|
|             | Closing share price (A\$) | Dividend p/share (cents) | TSR <sup>(1)</sup> (%) | EPS (cents)          | Operating EBITDA (\$M) | Operating EBIT (\$M) | Operating NPAT (\$M) | Statutory NPAT (\$M) |
| <b>FY16</b> | <b>2.86</b>               | <b>7.2</b>               | <b>8</b>               | <b>10.4</b>          | <b>407.9</b>           | <b>310.4</b>         | <b>194.6</b>         | <b>181.1</b>         |
| <b>FY15</b> | 2.72 <sup>(2)</sup>       | 3.3                      | 31                     | 8.6                  | 380.8                  | 291.0                | 153.1                | 140.8                |

<sup>(1)</sup> Dividends include only those amounts declared and paid up to 30 June of the relevant financial year, hence FY16 includes the interim dividend from FY16 and final dividend from FY15.

<sup>(2)</sup> The opening share price on 28 July 2014 was \$2.10.

#### 6.2 Fixed Remuneration

Fixed Remuneration is made up of cash salary, superannuation and other approved benefits.

A benchmarking exercise was conducted in FY16 to review the level of Fixed Remuneration of the Senior Executives against peer companies. Fixed Remuneration of Senior Executives is generally positioned at the median level of peer companies. Individual fixed remuneration increases for Senior Executives during FY16 were in line with general market movement. In some cases as a consequence of reduced STI opportunity, additional increases were made in order to offset the impact on total reward, consistent with the Company's remuneration policy and guiding principles.

#### 6.3 Short Term Incentive

The STI Plan (including its performance conditions) is designed to provide increased focus on and reward for performance against those areas that most significantly drive the delivery of Healthscope's strategic initiatives.

Targets were set at the commencement of FY16 and assessed at the end of the financial year, based on the Company's audited annual results and individual performance against non-financial targets. A gateway is in place for all Senior Executives which means a minimum of 90% of the Group Operating EBIT target must be achieved before any incentives can be paid.

Potential awards are expressed as a percentage of Fixed Remuneration.

##### 6.3.1 STI KPIs

For FY16, all STI targets for Senior Executives were aligned with the balanced scorecard approach in place across the group. The composition of these targets is set out below. An indicator of the results achieved against these objectives in FY16 is shown at 6.3.2. STI Awards for Senior Executives ranged around the target opportunity, reflecting relative achievement of financial and non-financial metrics.

Financial targets for Senior Executives other than the CEO and CFO are based on the 'Operating EBIT' measure at a Group or Divisional level. Operating EBIT is statutory EBIT excluding one-off major expenditures unrelated to business as usual operations. This hurdle has been in place for several years and takes into account that there are certain matters of a non-recurring nature which may not accurately reflect underlying performance. As the CEO and CFO have responsibility for the whole business, including capital management, their STI financial measure is based on Operating Net Profit After Tax (Operating NPAT). Operating NPAT is statutory NPAT for Continuing Operations; excluding one-off major expenditures unrelated to business as usual operations.

Non-financial measures comprise specific targets and goals in relation to 'Quality', 'Growth and Innovation' and 'People, Safety and Culture'; all areas which are key to positive outcomes for Healthscope and its stakeholders. Each category is weighted equally. A gate also applies to the 'People, Safety and Culture' category, with an internal metric related to safety reporting culture required to be achieved before assessment can be made against other objectives. This gate was met in FY16.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

| Targets and Weightings (as a percentage of reward at target) |                            |                                     |   |                                 |                        |
|--|----------------------------|-------------------------------------|---|---------------------------------|------------------------|
| Senior Executive   | Position                   | Group NPAT<br>(with gate to be met) | Group Operating EBIT<br>(with gate to be met) | Divisional Financial Measure(s) | Non-Financial Measures |
| Robert Cooke   | CEO                        | 70%                                 |   |                                 | 30%                    |
| Michael Sammells   | CFO                        | 70%                                 |   |                                 | 30%                    |
| Mark Briscoe   | GM Operations              |                                     | 40%   | 30% <sup>1</sup>                | 30%                    |
| Anoop Singh  | GM International Pathology |                                     | 10%   | 60% <sup>2</sup>                | 30%                    |

<sup>(1)</sup> For GM Operations these targets are based on Hospital Division EBIT (20%) and Medical Centres EBIT (10%).

<sup>(2)</sup> For GM International Pathology this target is based on Pathology Division EBIT.

### 6.3.2 STI Awards for FY16

The determination of STI payouts for Senior Executive financial targets is based on the following schedule:

| Performance - Achievement of Target | Payout - Percentage of STI Target                |
|-------------------------------------|--|
| ≤ 90% of Target                     | Nil payout                                       |
| > 90% to less than 100% of Target   | Straight-line between 1% and 99.9% of Target STI |
| 100% to less than 102% of Target    | 100% of Target STI                               |
| 102% to less than 110% of Target    | Straight-line between 110% and 150% of Target    |
| ≥ 110% of Target                    | 150% of Target STI                               |

For FY16, stretch opportunities did not apply to non-financial targets, with any stretch payments made solely on the basis of the relevant group financial metric.

In relation to FY16, 30% of Senior Executives' STI will be awarded as STI Performance Rights, which are rights to receive ordinary Healthscope shares on vesting. Once the STI Performance Rights have been issued, there are no further performance measures, however the award will be subject to a two year deferral period and continued employment. Any STI Performance Rights that do not vest will automatically lapse.

STI Performance Rights are granted at no cost and no payment is required to be made in order for the STI Performance Rights to vest and convert to shares. STI Performance Rights do not carry any voting or dividend entitlements.

The number of STI Performance Rights to be issued to Senior Executives is calculated by dividing the deferred portion of the STI reward by the Volume Weighted Average Price (VWAP) of Healthscope shares in the five days following the announcement of the Company's full year financial results. Accordingly, as at the date of this Report, the actual number of STI Performance Rights related to FY16 cannot be calculated and have not yet been issued. Based on the share price of the Company as at 30 June 2016 (\$2.86), 900,683 STI Performance Rights would be issued. This number has been used for the purposes of calculating diluted earnings per share in Note 5 to the financial statements.

The actual number of STI Performance Rights issued to Senior Executives in relation to 2016 will be reported to Shareholders in the Company's 2017 Remuneration Report.

#### Details of FY16 STI outcomes for Senior Executives

| Senior Executives         | Position                   | Total STI Awarded (\$) <sup>1</sup> | Cash Payment (\$) <sup>2</sup> | Value of STI Performance Rights (\$) | Percentage of Maximum STI |             | Overall Performance Relative to Objectives |
|---------------------------|----------------------------|-------------------------------------|--------------------------------|--------------------------------------|---------------------------|-------------|--|
|                           |                            |                                     |                                |                                      | % Awarded                 | % Forfeited |  |
| Robert Cooke              | CEO                        | 1,899,034                           | 1,329,324                      | 569,710                              | 82                        | 18          | Between target and stretch <sup>4</sup>    |
| Michael Sammells          | CFO                        | 929,713                             | 650,799                        | 278,914                              | 82                        | 18          | Between target and stretch <sup>4</sup>    |
| Mark Briscoe <sup>3</sup> | GM Operations              | 201,866                             | 141,306                        | 60,560                               | 45                        | 55          | Between threshold and target <sup>4</sup>  |
| Anoop Singh               | GM International Pathology | 185,631                             | 129,942                        | 55,689                               | 67                        | 33          | At target                                  |

<sup>(1)</sup> Represents the total value of the STI Award at the time of award.

<sup>(2)</sup> Cash payments will be paid to Senior Executives shortly after the Company's audited results for FY16 are released.

<sup>(3)</sup> Payout for Mark Briscoe is calculated in accordance with current STI arrangements, which are transitioning to a reduced target and maximum opportunity, so that by FY18 they are in line with other Senior Executives below the CEO and CFO, where target opportunity is 50% of fixed Remuneration and maximum opportunity is 75%.

<sup>(4)</sup> The CEO and CFO both achieved 123.2% of the target STI opportunity. The GM Operations achieved 90% of the target STI opportunity.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 6.3.3 Treatment on cessation

On cessation of employment, Senior Executives are not entitled to any unpaid STI, other than where the Senior Executive resigns for illness or other approved reasons, or where employment is terminated due to redundancy. In such cases, the Senior Executive, subject to Board discretion, may receive a pro-rata STI award based on performance over the period of the year that they were employed.

For unvested STI Performance Rights that are held as a deferred STI award, where a participant ceases employment for cause or due to resignation (other than due to death, ill health or disability) all unvested STI Performance Rights will automatically lapse.

However, pursuant to the Equity Incentive Plan Rules, the Board retains absolute discretion to determine, vest or lapse some or all STI Performance Rights in all circumstances.

### 6.3.4 Change of Control Affecting STI Performance Rights

In the event of a takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change in control of the company, the STI Performance Rights will vest, unless the Board determines otherwise.

## 6.4 Long Term Incentive

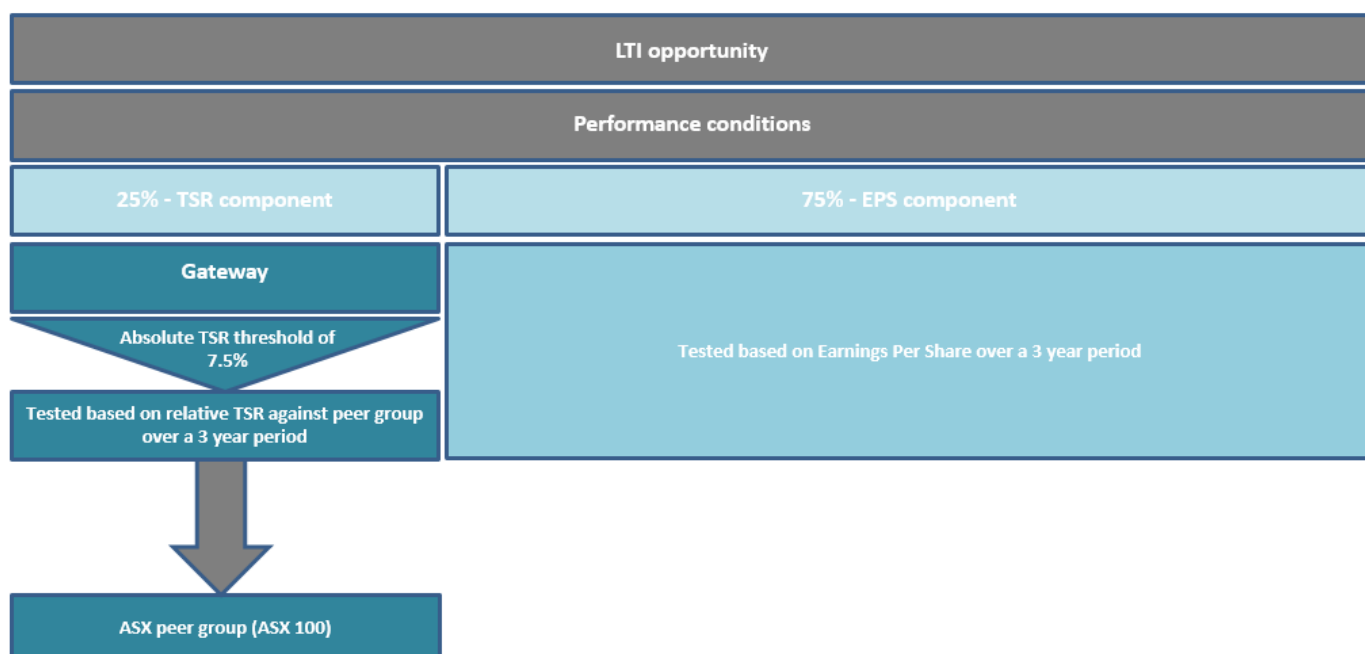
The LTI Plan is designed to align the interests of Senior Executives with the interests of shareholders by providing the opportunity for participants to receive an equity interest in Healthscope through the granting of Performance Rights.

Growth remains a key plank of Healthscope's strategic plan and it is appropriate that Senior Executives be incentivised to achieve targets which demonstrate sustainable growth. The LTI Plan also acts to retain key executives who have the capacity to influence Company strategy and direction and therefore supports Company performance and aligns with the interests of shareholders over the longer term.

Healthscope introduced the LTI Plan at the time of IPO in 2014. The FY16 LTI grant delivered awards in the form of Performance Rights. The number of LTI Performance Rights granted was determined by use of a face value methodology. The LTI award was divided by the VWAP of Healthscope shares traded on the ASX over the five trading days following the announcement of the FY15 full year financial results. Each LTI Performance Right entitles the holder to one ordinary share in Healthscope on satisfaction of performance conditions that are measured over a three year performance period. LTI Performance Rights are granted at no cost and no payment is required to be made in order for the Performance Rights to vest and for participants to receive their share allocation. LTI Performance Rights do not carry any voting or dividend entitlements.

Grants under the LTI Plan are expressed as a percentage of Total Fixed Remuneration. Grants for Senior Executives in FY16 ranged from 60% to 120% of Fixed Remuneration.

The diagram below is a snapshot of the terms and conditions applying to the LTI arrangements for all Senior Executives in FY16, with further details of the LTI arrangements outlined in sections 6.4.1- 6.4.5 below.



# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 6.4.1 Participation and Performance Hurdles

All Senior Executives participated in the LTI Plan in FY16 which has dual performance hurdles – Earning Per Share (EPS) and Relative Total Shareholder Return (RTSR) (with an absolute TSR gate or threshold of 7.5% to be achieved before RTSR can be assessed). The mix of measures means that both lead indicators (indicative of Healthscope business operations) and lag indicators (reflecting the market's reaction to the Company's past performance) are utilised.

The EPS measure was selected because of its correlation with long term shareholder return and its lower susceptibility to short term share price volatility. This measure also provides a greater 'line of sight' between Senior Executives' actions and the way in which their performance is measured. Consequently, this component was more heavily weighted in order to drive performance and provide an appropriate retention incentive.

RTSR measures the performance of an ordinary Healthscope share (including the value of any dividend and any other shareholder benefits paid during the period) against total shareholder return performance of a comparator group of companies, comprising the S&P ASX100 Index, over the same period. The Board believes that RTSR is an appropriate hurdle, as it links Senior Executive reward to Healthscope's relative share performance which is consistent with creating shareholder value relative to Healthscope's peer group. No Performance Rights vest unless Healthscope's TSR is higher than the median of this comparator group.

The S&P ASX100 is considered an appropriate peer group as a comparator group for RTSR performance, as it represents a meaningful statistical sample and an appropriate group of alternative potential investments for shareholders with which to compare Healthscope performance.

These hurdles and vesting schedules are set out below:

| Absolute EPS Performance<br>(75% Weighting)             | Relative TSR Performance<br>(25% Weighting)              | Portion of PRs that will vest against relevant target |
|---|--|---|
| Less than the threshold target                          | Less than the 50 <sup>th</sup> percentile                | Nil   |
| Equal to the threshold target                           | At 50 <sup>th</sup> percentile                           | 50%   |
| Greater than the threshold target, up to maximum target | Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile | Straight line vesting between 50% and 100%            |
| At or above maximum target                              | At or above the 75 <sup>th</sup> percentile              | 100%  |

### 6.4.2 Measurement

The performance period for the FY16 grant runs from 1 July 2015 to 30 June 2018.

For the FY16 grant, RTSR performance is independently assessed over the performance period against the constituents of the S&P ASX 100 index as at 1 July 2015.

EPS is calculated using Operating NPAT, divided by the weighted average number of shares on issue during the year. As a recently listed company, Healthscope does not have the history of EPS data to use as a basis for setting three year EPS targets. For the FY16 grant the EPS target will therefore consist of three annual EPS targets set by the Board and based on projected performance for each year. The EPS vesting outcome for each of the three years will be averaged to provide an overall outcome for the performance period. In assessing performance against EPS targets, the Board retains discretion to review outcomes to ensure that any aberrant results of testing are avoided.

The Board considers the disclosure of the EPS targets set for each LTI grant to be commercially sensitive information and that disclosure of these targets would not be in the Company's and shareholders' best interest. Consistent with the practice of not giving numerical guidance on forecasted financial performance, these targets will not be disclosed at the time of a grant. The Board will disclose the EPS targets used in the calculation of executive reward after the conclusion of each performance period.

An average threshold of 50% of target over the performance period must be reached before any LTI Performance Rights measured against the EPS target can vest.

Testing of the FY16 LTI grant will occur in FY19, shortly after the release of the Company's FY18 full year results.

No retesting is permitted in relation to either performance condition. Any Performance Rights that do not satisfy the performance conditions automatically lapse.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 6.4.3 LTI Performance Rights Granted in FY16

| Senior Executive | Position                   | Number of Performance Rights Granted <sup>(1)</sup> | Grant Date       | Fair Value on Grant Date (\$) |
|------------------|----------------------------|---|------------------|-------------------------------|
| Robert Cooke     | CEO                        | 697,925   | 23 November 2015 | 2.31                          |
| Michael Sammells | CFO                        | 341,684   | 30 October 2015  | 2.18                          |
| Mark Briscoe     | GM Operations              | 101,568   | 30 October 2015  | 2.18                          |
| Anoop Singh      | GM International Pathology | 84,060  | 30 October 2015  | 2.18                          |

(1) Vesting of Performance Rights is subject to meeting of performance hurdles as set out at in section 6.4.1. Figures therefore represent the maximum possible shares that could be granted following the end of the performance period, should all conditions be met.

(2) The number of LTI Performance Rights granted was determined by dividing the LTI reward by the VWAP of Healthscope shares in the five days following the announcement of the Company's FY15 financial results (\$2.65 per share).

### 6.4.4 Cessation of Employment

Where a participant ceases employment for cause or due to resignation (other than due to death, ill health or disability) all unvested Performance Rights will automatically lapse. In all other circumstances, the Performance Rights will remain on foot and subject to the original performance conditions, as if the participant had not ceased employment.

However, pursuant to the Equity Incentive Plan Rules, the Board retains absolute discretion to determine, vest or lapse some or all Performance Rights in all circumstances.

### 6.4.5 Change of Control

Where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the Performance Rights. Where only some of the Performance Rights are vested on a change of control, the remainder of the Performance Rights will immediately lapse.

If a change of control occurs before the Board exercises its discretion, a pro-rata portion of the Performance Rights (equal to the portion of the relevant Performance Period that has elapsed up to the change of control) will immediately and automatically vest.

## 6.5 IPO specific arrangements

All Senior Executives subscribed for shares at the IPO, with funds from the sale of Options granted under a legacy LTI Plan and via one-off retention payments made to focus the efforts of Senior Executives on achieving the IPO and to encourage management stability post the IPO.

These Healthscope shares could not be disposed or otherwise dealt with until two years after completion of the IPO (being 31 July 2016) and were subject to voluntary escrow during that period. The voluntary escrow period has now ended.

These shareholdings are reported in section 7.4 (KMP shareholdings) and further information can be found in the Company's FY15 Remuneration Report.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 6.6 Key terms of Executive service agreements

All Senior Executives are party to a written Executive service agreement with Healthscope Operations Pty Ltd (ACN 006 405 152) (a wholly owned subsidiary of Healthscope).

#### 6.6.1 Key terms of Executive Service Agreement for CEO

|  |  |
|--|--|
| <b>Duration</b>                                | Ongoing  |
| <b>Periods of notice required to terminate</b> | 12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for dishonesty, fraud, wilful disobedience or misconduct (in which case no notice is payable).<br><br>Payment in lieu of all or a portion of the notice period may be made at the Company's discretion.   |
| <b>Termination payments</b>                    | May not exceed the maximum amount which the Company is permitted to pay the CEO under the Corporations Act.<br><br>STI is not payable where the CEO has resigned and terminates before the payment becomes payable (as determined at the sole discretion of the Board). STI is payable if the STI becomes due and employment is terminated by the Company, other than for cause.<br><br>Average base salary is payable during any restraint period.<br><br>Unvested securities will be treated in accordance with the relevant Plan Rules. |
| <b>Restraint of trade</b>                      | The CEO is restrained from competing with Healthscope or other members of the Healthscope Group during his employment and for up to 12 months post termination of his employment.  |

#### 6.6.2 Key terms of Executive Service Agreements for other Senior Executives

|  |   |
|--|---|
| <b>Duration</b>                                | Ongoing   |
| <b>Periods of notice required to terminate</b> | CFO – 12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for dishonesty, fraud, wilful disobedience or misconduct (in which case no notice is payable).<br><br>Other Senior Executives have 6 months' notice periods (other than where employment is terminated for serious misconduct, in which case no notice is payable).<br><br>Payment in lieu of all or a portion of the notice period may be made at the Company's discretion.   |
| <b>Termination payments</b>                    | May not exceed the maximum amount which the Company is permitted to pay the Senior Executive under the Corporations Act.<br><br>CFO - STI is not payable where the CFO has resigned and terminates before the payment becomes payable (as determined at the sole discretion of the Board). STI is payable if the STI becomes due and employment is terminated by the Company, other than for cause.<br><br>Average base salary is payable during any restraint period.<br><br>Unvested securities will be treated in accordance with the relevant Plan Rules. |
| <b>Restraint of trade</b>                      | The CFO is restrained from competing with Healthscope or other members of the Healthscope Group during his employment and for up to 12 months post termination of his employment.<br><br>For other Senior Executives, non-solicitation provisions (relating to employees, contractors and medical officers) of between 6 and 12 months are in place.  |

The Corporations Act restricts the termination benefits that can be provided to KMP on cessation of their employment, unless shareholder approval is obtained. The shareholders of the Company and Healthscope Operations Pty Ltd approved the termination arrangements of Robert Cooke and Michael Sammells at a general meeting on 28 June 2014.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 7 STATUTORY REMUNERATION DISCLOSURES

#### 7.1 Senior Executive remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth) and in accordance with the Accounting Standards.

|                  | Short-term Employee Benefits |                      |                                    | Post-Employment Benefits | Other Long Term Benefits        | Share-based Payments                           |  | Total     |
|------------------|------------------------------|----------------------|------------------------------------|--------------------------|---------------------------------|--|--|-----------|
|                  | Cash Salary                  | Bonuses <sup>1</sup> | Non-Monetary Benefits <sup>2</sup> | Superannuation benefits  | Long Service Leave <sup>3</sup> | Value of STI – Performance Rights <sup>4</sup> | Value of LTI – Performance Rights <sup>5</sup> |           |
|                  | Senior Executives            |                      |                                    |                          |                                 |  |  |           |
| Robert Cooke     |                              |                      |                                    |                          |                                 |  |  |           |
| FY16             | 1,506,250                    | 1,329,324            | 5,664                              | 35,000                   | 39,349                          | 174,078  | 851,391  | 3,941,056 |
| FY15             | 1,442,766                    | 1,500,000            | 5,605                              | 35,000                   | 33,561                          | -  | 439,789  | 3,456,720 |
| Michael Sammells |                              |                      |                                    |                          |                                 |  |  |           |
| FY16             | 719,552                      | 650,799              | 6,890                              | 35,000                   | 16,228                          | 85,224   | 404,733  | 1,918,426 |
| FY15             | 650,956                      | 685,956              | 6,708                              | 35,000                   | 8,466                           | -  | 201,046  | 1,588,133 |
| Mark Briscoe     |                              |                      |                                    |                          |                                 |  |  |           |
| FY16             | 418,592                      | 141,306              | 5,664                              | 30,000                   | 10,394                          | 18,504   | 120,555  | 745,015   |
| FY15             | 368,748                      | 398,748              | 5,605                              | 30,000                   | 5,156                           | -  | 59,988   | 868,244   |
| Anoop Singh      |                              |                      |                                    |                          |                                 |  |  |           |
| FY16             | 352,478                      | 129,942              | 5,664                              | 18,783                   | 8,977                           | 17,016   | 95,051   | 627,911   |
| FY15             | 342,542                      | 108,397              | 5,605                              | 18,783                   | 6,111                           | -  | 45,299   | 526,737   |
| Total- FY16      | 2,996,872                    | 2,251,371            | 23,882                             | 118,783                  | 74,948                          | 294,822  | 1,471,730                                      | 7,232,409 |
| Total- FY15      | 2,805,012                    | 2,693,101            | 23,523                             | 118,783                  | 53,294                          | -  | 746,121  | 6,439,834 |

<sup>1</sup> Bonus payments relate to the cash component of the FY16 STI and will be paid in FY17.

<sup>2</sup> The amounts disclosed as non-monetary benefits relate to car spaces, professional fees and other similar items.

<sup>3</sup> Reflects the value of the movement in long service leave entitlement and was not actually paid to the employee.

<sup>4</sup> For accounting purposes, deferred STI is treated as an equity settled share-based payment which is expensed over the relevant vesting period. The total value of the deferred STI granted to Senior Executives in the current year was \$964,873. The amount disclosed for each Senior Executive represents the current year vesting period expense only. The residual amount will be expensed on a straight line over the remaining vesting period.

<sup>5</sup> The value of Performance Rights granted to the Senior Executives is based on the fair value, measured using a Monte Carlo simulation for the RTSR Performance Rights and a Black Scholes valuation model for the EPS Performance Rights. The factors and assumptions used in determining the fair value on grant date are set out in Note 18 of the financial statements.

#### 7.2 Movements in rights held by Senior Executives

The following table sets out the movement during FY16, by number and value, of rights held by each Senior Executive.

|                     | Balance 1<br>July 2015 | Granted |                   | Vested |       |            | Lapsed |       |            | Balance 30<br>June 2016 |
|---------------------|------------------------|---------|-------------------|--------|-------|------------|--------|-------|------------|-------------------------|
|                     |                        | Number  | Vaue <sup>1</sup> | Number | Value | Percentage | Number | Value | Percentage |                         |
| Executive Directors |                        |         |                   |        |       |            |        |       |            |                         |
| Robert Cooke        | 833,334                | 697,925 | \$1,613,952       | -      | -     | -          | -      | -     | -          | 1,531,259               |
| Executives          |                        |         |                   |        |       |            |        |       |            |                         |
| Michael Sammells    | 380,953                | 341,684 | \$744,017         | -      | -     | -          | -      | -     | -          | 722,637                 |
| Mark Briscoe        | 113,668                | 101,568 | \$221,164         | -      | -     | -          | -      | -     | -          | 215,236                 |
| Anoop Singh         | 85,834                 | 84,060  | \$183,041         | -      | -     | -          | -      | -     | -          | 169,894                 |

<sup>1</sup> The value of rights granted in the year is the fair value of the rights calculated at grant date using the Monte Carlo simulation model for the RTSR Performance Rights and a Black Scholes valuation model for the EPS Performance Rights.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 7.3 Non Executive Director remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth) and in accordance with the Accounting Standards.

|   | Short -term Employee Benefits       |                                    | Post-employment Benefits  |                      |                         | Total   |
|---|-------------------------------------|------------------------------------|---------------------------|----------------------|-------------------------|---|
|   | Board & Committee fees <sup>1</sup> | Non-Monetary Benefits <sup>2</sup> | Other Benefits (non-cash) | Termination Benefits | Superannuation Benefits | Remuneration for services as Non Executive Director |
| <b>Paula Dwyer (Chairman)</b>                       |                                     |                                    |                           |                      |                         |   |
| FY16  | 456,217                             | -                                  | -                         | -                    | 18,783                  | 475,000   |
| FY15  | 425,217                             | 100,000                            | -                         | -                    | 17,218                  | 542,435   |
| <b>Tony Cipa</b>                                    |                                     |                                    |                           |                      |                         |   |
| FY16  | 182,648                             | -                                  | -                         | -                    | 17,352                  | 200,000   |
| FY15  | 170,237                             | 50,001                             | -                         | -                    | 16,173                  | 236,411   |
| <b>Jane McAloon (appointed 1 March 2016)</b>        |                                     |                                    |                           |                      |                         |   |
| FY16  | 51,750                              | -                                  | -                         | -                    | 4,916                   | 56,666  |
| <b>Rupert Myer AO</b>                               |                                     |                                    |                           |                      |                         |   |
| FY16  | 182,648                             | -                                  | -                         | -                    | 17,352                  | 200,000   |
| FY15  | 170,237                             | 50,001                             | -                         | -                    | 16,173                  | 236,411   |
| <b>Paul O'Sullivan (appointed 1 January 2016)</b>   |                                     |                                    |                           |                      |                         |   |
| FY16  | 77,626                              | -                                  | -                         | -                    | 7,374                   | 85,000  |
| <b>Ziggy Switkowski AO (appointed 4 April 2016)</b> |                                     |                                    |                           |                      |                         |   |
| FY16  | 43,379                              | -                                  | -                         | -                    | 4,121                   | 47,500  |
| <b>Aik Meng Eng (retired 31 December 2015)</b>      |                                     |                                    |                           |                      |                         |   |
| FY16  | -                                   | -                                  | -                         | -                    | -                       | -   |
| FY15  | 18,150                              | -                                  | -                         | -                    | 1,724                   | 19,874  |
| <b>Simon Moore (retired 31 December 2015)</b>       |                                     |                                    |                           |                      |                         |   |
| FY16  | -                                   | -                                  | -                         | -                    | -                       | -   |
| FY15  | -                                   | -                                  | -                         | -                    | -                       | -   |
| <b>Total - FY16</b>                                 | <b>994,268</b>                      | <b>-</b>                           | <b>-</b>                  | <b>-</b>             | <b>69,898</b>           | <b>1,064,166</b>                                    |
| <b>Total - FY15</b>                                 | <b>783,841</b>                      | <b>200,002</b>                     | <b>-</b>                  | <b>-</b>             | <b>51,288</b>           | <b>1,035,131</b>                                    |

<sup>1</sup>Board and Committee fees and superannuation benefits were payable to Paula Dwyer, Tony Cipa and Rupert Myer from the date of IPO on 28 July 2014. Simon Moore waived his right to fees. Aik Meng Eng also waived his right to fees from the date of IPO on 28 July 2014.

<sup>2</sup>Value of offer bonus shares received as part of the IPO.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### 7.4 KMP shareholdings

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY16.

|                     | No. of shares held at beginning of FY16 | Received as remuneration | On Vesting of Performance Rights | Other net change <sup>3</sup> | Held at 30 June 2016 | Number of shares not vested at year end |
|---------------------|---|--------------------------|----------------------------------|-------------------------------|----------------------|---|
| <b>Directors</b>    |   |                          |                                  |                               |                      |   |
| Paula Dwyer         | 100,000 <sup>1</sup>                    | -                        | -                                | 60,000                        | 160,000              |   |
| Tony Cipa           | 95,238 <sup>1</sup>                     | -                        | -                                | -                             | 95,238               |   |
| Jane McAloon        | -                                       | -                        | -                                | 19,380                        | 19,380               |   |
| Rupert Myer AO      | 238,095 <sup>1</sup>                    | -                        | -                                | -                             | 238,095              |   |
| Paul O'Sullivan     | -                                       | -                        | -                                | 81,000                        | 81,000               |   |
| Ziggy Switkowski AO | -                                       | -                        | -                                | -                             | -                    |   |
| Robert Cooke        | 1,799,314                               | -                        | -                                | -                             | 1,799,314            |   |
| Aik Meng Eng        | -                                       | -                        | -                                | -                             | -                    |   |
| Simon Moore         | -                                       | -                        | -                                | -                             | -                    |   |
| <b>Executives</b>   |   |                          |                                  |                               |                      |   |
| Michael Sammells    | 1,122,154 <sup>2</sup>                  | -                        | -                                | -                             | 1,122,154            |   |
| Mark Briscoe        | 399,717 <sup>2</sup>                    | -                        | -                                | -                             | 399,717              |   |
| Anoop Singh         | 267,880 <sup>2</sup>                    | -                        | -                                | -                             | 267,880              |   |

<sup>1</sup> This includes shares acquired in the IPO, as well as offer bonus shares.

<sup>2</sup> This is the number of shares the Senior Executives subscribed for in the IPO using the one off retention payments and proceeds from the vested options under the legacy LTI plan.

<sup>3</sup> Reflects on market share purchases made by KMP over the course of FY16.

During the year, the Board adopted a Non Executive Director shareholding policy which encourages Non Executive Directors to accumulate and maintain a holding in Healthscope shares that is equivalent to at least 100% of the Non Executive Director base fee (or 200% of this fee in the case of the Chairman) within three years of appointment. The Board recognises the importance of aligning Non Executive Director interests with the long term interests of shareholders and considers that a meaningful investment in Healthscope shares demonstrates this alignment.

# HEALTHSCOPE LIMITED

## DIRECTORS' REPORT

### NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 21 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

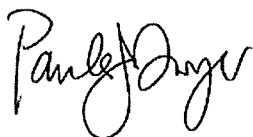
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### AUDITOR INDEPENDENCE

For the financial year ended 30 June 2016, Healthscope Limited applied to ASIC and was granted relief from section 324DA of the Corporations Act (limitation on individual playing a significant role for more than 5 successive years) in relation to Mr Tom Imbesi. Mr Imbesi is the Deloitte partner who had acted as the lead auditor in relation to the audit of the financial report of Healthscope Limited for five successive years as at the financial year ended 30 June 2015. The relief allows Mr Imbesi to act as the Company's lead audit partner for the year ended 30 June 2016.

The application for relief was made because the individual who had assumed the role of lead audit partner after Mr Imbesi was unexpectedly no longer able to perform the role from early December 2015. In considering the matter the Audit, Risk and Compliance Committee was of the view, given the complexity of the business, that it would be challenging for another partner to be able to become sufficiently familiar with the business, within the timeframe required, to conduct an effective review of the financial report for the period ending 31 December 2015 and therefore that it was consistent with maintaining audit quality to extend Mr Imbesi's term. In addition, the Audit, Risk and Compliance Committee was satisfied that the extension of Mr Imbesi's term as lead audit partner would not give rise to a conflict of interest situation as defined in 324CD of the Act.

Signed in accordance with a resolution of the Directors



**Paula Dwyer**  
Chairman

Melbourne, 23 August 2016

The Board of Directors  
Healthscope Limited  
Level 1, 312 St Kilda Road  
Melbourne VIC 3004

23 August 2016

Dear Board Members,

**Healthscope Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Healthscope Limited.

As lead audit partner for the audit of the financial statements of Healthscope Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



T Imbesi  
Partner  
Chartered Accountants

## **Independent Auditor's Report to the members of Healthscope Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Healthscope Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit and loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 35 to 71.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. On page 40, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Healthscope Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of Healthscope Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed on page 40 of the financial report.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 17 to 30 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Healthscope Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

T Imbesi  
Partner  
Chartered Accountants  
Melbourne, 23 August 2016

# HEALTHSCOPE LIMITED

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

|   | Note   | 2016<br>\$'m | 2015<br>\$'m  |
|---|--------|--------------|---------------|
| <b>Continuing operations</b>  |        |              |               |
| Revenue   | 2      | 2,290.9      | 2,156.6       |
| Employee benefits expense   | 2      | (1,014.9)    | (951.5)       |
| Medical and consumable supplies   |        | (294.7)      | (282.0)       |
| Prosthetics expenses  |        | (285.3)      | (271.7)       |
| Occupancy costs   |        | (81.2)       | (76.1)        |
| Service costs   |        | (206.9)      | (194.5)       |
| Other income and expense items  | 2      | (15.1)       | (2.2)         |
| <b>Profit before finance costs, income tax, depreciation and amortisation</b> |        | <b>392.8</b> | <b>378.6</b>  |
| Depreciation and amortisation   | 11, 12 | (97.5)       | (89.8)        |
| <b>Profit before finance costs and income tax</b>                             |        | <b>295.3</b> | <b>288.8</b>  |
| Net finance costs   | 2      | (43.8)       | (70.3)        |
| <b>Profit before income tax</b>   |        | <b>251.5</b> | <b>218.5</b>  |
| Income tax expense  | 3      | (68.7)       | (64.8)        |
| <b>Profit for the year from continuing operations</b>                         |        | <b>182.8</b> | <b>153.7</b>  |
| <b>Discontinued operations</b>  |        |              |               |
| Net loss for the year from discontinued operations                            | 19     | (1.7)        | (12.9)        |
| <b>NET PROFIT FOR THE YEAR</b>  |        | <b>181.1</b> | <b>140.8</b>  |
| <b>Other comprehensive income, net of income tax</b>                          |        |              |               |
| <i>Items that may be reclassified subsequently to profit or loss</i>          |        |              |               |
| Exchanges differences arising on translation of foreign operations            |        | 14.7         | (6.3)         |
| Loss on cash flow hedges taken directly to equity                             |        | (23.0)       | (7.1)         |
| Income tax benefit relating to other comprehensive income                     |        | 7.4          | 2.1           |
| <b>Other comprehensive income for the year, net of tax</b>                    |        | <b>(0.9)</b> | <b>(11.3)</b> |
| <b>Total comprehensive income for the year</b>                                |        | <b>180.2</b> | <b>129.5</b>  |
| <b>Earnings per share</b>   |        |              |               |
| From continuing and discontinued operations                                   |        |              |               |
| Basic (cents per share)   | 5      | 10.4         | 8.6           |
| Diluted (cents per share)   | 5      | 10.4         | 8.5           |
| From continuing operations  |        |              |               |
| Basic (cents per share)   | 5      | 10.5         | 9.4           |
| Diluted (cents per share)   | 5      | 10.5         | 9.3           |

The accompanying notes numbered 1 to 24 form part of this financial report.

# HEALTHSCOPE LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

|   | Note  | 2016<br>\$'m   | 2015<br>\$'m   |
|---|-------|----------------|----------------|
| <b>CURRENT ASSETS</b>   |       |                |                |
| Cash and cash equivalents   | 10(a) | 278.8          | 217.7          |
| Trade and other receivables   | 4     | 145.7          | 96.4           |
| Consumables supplies at cost  |       | 57.4           | 52.9           |
| Prepayments   |       | 16.6           | 14.8           |
| Derivative financial instruments  | 9     | 1.8            | -              |
| Assets classified as held for sale                                      |       | -              | 140.4          |
| <b>TOTAL CURRENT ASSETS</b>   |       | <b>500.3</b>   | <b>522.2</b>   |
| <b>NON-CURRENT ASSETS</b>   |       |                |                |
| Other financial assets  |       | 8.6            | 2.5            |
| Derivative financial instruments  | 9     | 16.5           | -              |
| Other receivable  | 4     | 123.0          | 43.8           |
| Investments in joint ventures   |       | 0.9            | 1.0            |
| Property, plant and equipment   | 11    | 1,800.3        | 1,414.7        |
| Intangibles   | 12    | 1,843.6        | 1,803.0        |
| Deferred tax assets   | 3     | 151.9          | 193.8          |
| <b>TOTAL NON-CURRENT ASSETS</b>   |       | <b>3,944.8</b> | <b>3,458.8</b> |
| <b>TOTAL ASSETS</b>   |       | <b>4,445.1</b> | <b>3,981.0</b> |
| <b>CURRENT LIABILITIES</b>  |       |                |                |
| Trade and other payables  | 4     | 246.2          | 230.8          |
| Current tax liabilities   | 3     | 2.3            | 4.0            |
| Borrowings  | 8     | 4.9            | 8.6            |
| Derivative financial instruments  | 9     | 8.8            | 3.3            |
| Other financial liabilities   |       | 4.8            | 7.2            |
| Provisions  | 15    | 121.9          | 112.7          |
| Liabilities directly associated with assets classified as held for sale |       | -              | 40.4           |
| <b>TOTAL CURRENT LIABILITIES</b>  |       | <b>388.9</b>   | <b>407.0</b>   |
| <b>NON-CURRENT LIABILITIES</b>  |       |                |                |
| Borrowings  | 8     | 1,557.0        | 1,167.9        |
| Derivative financial instruments  | 9     | 13.0           | 3.8            |
| Other financial liabilities   |       | 0.1            | 0.5            |
| Other payables  | 4     | 18.4           | -              |
| Deferred tax liabilities  | 3     | 63.5           | 52.6           |
| Provisions  | 15    | 31.5           | 43.5           |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                                    |       | <b>1,683.5</b> | <b>1,268.3</b> |
| <b>TOTAL LIABILITIES</b>  |       | <b>2,072.4</b> | <b>1,675.3</b> |
| <b>NET ASSETS</b>   |       | <b>2,372.7</b> | <b>2,305.7</b> |
| <b>EQUITY</b>   |       |                |                |
| Issued capital  | 7     | 2,706.1        | 2,697.2        |
| Reserves  |       | (257.7)        | (259.6)        |
| Accumulated losses  |       | (75.7)         | (131.9)        |
| <b>TOTAL EQUITY</b>   |       | <b>2,372.7</b> | <b>2,305.7</b> |

The accompanying notes numbered 1 to 24 form part of this financial report.

# HEALTHSCOPE LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

| Continuing and Discontinued Operations <sup>(i)</sup>                              | Note  | 2016<br>\$'m   | 2015<br>\$'m   |
|--|-------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |       |                |                |
| Receipts from customers  |       | 2,269.2        | 2,428.6        |
| Payments to suppliers and employees  |       | (1,877.5)      | (2,051.0)      |
| <b>Cash generated from operations</b>  |       | <b>391.7</b>   | <b>377.6</b>   |
| Interest received  |       | 4.5            | 3.7            |
| Interest and costs of finance paid   |       | (47.9)         | (58.3)         |
| Income tax paid  |       | (13.4)         | (10.7)         |
| Other income and expense items   |       | (10.5)         | (10.4)         |
| <b>Net cash provided by operating activities</b>                                   | 10(b) | <b>324.4</b>   | <b>301.9</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |       |                |                |
| Proceeds from disposal of property, plant and equipment                            |       | 0.8            | 3.2            |
| Proceeds from disposal of operations   | 19    | 92.3           | 20.6           |
| Payments for property, plant and equipment   |       | (86.2)         | (83.4)         |
| Brownfield developments  |       | (300.5)        | (190.7)        |
| Northern Beaches facility development  |       | (134.5)        | (85.3)         |
| Payments for operating rights  |       | (1.2)          | (3.5)          |
| Proceeds from ACHA loan  |       | -              | 2.0            |
| Payment of deferred settlement   |       | -              | (0.4)          |
| Net payments for business combinations   | 19    | (63.6)         | (4.6)          |
| <b>Net cash used in investing activities</b>                                       |       | <b>(492.9)</b> | <b>(342.1)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |                |                |
| Repayment of borrowings - Healthscope Notes I & II                                 |       | -              | (369.3)        |
| Proceeds from bank borrowings  |       | 155.0          | 995.0          |
| Repayments of bank borrowings  |       | (384.1)        | (1,162.4)      |
| Proceeds from issue of US Private Placement  |       | 395.1          | -              |
| Repayment of shareholder loans and related costs                                   |       | -              | (967.2)        |
| Proceeds from issue of new shares  |       | -              | 1,624.7        |
| Transaction costs relating to issue of new shares                                  |       | -              | (78.5)         |
| Interest paid on early redemption of interest rate hedges                          |       | -              | (28.3)         |
| Proceeds from project finance  |       | 200.1          | 180.0          |
| Net repayment of receivables securitisation  |       | (2.1)          | -              |
| Finance leasing  |       | (3.4)          | (3.9)          |
| Dividends paid   |       | (124.9)        | (57.2)         |
| Facility fees paid   |       | (6.3)          | (5.2)          |
| <b>Net cash provided by finance activities</b>                                     |       | <b>229.4</b>   | <b>127.7</b>   |
| <b>Net increase in cash and cash equivalents</b>                                   |       | <b>60.9</b>    | <b>87.5</b>    |
| Cash and cash equivalents at the beginning of the year                             |       | 217.7          | 138.2          |
| Cash and cash equivalents transferred to assets classified as held for sale        | 10(a) | -              | (8.1)          |
| Effects of exchange rate changes on the balance of cash held in foreign currencies |       | 0.2            | 0.1            |
| <b>Cash and cash equivalents at the end of the year</b>                            | 10(a) | <b>278.8</b>   | <b>217.7</b>   |

The accompanying notes numbered 1 to 24 form part of this financial report.

<sup>(i)</sup>The comparatives of the Consolidated Statement of Cash Flows include cash flows associated to continuing and discontinued operations (Pathology Australia).

# HEALTHSCOPE LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

|   | Issued capital | Accumulated losses | Group reorganisation reserve | Foreign currency translation reserve | Hedge reserve | Share based payment reserve | Total equity   |
|---|----------------|--------------------|------------------------------|--------------------------------------|---------------|-----------------------------|----------------|
|   | \$'m           | \$'m               | \$'m                         | \$'m                                 | \$'m          | \$'m                        | \$'m           |
| <b>2015</b>   |                |                    |                              |                                      |               |                             |                |
| <b>Opening balance at 1 July 2014</b>                     | <b>1,219.8</b> | <b>(519.9)</b>     | <b>(282.2)</b>               | <b>32.9</b>                          | <b>-</b>      | <b>-</b>                    | <b>450.6</b>   |
| Profit for the year                                       | -              | 140.8              | -                            | -                                    | -             | -                           | 140.8          |
| Other comprehensive income/(loss) for the year net of tax | -              | -                  | -                            | (6.3)                                | (5.0)         | -                           | (11.3)         |
| <b>Total comprehensive income/(loss) for the year</b>     | <b>-</b>       | <b>140.8</b>       | <b>-</b>                     | <b>(6.3)</b>                         | <b>(5.0)</b>  | <b>-</b>                    | <b>129.5</b>   |
| New shares issued   | 1,781.7        | -                  | -                            | -                                    | -             | -                           | 1,781.7        |
| Equity raising costs - refund net of tax                  | 0.1            | -                  | -                            | -                                    | -             | -                           | 0.1            |
| Reduction of share capital <sup>(i)</sup>                 | (304.4)        | 304.4              | -                            | -                                    | -             | -                           | -              |
| Recognition of share based payments                       | -              | -                  | -                            | -                                    | -             | 1.0                         | 1.0            |
| Dividends paid  | -              | (57.2)             | -                            | -                                    | -             | -                           | (57.2)         |
| <b>Balance at 30 June 2015</b>                            | <b>2,697.2</b> | <b>(131.9)</b>     | <b>(282.2)</b>               | <b>26.6</b>                          | <b>(5.0)</b>  | <b>1.0</b>                  | <b>2,305.7</b> |
| <b>2016</b>   |                |                    |                              |                                      |               |                             |                |
| <b>Opening balance at 1 July 2015</b>                     | <b>2,697.2</b> | <b>(131.9)</b>     | <b>(282.2)</b>               | <b>26.6</b>                          | <b>(5.0)</b>  | <b>1.0</b>                  | <b>2,305.7</b> |
| Profit for the year                                       | -              | 181.1              | -                            | -                                    | -             | -                           | 181.1          |
| Other comprehensive income/(loss) for the year net of tax | -              | -                  | -                            | 14.7                                 | (15.6)        | -                           | (0.9)          |
| <b>Total comprehensive income/(loss) for the year</b>     | <b>-</b>       | <b>181.1</b>       | <b>-</b>                     | <b>14.7</b>                          | <b>(15.6)</b> | <b>-</b>                    | <b>180.2</b>   |
| New shares issued   | 8.2            | -                  | -                            | -                                    | -             | -                           | 8.2            |
| Equity raising costs - refund net of tax                  | 0.7            | -                  | -                            | -                                    | -             | -                           | 0.7            |
| Share based payment                                       | -              | -                  | -                            | -                                    | -             | 2.8                         | 2.8            |
| Dividends paid  | -              | (124.9)            | -                            | -                                    | -             | -                           | (124.9)        |
| <b>Closing balance at 30 June 2016</b>                    | <b>2,706.1</b> | <b>(75.7)</b>      | <b>(282.2)</b>               | <b>41.3</b>                          | <b>(20.6)</b> | <b>3.8</b>                  | <b>2,372.7</b> |

The accompanying notes numbered 1 to 24 form part of this financial report.

(i) On 24 February 2015, the Board resolved to reduce Healthscope's share capital by \$304.4 million in accordance with Section 258F of the Corporations Act. The capital reduction had the effect of reducing the share capital account and reducing Healthscope's accumulated losses.

### Group reorganisation reserve

The Group reorganisation reserve initially arose through a series of "common control" transactions related to a Group reorganisation following the acquisition of the Healthscope business by funds advised and managed by TPG (TPG FOF VI SPV, LP.) and Carlyle (Carlyle HSP Partners, LP.) on 12 October 2010.

### Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

### Hedge reserve (cash flow hedging)

This reserve comprises the cumulative net change in the fair value of the effective portion of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### Share based payment reserve

The share based payment reserve relates to performance rights granted by the Group to its employees. Further information about share based payments is set out in Note 18.

### Key accounting policies

#### Foreign operations

The assets and liabilities of the Group's foreign operations are translated at applicable exchange rates at 30 June. Income and expense items are translated at the average exchange rates for the period. Foreign exchange gains and losses arising on translation are recognised in the foreign currency translation reserve (FCTR).

#### Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of transaction. Foreign currency monetary items at 30 June are translated at the exchange rate existing at reporting date. Exchange differences are recognised in profit or loss in the period in which they arise.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### GENERAL INFORMATION AND BASIS OF PREPARATION

#### General Information

Healthscope Limited is a public company listed on the Australian Securities Exchange (trading under the code 'HSO'), incorporated and domiciled in Australia with trading operations in Australia, New Zealand and South East Asia.

The principal place of business of the Group is:

Level 1  
312 St Kilda Road  
Melbourne VIC 3004  
Tel: (03) 9926 7500

The principal activities of the Healthscope Group during the financial year ended 30 June 2016 were the provision of healthcare services through the ownership and management of hospitals, medical centres and the provision of pathology diagnostic services.

#### Basis of preparation and consolidation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial results and financial position of the Group are expressed in Australian dollars, which is the presentation currency for the consolidated financial statements.

The consolidated financial statements were authorised for issue by the Directors on 23 August 2016.

#### Subsidiaries

Subsidiaries are those entities that are controlled by the Group. The financial results and financial position of the subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

A list of the Group's subsidiaries is included in Note 23.

#### Joint ventures

A joint venture is an arrangement where the parties have right to the net assets of the venture.

Investments in joint ventures are accounted for using the equity method. They are initially recognised at cost, and subsequent to initial recognition, the consolidated financial statements include Group's share of the profit or loss and other comprehensive income of the investees.

The Group has a 50% ownership interest in the following joint venture entities:

- Mount Hospital Cath Labs Pty.Ltd.; and
- Mount Hospitals Cardiology Services Pty. Ltd.

#### Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS) and interpretations. The company is a for-profit entity.

#### Rounding of amounts

The Company is an entity to which the ASIC Class Order 2016 / 191 applies, and in accordance with that the Director's report and financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise stated.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: SEGMENT INFORMATION

As a result of the divestment of Pathology Australia, the reportable segments were revised to reflect the continuing business. The comparative period has been restated in order to reflect this change.

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of Healthscope Limited that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Under AASB 8, the reportable segments of Healthscope Limited are as follows:

- Hospitals Australia - the management and provision of surgical and non-surgical private hospitals;
- Pathology New Zealand - the provision of pathology services in New Zealand; and
- Other - the provision of pathology services in Malaysia, Singapore and Vietnam and the provision of practice management services in medical centres in Australia.

| Continuing Operations                        | Segment revenue |                | Segment Operating EBITDA <sup>(i)</sup> |              | Segment Operating EBIT <sup>(ii)</sup> |              |
|--|-----------------|----------------|---|--------------|--|--------------|
|  | 2016            | 2015           | 2016                                    | 2015         | 2016                                   | 2015         |
|  | \$'m            | \$'m           | \$'m                                    | \$'m         | \$'m                                   | \$'m         |
| Hospitals Australia                          | 1,947.7         | 1,852.5        | 354.9                                   | 327.6        | 281.4                                  | 263.3        |
| Pathology New Zealand                        | 222.7           | 182.2          | 50.7                                    | 41.6         | 40.1                                   | 31.1         |
| Other  | 120.5           | 121.9          | 28.8                                    | 33.4         | 20.0                                   | 23.2         |
| <b>Total</b>                                 | <b>2,290.9</b>  | <b>2,156.6</b> | <b>434.4</b>                            | <b>402.6</b> | <b>341.5</b>                           | <b>317.6</b> |
| Corporate                                    |                 |                |   |              | (31.1)                                 | (26.6)       |
| <b>Total after corporate</b>                 |                 |                |   |              | <b>310.4</b>                           | <b>291.0</b> |
| Other income and expense items (Note 2)      |                 |                |   |              | (15.1)                                 | (2.2)        |
| Finance costs (Note 2)                       |                 |                |   |              | (43.8)                                 | (70.3)       |
| <b>Profit before income tax</b>              |                 |                |   |              | <b>251.5</b>                           | <b>218.5</b> |
| Income tax expense                           |                 |                |   |              | (68.7)                                 | (64.8)       |
| <b>Net profit from continuing operations</b> |                 |                |   |              | <b>182.8</b>                           | <b>153.7</b> |

| Discontinued Operations   | Segment revenue |       | Segment Operating EBITDA <sup>(i)</sup> |      | Segment Operating EBIT <sup>(ii)</sup> |               |
|---|-----------------|-------|---|------|--|---------------|
|   | 2016            | 2015  | 2016                                    | 2015 | 2016                                   | 2015          |
|   | \$'m            | \$'m  | \$'m                                    | \$'m | \$'m                                   | \$'m          |
| Pathology Australia   | 3.0             | 281.6 | (1.9)                                   | 7.5  | (2.4)                                  | (4.1)         |
| Other income and expense items                                  |                 |       |   |      | -                                      | (11.1)        |
| Finance costs   |                 |       |   |      | -                                      | (0.2)         |
| <b>Loss before income tax</b>                                   |                 |       |   |      | <b>(2.4)</b>                           | <b>(15.4)</b> |
| Income tax benefit  |                 |       |   |      | 0.7                                    | 2.6           |
| <b>Loss from discontinued operations</b>                        |                 |       |   |      | <b>(1.7)</b>                           | <b>(12.9)</b> |
| <b>Net profit from continuing &amp; discontinued operations</b> |                 |       |   |      | <b>181.1</b>                           | <b>140.8</b>  |

(i) Segment Operating EBITDA represents the profit earned by each segment without the allocation of central administrative costs, depreciation, amortisation, investment revenue, finance costs, income tax expense and other items of income and expense.

(ii) Segment Operating EBIT represents the profit / (loss) earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense and other items of income and expenses.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: SEGMENT INFORMATION (*continued*)

#### Other segment information

| 2016              | Hospitals<br>Australia<br>\$'m | Pathology<br>New Zealand<br>\$'m | Other<br>\$'m | Corporate<br>\$'m | Total<br>continuing<br>segments<br>\$'m | Discontinued<br>operations<br>\$'m | Total<br>\$'m |
|-------------------|--------------------------------|----------------------------------|---------------|-------------------|---|------------------------------------|---------------|
| Total assets      | 3,929.7                        | 267.2                            | 232.4         | 15.8              | 4,445.1                                 | -                                  | 4,445.1       |
| Total liabilities | (1,995.0)                      | (53.5)                           | (23.9)        | -                 | (2,072.4)                               | -                                  | (2,072.4)     |
| <b>2015</b>       |                                |                                  |               |                   |   |                                    |               |
| Total assets      | 3,346.4                        | 244.0                            | 236.9         | 13.3              | 3,840.6                                 | 140.4                              | 3,981.0       |
| Total liabilities | (1,550.4)                      | (69.5)                           | (15.0)        | -                 | (1,634.9)                               | (40.4)                             | (1,675.3)     |

### NOTE 2: REVENUE AND EXPENSES

An analysis of revenue and expenses from continuing operations is presented below:

|  | Note | 2016<br>\$'m     | 2015<br>\$'m   |
|--|------|------------------|----------------|
| <b>REVENUE</b>   |      |                  |                |
| Revenue from rendering services                          |      | 2,216.5          | 2,094.2        |
| Rental revenue   |      | 32.6             | 23.9           |
| Management fees  |      | 27.1             | 23.8           |
| Other revenue  |      | 14.7             | 14.7           |
| <b>Total revenue</b>                                     |      | <b>2,290.9</b>   | <b>2,156.6</b> |
| <b>EXPENSES</b>  |      |                  |                |
| <b>Finance Income</b>                                    |      |                  |                |
| Bank deposits  |      | 4.5              | 3.6            |
| <b>Finance Expenses</b>                                  |      |                  |                |
| Interest on bank overdrafts and loans                    |      | (63.3)           | (80.4)         |
| Interest capitalised on qualifying assets <sup>(i)</sup> |      | 18.6             | 12.7           |
| Amortisation of facility fees                            |      | (1.6)            | (3.2)          |
| Interest on obligations under finance leases             |      | (0.9)            | (1.0)          |
| Unwinding of discount on provisions                      |      | (1.1)            | (2.0)          |
|  |      | <b>(48.3)</b>    | <b>(73.9)</b>  |
| <b>Net finance costs</b>                                 |      | <b>(43.8)</b>    | <b>(70.3)</b>  |
| <b>Employee benefits expense</b>                         |      |                  |                |
| Superannuation contributions                             |      | (71.5)           | (68.4)         |
| Termination benefits                                     |      | (2.1)            | (1.9)          |
| Other employee benefits                                  |      | (938.5)          | (880.2)        |
| Share based payments expense                             | 18   | (2.8)            | (1.0)          |
| <b>Total employment benefits expense</b>                 |      | <b>(1,014.9)</b> | <b>(951.5)</b> |
| <b>Minimum lease payments for operating leases</b>       |      | <b>45.0</b>      | <b>41.4</b>    |

(i) The weighted average capitalisation rate on funds borrowed is 4.37% p.a. (2015: 4.98% p.a.).

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 2: REVENUE AND EXPENSES (*continued*)

| EXPENSES ( <i>continued</i> )                            | Note | 2016<br>\$'m | 2015<br>\$'m |
|--|------|--------------|--------------|
| <b>Other income and expense items</b>                    |      |              |              |
| Restructure and other costs <sup>(i)</sup>               |      | 2.4          | 1.2          |
| Allamanda Private Hospital closure costs <sup>(ii)</sup> |      | 7.4          | -            |
| Acquisitions and tender costs <sup>(iii)</sup>           |      | 3.5          | 1.0          |
| Commissioning costs <sup>(iv)</sup>                      |      | 1.8          | -            |
| <b>Total other income and expense items</b>              |      | <b>15.1</b>  | <b>2.2</b>   |

<sup>(i)</sup> Restructure and other costs primarily relate to legal and executive restructure costs.

<sup>(ii)</sup> The current year costs relate to the closure of Allamanda Private Hospital.

<sup>(iii)</sup> The current year expense refer to professional and transaction costs incurred in relation to the acquisition of Hunter Valley Private Hospital.

<sup>(iv)</sup> Commissioning costs relate to costs incurred in relation to pre-opening of the Gold Coast Private Hospital.

#### Key accounting policies

##### Revenue

Revenue is measured at the fair value of the consideration received or receivable by the Group.

*Rendering of services:* Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

*Rental income:* Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

*Management fees:* Revenue received from managing hospitals on behalf of Adelaide Community Healthcare Alliances ("ACHA") is recognised in accordance with the relevant agreement.

##### Operating lease rental expense

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Under the terms of an operating lease, the Group does not assume the risks and benefits associated with ownership of the leased asset.

##### Issued Accounting Standards not early adopted

AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The first application date for the Group is the financial year ending 30 June 2019. The Group did not early adopt this Standard when it was issued and the Group has not yet determined the extent of the impact of the amendments.

AASB 16 *Leases* is the new standard focused on accounting for leases. The standard is effective for reporting periods beginning on or after 1 January 2019, which means that for Healthscope the changes will be effective for financial year ending 30 June 2020. Early application is permitted only if the entity also applies the new Revenue standard, AASB 15 *Revenue from Contracts with Customers*. AASB 16 introduces new lease accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. The Group has not yet determined the extent of the impacts of the amendments.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 3: INCOME TAXES

#### Income tax recognised in the profit or loss

|  | 2016<br>\$'m  | 2015<br>\$'m  |
|--|---------------|---------------|
| <b>Income tax expense from continuing and discontinued operations</b>                          |               |               |
| Current tax expense in respect of the current year   | (13.5)        | (18.5)        |
| Deferred tax benefit expense relating to the origination and reversal of temporary differences | (60.0)        | (45.0)        |
| Other adjustments recognised in the current year   | 5.5           | 1.3           |
| <b>Total income tax expense</b>  | <b>(68.0)</b> | <b>(62.2)</b> |

#### Income tax benefit / (expense) from continuing and discontinued operations

|   |               |               |
|---|---------------|---------------|
| Tax expense from continuing operations                                      | (68.7)        | (64.8)        |
| Tax benefit from discontinued operations                                    | 0.7           | 2.6           |
| <b>Total income tax expense from continuing and discontinued operations</b> | <b>(68.0)</b> | <b>(62.2)</b> |

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

#### Income tax recognised in the income statement

##### Continuing operations

|  |               |               |
|--|---------------|---------------|
| Profit before income tax for continuing operations                                       | 251.5         | 218.5         |
| Income tax calculated at 30%   | (75.4)        | (65.6)        |
| Increase in income tax expense due to:   |               |               |
| Effect of expenses that are not deductible in determining taxable profit                 | (1.5)         | (4.0)         |
| Adjustments recognised in the current year in relation to the current tax of prior years | 5.2           | 2.6           |
| Decrease in income tax expense due to:   |               |               |
| Effect of tax rate in foreign jurisdictions  | 2.0           | 1.5           |
| Effect of non-assessable income  | 0.5           | 0.6           |
| Other adjustments recognised in the current year   | 0.5           | 0.1           |
| <b>Income tax expense relating to continuing operations</b>                              | <b>(68.7)</b> | <b>(64.8)</b> |

##### Deferred tax

Arising on income and expenses recognised in other comprehensive income:

|   |     |     |
|---|-----|-----|
| Fair value re-measurement of cash flow hedges | 7.4 | 2.1 |
|---|-----|-----|

##### Current tax liabilities

|                    |     |     |
|--------------------|-----|-----|
| Income tax payable | 2.3 | 4.0 |
|--------------------|-----|-----|

##### Income tax recognised directly to Equity

|                      |       |   |
|----------------------|-------|---|
| Equity raising costs | (0.2) | - |
|----------------------|-------|---|

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 3: INCOME TAXES (continued)

| Deferred tax balances                 | Opening<br>Balance<br>\$'m | Charged to<br>Income<br>\$'m | Charged to<br>Comprehensive<br>Income<br>\$'m | Charged to<br>Other<br>Income<br>\$'m | Charged to<br>Equity<br>\$'m | Transferred to<br>Assets<br>classified<br>as held for<br>sale<br>\$'m | Closing<br>Balance<br>\$'m |
|---------------------------------------|----------------------------|------------------------------|---|---------------------------------------|------------------------------|---|----------------------------|
| <b>2016</b>                           |                            |                              |   |                                       |                              |   |                            |
| <b>Gross Deferred Tax Liabilities</b> |                            |                              |   |                                       |                              |   |                            |
| Property, plant and equipment         | 20.4                       | 8.6                          | -   | -                                     | -                            | -   | 29.0                       |
| Intangibles                           | 14.4                       | (1.2)                        | -   | -                                     | -                            | -   | 13.2                       |
| Inventories                           | 14.4                       | 1.1                          | -   | -                                     | -                            | -   | 15.5                       |
| Other                                 | 3.4                        | (3.1)                        | -   | -                                     | -                            | -   | 0.3                        |
| Derivative financial instruments      | -                          | -                            | 5.5   | -                                     | -                            | -   | 5.5                        |
|                                       | <b>52.6</b>                | <b>5.4</b>                   | <b>5.5</b>                                    | <b>-</b>                              | <b>-</b>                     | <b>-</b>  | <b>63.5</b>                |
| <b>2016</b>                           |                            |                              |   |                                       |                              |   |                            |
| <b>Gross Deferred Tax Assets</b>      |                            |                              |   |                                       |                              |   |                            |
| Provisions                            | 46.5                       | (2.9)                        | -   | -                                     | -                            | -   | 43.6                       |
| Accruals                              | 7.6                        | (0.2)                        | -   | -                                     | -                            | -   | 7.4                        |
| Borrowing costs                       | (0.0)                      | 0.3                          | -   | -                                     | -                            | -   | 0.3                        |
| Transaction costs                     | 17.4                       | (4.8)                        | -   | (0.2)                                 | -                            | -   | 12.4                       |
| Borrowings                            | -                          | -                            | 8.5   | -                                     | -                            | -   | 8.5                        |
| Tax losses                            | 117.3                      | (45.7)                       | -   | -                                     | -                            | -   | 71.6                       |
| Derivative financial instruments      | 2.1                        | -                            | 4.4   | -                                     | -                            | -   | 6.5                        |
| Other                                 | 2.9                        | (1.3)                        | -   | -                                     | -                            | -   | 1.6                        |
|                                       | <b>193.8</b>               | <b>(54.6)</b>                | <b>12.9</b>                                   | <b>(0.2)</b>                          | <b>-</b>                     | <b>-</b>  | <b>151.9</b>               |
| <b>2015</b>                           |                            |                              |   |                                       |                              |   |                            |
| <b>Gross Deferred Tax Liabilities</b> |                            |                              |   |                                       |                              |   |                            |
| Property, plant and equipment         | 14.1                       | 7.9                          | -   | -                                     | -                            | (1.6)   | 20.4                       |
| Intangibles                           | 21.6                       | (7.2)                        | -   | -                                     | -                            | -   | 14.4                       |
| Inventories                           | 14.0                       | 1.8                          | -   | -                                     | -                            | (1.4)   | 14.4                       |
| Other                                 | 5.1                        | (0.4)                        | -   | -                                     | -                            | (1.3)   | 3.4                        |
|                                       | <b>54.8</b>                | <b>2.1</b>                   | <b>-</b>                                      | <b>-</b>                              | <b>-</b>                     | <b>(4.3)</b>  | <b>52.6</b>                |
| <b>2015</b>                           |                            |                              |   |                                       |                              |   |                            |
| <b>Gross Deferred Tax Assets</b>      |                            |                              |   |                                       |                              |   |                            |
| Provisions                            | 50.2                       | 3.6                          | -   | -                                     | -                            | (7.3)   | 46.5                       |
| Accruals                              | 21.2                       | (13.1)                       | -   | -                                     | -                            | (0.5)   | 7.6                        |
| Derivative financial instruments      | 8.5                        | (8.5)                        | 2.1   | -                                     | -                            | -   | 2.1                        |
| Borrowing costs                       | 12.1                       | (12.1)                       | -   | -                                     | -                            | -   | (0.0)                      |
| Transaction costs                     | 27.4                       | (10.0)                       | -   | -                                     | -                            | -   | 17.4                       |
| Tax losses                            | 123.8                      | (6.5)                        | -   | -                                     | -                            | -   | 117.3                      |
| Other                                 | 4.2                        | (0.9)                        | -   | -                                     | -                            | (0.4)   | 2.9                        |
|                                       | <b>247.4</b>               | <b>(47.5)</b>                | <b>2.1</b>                                    | <b>-</b>                              | <b>-</b>                     | <b>(8.2)</b>  | <b>193.8</b>               |

| 2016<br>\$m | 2015<br>\$m |
|-------------|-------------|
|-------------|-------------|

The following deferred tax assets have not been brought to account as assets:

|                      |      |     |
|----------------------|------|-----|
| Tax losses - capital | 33.6 | 2.2 |
|----------------------|------|-----|

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 3: INCOME TAXES (*continued*)

#### Key accounting policies

##### *Income tax expense*

Income tax expense comprises current tax (amounts payable within 12 months) and deferred tax (amounts payable or receivable after 12 months). Tax expense is recognised in the profit or loss, unless it relates to items that have been recognised in equity (as part of comprehensive income). In this instance, the related tax expense is also recognised in equity.

##### *Current tax*

Current tax is the expected tax payable on the taxable income for the year. It is calculated using tax rates applicable at the reporting date, and any adjustments to tax payable in respect of previous years.

##### *Deferred tax*

Deferred tax is recognised for all taxable temporary differences and is calculated based on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

##### *Tax consolidation*

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group. As a result it is taxed as a single entity. The head entity of the tax consolidated group is Healthscope Limited.

#### Critical accounting judgements

##### *Recovery of deferred tax assets*

In determining whether the future taxable losses are recoverable, the Group's assumptions regarding future realisation may change due to future operating performance and other factors. The Group performed an assessment of the impact of the divestment of Pathology Australia on recoverability of deferred tax assets. In the Directors' opinion, the divestment of Pathology Australia has not had an impact of the recoverability of deferred tax assets.

### NOTE 4: TRADE AND OTHER ASSETS AND LIABILITIES

|   | 2016<br>\$'m | 2015<br>\$'m |
|---|--------------|--------------|
| <b>Trade and other receivables</b>                  |              |              |
| <b>CURRENT</b>                                      |              |              |
| Trade receivables                                   | 141.5        | 92.1         |
| Provision for doubtful debts                        | (1.5)        | (1.6)        |
|   | <b>140.0</b> | <b>90.5</b>  |
| Goods and services tax recoverable                  | 4.3          | 4.6          |
| Other   | 1.4          | 1.3          |
|   | <b>145.7</b> | <b>96.4</b>  |
| <b>NON-CURRENT</b>                                  |              |              |
| Receivable from NSW State Government <sup>(i)</sup> | <b>123.0</b> | <b>43.8</b>  |

<sup>(i)</sup> The receivable is due upon the commissioning of Northern Beaches Hospital which is currently scheduled to open in December 2018.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 4: TRADE AND OTHER ASSETS AND LIABILITIES (*continued*)

|  | 2016<br>\$'m | 2015<br>\$'m |
|--|--------------|--------------|
| <b>Age of trade receivables that are past due but not impaired</b> |              |              |
| 30 - 60 days   | 4.2          | 7.8          |
| 60 - 90 days   | 2.5          | 2.7          |
| 90 - 120 days  | 1.1          | 1.9          |
| 120 - 150 days   | 0.8          | 0.9          |
| 150 - 180 days +   | 1.8          | 2.9          |
| <b>Total</b>   | <b>10.4</b>  | <b>16.2</b>  |

The average credit period for the provision of services is 28 days (2015: 28 days).

As at 30 June 2016 \$111.3 million (2015: \$113.4 million) of trade receivables were sold under the Receivables Securitisation Program. The proceeds from the sale were used for working capital purposes.

|   | 2016<br>\$'m | 2015<br>\$'m |
|---|--------------|--------------|
| <b>Trade and other payables</b>         |              |              |
| <b>CURRENT</b>                          |              |              |
| Trade creditors                         | 107.0        | 90.9         |
| Sundry creditors and accruals           | 74.0         | 68.0         |
| Labour accruals                         | 39.5         | 43.6         |
| Capital accruals                        | 25.7         | 28.3         |
|   | <b>246.2</b> | <b>230.8</b> |
| <b>NON-CURRENT</b>                      |              |              |
| Rent received in advance <sup>(i)</sup> | <b>18.4</b>  | <b>-</b>     |

(i) Rent represents rent received in advance in relation to the operating lease of hospital car parks.

The average credit period on purchases of goods is 30 days (2015: 30 days). No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

#### Key accounting policies

##### **Trade and other receivables**

Trade and other receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost less any provisions for expected impairment losses or actual impairment losses. Credit losses and recoveries of items previously written off are recognised in the profit or loss.

##### **Trade and other payables**

Trade and other payables are stated at cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid at the reporting date.

##### **Goods and services tax**

Revenues, expenses, assets and liabilities (other than receivables and payables) are recognised net of the amount of goods and services tax (GST). The only exception is where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of asset or as part of the item of expenditure.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 5: EARNINGS PER SHARE

|  | 2016        | 2015       |
|--|-------------|------------|
| <b>Basic earnings / (loss) per share (cents per share)</b>   |             |            |
| From continuing operations                                   | 10.5        | 9.4        |
| From discontinued operations                                 | (0.1)       | (0.8)      |
| <b>Total basic earnings per share</b>                        | <b>10.4</b> | <b>8.6</b> |
| <b>Diluted earnings / (loss) per share (cents per share)</b> |             |            |
| From continuing operations                                   | 10.5        | 9.3        |
| From discontinued operations                                 | (0.1)       | (0.8)      |
| <b>Total diluted earnings per share</b>                      | <b>10.4</b> | <b>8.5</b> |

|   | 2016<br>\$'m | 2015<br>\$'m |
|---|--------------|--------------|
| <b>(a) Reconciliation of earnings / (loss) used in calculating earnings per share</b> |              |              |
| <i>Basic and diluted earnings per share</i>   |              |              |
| Profit / (Loss) for the year attributable to owners of the Company                    |              |              |
| - Profit for the year from continuing operations                                      | 182.8        | 153.7        |
| - Loss for the year from discontinuing operations                                     | (1.7)        | (12.9)       |
|   | <b>181.1</b> | <b>140.8</b> |

Refer to below for further information on calculation of earnings per share:

#### (b) Weighted average number of shares used as the denominator in calculation of Statutory EPS

|  | 2016<br>Number<br>'m | 2015<br>Number<br>'m |
|--|----------------------|----------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share  | 1,733.9              | 1,647.0              |
| Adjustments for calculation of diluted earnings per share:   |                      |                      |
| - LTI Performance rights   | 2.9                  | 1.6                  |
| - STI Performance rights   | 0.9                  | -                    |
| Weighted average number of ordinary shares and potential ordinary shares used as denominator in calculating diluted earnings per share | <b>1,737.7</b>       | <b>1,648.6</b>       |

#### (c) Information concerning the classification of securities

Performance rights and share rights granted to participants are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights and share rights have not been included in the determination of basic earnings per share.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 6: DIVIDENDS

|                                   | 2016            |      | 2015            |      |
|-----------------------------------|-----------------|------|-----------------|------|
|                                   | Cents per share | \$'m | Cents per share | \$'m |
| <b>Fully paid ordinary shares</b> |                 |      |                 |      |
| Interim dividend                  | 3.5             | 60.7 | 3.3             | 57.2 |
| Final dividend                    | 3.9             | 67.3 | 3.7             | 64.2 |

On 23 August 2016, the Directors resolved to pay a unfranked dividend of 3.9 cents per share to the holders of fully paid or ordinary share in respect of the financial year ended 30 June 2016, to be paid to shareholders on 28 September 2016. This dividend has not been included as a liability in these consolidated financial statements. The total estimated dividend to be paid is \$67.3 million.

#### Key accounting policies

##### *Dividends*

The financial effect of the dividend is recognised in the reporting period in which the dividends are paid.

### NOTE 7: ISSUED CAPITAL

|   | Number of shares<br>'m | Share capital<br>\$'m |
|---|------------------------|-----------------------|
| Balance at 1 July 2014  | 883.6                  | 1,219.8               |
| New shares issued   | 848.5                  | 1,781.7               |
| Adjustment to equity raising costs related to the IPO of Healthscope Limited net of tax |                        | 0.1                   |
| Reduction in share capital  |                        | (304.4)               |
| <b>Balance at 30 June 2015</b>  | <b>1,732.1</b>         | <b>2,697.2</b>        |
| New shares issued   | 3.0                    | 8.2                   |
| Adjustment to equity raising costs related to the IPO of Healthscope Limited net of tax |                        | 0.7                   |
| <b>Balance at 30 June 2016</b>  | <b>1,735.1</b>         | <b>2,706.1</b>        |

#### Ordinary shares

Ordinary shares issued are classified as equity and are fully paid, have no par value and carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity, net of any related income tax benefit.

#### Key accounting policies

##### *Transaction costs on the issue of equity instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 8: BORROWINGS AND OTHER FINANCIAL LIABILITIES

|                                      | 2016<br>\$'m   | 2015<br>\$'m   |
|--------------------------------------|----------------|----------------|
| <b>BORROWINGS</b>                    |                |                |
| <b>CURRENT</b>                       |                |                |
| <b>Secured - at amortised cost</b>   |                |                |
| Finance lease liabilities            | 4.9            | 4.5            |
| Hire purchase facilities             | -              | 4.1            |
|                                      | <b>4.9</b>     | <b>8.6</b>     |
| <b>NON-CURRENT</b>                   |                |                |
| <b>Unsecured - at amortised cost</b> |                |                |
| Bank loans                           | 850.0          | 995.0          |
| Capitalised facility costs           | (5.1)          | (3.6)          |
|                                      | <b>844.9</b>   | <b>991.4</b>   |
| <br>                                 |                |                |
| US Private Placement                 | 422.2          | -              |
| Capitalised facility costs           | (3.1)          | -              |
|                                      | <b>419.1</b>   | <b>-</b>       |
| <br>                                 |                |                |
| <b>Secured - at amortised cost</b>   |                |                |
| Finance lease liabilities            | 6.0            | 9.2            |
| <br>                                 |                |                |
| Project finance                      | 296.0          | 180.0          |
| Capitalised facility costs           | (9.0)          | (12.7)         |
|                                      | <b>287.0</b>   | <b>167.3</b>   |
|                                      | <b>1,557.0</b> | <b>1,167.9</b> |

#### Key accounting policies

##### **Borrowings**

Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest recognised on an effective yield basis. However, where an effective fair value hedge is in place, borrowings are carried at amortised cost adjusted for the change in fair value of the related interest rate hedge, which is recognised in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. Refer to Note 17 for further details of measuring fair value of interest-bearing loans and borrowings.

##### **Borrowing costs**

Borrowing costs include interest on borrowings and the amortisation of premiums relating to borrowings. Borrowing costs are expensed as incurred, unless they relate to qualifying assets. Where such costs relate to qualifying assets, the borrowing costs are capitalised and depreciated over the asset's expected useful life.

##### **Finance leases**

Under the terms of a finance lease, the Group assumes most of the risks and benefits associated with ownership of the leased asset. Assets subject to finance leases are measured at the present value of the minimum lease payments. The leased asset is amortised on a straight-line basis over the period that benefits are expected to flow from its use. A corresponding liability is established for the lease payments. Each lease payment is allocated between finance charges and reduction of the liability.

##### **Interest income**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 8: BORROWINGS AND OTHER FINANCIAL LIABILITIES (*continued*)

| FINANCE FACILITIES                           | Notes | 2016  |        |         | 2015  |        |         |
|--|-------|-------|--------|---------|-------|--------|---------|
|  |       | Drawn | Unused | Total   | Drawn | Unused | Total   |
|  |       | \$'m  | \$'m   | \$'m    | \$'m  | \$'m   | \$'m    |
| <b>DENOMINATED IN AUD</b>                    |       |       |        |         |       |        |         |
| Bank loans – Senior syndicated debt facility | (i)   | 850.0 | 300.0  | 1,150.0 | 995.0 | 300.0  | 1,295.0 |
| - Facility A                                 |       | -     | -      | -       | 995.0 | -      | 995.0   |
| - Facility A1                                |       | 155.0 | -      | 155.0   | -     | -      | -       |
| - Facility A2                                |       | 195.0 | -      | 195.0   | -     | -      | -       |
| - Facility A3                                |       | 500.0 | -      | 500.0   | -     | -      | -       |
| - Facility B                                 |       | -     | 300.0  | 300.0   | -     | 300.0  | 300.0   |
| Project finance                              | (ii)  | 296.0 | 394.0  | 690.0   | 180.0 | 666.0  | 846.0   |
| Bank overdraft credit facility               |       | -     | 5.0    | 5.0     | -     | 5.0    | 5.0     |
| Receivables securitisation facility          | (iii) | 111.3 | 28.7   | 140.0   | 113.4 | 26.6   | 140.0   |
| <b>DENOMINATED IN USD</b>                    |       |       |        |         |       |        |         |
| US Private Placement (USD)                   | (iv)  | 300.0 | -      | 300.0   | -     | -      | -       |

#### Summary of borrowing arrangements

##### (i) Senior syndicated debt facility

| Facility      | Maturity date |
|---------------|---------------|
| - Facility A1 | October 2019  |
| - Facility A2 | October 2019  |
| - Facility A3 | October 2020  |
| - Facility B  | October 2019  |

The unsecured senior syndicated facility was put in place on 1 July 2014 for an initial 3-year term. The facility was amended on 30 October 2015 to increase the limit by \$155.0 million to \$1,450.0 million through additional tranches of varying maturities of up to 5 years. Subsequently, the proceeds from the USPP debt were partially used to repay \$300.0 million of syndicated debt (Facility A4) which reduced the syndicated facility to \$1,150.0 million. This resulted in additional capacity and extended tenor over a range of years to reduce the financial risk at any point of refinancing.

The senior syndicated facility is subject to financial undertakings as to gearing and interest cover.

As at 30 June 2016 the Group has complied with the above financial covenants and forecast to be able to continually comply with these financial covenants during the course of the 2017 financial year.

##### (ii) Project finance

Project finance relates to:

- *Northern Beaches Private Hospital development*: 5-year limited recourse syndicated construction facility totalling \$690.0 million, maturing 28 January 2020. This facility is secured against entities of the Group which are not obligors of the senior syndicated facility. Interest has been fixed via the use of a designated Interest Rate Swap (further details of which are set out in Note 9).
- *Gold Coast Private Hospital development*: The Group previously held a syndicated project finance facility of \$156.0 million relating to the development of the Gold Coast Private Hospital which was settled in March 2016.

##### (iii) Receivables securitisation

Under the terms of the receivables securitisation facility, the Group has de-recognised \$111.3 million (2015: \$113.4 million) of eligible receivables and used the proceeds for working capital purposes. The facility has a maturity date of 25 October 2017.

##### (iv) US Private Placement

On 23 March 2016, Healthscope entered into a commitment to issue US\$300 million of US Private Placement notes, which were settled on 24 May 2016. The US Private Placement comprises a single tranche of notes with a 10 year tenor, maturing on 26 May 2026. The notes were issued in US dollars at a fixed coupon. The notes were converted back to Australian dollar principal and floating interest rate via a Cross Currency Interest Rate Swap (further details of which are set out in Note 9).

The US Private Placement is carried at amortised cost translated at spot rate as at 30 June 2016, adjusted for changes in the fair value of the related interest rate hedge.

The principal drawn is US\$300.0 million which translates to AU\$404.0 million at spot rate as at 30 June 2016. The difference to the carrying amount of \$419.1 million represents the fair value adjustment arising from the application of hedge accounting.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS

|   | 2016<br>\$'m | 2015<br>\$'m |
|---|--------------|--------------|
| <b>DERIVATIVE FINANCIAL ASSETS</b>      |              |              |
| <b>CURRENT ASSETS</b>                   |              |              |
| Cross currency interest rate swaps      | 1.8          | -            |
| <b>NON-CURRENT ASSETS</b>               |              |              |
| Cross currency interest rate swaps      | 16.5         | -            |
| <b>DERIVATIVE FINANCIAL LIABILITIES</b> |              |              |
| <b>CURRENT LIABILITIES</b>              |              |              |
| Interest rate swaps                     | 8.8          | 3.3          |
| <b>NON-CURRENT LIABILITIES</b>          |              |              |
| Interest rate swaps                     | 13.0         | 3.8          |

#### ***Cross currency interest rate swaps***

The cross currency interest rate swap has been used to convert the US Private Placement from US dollars at a fixed coupon, to Australian dollars at floating rate. In effect, Healthscope will pay floating rate on AUD\$395.1 million of principal over the term of the arrangement.

The cross currency interest rate swap is stated at fair value and has been designated into a series of hedge relationships with the US Private Placement (refer to Note 8).

Changes in the fair value of the US Private Placement and Cross Currency Interest Rate Swap attributable to:

- Interest rate movements: Are recognised in profit or loss (fair value hedge relationship).
- Currency and credit margin movements: Are recognised in equity (cash flow hedge relationship).

#### ***Interest rate swap contracts***

The interest rate swaps have been used to fix the interest exposure associated with the project finance facility for the Northern Beaches Private Hospital development which has a floating interest rate. In effect, Healthscope will pay fixed rate on amounts drawn under the Project Finance facility in accordance with a stepped draw down profile.

The interest rate swaps are stated at fair value and have been designated into a hedge relationship with the project finance facility (refer to Note 8).

To the extent the hedge relationship is "highly effective", changes in the fair value of the interest rate swap are recognised in equity. Amounts recognised in equity are reclassified into the statement of profit or loss when interest on the project finance facility is recognised in the statement of profit or loss. Ineffectiveness is immediately recognised in the statement of profit or loss.

## HEALTHSCOPE LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS (*continued*)

##### Key accounting policies

##### Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially at cost, and subsequently are stated at fair value. The method of recognising any remeasurement gain or loss depends on the nature of the item being hedged.

For the purposes of hedge accounting, hedges are classified as either cash flow or fair value hedges. On entering into a hedging relationship, the Group formally designates and documents details of the hedge, risk management objective and strategy for entering into the arrangement. The Group applies hedge accounting to hedge relationships that are “highly effective”.

- *Cash flow hedges* are used to hedge exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

Hedge effectiveness is measured by comparing the change in the fair value of the hedged item and the hedging instrument. Any difference represents ineffectiveness. The effective portion of any gain or loss on the hedging instrument is recognised directly in equity, with any ineffective portion recognised in the statement of profit or loss. For hedged items relating to financial assets or liabilities, amounts recognised in equity are reclassified into the statement of profit or loss when the hedged transaction affects the statement of profit or loss (i.e. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above when the transaction occurs.

If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the statement of profit or loss.

- *Fair value hedges* are used to hedge the variability of changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Any gain or loss on the derivative is recognised directly in the statement of profit or loss.

##### *Issued accounting standards not early adopted*

AASB 9 *Financial Instruments* is applicable to the Group from 1 July 2018. It includes revised guidance on classification and measurement of financial instruments and new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The Group did not early adopt this standard when it was issued and the Group has not yet determined the extent of the impact of the amendments.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 10: NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Reconciliation of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

|  | 2016<br>\$'m | 2015<br>\$'m |
|--|--------------|--------------|
| Cash and cash equivalents              | 200.6        | 154.6        |
| Restricted cash <sup>(i)</sup>         | 78.2         | 71.2         |
|  | <b>278.8</b> | <b>225.8</b> |
| Transferred to assets held for sale    | -            | (8.1)        |
| <b>Total cash and cash equivalents</b> | <b>278.8</b> | <b>217.7</b> |

<sup>(i)</sup> Restricted cash can only be applied towards the development of Northern Beaches Hospital which is subject to separate funding arrangements.

|  | 2016<br>\$'m | 2015<br>\$'m |
|--|--------------|--------------|
| <b>(b) Reconciliation of net profit for the year to net cash flows from operating activities</b> |              |              |
| <b>Continuing and Discontinued Operations</b>  |              |              |
| Profit for the year  | 181.1        | 140.8        |
| <b>Non-cash flows in operating profit</b>  |              |              |
| - Depreciation and amortisation  | 98.7         | 101.4        |
| - Income tax expense recognised in profit or loss  | 68.0         | 62.2         |
| - Finance costs recognised in profit or loss   | 43.8         | 70.6         |
| - Share of profit of associates and joint ventures   | (2.0)        | (2.0)        |
| - Equity settled share based payments  | 2.8          | 0.9          |
| - Other income and expense items   | 13.2         | 13.3         |
| - Loss on sale of assets   | -            | (0.1)        |
|  | <b>405.6</b> | <b>387.1</b> |
| <b>Changes in assets and liabilities</b>   |              |              |
| - Increase in receivables and other assets   | (38.5)       | (13.5)       |
| - Increase in prepayments  | (1.4)        | (1.1)        |
| - Increase in consumable supplies at cost  | (4.7)        | (6.4)        |
| - Increase / (decrease) to trade payables  | 26.1         | (7.9)        |
| - Increase to provisions   | 2.7          | 19.4         |
|  | <b>389.8</b> | <b>377.6</b> |
| <b>Cash generated by operating activities</b>  |              |              |
| Interest received  | 4.5          | 3.7          |
| Interest paid  | (47.9)       | (58.3)       |
| Other income and expense items   | (8.6)        | (10.4)       |
| Income taxes paid  | (13.4)       | (10.7)       |
| <b>Net cash generated by operating activities</b>  | <b>324.4</b> | <b>301.9</b> |

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

#### Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current and previous financial year:

|   | Freehold<br>Land<br>\$m | Buildings<br>\$m | Leasehold<br>Improvements<br>\$m | Plant &<br>Equipment<br>\$m | Leased<br>Plant &<br>Equipment<br>\$m | Capital<br>Work<br>in Progress<br>\$m | Total<br>\$m   |
|---|-------------------------|------------------|----------------------------------|-----------------------------|---------------------------------------|---------------------------------------|----------------|
| <b>2016</b>                                     |                         |                  |                                  |                             |                                       |                                       |                |
| <b>Balance at 1 July 2015</b>                   | 224.9                   | 603.8            | 53.0                             | 249.4                       | 11.9                                  | 271.7                                 | 1,414.7        |
| Acquisitions through business combinations      | 3.2                     | 32.9             | -                                | 6.0                         | -                                     | -                                     | 42.1           |
| Additions                                       | -                       | 13.3             | 4.5                              | 73.2                        | 1.6                                   | 348.6                                 | 441.2          |
| Transfers                                       | 31.3                    | 271.9            | 41.0                             | 49.0                        | 0.2                                   | (393.4)                               | -              |
| Depreciation - Continuing operations            | -                       | (22.3)           | (8.4)                            | (54.3)                      | (4.3)                                 | -                                     | (89.3)         |
| Depreciation - Discontinued operations          | -                       | -                | -                                | (0.6)                       | -                                     | -                                     | (0.6)          |
| Net disposals                                   | (2.2)                   | (0.5)            | (2.9)                            | (4.6)                       | -                                     | -                                     | (10.2)         |
| Effect of foreign currency exchange differences | -                       | 0.1              | 0.9                              | 1.2                         | 0.1                                   | 0.1                                   | 2.4            |
| <b>Balance at 30 June 2016</b>                  | <b>257.2</b>            | <b>899.2</b>     | <b>88.1</b>                      | <b>319.3</b>                | <b>9.5</b>                            | <b>227.0</b>                          | <b>1,800.3</b> |
| <b>2015</b>                                     |                         |                  |                                  |                             |                                       |                                       |                |
| <b>Balance at 1 July 2014</b>                   | 235.8                   | 580.4            | 67.8                             | 258.4                       | 13.5                                  | 82.3                                  | 1,238.2        |
| Acquisitions through business combinations      | -                       | -                | 2.9                              | 1.8                         | -                                     | -                                     | 4.7            |
| Additions                                       | -                       | 9.5              | 7.7                              | 63.0                        | 3.2                                   | 243.9                                 | 327.3          |
| Transfers                                       | -                       | 44.3             | 0.3                              | 9.9                         | -                                     | (54.5)                                | -              |
| Depreciation - Continuing operations            | -                       | (19.8)           | (8.5)                            | (46.6)                      | (4.6)                                 | -                                     | (79.5)         |
| Depreciation - Discontinued operations          | -                       | (0.5)            | (3.2)                            | (7.0)                       | (0.5)                                 | -                                     | (11.2)         |
| Net disposals                                   | (1.0)                   | (0.3)            | (1.5)                            | (3.1)                       | (0.2)                                 | -                                     | (6.1)          |
| Reclassified to assets held for sale            | (9.9)                   | (9.7)            | (12.2)                           | (26.1)                      | (0.7)                                 | -                                     | (58.6)         |
| Effect of foreign currency exchange differences | -                       | (0.1)            | (0.3)                            | (0.9)                       | 1.2                                   | -                                     | (0.1)          |
| <b>Balance at 30 June 2015</b>                  | <b>224.9</b>            | <b>603.8</b>     | <b>53.0</b>                      | <b>249.4</b>                | <b>11.9</b>                           | <b>271.7</b>                          | <b>1,414.7</b> |

The Directors believe that the carrying value of property, plant and equipment will be fully recovered through future use and subsequent disposal.

#### Key accounting policies

Property, plant and equipment is measured at cost, less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Borrowing costs in relation to the funding of qualifying assets are capitalised and included in the cost of asset. Qualifying assets are assets that take more than 12 months to get ready for their intended use or sale. Where funds are borrowed generally, a weighted average interest rate is used for the capitalisation of the interest.

#### Capital work in progress

Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

#### Depreciation

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis. Freehold land is not depreciated. Depreciation rates are calculated to spread the cost of asset (less any residual value), over its estimated useful life. Residual value is the estimated value of the asset at the end of its useful life.

The ranges of depreciation rates used for each class of depreciable assets are:

|                   |           |                        |            |
|-------------------|-----------|------------------------|------------|
| Buildings         | 2% to 5%  | Leasehold improvements | 2% to 100% |
| Plant & equipment | 5% to 50% | Leased assets          | 4% to 20%  |

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 12: INTANGIBLES

|   | Goodwill       | Contract<br>Management<br>Rights | Operating<br>Rights | Contract<br>Development<br>Costs | Total          |
|---|----------------|----------------------------------|---------------------|----------------------------------|----------------|
|   | \$'m           | \$'m                             | \$'m                | \$'m                             | \$'m           |
| <b>2016</b>                                     |                |                                  |                     |                                  |                |
| <b>Balance at 1 July 2015</b>                   | 1,736.6        | 47.3                             | 4.7                 | 14.4                             | 1,803.0        |
| Acquisitions through business combinations      | 34.9           | -                                | -                   | -                                | 34.9           |
| Additions                                       | -              | -                                | 0.7                 | 0.5                              | 1.2            |
| Amortisation - Continuing operations            | -              | (3.8)                            | (2.1)               | (2.3)                            | (8.2)          |
| Fair value adjustment                           | -              | (1.3)                            | -                   | -                                | (1.3)          |
| Effect of foreign currency exchange differences | 12.7           | 0.2                              | -                   | 1.1                              | 14.0           |
| <b>Balance as 30 June 2016</b>                  | <b>1,784.2</b> | <b>42.4</b>                      | <b>3.3</b>          | <b>13.7</b>                      | <b>1,843.6</b> |
| <b>2015</b>                                     |                |                                  |                     |                                  |                |
| <b>Balance at 1 July 2014</b>                   | 1,774.2        | 50.6                             | 5.5                 | 21.9                             | 1,852.2        |
| Additions                                       | 1.6            | 1.4                              | 2.9                 | 0.6                              | 6.5            |
| Amortisation - Continuing operations            | -              | (4.6)                            | (3.6)               | (2.0)                            | (10.2)         |
| Amortisation - Discontinued operations          | -              | -                                | (0.1)               | (0.4)                            | (0.5)          |
| Reclassified to held for sale                   | (31.6)         | -                                | -                   | (5.0)                            | (36.6)         |
| Effect of foreign currency exchange differences | (7.6)          | (0.1)                            | -                   | (0.7)                            | (8.4)          |
| <b>Balance as 30 June 2015</b>                  | <b>1,736.6</b> | <b>47.3</b>                      | <b>4.7</b>          | <b>14.4</b>                      | <b>1,803.0</b> |

#### Allocation of goodwill

For impairment testing purposes, the Group identifies its cash generating units (CGUs), which is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or other groups of assets.

The gross carrying amount of goodwill allocated to the Group's CGUs or group of CGUs are provided below:

|                 | Hospitals<br>Australia | Pathology<br>New Zealand | Other <sup>(i)</sup> | Total          |
|-----------------|------------------------|--------------------------|----------------------|----------------|
|                 | \$'m                   | \$'m                     | \$'m                 | \$'m           |
| <b>Goodwill</b> |                        |                          |                      |                |
| 2016            | 1,427.2                | 177.6                    | 179.4                | <b>1,784.2</b> |
| 2015            | 1,393.7                | 165.0                    | 177.9                | <b>1,736.6</b> |

<sup>(ii)</sup> Other comprises the cash generating units relating to the medical centres business in Australia and the pathology businesses in Malaysia, Singapore and Vietnam.

#### Key accounting policies

##### Goodwill

Goodwill on acquisition is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that they might be impaired.

##### Contract management rights

Contract management rights acquired by the Group have finite lives. They are stated at cost less accumulated amortisation.

##### Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits of the asset to which it relates. All other expenditure is expensed as incurred.

##### Amortisation

For intangible assets with finite lives, amortisation is recognised in the profit or loss on a straight-line basis over their estimated useful life. The estimated useful lives of intangible assets in this category are as follows:

|                            |               |                  |              |
|----------------------------|---------------|------------------|--------------|
| Contract management rights | 3 to 30 years | Operating rights | 3 to 6 years |
| Contract development costs | 5 to 12 years |                  |              |

## HEALTHSCOPE LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 12: INTANGIBLES (*continued*)

##### *Impairment of goodwill*

The Healthscope Group performs an impairment assessment when there is an indication or trigger of a possible impairment of its non-current assets. In addition, at least annually, the Healthscope Group performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment indicator has been identified. The annual review of goodwill and indefinite life intangible assets was performed at 30 June 2016.

##### *Impairment indicators*

After considering the trading performance of each of the Healthscope Group's CGU's for the twelve months to 30 June 2016, an impairment indicator was identified for the Medical Centres CGU.

##### *Impairment testing approach*

The Group has prepared value-in-use models for the purpose of impairment testing as at 30 June 2016, using five year discounted cash flow models. Cash flows beyond the five year period are extrapolated using a terminal value growth rate. The Group's impairment testing resulted in no impairment at 30 June 2016.

##### *Assumptions*

The assumptions used for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on management's forecasts. These forecasts require management estimates to determine income, expenses, working capital movements, capital expenditure, and cash flows for each CGU. The projected cash flows for each individual CGU are discounted using an appropriate discount rate and terminal growth rate unique to each CGU.

The following assumptions were used in determining the recoverable amount of each cash generation unit based on value in use as at 30 June 2016.

- 2016/2017 Board approved profit and loss and cash flow budgets for each cash-generating unit;
- Inherent growth factors consistent with current performance for each CGU;

|             | <b>Hospitals<br/>Australia</b> | <b>Medical<br/>Centres</b> | <b>Pathology<br/>New Zealand</b> | <b>Pathology<br/>Singapore</b> | <b>Pathology<br/>Malaysia</b> |
|-------------|--------------------------------|----------------------------|----------------------------------|--------------------------------|-------------------------------|
| <b>2016</b> | 4.0 – 5.0%                     | 2.5 – 3.5%                 | 2.5 – 3.5%                       | 2.5 – 3.5%                     | 1.5 – 2.5%                    |
| <b>2015</b> | 4.0 – 5.0%                     | 2.5 – 3.5%                 | 2.5 – 3.5%                       | 3.5 – 4.5%                     | 3.5 – 4.5%                    |

- Prevailing market based pre-tax discount rates for the Group's CGUs are as follows:  
Hospitals 8.7% (2015: 9.9%), Medical Centres 9.6% (2015: 9.9%), Pathology New Zealand 9.3% (2015: 9.9%), Pathology Singapore 10.6% (2015: 9.9%), and Pathology Malaysia 10.6% (2015: 10.7%);
- Cash flow projections covering a five-year period and terminal value; and
- Terminal growth factors have been set at:  
Hospitals 3.0% (2015: 3.0%), Medical Centres 3.0% (2015: 2.5%), Pathology New Zealand 2.5% (2015: 3.0%), Pathology Singapore 2.0% (2015: 3.0%), and Pathology Malaysia 2.0% (2015: 3.0%).

##### *Impairment testing results*

With the exception of the Medical Centres CGU, management believes that any reasonably possible change in key assumptions on which recoverable amount has been assessed would not cause the carrying amount of the CGU to exceed its recoverable amount.

Headroom for the Medical Centres CGU is marginal and sensitive to movements in business performance and the general economic and regulatory conditions. Strategies are in place to mitigate impacts of the Medicare funding changes and general market conditions.

##### **Critical accounting judgements**

The Group is required to make significant estimates and judgements in determining whether the carrying amount of its assets and / or CGUs has any indication of impairment, in particular in relation to:

- key assumptions used in forecasting future cash flows;
- discount rates applied to those cash flows; and
- the expected long term growth in cash flows.

Such estimates and judgements are subject to change as a result of changing economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes in the recognition of impairment charges in future periods.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 13: COMMITMENTS

|  | 2016<br>\$'m   | 2015<br>\$'m   |
|--|----------------|----------------|
| <b>(a) Capital expenditure commitments</b>                             |                |                |
| <i>Capital expenditure committed but not provided for and payable:</i> |                |                |
| - Not longer than 1 year   | 593.6          | 574.8          |
| - Longer than 1 year but no longer than 5 years                        | 600.3          | 536.9          |
| - Longer than 5 years  | -              | 3.3            |
|  | <b>1,193.9</b> | <b>1,115.0</b> |

The capital commitments relate to the development of the Northern Beaches Hospital and various Brownfield developments.

#### (b) Operating lease commitments

|  |              |              |
|--|--------------|--------------|
| Non-cancellable operating leases contracted for but not capitalised: | 2016<br>\$'m | 2015<br>\$'m |
| Payable:   |              |              |
| - Not later than 1 year  | 42.8         | 39.5         |
| - Later than 1 year but no later than 5 years                        | 99.4         | 106.8        |
| - Later than 5 years   | 86.5         | 125.4        |
|  | <b>228.7</b> | <b>271.7</b> |

Operating leases relate to properties leased by the Group with lease terms between 1 and 30 years. (2015: 1 and 30 years). All operating leases contain market review clauses in the event that the lessee exercises its option to renew.

### NOTE 14: CONTINGENT LIABILITIES

|   | 2016<br>\$'m | 2015<br>\$'m |
|---|--------------|--------------|
| Estimates of material amounts of contingent liabilities not provided for: |              |              |
| Bank guarantees to various Workcover authorities                          | 8.5          | 4.6          |
| Bank guarantee in respect of Northern Beaches development                 | 161.8        | 161.8        |
| Bank guarantees in respect of property leases                             | 12.0         | 13.1         |

The Directors are of the opinion that no additional provisions are required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 15: PROVISIONS

|  | 2016<br>\$'m | 2015<br>\$'m |
|--|--------------|--------------|
| <b>CURRENT</b>   |              |              |
| Employee benefits <sup>(i)</sup>                           | 105.9        | 93.7         |
| Medical malpractice insurance <sup>(ii)</sup>              | 6.8          | 7.1          |
| Onerous lease contracts and related costs <sup>(iii)</sup> | 5.8          | 7.8          |
| Other  | 3.4          | 4.1          |
|  | <b>121.9</b> | <b>112.7</b> |
| <b>NON-CURRENT</b>   |              |              |
| Employee benefits  | 23.1         | 19.9         |
| Onerous lease contracts <sup>(iii)</sup>                   | 8.4          | 23.6         |
|  | <b>31.5</b>  | <b>43.5</b>  |

#### Summary of provisions

- (i) The current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future pay rates, discounted to present value at appropriate discount rates.
- (ii) The provision for medical malpractice insurance represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the Group.
- (iii) The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable.

#### Key accounting policies

##### Provisions

Provisions are measured at management's estimate of the expenditure required to settle the obligation. This estimate is based on "present value" calculation, which involves the application of a discount rate to the expected future cash flows associated with settlement.

##### Employee entitlements

Provisions are made for liabilities to employees for annual leave, long service leave and other employee entitlements. Where the payment to employees is expected to take place in 12 months' time or later, a present value calculation is performed. In this instance, the corporate bond rate is used to discount the liability to its present value.

##### Onerous lease contracts

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### Critical accounting judgements

##### Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in wages in salaries;
- Future on-cost rates;
- Experience of employee departures and year of service; and
- Appropriate discount rate to reflect long term liabilities at present value.

##### Medical Malpractice Insurance

During the year, management performed the regular review of the medical malpractice insurance claims provision across the Group, which is included in the consolidated statement of financial position as at 30 June 2016 at \$6.8 million (2015: \$7.1 million). The provision represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the Group. The following key assumptions are used in determining the provision:

- Appropriate discount rate; and
- Forecast and review of plaintiff's claim.

##### Onerous lease contracts

The onerous lease contract provision has been derived on the basis of the most recent assessment of the likely net unavoidable cost to the end of the contract term. Management have considered the future costs of the contract which can be determined with a high degree of accuracy. However, the future economic benefits expected to be received are based on forecasts. Management consider the liability to be the best estimate of the net unavoidable costs as at 30 June 2016. The following key assumptions are used in determining the provision related to onerous lease contracts:

- Appropriate discount rate to reflect the long term liabilities at present value; and
- Ability to sub-lease the premises subject to onerous lease contract.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 16: FINANCIAL INSTRUMENTS

#### Capital management

The Group's objectives when managing capital are to ensure the Group continues as a going concern while providing optimal returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management reviews the capital structure of the Group on a regular basis. As part of this review, the cost of capital and the risks associated with each class of capital is considered. The Group is not subject to any regulatory capital requirements.

**The gearing ratio at year-end was as follows:**

|   | 2016<br>\$'m   | 2015<br>\$'m   |
|---|----------------|----------------|
| Borrowings - current  | 4.9            | 8.6            |
| Borrowings - non-current                                      | 1,557.0        | 1,167.9        |
|   | <b>1,561.9</b> | <b>1,176.5</b> |
| <i>Add back:</i>  |                |                |
| USPP - Fair value adjustment associated with hedge accounting | (18.2)         | -              |
| Capitalised facility costs                                    | 17.2           | 16.3           |
| <b>Debt <sup>(i)</sup></b>                                    | <b>1,560.9</b> | <b>1,192.8</b> |
| Cash and cash equivalents                                     | (278.8)        | (217.7)        |
| <b>Net debt</b>   | <b>1,282.1</b> | <b>975.1</b>   |
| <b>Equity <sup>(ii)</sup></b>                                 | <b>2,372.7</b> | <b>2,305.7</b> |
| <b>Net debt + equity</b>                                      | <b>3,654.8</b> | <b>3,280.8</b> |
| <b>Net debt / (Net debt + equity)</b>                         | <b>35.1%</b>   | <b>29.7%</b>   |

<sup>(i)</sup> Debt is defined as long and short-term borrowings (excluding derivatives, fair value adjustments associated with hedge accounting and capitalised facility costs), as detailed in Note 8.

<sup>(ii)</sup> Equity includes all capital and reserves of the Group that are managed as capital.

#### Risk management

The Group's principal financial instruments, other than derivatives, comprise cash, short term deposits, and interest bearing liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial assets and liabilities which arise directly from its operations.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities, principally interest rate swaps and cross currency swaps. The Group does not hold or issue derivative financial instruments for trading purposes.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk, these are discussed below.

#### (a) Interest rate risk

The Group has a policy of managing exposure to interest rate fluctuations by the use of fixed rate debt and interest rate swaps. Further details regarding the Group's approach to managing interest rate risk are discussed in Note 9.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

## HEALTHSCOPE LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 16: FINANCIAL INSTRUMENTS (*continued*)

##### (a) Interest rate risk (*continued*)

###### Interest rate sensitivity analysis

With all other variables held constant, a 1% increase in interest rates would reduce profit after tax by \$7.8 million (2015: \$7.1 million) reflecting the impact of higher interest rates on variable rate debt. A 1% decrease in interest rates would result in a corresponding \$7.8 million increase in profit after tax (2015: \$7.1 million).

The movements in profit are due to higher/lower interest costs from variable rate debt and investments. The movement in other comprehensive income is due to an increase/decrease in the fair value of financial instruments designated as cash flow hedges

##### (b) Foreign currency risk

The Group's primary currency exposure is to US dollars as a result of issuing US Private Placement debt. In order to hedge this exposure, the Group has entered into cross currency swaps to fix the exchange rate on the USD debt until maturity. The Group agrees to pay a fixed USD amount in exchange for an agreed AUD amount with swap counterparties, and to re-exchange this again at maturity. These swaps are designated to hedge the principal and interest obligations of the US private placement debt.

With all other variables held constant, a 5 cent increase in the AUD/USD exchange rate would increase other comprehensive income by \$0.1 million with no impact on profit after tax. A 5 cent decrease in the AUD/USD exchange rate would result in a corresponding decrease in other comprehensive income with no impact on profit after tax. As the US Private Placement debt was entered into during the current year, there was no comparable currency risk present in the prior year.

##### (c) Credit risk

The Group's credit risk arises in relation to cash and cash equivalents, receivables, financial liabilities and liabilities under financial guarantees.

Credit risk on financial assets which have been recognised on the balance sheet, is the carrying amount less any allowance for non-recovery. The Group actively manages this exposure by dealing only with counterparties with good credit standing and not having any significant credit risk with any single counterparty.

Credit risk associated with financial liabilities arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in respect of derivative contracts is detailed in the liquidity risk table below.

Credit risk includes liabilities under financial guarantees. For financial guarantee contract liabilities the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. The fair value of financial guarantee contract liabilities has been assessed as nil (2015: nil), as the possibility of an outflow occurring is considered remote. Details of the financial guarantee contracts at balance date are outlined below:

###### *Deed of cross guarantee*

The Company has entered into a deed of cross guarantee as outlined in Note 23.

###### *Guarantees and indemnities*

Entities in the Group are called upon to give in the ordinary course of business, guarantees and indemnities in respect of the performance of their contractual and financial obligations.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 16: FINANCIAL INSTRUMENTS (*continued*)

#### (d) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The contractual undiscounted cash flows, including principal and estimated interest payments, of non-derivative financial instruments and derivative financial instruments in existence at year end are as follows:

|   | Weighted<br>average<br>effective interest<br>rate<br>% | Less than 1<br>year<br>\$'m | 1-5 years<br>\$'m | 5+ years<br>\$'m | Total<br>\$'m  |
|---|--|-----------------------------|-------------------|------------------|----------------|
| <b>2016</b>                                 |  |                             |                   |                  |                |
| <b>Non-derivative financial instruments</b> |  |                             |                   |                  |                |
| Trade creditors and accrued expenses        |  | 246.2                       | -                 | -                | 246.2          |
| Variable interest rate instruments          | 4.36%  | 36.5                        | 1,094.1           | -                | 1,130.6        |
| Fixed interest rate instruments             | 4.70%  | 16.4                        | 65.5              | 485.8            | 567.7          |
| Finance lease liability                     | 6.25%  | 4.9                         | 5.9               | 0.1              | 10.9           |
| Financial guarantees                        |  | 0.7                         | 113.6             | 5.6              | 119.9          |
| <b>Derivative financial instruments</b>     |  |                             |                   |                  |                |
| Interest rate swaps                         |  | 5.4                         | 9.2               | -                | 14.6           |
| Cross currency swaps                        |  | 2.0                         | 8.2               | 10.2             | 20.4           |
|   |  | <b>312.1</b>                | <b>1,296.5</b>    | <b>501.7</b>     | <b>2,110.3</b> |
| <b>2015</b>                                 |  |                             |                   |                  |                |
| <b>Non-derivative financial instruments</b> |  |                             |                   |                  |                |
| Trade creditors and accrued expenses        |  | 229.9                       | -                 | -                | 229.9          |
| Variable interest rate instruments          | 4.98%  | 46.9                        | 1,349.3           | -                | 1,396.2        |
| Fixed interest rate instruments             | -  | -                           | -                 | -                | -              |
| Finance lease liability                     | 6.10%  | 4.4                         | 8.7               | 0.6              | 13.7           |
| Financial guarantees                        |  | 0.7                         | 172.8             | 6.1              | 179.6          |
| <b>Derivative financial instruments</b>     |  |                             |                   |                  |                |
| Interest rate swaps                         |  | 3.2                         | 4.2               | -                | 7.4            |
| Cross currency swaps                        |  | -                           | -                 | -                | -              |
|   |  | <b>285.1</b>                | <b>1,535.0</b>    | <b>6.7</b>       | <b>1,826.7</b> |

For variable interest rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date. For foreign currency receipts and payments, the amount disclosed is determined by reference to the USD/AUD rate at balance date.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 17: FAIR VALUE MEASUREMENT

The financial instruments included on the Consolidated Statement of Financial Position are measured at either fair value or amortised cost. The measurement of this fair value may in some cases be subjective and may depend on the inputs used in the calculations.

The Group generally uses external valuations based on market inputs or market values. The different valuation methods are called 'hierarchies' and are described below.

- Level 1: calculated using quoted prices in active markets.
- Level 2: estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: estimated using inputs for the asset or liability that are not based on observable market data.

All financial instruments recognised on the Consolidated Statement of Financial position are recognised at amounts that represent a reasonable approximation of fair value, with the exception of the following borrowings:

|                            | 2016            |            | 2015            |            |
|----------------------------|-----------------|------------|-----------------|------------|
|                            | Carrying amount | Fair value | Carrying amount | Fair value |
|                            | \$'m            | \$'m       | \$'m            | \$'m       |
| <b>Borrowings</b>          |                 |            |                 |            |
| US Private Placement (AUD) | 419.1           | 410.8      | -               | -          |

The fair values of the Group's financial instruments are estimated as follows:

#### Borrowings

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date, in combination with restatement to foreign exchange rates at balance date (level 2 in fair value hierarchy).

#### Derivative financial instruments

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date (level 2 in fair value hierarchy). Refer to Note 9 for further details.

#### Promissory note

The fair value of promissory note is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty from market based information (level 3 in fair value hierarchy).

There were no transfers between Level 1 and Level 2 during the year.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 18: SHARE BASED PAYMENTS

The Group has an ownership based remuneration strategy which provides certain senior management (including Senior Executives) with the opportunity to receive equity instruments as a component of their short and / or long term remuneration.

#### *Long Term Incentive Plan (LTI Plan) – LTI Performance Rights*

Healthscope has a Long Term Incentive Plan (LTI Plan) which is available to Senior Executives. In accordance with the provisions of the LTI Plan, Senior Executives may become entitled to LTI Performance Rights, which entitle the holder to acquire one ordinary share in Healthscope on satisfaction of LTI performance conditions.

The LTI Performance Rights are granted at no cost to the participants as they form part of their remuneration.

The dilutive effect, if any, of outstanding LTI Performance Rights is reflected in the computation of diluted earnings per share.

Further explanation of the LTI Plan is disclosed in the Remuneration Report.

#### *Deferred Short Term Incentives (Deferred STI) – STI Performance Rights*

In 2016, Healthscope introduced a deferred equity component for senior management (including Senior Executives) entitled to STI reward. This new component results in between 30-50% of any relevant STI award being granted as STI Performance Rights. The STI Performance Rights entitle the holder to acquire one ordinary share in Healthscope at the completion of a two year deferral period, subject to continued employment. There are no further performance measures.

STI Performance Rights are granted at no cost and no payment is required to be made in order for the STI Performance Rights to vest and for participants to receive shares. Any STI Performance Rights that do not vest will automatically lapse.

At the date of this Report, the actual number of STI Performance Rights related to 2016 cannot be calculated and have not yet been issued. Based on the share price of the Company as at 30 June 2016 (\$2.86), 900,683 STI Performance Rights would be issued. This number has been used for the purposes of calculating diluted earnings per share in Note 5.

The actual number of STI Performance Rights issued to senior management in relation to FY16 will be reported to shareholders in the Company's 2017 Financial Report.

Further explanation of the STI Plan is disclosed in the Remuneration Report.

#### **Performance Rights held at the end of the year:**

| Performance right series | Number of rights | Grant date | Vesting date | Expiry date | Exercise Price | Fair value at grant date |
|--------------------------|------------------|------------|--------------|-------------|----------------|--------------------------|
| 2014                     | 1,706,433        | 28/07/2014 | 30/06/2017   | 30/06/2017  | -              | \$1.67                   |
| October 2015             | 1,175,597        | 30/10/2015 | 30/06/2018   | 30/06/2018  | -              | \$2.18                   |
| November 2015            | 697,925          | 24/11/2015 | 30/06/2018   | 30/06/2018  | -              | \$2.31                   |

#### **Movement in Performance Rights held during the year:**

|   | 2016<br>Number   | 2015<br>Number   |
|---|------------------|------------------|
| Balance at the beginning of the year      | 1,706,433        | -                |
| - Number issued during the financial year | 1,873,522        | 1,706,433        |
| Balance at the end of the year            | <b>3,579,955</b> | <b>1,706,433</b> |
| Exercisable at 30 June 2016               | -                | -                |

There were no other transactions affecting Performance Rights held during the current or prior financial year.

## HEALTHSCOPE LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 18: SHARE BASED PAYMENTS (*continued*)

##### Fair value of LTI Performance Rights

The fair value of LTI Performance Rights is measured at grant date and is recognised as an employee expense (with a corresponding increase in equity) over three years irrespective of whether the LTI Performance Rights vest to the holder. A reversal of the expense is only recognised in the event the instruments lapse due to cessation of employment within the three year period.

The fair value of the LTI Performance Rights is determined by an external valuer and takes into account the terms and conditions upon which they were granted. The valuation was conducted using a Monte Carlo simulation for the TSR performance hurdle and a Black Scholes valuation model for the EPS performance hurdle.

The assumptions underlying the valuation of the LTI Performance Rights are:

| Inputs into the 2016 performance right pricing model | October 2015 | November 2015 |
|--|--------------|---------------|
| Grant date share price                               | \$2.70       | \$2.83        |
| Exercise price                                       | \$0.00       | \$0.00        |
| Estimated Volatility                                 | 25%          | 25%           |
| Expected life  | 2.67 years   | 2.60 years    |
| Risk free interest rate                              | 1.76%        | 2.12%         |
| Dividend yield                                       | 3.0%         | 3.0%          |

The weighted average fair value of the LTI Performance Rights granted during the financial year is \$2.23 (2015: \$1.67).

##### Expenses arising from share-based payment transactions

|                        | 2016<br>\$'m | 2015<br>\$'m |
|------------------------|--------------|--------------|
| LTI Performance Rights | 2.0          | 1.0          |
| STI Performance Rights | 0.8          | -            |
| <b>Total</b>           | <b>2.8</b>   | <b>1.0</b>   |

##### Key accounting policies

The rights to share granted to employees under the terms of the plans are measured at fair value. The fair value is recognised as an employee expense over the period that employees become unconditionally entitled to the rights. There is a corresponding increase in equity, which is reflected in the share based payments reserve.

The amount recognised as an expense is adjusted to reflect the actual number of rights taken up, once related service and other non-market conditions are met.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 19: CHANGES IN THE COMPOSITION OF THE HEALTHSCOPE GROUP

#### Acquisitions during the year

On 19 November 2015 the Group acquired Hunter Valley Private Hospital, an 83 bed hospital located in Shortland, New South Wales, which was established in 1965. On 1 March 2016, the Group acquired Grovedale Medical Centre.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

|                                   | FAIR VALUE<br>\$'m |
|-----------------------------------|--------------------|
| <b>Consideration</b>              |                    |
| Cash consideration <sup>(i)</sup> | 65.0               |
| Equity consideration              | 8.2                |
| <b>Total consideration</b>        | <b>73.2</b>        |

<sup>(i)</sup> The net cash payment after allowing for cash acquired in relation to the acquisition totalled \$63.6 million.

#### The assets and liabilities recognised as a result of the acquisitions are as follows:

|   |             |
|---|-------------|
| Cash and cash equivalents               | 1.6         |
| Receivables and other assets            | 3.4         |
| Payables and other liabilities          | (3.4)       |
| Provisions                              | (1.9)       |
| Deferred tax liabilities                | (4.6)       |
| Property, plant and equipment           | 42.3        |
| Deferred tax assets                     | 0.8         |
| <b>Net identifiable assets required</b> | <b>38.2</b> |
| Goodwill on acquisition                 | 34.9        |
| <b>Net assets acquired</b>              | <b>73.2</b> |

Accounting for the acquisition of Hunter Valley Private Hospital and Grovedale Medical Centre are completed as at 30 June 2016.

#### Key accounting policies

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value, as are the net assets acquired. Any goodwill that arises is tested annually for impairment. Acquisition related costs of the above acquisitions are included within other income and expense items.

#### Discontinued operations

On 6 July 2015, Healthscope completed the sale of its Australian Pathology operations to Crescent Capital Partners ("Crescent"). As part of the sale, Healthscope also transferred six skin clinics from its Medical Centre operations to Crescent. The consideration of \$105.0 million comprised cash proceeds of \$92.5 million, less working capital adjustment of \$0.2 million and a promissory note of \$12.5 million.

No gain or loss was recorded on sale as the net assets were written down to their recoverable amount in the prior year based on the agreed proceeds of sale.

As part of the divestment, the Group transferred \$140.4 million of assets and \$40.4 million of liabilities directly associated to assets classified as held for sale.

The results of the discontinued Pathology Australia operations included in the profit for year are set out below. The comparative figures from discontinued operations have been re-stated to include those operations classified as discontinued in the previous period.

| <i>Loss for the year from discontinued operations</i>     | <b>2016</b>  | <b>2015</b>   |
|---|--------------|---------------|
|   | <b>\$'m</b>  | <b>\$'m</b>   |
| Revenue   | 3.0          | 281.6         |
| Expenses  | (5.4)        | (296.9)       |
| <b>Loss before finance costs and income tax</b>           | <b>(2.4)</b> | <b>(15.3)</b> |
| Net finance costs   | -            | (0.2)         |
| <b>Loss before income tax</b>                             | <b>(2.4)</b> | <b>(15.5)</b> |
| Income tax benefit  | 0.7          | 2.6           |
| <b>Net loss for the year from discontinued operations</b> | <b>(1.7)</b> | <b>(12.9)</b> |

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION AND RELATED PARTIES

The compensation made to key management personnel of the Group is set out below:

|                                | 2016       | 2015       |
|--------------------------------|------------|------------|
|                                | \$'m       | \$'m       |
| Short term employment benefits | 5.3        | 5.5        |
| Long term employment benefits  | 1.8        | 0.7        |
| Post-employment benefits       | 0.2        | 0.2        |
|                                | <b>7.2</b> | <b>6.4</b> |

Determination of key management personnel and detailed remuneration disclosures are provided in the Remuneration Report.

#### Loans to key management personnel and their related parties.

In the year ended 30 June 2016, there were no loans to key management personnel and their related parties (2015: nil).

#### Transactions with related parties

Details of all entities within the consolidated group are disclosed in Note 23. There were no transactions between the related parties that require disclosure.

### NOTE 21: AUDITORS' REMUNERATION

|   | 2016           | 2015             |
|---|----------------|------------------|
|   | \$             | \$               |
| <b>Auditor of the parent entity</b>                 |                |                  |
| Audit or review of the financial report             | 610,200        | 614,500          |
| Agreed upon procedures and other assurance services | 52,500         | 84,500           |
| Corporate governance advisory services              | 50,000         | -                |
|   | <b>712,700</b> | <b>699,000</b>   |
| <b>Network firm of the parent entity auditor</b>    |                |                  |
| Audit or review of the financial statements         | 218,000        | 210,450          |
| Other assurance services                            | -              | 119,300          |
|   | <b>930,700</b> | <b>1,028,750</b> |

All amounts were paid to Deloitte or Deloitte affiliated firms.

The auditor of the Group is Deloitte Touche Tohmatsu. From time to time, the auditors provide other services to the Group. These services are subject to strict corporate governance procedures which encompass the selection of service providers and the setting of their remuneration.

### NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

As at 31 July 2016, Management Shareholders held a total of 7,930,582 shares pursuant to voluntary escrow arrangements in connection with the legacy LTI plan and listing of Healthscope. The escrow period ended on 31 July 2016.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods other than the dividend declared in Note 6.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 23: ENTITES WITHIN THE CONSOLIDATED GROUP

The parent entity of the Group is Healthscope Limited.

As at the end of the year, the following wholly owned subsidiaries of the Group were incorporated in Australia:

|  |  |   |  |   |
|--|--|---|--|---|
| ACN 154 902 913 Pty. Ltd.                          | Advanced Medical Technology Pty. Ltd.          | Allamanda Private Hospital Pty. Ltd.        | Allamanda Surgicentre Pty. Ltd.              | APHG No. 2 Holdings 3 Pty. Ltd.                   |
| APHG No. 2 Pty. Ltd.                               | Asia Pacific Healthcare Group Pty.Ltd.         | Australian Hospital Care (Como) Pty. Ltd.   | Australian Hospital Care (Dorset) Pty. Ltd.  | Australian Hospital Care (Knox) Pty. Ltd.         |
| Australian Hospital Care (Lady Davidson) Pty. Ltd. | Australian Hospital Care (Ringwood) Pty. Ltd.  | Brisbane Private Hospital Pty. Ltd.         | Darwin Private Hospital Pty. Ltd.            | E-Clinic Pty. Ltd.                                |
| FHIC Pty. Ltd.                                     | FPH Operations Pty. Ltd.                       | GCPH HoldCo Pty. Ltd.                       | Gold Coast Private Hospital Pty. Ltd.        | HCA Holdings (Southport) Pty. Ltd.                |
| HCA Management Company Pty. Ltd.                   | Healthcare of Australia Holdings Pty. Ltd.     | Healthscope (Tasmania Finance) Pty. Ltd.    | Healthscope (Tasmania) Pty. Ltd.             | Healthscope Diagnostic Imaging Pty. Ltd.          |
| Healthscope Finance Pty. Ltd.                      | Healthscope Hospitals Holdings No. 2 Pty. Ltd. | Healthscope Hospitals International Pty Ltd | Healthscope Medical Centres Pty. Ltd.        | Healthscope Operations Pty Ltd                    |
| Healthscope Pathology Holdings No. 2 Pty. Ltd.     | Healthscope Pathology Holdings Pty. Ltd.       | Healthscope South Australia Pty. Ltd.       | Holmesglen Private Hospital Pty. Ltd.        | La Trobe Private Hospital (Healthscope) Pty. Ltd. |
| Maybury Craft Pty. Ltd.                            | Mazlin Investments Pty. Ltd.                   | Melbourne Hospital Pty. Limited             | Molescan Australia Pty. Ltd.                 | NBH Borrower Pty Ltd                              |
| NBH Car Park Operator Pty Ltd                      | NBH HoldCo 1 Pty Ltd                           | NBH HoldCo 2 Pty Ltd                        | NBH Operator B Pty Ltd                       | NBH Operator Co Pty Ltd                           |
| Newcastle Private Hospital Pty. Ltd.               | Nova Health Pty. Limited                       | P.O.W Hospital Pty. Ltd.                    | Pacific Private Hospital Pty. Ltd.           | QPH Wickham Pty. Ltd.                             |
| Skin Alert Pty. Ltd.                               | Sydney Breast Clinic Pty. Ltd.                 | The Gribbles Group Pty. Ltd.                | The Hunter Valley Private Hospital Pty. Ltd. | The Victorian Rehabilitation Centre Pty. Ltd.     |
| Tweed Surgicentre Pty. Ltd.                        |  |   |  |   |

The Australian entities listed above formed part of the tax consolidation group<sup>1</sup> and Deed of Cross Guarantee<sup>2</sup>.

As at the end of the year, the following wholly owned subsidiaries of the Group were incorporated overseas:

| Name of entity                          | Country of incorporation | Name of entity                            | Country of incorporation |
|---|--------------------------|---|--------------------------|
| Aotea Pathology Limited                 | New Zealand              | APHG NZ Investments Limited               | New Zealand              |
| Canterbury SCL Limited                  | New Zealand              | Gribbles Veterinary Pathology Limited     | New Zealand              |
| Healthscope New Zealand Limited         | New Zealand              | Labtests Auckland Ltd                     | New Zealand              |
| Labtests Limited                        | New Zealand              | Medlab South Limited                      | New Zealand              |
| New Zealand Diagnostic Group Limited    | New Zealand              | Northland Pathology Laboratory Limited    | New Zealand              |
| SCL Hawkes Bay Limited                  | New Zealand              | SCL Otago Southland Code Services Limited | New Zealand              |
| SCL Otago Southland Limited             | New Zealand              | SCL Otago Southland Services Limited      | New Zealand              |
| Southern Community Laboratories Limited | New Zealand              | Wellington SCL Limited                    | New Zealand              |
| Gribbles Cytology Services SDN. BHD.    | Malaysia                 | Gribbles Pathology (Malaysia) SDN. BHD.   | Malaysia                 |
| Quest Laboratories Pte Ltd              | Singapore                | Quest Laboratories Vietnam Co., Ltd       | Vietnam                  |

<sup>1</sup> Except for NBH Borrower Pty Ltd, NBH Carpark Operator Pty Ltd, NBH Holdco 1 Pty Ltd, NBH Operator B Pty Ltd and NBH Operator Co Pty Ltd.

<sup>2</sup> Except for ACN 154 902 913 Pty. Ltd., NBH Borrower Pty Ltd, NBH Carpark Operator Pty Ltd, NBH Holdco 1 Pty Ltd, NBH Holdco 2 Pty Ltd, NBH Operator B Pty Ltd and NBH Operator Co Pty Ltd.

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 23: ENTITES WITHIN THE CONSOLIDATED GROUP (*continued*)

#### Deed of Cross Guarantee

The consolidated statement of financial position and income statements of the entities part to the deed of cross guarantee are:

|  | 2016           | 2015           |
|--|----------------|----------------|
|  | \$'m           | \$'m           |
| <b>Consolidated Statement of Financial Position</b>                            |                |                |
| <b>Current assets</b>  |                |                |
| Cash and cash equivalents  | 212.8          | 127.0          |
| Trade and other receivables  | 108.6          | 65.9           |
| Inventories  | 51.7           | 47.9           |
| Prepayments  | 14.4           | 13.5           |
| Assets classified as held for sale   | -              | 140.4          |
| <b>Total Current Assets</b>  | <b>387.5</b>   | <b>394.7</b>   |
| <b>Non-current assets</b>  |                |                |
| Other financial assets   | 115.9          | 518.9          |
| Other receivable   | 24.7           | -              |
| Property, plant and equipment  | 1,648.9        | 1,201.6        |
| Intangible assets  | 1,566.2        | 1,539.9        |
| Deferred tax assets  | 145.4          | 186.8          |
| <b>Total non-current assets</b>  | <b>3,501.1</b> | <b>3,447.2</b> |
| <b>Total assets</b>  | <b>3,888.6</b> | <b>3,841.9</b> |
| <b>Current liabilities</b>   |                |                |
| Trade and other payables   | 197.5          | 197.1          |
| Other financial liabilities  | 168.0          | 26.7           |
| Provisions   | 121.2          | 102.6          |
| Liabilities associated to assets classified as held for sale                   | -              | 40.4           |
| <b>Total current liabilities</b>   | <b>486.7</b>   | <b>366.8</b>   |
| <b>Non-current liabilities</b>   |                |                |
| Borrowings   | 1,264.3        | 991.6          |
| Other financial liabilities  | 5.3            | 0.4            |
| Other payables   | 18.4           | -              |
| Deferred tax liabilities   | 57.7           | 43.7           |
| Provisions   | 29.9           | 42.2           |
| <b>Total non-current liabilities</b>   | <b>1,375.6</b> | <b>1,077.9</b> |
| <b>Total liabilities</b>   | <b>1,862.3</b> | <b>1,444.7</b> |
| <b>Net Assets</b>  | <b>2,026.3</b> | <b>2,397.2</b> |
| <b>Equity</b>  |                |                |
| Issued capital   | 2,709.2        | 2,697.2        |
| Reserves   | (290.1)        | (239.5)        |
| Accumulated losses   | (392.8)        | (60.5)         |
| <b>Total Equity</b>  | <b>2,026.3</b> | <b>2,397.2</b> |
| <b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b> |                |                |
|  | 2016           | 2015           |
|  | \$'m           | \$'m           |
| Profit before income tax   | 104.8          | 170.7          |
| Income tax expense   | (58.3)         | (52.2)         |
| <b>Net profit for the year</b>   | <b>46.5</b>    | <b>118.5</b>   |
| Other comprehensive income, net of income tax                                  | 7.2            | -              |
| <b>Total comprehensive income for the year</b>                                 | <b>53.7</b>    | <b>118.5</b>   |

# HEALTHSCOPE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 24: PARENT ENTITY INFORMATION

During the financial year ended 30 June 2016, the parent company of the Group was Healthscope Limited.

|  | 2016<br>\$'m   | 2015<br>\$'m   |
|--|----------------|----------------|
| <b>Assets</b>                                  |                |                |
| Current assets                                 | 84.9           | 85.0           |
| Non-current assets                             | 2,675.3        | 2,677.8        |
| <b>Total assets</b>                            | <b>2,760.2</b> | <b>2,762.8</b> |
| <b>Liabilities</b>                             |                |                |
| Current liabilities                            | 0.4            | -              |
| Non-current liabilities                        | 1.7            | 1.7            |
| <b>Total liabilities</b>                       | <b>2.1</b>     | <b>1.7</b>     |
| <b>Net assets</b>                              | <b>2,758.1</b> | <b>2,761.1</b> |
| <b>Equity</b>                                  |                |                |
| Issued capital                                 | 2,706.1        | 2,697.2        |
| Dividends                                      | (124.9)        | (57.2)         |
| Accumulated profit                             | 176.9          | 121.1          |
| <b>Total equity</b>                            | <b>2,758.1</b> | <b>2,761.1</b> |
| <b>Financial performance</b>                   |                |                |
| Profit for the year                            | 113.0          | 121.1          |
| <b>Total comprehensive income for the year</b> | <b>113.0</b>   | <b>121.1</b>   |

Healthscope Limited has entered into a deed of cross guarantee with its wholly owned subsidiaries. Details of which are included in Note 23. No liabilities have been assumed by Healthscope Limited in relation to this guarantee as it is expected the parties to the deed of cross guarantee will continue to generate positive cash flows

The accounting policies of the parent are the same as the Group's policies.

# HEALTHSCOPE LIMITED

## DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, and
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.


In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 9 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Paula Dwyer  
Chairman



Robert Cooke  
Managing Director and Chief Executive Officer

Melbourne: 23 August 2016