



Healthscope

Healthscope Limited
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Annual General Meeting - Chairman's Address

21 October 2016

Healthscope has been providing private hospital services in Australia for over 30 years, having expanded our reach from three hospitals in Victoria in 1985 to become a leading provider of healthcare services across Australia, New Zealand and South East Asia. Hospitals continues to be the core of our business, with a network of 45 hospitals and a presence in every State and Territory in Australia. Today we also operate pathology laboratories across New Zealand and in Singapore, Malaysia and Vietnam, as well as managing a portfolio of medical centres.

In FY16, our 18,000 employees provided over 10 million episodes of care to our patients, including hospital admissions through to GP consultations. Therefore, whilst we are aware of the importance of delivering strong financial returns to our shareholders, we are equally aware that the services we provide impact the lives of millions of people, including our patients and their families.

Our commitment to quality plays a key role in every decision we make and we are proud that we continued to demonstrate market leadership in this area over the last 12 months.

FY16 financial performance

FY16 was another successful year for Healthscope with the Group delivering strong financial results and shareholder returns coupled with significant capital investment in our hospital portfolio.

Statutory net profit after tax (NPAT) from continuing operations increased 18.9% to \$182.8 million, whilst Operating NPAT increased 25.1% to \$194.6 million after excluding one-off non-operating expenses. This strong result reflects robust growth in our Hospitals and New Zealand Pathology divisions. It also reflects the benefit of a significant reduction in interest expense resulting from a full financial year of our post-IPO capital structure.

In September, shareholders received a dividend of 3.9 cents per share, taking the full year unfranked dividend to 7.4 cents per share. This represented a payout ratio of 70% of Statutory NPAT, in line with FY15.

During the period we also strengthened our balance sheet through the successful refinancing of our existing debt facilities and we entered the US private placement market with a US\$300 million note issuance. These capital management initiatives increased our available debt facilities to \$2.2 billion and extended the maturity profile out to a maximum of 10 years. They also provide us with additional flexibility to pursue future growth opportunities as they arise.



Investing in the future

Our strategy remains clear. We are focused on ensuring we have the right infrastructure, systems and people in place to enable us to continue to grow to service the increasing needs of the communities in which we operate.

To this end, significant progress was made during the year in the delivery of our hospital expansion strategy. In FY16, we invested \$440 million of capital in growth projects, including nine major hospital expansion developments across Victoria, New South Wales, Queensland and the Australian Capital Territory.

Among our achievements during the period, we completed major building projects at Knox Private in Victoria and National Capital Private in the Australian Capital Territory and opened the doors to our new Gold Coast Private Hospital in Queensland.

Gold Coast Private is an exciting addition to our portfolio. It is a state-of-the-art 284 bed facility co-located with the 750 bed Gold Coast University public hospital and Griffith University, and sits within the Gold Coast Health and Knowledge Precinct. This facility replaces our 220 bed Allamanda Private Hospital and has allowed us to extend our range of services in the region.

In total, we added 163 new beds in FY16, net of the closure of Allamanda Private, which has increased our bed stock to over 4,800 beds across the network.

Furthermore, projects currently under construction or approved by the Board are scheduled to deliver another 833 beds and 53 operating theatres by the end of FY19.

Our strong pipeline of development projects focuses on key hospitals located in high growth corridors with ageing demographics. These hospitals are also in catchment areas where unmet demand for additional services already exists and where there is strong doctor support for Healthscope.

Unlocking the potential of our portfolio has been a gradual process, involving detailed planning and a disciplined approach to investment of capital. Therefore, I'm delighted that after several years in the making, our patients, doctors and employees are finally able to see the results of our expansion program coming to fruition and I'm confident that this will deliver long term value for you as shareholders.

I'm also confident that the progress we have made in recent years in growing our scale and continuously improving the efficiency of our operations will ensure we are well positioned to play an ever increasing role in addressing the growing healthcare needs of Australia's ageing population.



Industry thematic and reform

In this context, I think it is important that I address some of the opportunities and challenges facing the industry as a whole.

We understand that affordability of healthcare represents a significant ongoing challenge for governments and individuals.

Australia currently spends in excess of \$160 billion per annum on healthcare and it is an unfortunate truth that this burden will continue to escalate over the next 10 to 20 years, and into the future, as the baby boomer generation ages and chronic and complex illnesses become more prevalent.

Whilst this is a challenge for the nation, Healthscope also sees this as an opportunity for the private sector to play an increasing role across the industry as governments and individuals increasingly focus on ensuring high quality services are delivered in the most cost effective manner.

Private hospitals are a key pillar of the Australian healthcare system, performing two thirds of all elective surgery in Australia. The Government recognises the vital role of the private sector and encourages private health insurance participation through a range of policy initiatives. As a result, 47% of the population are privately insured.

Disappointingly however, over the last couple of years it appears that consumer confidence in private health insurance products has fallen as a consequence of affordability concerns, product complexity, increasing exclusions and the rise of “junk” policies that severely limit private hospital access.

The good news is that action is being taken to address these issues. Ensuring we maintain an effective and sustainable healthcare system is a priority for the Government, with several reviews currently underway covering areas such as private health insurance, prostheses, the Medical Benefits Schedule and primary healthcare. Healthscope supports and is actively involved in these reviews, with several of our senior executives committing significant time to assist across a range of these.

In particular, we see the Government’s recent establishment of a Private Health Ministerial Advisory Committee, as a positive step towards ensuring the value proposition of private health insurance remains attractive. As part of the Committee’s agenda we support recommendations to establish a more standardised range of health insurance policies, ensuring consumers fully understand what they are covered for. We also encourage the Committee to look into the elimination of “junk” policies and consider redefining the scope of private health insurance policies to enhance access to services such as private hospital emergency departments.

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In discussing private health sector reforms, it would be remiss of me not to also mention prostheses given the level of publicity it has received. I think it's fair to say that in Australia we pay too much for prostheses, and at Healthscope, we are always supportive of reforms which deliver savings to the industry. However, this is only a small part of the healthcare equation and therefore we are keen to see this issue resolved quickly in order to ensure it does not distract from the broader private health insurance review.

Now if I can focus on the public sector for a moment.

Over the last 12 months much of the political and media commentary in relation to rising healthcare costs has focused on the private sector. However, costs are also increasing in the public sector. This issue is compounded by the fact that the public system is already under considerable pressure with long waiting lists and challenges in meeting national public access targets.

Despite the considerable pressure facing the public system, a funding anomaly exists that encourages public hospitals to treat private patients. In Australia approximately 770,000 private patient episodes are being treated in public hospitals each year. This is at the expense of the tax payer, and public patients, and exacerbates the issue of growing public waiting lists. It also undermines the value proposition of private health insurance for private patients.

This is an area where decisive leadership is needed and Healthscope strongly encourages Federal and State Governments to ensure it is resolved as part of the current review processes.

We also encourage the Government to continue to look to innovative private sector models as a means of delivering high quality, cost effective services to public patients.

Healthscope's Northern Beaches Hospital is a prime example of this. At our Northern Beaches Hospital we will provide services to both public and private patients within a single integrated 450 bed facility. In awarding Healthscope this landmark project, the New South Wales Government has acknowledged our ability to design, build and operate an integrated facility that provides high quality private and public services in a more cost effective manner than our public counterparts. This is an exciting opportunity for us and, once operational, we believe it will set a benchmark for the industry going forward.

If our goal in Australia is to ensure we continue to provide good access to healthcare services to all Australians, the industry needs to be flexible and adapt to change. Building a stronger, more sustainable healthcare system is in everyone's interests and I'm pleased that Healthscope is in a unique position to assist in doing so.



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Board of Directors

Let me now take a few moments to provide you with an update on the Healthscope Board. This year has been one of significant renewal for us. As part of the transition away from private equity ownership, Simon Moore and Aik Meng Eng retired late last year. Both Simon and Aik Meng made significant contributions during their time as Directors and I would like to thank them for their service.

In line with our planned approach to Board succession, we were delighted to appoint three new Non Executive Directors to the Board, Jane McAloon, Paul O'Sullivan and Ziggy Switkowski AO. These Directors bring with them significant experience and their appointments have strengthened and supplemented the skill mix of the Board, particularly in the areas of infrastructure and regulation, information technology and international markets.

Conclusion

In conclusion, I would like to extend the Board's appreciation to Healthscope's management team, employees and doctor partners for their ongoing dedication and continuing commitment to the success of our Company.

Our 18,000 employees make it their priority every day to provide high quality healthcare for our patients. It is this unwavering commitment and dedication that ensures we are able to deliver the services that our patients, doctors, health insurance funders, the community and our shareholders expect.

This is Healthscope's second year since re-listing on the Australian Securities Exchange and I'm pleased to report that the clear strategy we outlined during the IPO process remains in place. We have delivered consistent earnings growth over the last two years and our constant focus on delivering high quality, cost effective services ensures we are well placed to respond to changes in the regulatory landscape. Furthermore, our hospital expansion program remains on track and, as these projects complete, I am confident they will lay the foundation for strong growth over the medium term.

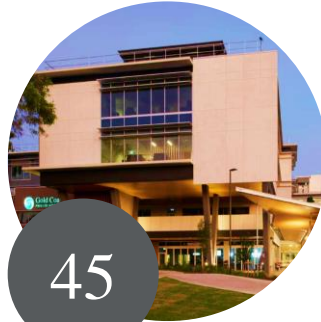
Chairman's address

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Healthscope today

A leading provider of healthcare services



45

45 hospitals offering inpatient and outpatient services



18k

Over 18,000 employees delivered high quality care to our patients



60k

Treatment of over 60,000 patients in our emergency departments



9m

Over 9 million pathology episodes undertaken in New Zealand, Malaysia, Singapore and Vietnam



2m

Provision of approximately 2 million GP consultations in our medical centres

Financial year overview

Healthscope delivered a strong financial result in FY16

18.9% ↑
Statutory NPAT
\$182.8m

25.1% ↑
Operating NPAT
\$194.6m

7.4c
Dividends per share²

- Performance underpinned by robust growth in Hospitals and New Zealand Pathology and a significant reduction in interest expense
- Dividend payout ratio of 70% of Statutory NPAT
- Capital management initiatives strengthened balance sheet and provide greater flexibility to pursue future growth opportunities



1. "Operating" results represent Statutory results from continuing operations adjusted for items of other income and expense of \$11.8m (net of tax)
2. Dividends are unfranked

Investing in the future

Significant progress was made in the delivery of our hospital expansion program

- \$440 million was invested in growth projects
- 163 beds and 9 operating theatres were added to the portfolio¹, with completion of seven projects during the period
- Projects currently under construction or approved by the Board are scheduled to deliver a further 833 beds and 53 operating theatres by the end of FY19

Major projects completed in FY16



Gold Coast Private – net 64 beds & 13 OTs¹



National Capital Private – 41 beds & 3 OTs



Knox Private – 60 beds & infrastructure

1. Net of Allamanda Private closure (220 beds and 10 operating theatres)
2. OT - operating theatre

Industry thematics and reform

Ensuring the delivery of high quality, cost effective services is critical to maintaining a sustainable healthcare sector

- Private hospitals are a vital part of the healthcare system in Australia
- Government reviews and industry reform are important and should address
 - Consumer confidence in PHI value proposition
 - Private patients in public hospitals funding anomaly
- Healthscope also encourages Federal and State governments to look to innovative private sector models as a means of delivering high quality, cost effective services to public patients (e.g. Northern Beaches Hospital)

Northern Beaches Hospital



Board of Directors

FY16 was a period of significant Board renewal with the addition of three new Directors



Paula Dwyer
Independent
Non Executive Chairman



Robert Cooke
Managing Director &
Chief Executive Officer



Tony Cipa
Independent
Non Executive Director



Rupert Myer AO
Independent
Non Executive Director



Jane McAloon
Independent
Non Executive Director



Paul O'Sullivan
Independent
Non Executive Director



Ziggy Switkowski AO
Independent
Non Executive Director

Conclusion

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