Quality-led care.

Annual Report 2017

Healthscope is a leading private healthcare provider in Australia with 45 hospitals. We also have market leading pathology operations across New Zealand, Malaysia and Singapore.

Contents

Healthscope’s 2017 Corporate Governance Statement is available in the Investor Centre on our website (www.healthscope.com.au).

Healthscope’s 2017 Sustainability Report will also be available in the Investor Centre on our website when it is released in September 2017.

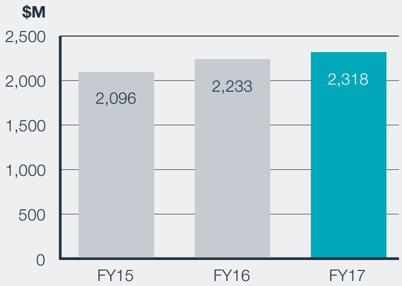
FY17 highlights

Continuing operations[1]

In FY17, Healthscope delivered another year of revenue growth and continued its significant capital investment to expand its hospital portfolio to accommodate future demand.

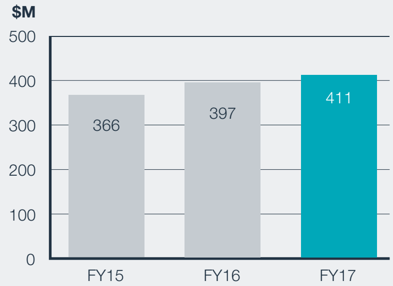
Revenue

From continuing operations



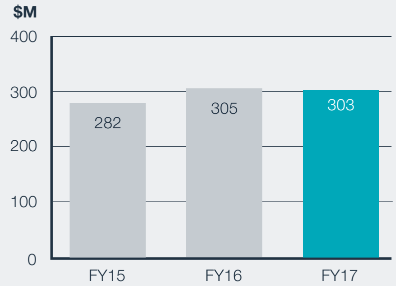
Operating EBITDA

From continuing operations



Operating EBIT

From continuing operations



$2.3b
FY17 REVENUE

↑3.8%

$411.4m
FY17 OPERATING EBITDA

↑3.5%

$302.5m
FY17 OPERATING EBIT

↓0.7%

$180.0m
FY17 OPERATING NET PROFIT AFTER TAX

9.4 CENTS PER SHARE
EARNINGS PER SHARE (EPS)
Basic EPS from continuing operations

7.0 CENTS PER SHARE
TOTAL FY17 DIVIDEND PER SHARE (DPS)
Interim DPS of 3.5 cents and final DPS of 3.5 cents

Significant capital investment

In excess of $485m was invested in hospital expansion projects.

Exceptional patient care

A focus on quality clinical outcomes, transparency of reporting and elevating the overall patient experience.

Diversity and inclusion

Employer that promotes diversity and inclusion, develops its people and delivers quality healthcare services.

1 Healthscope's continuing operations consist of the hospital and international pathology businesses.
2 "Operating" results represent statutory results from continuing operations adjusted for items of other income and expense of $17.4m (net of tax) – refer to Note 2 of the consolidated financial report on page 58.
3 FY16 and FY15 results restated to represent continuing operations.

Year in review

Healthscope's aim is to provide a healthcare offering synonymous with quality clinical outcomes and an excellent patient experience. We are committed to delivering industry leading quality of care for patients and exceptional services for doctors through our hospitals and international pathology laboratories.

17.5k

Over 17,500 Accredited Medical Practitioners

45

45 hospitals offering inpatient and outpatient services [1,2]

18.6k

Over 18,600 employees delivered exceptional care to patients

1 In July 2016, the businesses of Frankston Private Day Surgery and Peninsula Oncology Centre were consolidated and rebranded as Frankston Private Hospital.
2 In February 2017, Como Private Hospital was relocated to Holmesglen Private Hospital.
3 As determined by the Australian Centre for Health and Research when compared with both private and public hospitals.

9.6m

Serviced over 9.6 million pathology episodes in New Zealand, Malaysia, Singapore and Vietnam

#1

MyHealthscope ranked the most comprehensive health quality indicator website available to the public[3]

Divisional overview

Continuing operations

Healthscope's footprint extends across Australia as well as New Zealand, Malaysia, Singapore and Vietnam.

45 Private hospitals[1,2,3]

63 International laboratories

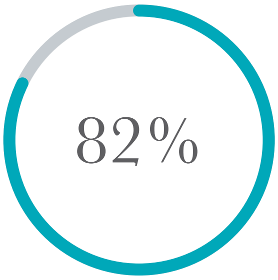
Victoria	New South Wales	ACT	Queensland
17 Private hospitals	**11** Private hospitals	**1** Private hospital	**7** Private hospitals

South Australia	Western Australia	Tasmania	Northern Territory
5 Private hospitals[1]	**1** Private hospital	**2** Private hospitals	**1** Private hospital

New Zealand	Malaysia	Singapore	Vietnam
24 Pathology laboratories	**34** Pathology laboratories	**3** Pathology laboratories	**2** Pathology laboratories

1 Includes three hospitals under management for the Adelaide Community Healthcare Alliance (ACHA).
2 In July 2016, the businesses of Frankston Private Day Surgery and Peninsula Oncology Centre were consolidated and rebranded as Frankston Private Hospital.
3 In February 2017, Como Private Hospital was relocated to Holmesglen Private Hospital.
4 Map (and related data) as at 15 July 2017.

Hospitals



% of Operating EBITDA

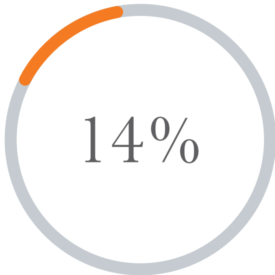
- Significant private hospital operator in Australia with a presence in all Australian states and territories
- 45 hospitals concentrated in large metropolitan centres
  - 32 acute hospitals
  - Seven mental health hospitals
  - Six rehabilitation hospitals
- Market leading reputation for quality clinical outcomes and transparency
- Delivering on hospital expansion projects to meet growing demand

$2,014m
FY17 Revenue

$359m
FY17 Operating EBITDA

15,775
Employees

New Zealand Pathology



% of Operating EBITDA

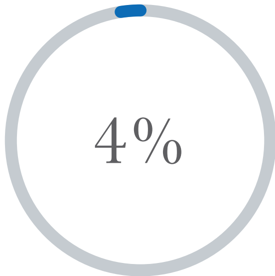
- Largest provider of human pathology services to New Zealand's District Health Boards (DHBs), operating under the Labtests, Southern Community Laboratories and Northland Pathology brands
- Veterinary and analytical pathology services provided through Gribbles brand

$243m
FY17 Revenue

$60m
FY17 Operating EBITDA

1,915
Employees

Other



% of Operating EBITDA

- One of the largest community pathology providers in both Malaysia and Singapore
- Operating in Singapore, Malaysia and Vietnam under the Gribbles Pathology and Quest Laboratories brands

$62m
FY17 Revenue

$18m
FY17 Operating EBITDA

961
Employees

1 Divisional overview as at 30 June 2017.
2 As a result of the divestment of Medical Centres, the 'Other' segment was revised to reflect the continuing business comprising Pathology operations in Singapore, Malaysia and Vietnam.

Chairman's message

Dear Shareholders,

I am pleased to present the 2017 Annual Report for Healthscope Limited (the Company).

During the year Healthscope delivered growth in revenue and Operating EBITDA in the face of challenging conditions for private hospitals. We continued to invest for the future and managed a smooth transition to new leadership.

Following an extensive CEO succession planning process, the Board was pleased to announce the appointment of Gordon Ballantyne to succeed Robert Cooke as Managing Director and Chief Executive Officer. Gordon commenced the role on 15 May 2017 and brings rich experience working in complex, highly regulated industries, with large workforces. Gordon's passion and commitment for the customer is aligned to our commitment to provide exceptional support for our doctors and high quality patient care, and will bring a fresh perspective to new medium to long term opportunities going forward.

Our strategy in action

In FY17 we invested $485 million in growth projects. This included the completion of five hospital expansion projects which added 214 beds, 13 operating theatres and two new emergency departments to the portfolio through the completion of projects in Victoria - Holmesglen Private, Frankston Private and Northpark Private, in New South Wales - Norwest Private and at Darwin Private in the Northern Territory.

A further seven projects are underway in New South Wales, Queensland and Victoria which will deliver an additional 566 beds and 38 operating theatres by the end of FY19. At the same time, we continue to focus on driving performance across our portfolio of 45 hospitals.

Construction of the new Northern Beaches Hospital in Sydney is progressing on time and on budget with the facility due to open in mid FY19. This is the first major investment in public health infrastructure on the Northern Beaches for decades. It is also a pioneering public private partnership under which Healthscope has partnered with the New South Wales government to design, build operate and maintain a 450 bed facility, supported by a large integrated emergency department, state-of-the-art intensive care and critical care units and a modern inpatient mental health facility. The new hospital will provide health services for both public and private patients, replacing two existing public hospitals in the area. The Northern Beaches catchment has one of the highest private health insurance concentrations in Australia and is an area where many doctors choose to live.

We have welcomed the opportunity to partner with the New South Wales government and will continue to explore opportunities to increase our participation in the delivery of important public health services across Australia.

In March 2016 Gold Coast Private Hospital opened its doors to communities from Brisbane to Tweed Heads. This modern and advanced facility is a major employer of nursing and support staff on the Gold Coast, and is helping to improve access for local residents to quality medical care from cardiology to obstetrics. Gold Coast Private Hospital is a good example of our criteria for brownfields and relocate and grow projects – it is co-located near Gold Coast University Public Hospital in one of Queensland's population growth corridors, with a high proportion of privately insured patients in its catchment.

In New Zealand, our pathology business has enjoyed strong organic growth. Our focus has been on delivering a high quality and cost effective community pathology service, focused in the major cities of Auckland, Wellington and Christchurch. Our Asian operations, while small, are performing to plan and allow us to leverage our expertise and gain strategic insight into the region.

Following a strategic review of our standalone Medical Centre portfolio, we decided to divest these assets. This follows a period of underperformance in the context of difficult trading conditions across the industry. On 17 August 2017 we entered into an agreement with Fullerton Primary Care Pty Limited to sell the operations for $55 million, subject to standard completion adjustments. The sale will allow our management team to focus on our core private hospitals and pathology businesses.

Our performance and dividends

Statutory Net Profit After Tax (NPAT) for FY17 of $110.9 million was down 38.8% on the prior year, adversely impacted by non-operating expenses after tax of $72.1 million, including Medical Centre impairment loss of $54.7 million.

The Group's operating results reflect two key forces at play. In the short term the Australian private hospitals market continues to face challenging conditions with private health insurance participation rates having contracted slightly over the last 24 months and public hospitals actively competing for private patients. At the same time we continue to make significant investments in our hospital portfolio reflecting the projected future demand curve of a growing and ageing population in the catchments in which we have invested. In the near term, as these projects complete we incur higher depreciation and interest charges, but our investments provide a platform for stronger growth over the medium to longer term.

Pleasingly, we began to see a meaningful contribution to revenue from major brownfields expansion projects completed in FY16 and FY17. This is expected to continue in FY18 and beyond as volumes in these new facilities build.

The financial position of the Group remains strong, with $195.9 million of cash and $300 million of available debt facilities at year end.

Healthscope announced a final unfranked dividend of 3.5 cents per share, bringing the full year dividend to 7.0 cents per share, a decrease of 5.4% on the prior year. Shareholders now have the opportunity to reinvest their dividends in Healthscope shares through the Dividend Reinvestment Plan introduced in December 2016.

Strong industry fundamentals

Notwithstanding recent volatility, the medium to long term fundamentals of the Australian private hospitals industry remain robust.

Australia, like many other developed nations, is facing increasing demand for health services and hospital admissions fuelled by a growing and ageing population.

This is compounded by advancements in medicine and an increasing incidence of lifestyle and degenerative diseases.

The private sector, and Healthscope as a leading, Australian private healthcare provider, has an important role to play in the Australian healthcare system providing efficient delivery of high quality and cost-effective services to complement our public health services.

We note a growing appetite in the industry for healthcare reform and we welcome positive and active engagement with policy makers and our industry partners to transform healthcare for the benefit of all Australians.

In particular we look forward to action on the issue of public hospitals more actively competing with private hospitals for private patients, rather than focusing on public patients. In May 2017, The Australian Institute of Health and Welfare published data that illustrated a trend we have observed over the last decade of some public hospitals actively pursuing private patients. As a result public patients without private health insurance face lengthy waiting lists for elective surgeries. This activity is placing unnecessary pressure on public services and is clearly unsustainable. We look forward to resolution of this important issue which is undermining the effectiveness of Australia's healthcare system.

Rising health care costs are a clear concern for individuals and governments. Healthscope has led the industry on transparent reporting of clinical outcomes and we continue to look for ways to work with our private health insurance partners to enhance efficiency in the system and to ensure that private health insurance products deliver consumers compelling value.

Our people

Every year across our network of 45 hospitals and pathology operations, our workforce of over 18,000 staff and our 17,500 Accredited Medical Practitioners deliver quality clinical outcomes and exceptional patient care. On behalf of the Board and shareholders, I would like to thank our team for their ongoing dedication and commitment to our patients and to Healthscope.

I would also like to acknowledge Robert Cooke, who stepped down as Managing Director and Chief Executive Officer in May 2017, after more than six years in the role. We wish him well in retirement.

Finally I would like to acknowledge the ongoing support of our shareholders and invite you to join the Board and the senior leadership team for our Annual General Meeting in Melbourne on 19 October 2017.

Paula J. Dwyer
Chairman

MD & CEO's message

Dear Shareholders,

I am delighted to be writing to you for the first time as Healthscope's Managing Director and Chief Executive Officer. I am three months into the role and my focus during this time has been on getting to know the business and its people, spending time in all our major operational sites and engaging with key partners and industry stakeholders. My early observations are of a great company, with good assets, a strong financial position and above all, a great team of passionate people dedicated to delivering quality clinical outcomes and exceptional patient care.

It is indeed a privilege to be part of a business, and an industry, that so directly and powerfully affects the lives of so many.

Through a significant capital works program, we are building capacity to care for communities across the country to further expand on the strength of our existing hospital network. We are also investing in new technologies to enable our doctors and teams to deliver innovative treatments, and improve the patient experience in our hospitals. We have continued to lead the industry in clinical quality underpinned by transparent reporting, giving patients the information they need to make decisions about their care by publishing our performance against a range of clinical and safety measures.

Our business performance

Our results for FY17 reflect softer private hospital market conditions and variability in patient case mix combined with margin pressure, where costs have increased greater than health fund price increases in some areas of the business.

Group Operating NPAT for continuing operations, after excluding non-operating expenses, was $180.0 million, down 5.6%, primarily driven by increases in both depreciation and interest associated with our capital investment program.

Operating EBITDA for continuing operations of $411.4 million was up 3.5% on the prior year.

The Hospitals division, our largest business, grew revenue by 3.4% and delivered a 1.3% increase in Operating EBITDA to $359.4 million.

The Company's medium to long term growth expectations for the Hospitals division continue to be supported by strong industry fundamentals. However, Healthscope expects ongoing market volatility and cost pressures in the Australian private hospital market to continue and has established four key areas of "must win" imperatives to drive performance improvement across the portfolio going forward. These are:

- Accelerating profitable topline growth
- Driving greater operational efficiency
- Optimising the portfolio; and
- Continuing to successfully execute on our hospital expansion program

Balancing some of the short term challenges, the early results from our major brownfield and 'relocate and grow' hospital expansions are pleasing and have delivered stronger revenue growth than our broader portfolio, and the Australian private hospital market.

Our international operations performed well, with New Zealand pathology achieving revenue growth of 8.9% to $242.5 million, driven by organic growth and expansion of the scope of our commercial, veterinary and analytical pathology businesses. We also continued to drive operational efficiencies, including increased automation, supporting strong earnings growth. Results for our Asian operations generated revenue and earnings growth on a local currency basis but their reported performance was impacted by currency headwinds during the period. We have also made the decision to divest our Medical Centre network, enabling us to focus on our core Australian hospitals and international pathology businesses.

The increase in Group gearing to 3.92 times Net Debt to EBITDA remains comfortable, and reflects continued investment in the Northern Beaches development, the capital requirements of which are secured by project finance debt facilities. Gearing excluding the Northern Beaches project finance facility remains similar to last year at 2.66 times Net Debt to EBITDA.

Our priorities

Demand for healthcare services is expected to grow across each of the markets and countries in which Healthscope operates.

I am looking forward to working with the team and our stakeholders as we focus, in the short term, on our core business.

Executing well on our major hospital expansion projects and establishing a track record of success has been a clear focus for the business in FY17, and will remain a focus for FY18 and beyond. At the same time, in the context of ongoing challenges in our operating environment, we will continue to manage the business for ongoing volatility.

Delivering efficient, high quality care and clinical outcomes for patients in each of the 45 hospitals we operate across the country and our pathology operations in New Zealand, Singapore, Malaysia and Vietnam is a key priority. Moreover, we will work to be the trusted provider of choice for doctors, a positive contributor to the industry and a strong partner to governments as they seek to reform and deliver critical healthcare services.

If we execute on these priorities well, I am confident we will deliver strong returns for shareholders. I look forward to meeting many more of our shareholders at the Annual General Meeting in October. Thank you for your ongoing support.

Gordon Ballantyne
Managing Director and Chief Executive Officer

Board of Directors

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

Paula J. Dwyer
Independent Non Executive Chairman

Paula J. Dwyer

BComm, FCA, SF Fin, FAICD

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

Skills, experience and expertise

Paula is an established Non Executive Director who had an executive career in finance, holding 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, Business and Economics Board of the University of Melbourne the ASIC External Advisory Panel and the Takeovers Panel.

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).

Gordon Ballantyne
Managing Director and Chief Executive Officer

Gordon Ballantyne

BSc (Hons), MAICD

Managing Director & Chief Executive Officer from May 2017.

Skills, experience and expertise

Gordon has extensive operating experience within public and private companies both in Australia and internationally.

He is recognised for his strong leadership, passion for putting customers first and for his 'challenger mindset'.

Most recently Gordon was Group Executive of Telstra's domestic retail business, which he helped to grow into an $18 billion business with successive years of double digit revenue growth.

While at Telstra he also founded innovative new growth businesses, including Telstra Health, a disruptive health services business focused on e-health solutions and health analytics.

Prior to Telstra, Gordon spent 20 years in senior leadership roles in leading global corporations, including Hewlett Packard, T-Mobile, Dell.com and Dell Ventures.

Current Directorships

Managing Director: Healthscope Limited (from May 2017).

Tony Cipa
Independent Non Executive Director

Tony Cipa

BBus, Grad Dip Accounting

Non Executive Director since June 2014. Chair of the Audit, Risk & Compliance Committee and member of the People and 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

Director: Navitas Limited (from May 2014)

Former Directorships include

Executive Director: CSL Limited (2000 - 2010).

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

Rupert Myer AO
Independent Non Executive Director

Rupert Myer AO

BComm, MA, FAICD

Non Executive Director since June 2014. Chair of the People and 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: Jawun – Indigenous Corporate Partnerships, the Yulgilbar group of companies and the Australian International Cultural Foundation.

Former Directorships include

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

Chairman: The Myer Family Group.

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

Jane McAloon
Independent Non Executive Director

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 brings a wealth of commercial experience from her work in 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), Australian Defence Force Assistance Trust (from 2015) and Cogstate Ltd (from 2017).

Member: Monash University Industry Council of Advisers (from 2014), National Chair: Defence Reserves Support Council (from 2017) and Referendum Council (from 2015).

Former Directorships include

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

Paul O'Sullivan
Independent Non Executive Director

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 has extensive experience from his work in 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). He was previously the CEO of Optus and 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).

Director: Coca-Cola Amatil Limited (from 2017) and National Disability Insurance Agency NDIA (from 2017).

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 and Community Network (ABCN) (2005 - 2013).

Ziggy Switkowski AO
Independent Non Executive Director

Ziggy Switkowski AO

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

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

Skills, experience and expertise

Ziggy brings a wealth of senior business experience gained over many years working in large international corporations. He 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).

Chancellor: RMIT (from 2011).

Former Directorships include

Chairman: Opera Australia (2005 - 2013) and Oil Search Limited (2011 - 2017).

Senior leadership team

Our senior leadership team brings outcomes focused leadership and passion for delivering high quality healthcare.

1 Gordon Ballantyne

Managing Director &
Chief Executive Officer

2 Michael Sammells

Chief Financial Officer

Michael has over 18 years experience in the healthcare industry, having held a number of operational and finance senior executive roles in private hospitals, in the public health and health insurance sectors, at companies including Mayne Group, Southern Health and Medibank. Prior to joining Healthscope Michael was Chief Financial Officer for Medibank.

Michael joined the Healthscope Group as Chief Financial Officer in January 2012.

3 Mark Briscoe

General Manager Operations

Prior to joining Healthscope in 2011, Mark was Director of Operations and Developments at Spire Healthcare Limited in the UK.

In Australia, Mark has worked in various healthcare corporate roles at Mayne Group, Affinity Health and Symbion Health.

At Healthscope, Mark is responsible for health insurance funding, the medical centre division and the Victorian and Tasmanian hospital portfolio as well as working with the Hospital State Managers and General Managers to deliver efficiencies across the Healthscope network.

4 Dr Michael Coglin

Chief Medical Officer

Michael joined Healthscope in 1999. His current role involves executive responsibility for clinical governance, clinical risk management, patient safety, quality and compliance, claims and litigation, medical affairs, public affairs/media relations and indigenous health.

Michael serves on a number of Government and industry bodies, including the Private Hospital Sector Committee of the Australian Commission on Safety and Quality in Health Care.

For the 20 years prior to taking up his current appointment, he held senior posts in medical management in a variety of public hospitals in both metropolitan and regional settings in Victoria and the Northern Territory.

5 Stephen Gameren

Hospitals State Manager
NSW & ACT

Stephen has worked with Healthscope since 2004. He has over 20 years experience in healthcare management, spanning three countries - New Zealand, the United Kingdom and Australia.

Stephen worked as CEO at the Hills Private Hospital and was Project Director and CEO for the Norwest Private Hospital Project, successfully commissioning this new hospital in September 2009.

He commenced in the role of NSW/ACT State Manager in February 2010.

6 Anita Healy

General Manager
Business Development
& Investor Relations

Anita is responsible for business development and investor relations.

Prior to joining Healthscope in 2014, Anita spent 15 years working as an investment banker with Macquarie Group. She has extensive experience in mergers and acquisitions, equity and debt capital markets and principal investing and has advised companies across a range of sectors including healthcare, infrastructure, property, telecommunications and industrials.

Anita has worked on transactions and with investors in Australia, the United States, the United Kingdom and Asia.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7 Richard Herman

Head of Assurance

Richard joined Healthscope in 2015 and is responsible for the risk management framework and internal audit function.

Richard has over 20 years' experience in risk management, internal audit, compliance and governance. Prior to joining Healthscope, Richard was the General Manager Internal Audit at Medibank for eight years.

Previously Richard spent 12 years as a Director for Deloitte in South Africa, UK and Australia providing risk, internal audit and compliance services.

8 Alan Lane

Hospitals State Manager
SA & ACHA CEO

Alan has worked for 30 years in healthcare, and was appointed by Healthscope in 2004.

Alan's extensive involvement in healthcare spans the market sectors of hospitals, pharmacy, pathology, manufacturing, business development and logistics.

As part of his responsibility for South Australia, Alan is the CEO of the Adelaide Community Healthcare Alliance (ACHA) group.

9 Richard Lizzio

Hospitals State Manager
QLD, NT & WA

Richard has an extensive commercial background, including roles in the not-for-profit sector in health, aged care and education.

Prior to joining Healthscope in 2011, Richard spent eight years working with Ramsay Healthcare in various hospital GM positions in Queensland.

Richard started his working life as a chartered accountant with KPMG and later moved into retail stockbroking and financial services.

10 Ingrid Player

General Counsel &
Company Secretary

Ingrid has more than 15 years commercial experience and was appointed General Counsel and Company Secretary in 2005.

Ingrid has extensive corporate, commercial litigation and governance experience.

Prior to joining Healthscope, Ingrid spent five years working for a Dutch law firm in the Netherlands, working primarily in the mergers and acquisitions space, as well as in capital markets. Previously, she worked in private practice in Melbourne.

11 Anoop Singh

General Manager
International Pathology

Anoop joined Healthscope in 2011. He has held a number of senior leadership roles in the healthcare industry in the Asia-Pacific region over the past 26 years. His breadth of experience includes a strong understanding of pathology operations, strategic health policy matters and Government relations.

Prior to joining Healthscope, Anoop held commercial and general management roles in large diversified companies such as Mayne Group and Symbion Health.

12 Jenny Williams

General Manager
Human Resources

Jenny joined Healthscope in 2011, and was appointed as General Manager, Human Resources, in 2012.

Jenny is a proven HR professional with diverse experience across the healthcare and education sectors.

Prior to joining Healthscope, Jenny held senior HR positions at the University of Melbourne, Symbion Health and Mayne Group.

Directors' report

This report provides information on the structure and progress of our business, our FY17 financial performance, our strategies and prospects for the future, as well as the key risks Healthscope faces. It covers Healthscope Limited and the entities it controlled during the year ended 30 June 2017 (referred to as "Healthscope" and "the Group").

Board of Directors

The directors of Healthscope Ltd during the year ended 30 June 2017 and up to the date of this report are listed below. Directors were in office for this entire period, except where otherwise stated.

Paula J. Dwyer

Gordon Ballantyne (appointed 16 May 2017)

Antoni (Tony) M. Cipa

Jane McAloon

Rupert Myer AO

Paul O'Sullivan

Dr Zygmunt (Ziggy) Switkowski AO

Robert Cooke (ceased as Managing Director and CEO on 14 May 2017)

Details of each of the current director's qualifications, special responsibilities and experience are set out in the Board of Directors section of this Annual Report on pages 10 to 11.

Attendance at Board and Committe meetings

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		UNSCHEDULED	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Paula J. Dwyer (Chair)	10	10	2	2
Gordon Ballantyne[2]	2	2	0	0
Tony Cipa	10	10	2	1
Jane McAloon	10	10	2	2
Rupert Myer AO	10	10	2	1
Paul O'Sullivan	10	10	2	2
Dr Ziggy Switkowski AO	10	10	2	1
Robert Cooke[1]	8	8	1	1

1 Ceased as Managing Director and CEO on 14 May 2017.

2 Commenced as Managing Director and CEO on 15 May 2017.

(ii) Board Committee meetings

	AUDIT, RISK & COMPLIANCE COMMITTEE		REMUNERATION COMMITTEE[1]		NOMINATIONS COMMITTEE	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Paula J. Dwyer (Chair)	4	4	6	6	3	3[2]
Tony Cipa	4	4[2]	6	6	3	3
Jane McAloon	4	4	-	-	3	3
Rupert Myer AO	4	4	6	6[2]	3	3
Paul O'Sullivan	4	4	-	-	3	3
Dr Ziggy Switkowski AO	4	3	6	6	3	3

1 Effective 22 August 2017, the People and Remuneration Committee.
2 Chair.

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.

Company Secretary details

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 in 2005, Ms Player had over 10 years of experience working as a lawyer in Australia and overseas.

Directors' report

Review of operations

Principal activities

Healthscope is a leading private healthcare provider in Australia with 45 private hospitals. Internationally, Healthscope has leading pathology operations across New Zealand, Malaysia and Singapore and a small presence in Vietnam.

During FY17, Healthscope also operated 48 standalone medical centres including skin clinics and a specialist breast clinic. An agreement was entered into to divest those assets on 17 August 2017, following a strategic review.

Hospitals

Healthscope's hospital division operates facilities across every state and territory in Australia, with 45 private hospitals and more than 5,000 inpatient beds. Of these facilities, 29 facilities are owned by Healthscope, 13 are leased and three are managed on behalf of Adelaide Community Healthcare Alliance (ACHA).

Within its hospitals, Healthscope is focused on providing a range of specialist orientated, multi-disciplinary healthcare services from acute care through to rehabilitation and mental health services. The Company also has a significant hospital expansion and development program underway which will enable the Group to deliver an expanded range of services to the communities it supports over the next few years.

Across the portfolio, 32 hospitals provide acute care services to patients ranging from medical treatment to complex surgery and associated care. In addition, Healthscope provides industry leading care for patients with mental health conditions in seven dedicated hospitals. A further six facilities are dedicated to rehabilitation.

Over 17,500 Accredited Medical Practitioners are credentialed to work within Healthscope hospitals and these specialists are supported by a workforce of over 15,700 nursing and support staff who seek to provide the highest quality of care to patients, and support to doctors, at all times.

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 and in promoting transparency across the industry. Leading by example, 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's International Pathology operations span a number of Asia Pacific countries, with a presence in New Zealand, Malaysia, Singapore and Vietnam. In FY17, the Group managed over 60 laboratories across the region and serviced over 9.6 million patient episodes.

New Zealand

Healthscope is a leading provider of community pathology services in New Zealand.

The New Zealand community pathology market consists of 20 government funded District Health Boards (DHBs) who each enter into exclusive contracts with providers to service their local population. During FY17, Healthscope held contracts for a majority of the DHB regions, including the major cities of Auckland, Wellington and Christchurch. These services are delivered under three Healthscope brands, Labtests, Southern Community Laboratories and Northland Pathology.

Veterinary and analytical pathology services are also offered by Healthscope in New Zealand under the Gribbles brand.

Across the country, the Group operates 24 laboratories and 145 collection centres.

Malaysia

In Malaysia, Healthscope operates as Gribbles Pathology and has the largest community pathology network across the Malaysian peninsula, Borneo and Brunei. Its main source of revenue is to provide comprehensive services to hospitals and the community.

In Malaysia, Healthscope has 34 laboratories which serviced over 1.3 million patient episodes in FY17.

Singapore and Vietnam

In Singapore and Vietnam, Healthscope operates as Quest Laboratories.

In Singapore, Quest has a well-established market position and operates three laboratories which processed over 1.5 million patient episodes in FY17. During FY17 Quest Laboratories also became the first full-service private medical laboratory in Singapore to achieve dual quality accreditation from ISO15189 and the College of American Pathologists.

In Vietnam, Healthscope operates two laboratories with its main operation located in a women's and children's private hospital in Ho Chi Minh City. Given its size, these laboratories are managed as part of the Singapore business.

Medical Centres

Healthscope operated 43 standalone medical centres, four specialist skin clinics and one specialist breast diagnostic clinic during FY17. On 17 August 2017 Healthscope entered into an agreement to divest these operations for $55 million, subject to standard purchase price adjustments, with completion of the sale scheduled to occur by the end of September 2017. This business had been underperforming for a number of years due to difficult market conditions. The divestment will enable senior management attention to be redirected to the Group's core hospital and pathology operations.

Operating results

The consolidated net profit after tax (NPAT) of the Healthscope Group for the year ended 30 June 2017 (FY17) was $110.9 million (FY16: $181.1m). The result was adversely impacted by an impairment loss of $54.7 million in relation to the sale of the Group's standalone medical centre operations and non-operating expenses after tax of $17.4 million.

Summary of FY17 financial performance - continuing operations[1]

	FY17	FY16	MOVEMENT
	$'m	$'m	%
Revenue	2,318.2	2,232.9	3.8
Operating EBITDA[2]	411.4	397.4	3.5
Operating EBIT[2]	302.5	304.6	(0.7)
Operating NPAT[2]	180.0	190.8	(5.6)
Statutory NPAT	162.6	179.0	(9.2)
Earnings per share (EPS)	9.4 cps	10.3 cps	(9.2)
Diluted EPS	9.3 cps	10.3 cps	(9.7)
Dividend per share (DPS)	7.0 cps	7.4 cps	(5.4)

1 Continuing operations exclude the medical centre operations which were held for sale as at 30 June 2017 and the Australian pathology operations which were divested on 6 July 2015.

2 Operating results represent statutory results before other income and expense items ("non-operating items"). Total non-operating items from continuing operations represented an expense of $24.7m (pre-tax) and $17.3m (tax-effected) in FY17 and $14.9m (pre-tax) and $11.8m (tax-effected) in FY16.

Operating EBITDA from continuing operations of $411.4 million, increased 3.5% from FY16. This increase reflected softer growth in our Hospitals division and continued strong growth in the New Zealand pathology operations.

Operating EBIT from continuing operations of $302.5 million saw a marginal decline due to the increase in depreciation and amortisation associated with the completion of several hospital expansion projects over the last 18 months.

Operating NPAT from continuing operations of $180.0 million was down 5.6%, primarily as a result of the increase in net interest expense from the full year effect of Gold Coast project finance debt being converted to senior debt post-completion of the project in March 2016.

Statutory NPAT from continuing operations of $162.6 million was adversely impacted by a number of non-operating items including an impairment of plant and equipment held at Geelong Private Hospital, a loss relating to the appointment of a liquidator for a supplier group and corporate restructuring and commissioning costs.

Earnings per share (EPS) from continuing operations of 9.4 cents per share declined 9.2%. A final unfranked dividend of 3.5 cents per share will be paid on 28 September 2017. The full year dividend for the year ended 30 June 2017 is 7.0 cents per share, a decrease of 5.4% from the prior year. The full year dividend per share represents a payout ratio of 70.0% of Statutory NPAT adjusted for non-cash impairment items.

Directors' report

Operating results (continued)

Divisional FY17 financial performance

Hospitals

	FY17	FY16	MOVEMENT
	$'m	$'m	%
Revenue	2,014.0	1947.7	3.4
Operating EBITDA	359.4	354.9	1.3
Operating EBIT	272.6	281.4	(3.1)
Operating EBITDA margin (including ACHA fee)[1]	17.8%	18.2%	(40bp)
Operating EBIT margin (including ACHA fee)[1]	13.5%	14.4%	(90bp)

1 Operating EBITDA and EBIT margins include prosthetics revenue and costs.

The Hospitals division recorded an increase in revenue of 3.4% to $2,014.0 million and an increase in Operating EBITDA of 1.3% to $359.4 million. The result reflects softer private hospital market conditions and variability in patient case mix, combined with margin pressure, where costs have increased greater than health fund price increases, in some areas of the business. Some sites were also impacted by competitor actions and planned brownfield disruption where internal works are in progress.

Despite these challenges, most States delivered good Operating EBITDA growth as a result of strong performances at a number of hospital expansion sites. However, Operating EBITDA for the Victoria and Tasmania portfolio, which is the second largest contributor to divisional earnings, declined by 8.7%. The primary drivers of the underperformance were wage inflation, partially offset by health fund price increases and operating efficiencies, increased competition in the Geelong Private and Victorian Rehabilitation Centre catchments and a slower than expected ramp up of volumes within the Holmesglen Private and Frankston Private "relocate and grow" projects.

New Zealand Pathology

	FY17	FY16	MOVEMENT
	$'m	$'m	%
Revenue	242.5	222.7	8.9
Operating EBITDA	59.7	50.7	17.7
Operating EBIT	46.6	40.1	16.2
Operating EBITDA margin	24.6%	22.8%	+180bp
Operating EBIT margin	19.2%	18.0%	+120bp

The New Zealand Pathology division recorded revenue growth of 8.9% to $242.5 million with the performance driven by a combination of the full year impact of the Wellington contract and the expanded scope of non-government commercial, veterinary and analytical businesses. Operating EBITDA increased by 17.7% to $59.7 million reflecting the continued economies of scale being achieved through investment in new technology.

Other

	FY17	FY16	MOVEMENT
	$'m	$'m	%
Revenue	61.7	62.5	(1.3)
Operating EBITDA	18.2	18.3	(0.4)
Operating EBIT	14.0	14.2	(1.5)
Operating EBITDA margin	29.5%	29.2%	+30bp
Operating EBIT margin	22.7%	22.8%	(10bp)

The Other division includes Healthscope's pathology operations in Singapore, Malaysia and Vietnam.

Each of these businesses generated revenue and earnings growth on a constant currency basis. However, the reported results were impacted by the strength of the Malaysian Ringgit and Singapore Dollar against the Australian Dollar during FY17.

Malaysia

On a local currency basis, revenue grew by 6.2% and Operating EBITDA increased by 4.2% during FY17 with performance representing improved operating conditions following a subdued period in FY16 as a result of the introduction of a GST in April 2015. The business also expanded through the establishment of three new laboratories in private hospitals, in line with the strategic priority of increasing penetration of hospital and specialist markets.

Singapore

On a local currency basis, revenue grew 2.3% and Operating EBITDA increased by 2.9% as the business continued to grow in a competitive market, invested in technology and strengthened its relationships with two large international dialysis groups.

Medical Centres – discontinued operations

Healthscope entered into an agreement to divest its standalone Medical Centre operations on 17 August 2017 for $55 million, subject to standard purchase price adjustments, with completion of the sale scheduled to occur by the end of September 2017.

The Medical Centres operations were held as an asset for sale as at 30 June 2017.

Financial position

The financial position of the Group remains strong, with $4.7 billion in assets, underpinned by $2.4 billion in shareholder funds. This position is further supported by a strong cash position of $196 million in cash and $300 million available in debt facilities. The Medical Centres operations were held as an asset for sale as at 30 June 2017 which positively impacted working capital. The Group gearing ratio of 41% (net debt / net debt + equity) increased by 590 basis points from 30 June 2016 with the continued development of the Northern Beaches Hospital. The capital requirements of the Northern Beaches Hospital are secured via project finance debt facilities.

Healthscope continues to generate strong operating cash flows and has ample capacity to fund continued investment in the hospital expansion program.

Cash flow

Cash flow from operations of $418 million represents an increase of 6.8% from FY16 with cash conversion (cash flow from operations / Operating EBITDA) remaining strong at 101.6% (FY16: 98.6%).

Capital expenditure

Total capital expenditure for continuing operations of $566.5 million increased from $518.4 million in FY16 as a result of continued investment in a number of major hospital expansion projects, including the development of the Northern Beaches Hospital.

Directors' report

Operating results (continued)

Dividends

Final dividend 2017

A final unfranked dividend of 3.5 cents per share will be paid on 28 September 2017. The record date is 7 September 2017. The final dividend has not been included as a liability in these financial statements as the decision to pay the dividend occurred in FY18.

Dividends paid during the financial year

	DIVIDEND PER SHARE	DIVIDEND AMOUNT	DATE OF PAYMENT
	CENT	$'m	
Interim dividend 2017	3.5	60.7	23 March 2017
Final dividend 2016	3.9	67.7	28 September 2016

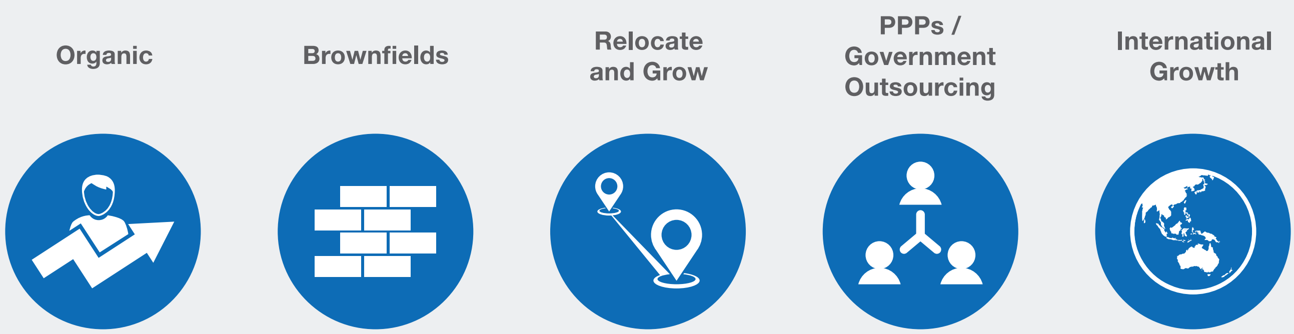
The 2017 interim dividend of 3.5 cents per share, together with the 2017 final dividend of 3.5 cents per share, brings the total dividends for the year ended 30 June 2017 to 7.0 cents per share.

Further details regarding dividends for the year ended 30 June 2017 are set out in Note 6 to the financial statements.

Business strategies and prospects for future years

Healthscope has been pursuing a range of operational and growth strategies for each of the Group's businesses, and these, together with the favourable long term fundamentals of increasing demand for healthcare services across each market in which the Company operates, continues to provide a strong platform for growth in the medium to long-term.

Key strategies employed across Healthscope's businesses are outlined below.



Hospitals

Organic growth

Healthscope operates in an industry with attractive medium to long-term demand characteristics for private hospital services. However, the industry and Healthscope's own business are currently facing a number of short term challenges which have impacted the division's performance in FY17 and are expected to continue into FY18. As a result, management have established four key "must win" imperatives to drive performance improvement across the portfolio:

1. Accelerating profitable topline growth
2. Driving greater operational efficiency
3. Optimising the portfolio; and
4. Continuing to successfully execute on the Group's hospital expansion program.

Brownfields and "relocate and grow" projects

Healthscope has significant experience and knowledge in designing and building private hospital facilities. Deep knowledge of the industry means the Group is well positioned to forecast and meet additional patient demand by expanding its hospital facilities through brownfield and "relocate and grow" projects. Healthscope has focused on expansion in strategic locations where there is unmet demand or in population growth corridors where the potential for future demand is high.

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, expanded services and higher quality amenities.

In FY17, Healthscope completed five construction projects which increased capacity by 214 beds and added 13 operating theatres and two new emergency departments[1]. These projects included the opening of Holmesglen Private (VIC) in early February 2017, 'a relocate and grow' development delivering 147 beds and eight operating theatres, a 60 bed expansion at Norwest Private (NSW), a 60 bed expansion of Frankston Private (VIC), two new operating theatres at Darwin Private (NT) and an emergency department at Northpark Private (VIC).

Healthscope has seven brownfield and "relocate and grow" projects currently under construction with a total estimated project cost of $1,079 million. A further three projects have been approved and are scheduled to start construction in FY18 with a total estimated project cost of $52 million.

PROJECTS UNDER CONSTRUCTION	BEDS	OPERATING THEATRES
Newcastle Private (NSW)	16	2
Gold Coast Private – Stage 2 (QLD)	30	8
Sydney Southwest Private (NSW)	-	2
Sunnybank Private (QLD)	-	2
Northern Beaches (NSW)	450	20
Brisbane Private (QLD)	29	2
John Fawkner (VIC)	41	2
Total	**566**	**38**

Healthscope also has a number of other projects in the planning stages where fundamental long-term demand has been identified and supports the addition of capacity to the existing portfolio.

Government partnership 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. In addition, outsourcing of some aspects of public patient service delivery to the private hospital sector is expected to continue to increase. As one of Australia's leading private hospital operators, 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 continues to progress according to plan with the facility expected to open in mid FY19.

Healthscope will continue to assess other new development opportunities from State Governments as they arise.

1 Net of 53 beds and two operating theatres that were relocated from Como Private Hospital to Holmesglen Private Hospital.

Directors' report

Operating results (continued)

International Pathology

New Zealand

The priority for Healthscope in New Zealand remains in maintaining strong relationships with the DHBs by delivering high quality services and superior operational efficiencies. Healthscope is focused on extracting further economies of scale, including cost synergies, through the operational integration made in its expanded laboratory network. As part of this process, Healthscope shares some of the long-term efficiencies generated with its DHB partners to strengthen existing relationships. Healthscope will seek to secure additional DHB contracts when opportunities arise and continue to expand its range of commercial non-government revenue streams.

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 34 laboratories across Malaysia and there are opportunities to improve workflow and efficiency through automation, as well as more centralised testing at the main laboratory.

Singapore

In Singapore, Healthscope has been investing resources to achieve greater penetration in the hospitals and specialists segments and increased labour efficiencies through automation. During the year, Healthscope renewed two key contracts in an increasingly competitive market.

Material business risks

Healthscope has a risk management framework in place to help in 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 senior management 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.

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.

The more generic risk areas that affect most companies or general economic factors that may impact Healthscope have not been included 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).

Government policy and regulation

Healthscope operates in the healthcare industry which can be 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 Healthscope's financial and operational performance. To manage this risk, Healthscope monitors legislative and regulatory developments and engages appropriately with the relevant stakeholders.

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 its ability to reach ongoing commercial agreements with private health insurance funds. A failure to reach a satisfactory commercial agreement with a key private health insurance fund has the potential to negatively impact Healthscope's financial and operational performance. 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 the on-going contract negotiations.

Private health insurance fund membership and level of cover

A deterioration in the economic climate, changes to economic incentives, annual increases in private health insurance premiums and other factors may affect the participation rate or the level of private health insurance coverage of members in private health insurance funds. This has the potential to reduce demand for Healthscope's services, resulting in decreased revenues.

In addition if the profitability of private health insurance funds deteriorates, there is a risk of increased pricing pressures 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 prefer to work at hospitals which, amongst other things, provide high quality facilities, equipment and nursing staff; exceptional clinical safety outcomes and which are conveniently located. Accredited Medical Practitioners could cease to practice or stop referring patients to Healthscope facilities if the hospitals become a less attractive place to work. This, 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. Its hospital portfolio operates within a strict quality and clinical framework to mitigate the risk of poor quality outcomes.

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 hospitals;
- successfully tender for DHB contracts in New Zealand; and
- attract community pathology work in Singapore or Malaysia.

Healthscope is focused on providing high quality healthcare services and maintaining facilities to a high standard to effectively compete in its each of its markets.

Nursing labour

The most significant cost in Healthscope's hospital operations is nursing labour, with any increase in cost or tightening of supply likely to have a material impact on financial and operational performance.

Healthscope has a comprehensive recruitment program for both graduate and experienced nurses. Healthscope employs nurses with different levels of experience and qualifications, with nursing labour 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 Healthscope's financial performance and position and future prospects. 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 in place with a large number of DHBs for the provision of pathology services in New Zealand. There is a risk that each time a contract is set to expire, the relevant DHB selects another party or renews the contract on less favourable terms with Healthscope. The majority of these contracts are multi-year contracts and Healthscope seeks to maintain strong relationships with each DHB 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. New business ventures may not be successful which could negatively impact 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.

Information Security and Cyber-Attacks

Healthscope may be affected by cyber-attacks or failure in critical data, processes or systems. Information technology controls are continually under review and are protected through the use of detective, preventative and response tools. Healthscope employs robust Disaster Recovery planning, as well as Business Continuity planning to mitigate operational disruptions.

Directors' report

Operating results (continued)

Operating EBITDA

The following table reconciles, for continuing operations, statutory net profit to Operating EBITDA, which is the key performance metric used by management to assess financial performance of the Group and its operating segments:

	YEAR ENDED 30 JUNE 2017	YEAR ENDED 30 JUNE 2016
	$'m	$'m
Continuing operations		
Statutory net profit for the year	162.6	179.0
Add back:		
Income tax expense	62.5	66.9
Net finance costs	52.7	43.8
Depreciation and amortisation	108.9	92.8
Earnings before finance costs, income tax, depreciation and amortisation (EBITDA)	**386.7**	**382.5**
Add back:		
Other income and expense items	24.7	14.9
Operating earnings before finance costs, income tax depreciation and amortisation (Operating EBITDA) from continuing operations	**411.4**	**397.4**

The following table outlines the Operating EBITDA achieved by each reportable segment in the Group including both continuing and discontinued operations:

	YEAR ENDED 30 JUNE 2017	YEAR ENDED 30 JUNE 2016
	$'m	$'m
Operating EBITDA from continuing operations		
Hospitals Australia	359.4	354.9
Pathology New Zealand	59.7	50.7
Other[1]	18.2	18.3
Total continuing operations before corporate costs	**437.3**	**423.9**
Corporate	(25.9)	(26.5)
Total continuing operations	**411.4**	**397.4**
Operating EBITDA from discontinued operations[2]		
Medical Centres	8.8	10.5
Pathology Australia	-	(1.8)
Total discontinued operations	**8.8**	**8.7**
Total all segments	**420.2**	**406.1**

1 The 'Other' segment comprises Pathology operations in Singapore, Malaysia and Vietnam.

2 Further details regarding discontinued operations are disclosed in Note 20.

Operating EBITDA represents profit before income tax expense, net finance costs, depreciation and amortisation adjusted for certain income 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".

Subsequent events

Divestment of Medical Centres

On 17 August 2017, Healthscope entered into an agreement with Fullerton Primary Care Pty Limited to divest its standalone Medical Centres business for $55.0 million, subject to standard completion adjustments. An impairment loss of $54.7 million was recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017 as the sale clarified the recoverable amount of the business which is classified as ‘held for sale’ in the Statement of Financial Position as at 30 June 2017.

As set out in Note 20, the Medical Centres business contributed revenue of $54.3 million and Operating EBITDA of $8.8 million for the year ended 30 June 2017.

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.

Environmental regulations

Healthscope’s environmental obligations are regulated under both state and federal laws. Healthscope monitors its environmental legal obligations and has to the best of its knowledge, having made reasonable inquiries, received no notice of breach from a government agency during the reporting period.

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 the class order the Directors’ report and financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise stated.

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 22 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 22 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

The auditor’s independence declaration is included on page 28 for the financial year ended 30 June 2017.

Paula J. Dwyer
Chairman

Melbourne, 23 August 2017

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

23 August 2017

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 2017, 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

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Remuneration report

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Remuneration report

1. Overview

Introduction

Healthscope delivered a Statutory Net Profit in FY17 of $110.9m (FY16 $181.1m) with the result being impacted by an impairment loss of $54.7m in relation to the sale of the Group's standalone Medical Centre assets and further non-operating expenses after tax of $17.4m for continuing operations. These non-operating items are excluded from the statutory results to provide the market with better visibility of the Company's underlying performance. Healthscope's Operating NPAT and Operating EBIT are the financial metrics used in the Company's short and long term incentive plans.

The Operating EBIT from continuing operations of $302.5m was slightly down on FY16 ($304.6m) while Operating EBITDA from continuing operations grew by 3.5% to $411.4m. These results reflect a slower rate of Operating EBITDA growth than prior periods due to softer Australian private hospital market conditions, coupled with an increase in depreciation and amortisation from the continued delivery of the hospital expansion program. Throughout the year, the Company completed five hospital expansion developments on time and budget, while the strategic Northern Beaches development continues to be progressed in accordance with the plan.

Revenue from completed expansion projects grew in excess of market revenue growth during the period and continues to support the Company's confidence that capital is being deployed in the right hospital catchments. Furthermore, these projects are expected to generate strong revenue growth and a meaningful contribution to earnings as volumes and case mix from these projects ramp up and are optimised over the medium to long term. During FY17, the New Zealand pathology business also performed strongly.

This report details the remuneration arrangements for Healthscope's Key Management Personnel and, for Senior Executives, includes the outcomes of both the annual short term incentive (STI) plan, as well as the long-term incentive (LTI) plan, with the performance period for the FY15 LTI grant having ended on 30 June 2017.

Healthscope's financial performance in FY17 was below target and awards against these plans were affected accordingly:

- **STI:** The Board exercised its discretion to reduce the STI outcome for participants in corporate roles to a maximum of 40% of the individual's target STI opportunity. This decision was taken after considering a range of factors including Healthscope's lower than anticipated financial performance in FY17.
- **LTI:** Following testing of performance against the two performance conditions for the FY15 LTI performance rights (EPS and RTSR), 50% of the FY15 LTI Performance Rights vested.

Healthscope's remuneration structure is performance-based and aims to encourage and recognise high performance in a manner which is aligned with the long term interests of Healthscope and its shareholders. This means that when financial and non-financial targets are achieved or exceeded, remuneration outcomes will reflect that performance. Where targets are not achieved, such as in the year under review, outcomes may be adjusted to ensure remuneration appropriately reflects overall Company performance.

FY18 remuneration framework

During FY17, a comprehensive review of Healthscope's remuneration framework was conducted, including the short and long-term incentive plans.

As part of this review, the Board considered whether the dual performance hurdles (EPS and RTSR) for the long-term incentive plan, which have been in place since the IPO in 2014, continue to appropriately align Senior Executives with shareholders.

As part of the assessment, consideration was given to:

- the potential introduction of different performance conditions, including return measures, as well as the weighting of performance conditions; and
- whether the current practice of annual EPS target setting based on projected performance for each year results in setting an appropriately challenging EPS performance hurdle over the three year performance period.

It has been decided that the current dual performance hurdles continue to provide an appropriate focus on internal and external performance. The weighting of the measures in FY18 will however be adjusted, so that EPS and RTSR are equally weighted. The Company believes this re-weighting will increase alignment with shareholder interests. The EPS target setting practice for future grants under the LTI Plan will also be revised, with 3 year targets to replace the current cumulative annual target setting approach. Healthscope remains committed to providing retrospective disclosure of performance against the EPS metrics following the end of the performance period of each LTI grant.

The Board recognises the importance of ensuring continued alignment between Senior Executives and shareholders. As such, a minimum shareholding policy for Senior Executives and other direct reports to the MD & CEO has been introduced from 1 July 2017, encouraging the Senior Leadership Team to accumulate and maintain Healthscope shares equivalent in value to at least 50% of the relevant executive's fixed remuneration (or 100% in the case of the MD & CEO) over a five year period.

CEO transition

During FY17, the Board announced the appointment of Gordon Ballantyne as Managing Director and CEO of the Company, succeeding Robert Cooke. Mr Ballantyne commenced employment on 15 May 2017, and accordingly was not granted any STI or LTI awards for FY17.

For FY18, Mr Ballantyne's remuneration arrangements reflect a similar structure to Mr Cooke's arrangements in FY17 and will comprise of the following three components:

- Fixed remuneration (FR): $1.6 million
- Short term incentive (STI): A maximum opportunity of 150% of FR, including a 30% deferral into equity
- Long term incentive (LTI): A maximum opportunity of 120% of FR (subject to the achievement of dual performance hurdles (RTSR, with an absolute TSR gateway and EPS), the terms of Healthscope's Equity Incentive Plan (EIP) which governs any equity award and shareholder approval at the 2017 Healthscope AGM).

In addition, in accordance with the terms of his employment, prior to commencing employment, Mr Ballantyne acquired, on market, a beneficial interest in 444,836 Healthscope shares equivalent in value to $1 million at the time of purchase. Healthscope granted the equivalent number of Performance Rights to Mr Ballantyne, subject to a two year service condition and the terms of the EIP.

In setting Mr Ballantyne's remuneration package the Board complied with its remuneration philosophy for senior executives, including to encourage and recognise high performance while being aligned with the long-term interests of Healthscope and its shareholders. Mr Ballantyne did not receive a sign-on bonus. However, the acquisition of shares by Mr Ballantyne, and the subsequent grant of an equivalent number of Performance Rights, was intended to ensure that Mr Ballantyne's interests are aligned with those of shareholders.

Mr Cooke ceased as Managing Director and CEO of the Company on 14 May 2017. He remains available to assist the Company with a smooth transition to new leadership until April 2018. He has and will receive benefits in accordance with his employment contract and the terms of the STI and LTI Plans. In particular, Mr Cooke is entitled to receive an FY17 STI award based on performance against agreed key performance indicators over the FY17 performance period, and all unvested Performance Rights he holds remain on foot in accordance with and subject to the relevant terms of offer and the EIP rules, to be tested against the relevant conditions in the ordinary course. This Remuneration Report discloses the vesting outcomes in relation to the FY15 LTI Performance Rights, including the FY15 Performance Rights held by Mr Cooke.

The FY17 disclosures within this remuneration report for Mr Cooke reflect the period 1 July 2016 to 14 May 2017, being the date he ceased to be a member of Key Management Personnel.

To ensure continuity of knowledge and health sector expertise across the senior executive team, Healthscope has also granted 355,872 performance rights to the CFO, subject to a three year service condition and the terms of the EIP.

Remuneration report

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. All Non Executive Directors and Senior Executives held their positions for the duration of FY17, unless noted otherwise.

NAME	POSITION
Non Executive Directors	
Paula J. Dwyer	Chairman (Non Executive)
Tony Cipa	Non Executive Director
Jane McAloon	Non Executive Director
Rupert Myer AO	Non Executive Director
Paul O'Sullivan	Non Executive Director
Ziggy Switkowski AO	Non Executive Director
Senior Executives	
Robert Cooke	Managing Director and CEO (until 14 May 2017)
Gordon Ballantyne	Managing Director and CEO (from 15 May 2017)
Michael Sammells	CFO
Mark Briscoe	General Manager Operations
Anoop Singh	General Manager International Pathology

3. Remuneration governance framework

3.1 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.

3.2 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* (Cth) (Corporations Act) in FY17.

4. FY17 remuneration policy

4.1 Non Executive Directors (NEDs)

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

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

NEDs receive a base fee for being a Board Director and additional fees for being a Chairman or Member of a Board Committee (except Nomination Committee). The Board Chairman does not receive any additional fees for serving on a Board Committee.

A review of the fee structure for NED remuneration was undertaken during FY16. To remain competitive with companies of similar size and to reflect the services required of the NEDs, the fee structure was revised for FY17 and is set out below. Fees include superannuation contributions in accordance with the current Superannuation Guarantee legislation.

POSITION	BOARD FEES		
	Base fee	Audit, Risk and Compliance Committee	Remuneration Committee
Board Chairman	$485,000[1]	-	-
Board NED	$155,000	-	-
Committee Chairman	-	$40,000	$35,000
Committee Member	-	$25,000	$20,000

1 The Board Chairman is a member of all Board Committees and does not receive any additional fees for serving on a Board Committee.

The current NED fee pool is $2,000,000 per annum (set by Healthscope at a general meeting on 28 June 2014) and the total fees for FY17 including superannuation contributions was within this agreed limit.

NEDs may also receive other payments for additional services outside the scope of Board and Board Committee duties. NEDs are also entitled to be reimbursed for all travel and other expenses reasonably incurred in attending to Healthscope's affairs. In order to maintain independence, NEDs are not eligible for any performance-based payments.

NED shareholding policy

The Board recognises the importance of aligning NED interests with the long term interests of shareholders and considers that a meaningful investment in Healthscope shares demonstrates this alignment. Healthscope operates a NED shareholding policy which encourages NEDs to accumulate and maintain a holding in Healthscope shares that is equivalent to at least 100% of the NED base fee which is currently $155,000 (or 200% of this fee in the case of the Chairman) within three years of appointment.

Remuneration report

4. FY17 remuneration policy (continued)

4.2 Senior Executives

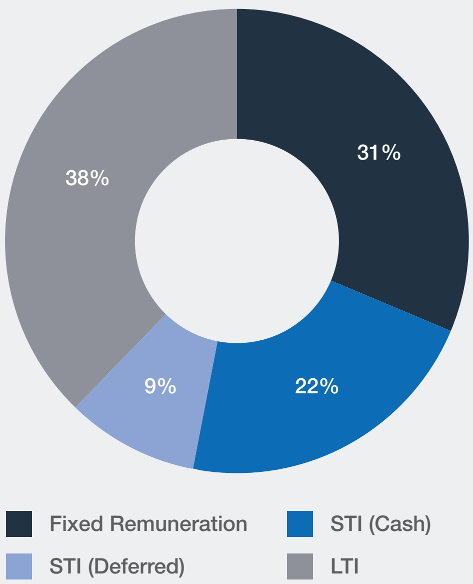
Healthscope's remuneration philosophy is to attract and retain talented employees through an engaging and equitable reward framework. It aims to encourage and recognise high performance in a manner which is aligned with the long-term interests of Healthscope and its shareholders.

This philosophy resulted in a Senior Executive remuneration framework for FY17 consisting of both fixed and variable remuneration components. The objectives and key elements of each component are presented below:

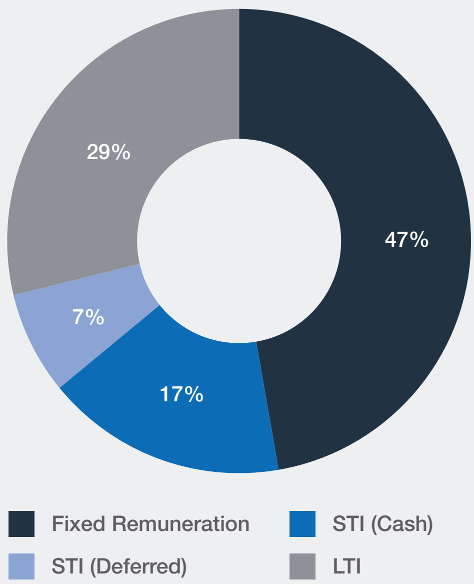
REMUNERATION FRAMEWORK FY17				
	Fixed	Variable 'At-Risk'		
Objective	The fixed component is in place to attract and retain key talent	The variable component is performance-based and aligned with Healthscope's strategic direction to deliver both short and long term value creation to shareholders		
Component	Fixed remuneration	STI		LTI
Basis of Quantum	Fixed remuneration reflects seniority, complexity, nature and size of the role and is reviewed annually	Awards based on achievement of annual financial and non-financial targets with a portion deferred as equity for two years		Awards based on long-term value creation though the achievement of relative TSR and absolute EPS targets over three years
Vehicle	Cash	Cash	Performance Rights	Performance Rights

The FY17 remuneration framework for all Senior Executives was weighted more towards 'at risk' remuneration. The applied remuneration mix for target performance is shown in the diagrams below. The diagrams below do not include the two FY17 Equity Incentive Plan grants made as a result of the CEO transition.

CEO & CFO



Other Senior Executives



5. FY17 company performance

Healthscope listed on the ASX in July 2014. As a result, 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 a sufficient time.

The link between the Company's performance and STI and LTI outcomes is considered at sections 6.3.2 and 6.4.3.

	SHARE PERFORMANCE			EARNINGS PERFORMANCE				
	Closing share price (A$)	Dividend p/share (cents)	TSR[1] (%)	Basic EPS[3] (cents)	Operating EBITDA ($M)	Operating EBIT ($M)	Operating NPAT ($M)	Statutory NPAT ($M)
FY17	**2.21**	**7.4**	**(20)**	**9.4**	**411.4**	**302.5**	**180.0**	**110.9**
FY16	2.86	7.2	8	10.3	397.4	304.6	190.8	181.1
FY15	2.72[2]	3.3	31	10.0	380.8	291.0	155.6	140.8

1 Dividends include only those amounts declared and paid up to 30 June of the relevant financial year, hence FY17 includes the interim dividend from FY17 and the final dividend from FY16.

2 The opening share price on 28 July 2014 was $2.10.

3 Based on statutory NPAT for continuing operations.

4 FY15 earnings performance includes Medical Centres business as it was included at that time as part of the performance assessment.

Remuneration report

6. Senior Executive remuneration in detail

6.1 Received remuneration (unaudited)

The table below provides a non-statutory disclosure for the total remuneration received during FY17 and FY16 by Senior Executives. For the former CEO, the table presents pro rated total remuneration awarded until 14 May 2017 (the date from which Mr Cooke ceased to be KMP). This information is supplementary to the remuneration disclosure prepared in accordance with the statutory requirements and Accounting Standards as detailed in section 8 of this Report.

	FIXED		VARIABLE		TOTAL RECEIVED REMUNERATION	
Senior Executive	Fixed remuneration[1]	Non-monetary benefits[2]	STI Cash[3]	Vested STI Performance Rights[4]	Vested LTI Performance Rights[4]	Total
Current Senior Executives						
Gordon Ballantyne (CEO from 15 May 2017)						
FY17	213,336	-	-	-	-	**213,336**
FY16	-	-	-	-	-	-
Michael Sammells (CFO)						
FY17	775,317	7,024	650,799	-	-	**1,433,140**
FY16	754,552	6,890	685,956	-	-	1,447,398
Mark Briscoe (GM Operations)						
FY17	460,937	5,789	141,306	-	-	**608,032**
FY16	448,592	5,664	398,748	-	-	853,004
Anoop Singh (GM International Pathology)						
FY17	381,478	5,750	129,942	-	-	**517,170**
FY16	371,261	5,664	108,397	-	-	485,322
Former Senior Executives						
Robert Cooke (CEO)						
FY17	1,375,400	5,028	1,329,324	-	-	**2,709,752**
FY16	1,541,250	5,664	1,500,000	-	-	3,046,914

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

2 The amounts disclosed as non-monetary benefits relate to car spaces, professional memberships and other similar items.

3 Cash paid during year relating to the previous year's STI performance (i.e., cash paid in FY17 relates to FY16 STI performance; cash paid in FY16 relates to FY15 STI performance).

4 No performance rights vested during the year.

6.2 Fixed Remuneration

Fixed Remuneration is made up of cash salary, superannuation and other approved benefits and is reviewed annually to assess its alignment to individual performance and market practice.

A benchmarking exercise was conducted in FY16 to assist in determining the Senior Executives' fixed remuneration for FY17. The applied fixed remuneration increases were in line with general market movements and the subsequent fixed remuneration was generally positioned at the median when compared to peer companies.

6.3 Short Term Incentive

6.3.1 STI Policy

PURPOSE

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.

PERFORMANCE PERIOD

Targets were set at the commencement of FY17 and assessed after the end of the financial year, based on the Company's audited annual results and individual performance against non-financial targets.

PERFORMANCE CONDITIONS

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.

For FY17, 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 for eligible STI participants in FY17.

Targets and Weightings (as a percentage of STI opportunity for target performance)

Senior Executive[1]	Position	Group Operating NPAT	Group Operating EBIT	Divisional Financial Measure(s)	Non-Financial Measures
Robert Cooke	Former CEO	70%			30%
Michael Sammells	CFO	70%			30%
Mark Briscoe	GM Operations		40%	30%[2]	30%
Anoop Singh	GM International Pathology		10%	60%[3]	30%

1 Mr Ballantyne did not participate in the FY17 STI Plan .
2 For GM Operations these targets are based on Hospital Division EBIT (20%) and Medical Centres EBIT (10%).
3 For GM International Pathology this target is based on Pathology Division EBIT.

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, excluding non-operating items unrelated to business as usual operations.

Financial targets for other Senior Executives are based on the 'Operating EBIT' measure at a Group or Divisional level. Operating EBIT is statutory EBIT excluding non-operating items 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.

For FY17, the non-operating items excluded from statutory results reflect the impairment resulting from the decision to divest Medical Centres, adjustment to the carrying value of the impairment of plant and equipment held by Geelong Private Hospital, appointment of liquidators for a supplier group, corporate restructuring and commissioning costs.

For the purposes of measuring FY17 STI the Operating EBIT and Operating NPAT targets include Continuing and Discontinued Operations being consistent with the way targets were set at the commencement of FY17.

Non-financial measures comprise specific targets and goals in relation to 'Quality' (e.g., patient and doctor satisfaction; accreditation of laboratory and hospital quality assurance), 'Growth and Innovation' (e.g., achievement of project milestones in key strategic initiatives); and 'People, Safety and Culture' (e.g., employee engagement outcomes), all areas which are key to positive outcomes for Healthscope and its stakeholders. 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.

Performance against targets is assessed by the Board based on the Company's annual audited results and financial statements. The methods adopted to assess performance have been chosen as the Board believes they are the most appropriate way to assess the true financial performance of the company and determine remuneration outcomes.

Remuneration report

6. Senior Executive remuneration in detail (continued)

6.3.1 STI Policy (continued)

STI OPPORTUNITY AND VESTING OUTCOMES

Potential awards are expressed as a percentage of fixed remuneration with target and stretch STI opportunities based on the schedule set out below.

Senior Executive	STI payout - Target performance	STI payout - Stretch performance
CEO & CFO	100%	150%
GM Operations	50%	100%[1]
GM International Pathology	50%	75%

1 Effective 1 July 2017, the GM Operations' STI payout for stretch performance reduced to 75% to be in line with other Senior Executives below the CEO and CFO

For FY17, the determination of any stretch STI payouts was based on over performance of the relevant group financial metric for each Senior Executive as follows:

Performance - Achievement of target group financial metric[1]	Payout - Percentage of total STI target[1]
≤ 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

1 For FY17, the GM Operations' maximum STI payout for above target performance was 200% of target. Effective 1 July 2017, this transitioned to a reduced maximum opportunity of 150% of Target STI in line with all Senior Executives.

STI DEFERRAL

In relation to FY17, 30% of any STI award to Senior Executives will be made 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 vesting will be subject to continued service during a two year deferral period and to the terms of the EIP. 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 FY17 cannot be calculated and have not yet been issued. For the purposes of calculating diluted earnings per share in Note 5 to the financial statements, the Company has used the share price as at 30 June 2017 ($2.21) and, based on this share price, 153,470 STI Performance Rights would be issued.

The actual number of STI Performance Rights issued to Senior Executives in relation to FY17 will be reported in the FY18 Remuneration Report.

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 EIP Rules, the Board retains absolute discretion to determine to vest or lapse some or all STI Performance Rights in all circumstances.

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 in part or full, unless the Board determines otherwise.
CLAWBACK	The Board has broad "clawback" powers to determine that any Performance Rights granted under the STI Plan 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.

6.3.2 STI awards for FY17

Details of FY17 STI outcomes for Senior Executives

STI awards for Senior Executives ranged between threshold and target opportunity, reflecting relative achievement of financial and non-financial metrics. Both STI gateways (Group EBIT and People, Safety and Culture) were met. The table below summarises the STI outcomes for each scorecard measure for eligible FY17 participants including the adjusted STI outcomes for the CEO and CFO. This follows the Board's decision to exercise its discretion to reduce the STI outcome for participants in corporate roles to a maximum of 40% of the individual's target STI opportunity.

Senior Executives	Group Operating NPAT	Group Operating EBIT	Divisional Financial Measure (s)	Non-Financial Measures	Overall Performance Relative to Objectives	Achievement of Target Opportunity[1]	Adjusted STI Outcome	Percentage of Maximum STI	
								% Awarded	% Lapsed
Robert Cooke Former CEO	○	n/a	n/a	○	○	62%	40%	27	73
Michael Sammells CFO	○	n/a	n/a	○	○	62%	40%	27	73
Mark Briscoe GM Operations	n/a	○	○	○	○	40%	40%	20	80
Anoop Singh GM International Pathology	n/a	○	●	●	○	94%	94%	62	38
Key	● At target	○ Between threshold & target							

6. Senior Executive remuneration in detail (continued)

6.4 Long Term Incentive

6.4.1 FY17 LTI Policy

PURPOSE	The LTI 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 and subject to the achievement of dual performance conditions and the terms of the EIP. Growth remains a key aspect of Healthscope's strategic plan and it is appropriate that Senior Executives be incentivised to achieve targets which demonstrate sustainable growth. The LTI 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.
PARTICIPATION	All Senior Executives participated in the LTI in FY17[1].
VEHICLE AND ALLOCATION METHODOLOGY	The FY17 LTI delivered awards in the form of Performance Rights. The number of LTI Performance Rights granted were 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 FY17 full year financial results. Each LTI Performance Right, as is the case with all Performance Rights issued by the Company, entitles the holder to one ordinary share in Healthscope following a satisfactory achievement of performance conditions. 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.
PERFORMANCE PERIOD	LTI vesting is based on the achievement of performance conditions that are assessed following a three year performance period commencing at the beginning of FY17 and concluding at the end of FY19, based on the Company's audited annual results at the end of this period.
PERFORMANCE CONDITIONS	The LTI had dual performance hurdles – Earnings Per Share (EPS) and Relative Total Shareholder Return (RTSR) (with an absolute TSR gateway of 7.5% to be achieved before RTSR can be assessed for vesting). 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 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. 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's performance.

EPS Performance	Relative TSR Performance	Portion of LTI award that will vest against relevant target
(75% weighting)	(25% weighting)	
Less than the threshold target	Less than the 50th percentile	Nil
Equal to the threshold target	At 50th percentile	50%
Greater than the threshold target, up to maximum target	Between 50th and 75th percentile	Straight line vesting between 50% and 100%
At or above maximum target	At or above the 75th percentile	100%

1 All LTI grants made in FY17 are subject to the performance conditions outlined in section 6.4.1 with the exception of Mr Ballantyne's Performance Rights and 355,872 of Mr Sammells' Performance Rights. Refer to footnote 1 under 6.4.2 for details of performance conditions related to these Performance Rights.

LTI ASSESSMENT AND VESTING	The performance period for the FY17 LTI runs from 1 July 2016 to 30 June 2019. RTSR performance is independently assessed over the performance period against the constituents of the S&P ASX 100 index as at 1 July 2016. EPS is calculated using Operating NPAT, divided by the weighted average number of shares on issue during the year. As historical EPS data is limited due to Healthscope's listing in 2014, it has not been practical to set three year EPS targets for the relevant performance period. For the FY17 LTI, the EPS target therefore consists of three annual EPS targets set by the Board 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 interests. 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 FY17 LTI is expected to occur in FY20, shortly after the end of the performance period. These methods of assessing RTSR performance and EPS have been chosen as the Board believes they are the most appropriate way to assess the true financial performance of the company and determine remuneration outcomes.
RE-TESTING	No retesting is permitted in relation to either performance condition. Any Performance Rights that do not satisfy the performance conditions automatically lapse.
TREATMENT ON CESSATION	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 EIP Rules, the Board retains absolute discretion to determine to vest or lapse some or all Performance Rights in all circumstances.
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.
CLAWBACK	The Board has broad "clawback" powers to determine that any Performance Rights granted under the LTI or STI Plan 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.

6. Senior Executive remuneration in detail (continued)

6.4.2 LTI Performance Rights granted in FY17

Senior Executive	Position	Number of Performance Rights Granted[3]	Grant Date	Fair Value on Grant Date ($)
Gordon Ballantyne	CEO (from 15 May 2017)	444,836[1]	15 May 2017	2.02
Robert Cooke	CEO (until 14 May 2017)	625,119[2]	21 October 2016	1.84
Michael Sammells	CFO	306,041[2]	21 October 2016	1.84
		355,872[1]	15 May 2017	1.95
Mark Briscoe	GM Operations	90,973[2]	21 October 2016	1.84
Anoop Singh	GM International Pathology	75,291[2]	21 October 2016	1.84

1 Vesting of the FY17 EIP grant of Performance Rights is subject to meeting service conditions (two years from grant date for Mr Ballantyne and three years from grant date for Mr Sammells). The number of Performance Rights granted to Mr Ballantyne under the FY17 EIP grant was equivalent to the number of shares he purchased prior to commencing employment. The number of Performance Rights granted to Mr Sammells under the FY17 EIP grant was determined by dividing $800,000 by the average share price at which Mr Ballantyne purchased his shares ($2.25).

2 Vesting of LTI Performance Rights is subject to the meeting of performance hurdles as set out 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. The number of LTI Performance Rights granted was determined by dividing the KMP's LTI opportunity by the VWAP of Healthscope shares in the five days following the announcement of the Company's FY16 financial results ($3.04 per share).

3 The estimated maximum possible total value of the grants for each KMP is as follows: G Ballantyne ($898,569); R Cooke ($1,150,269); M Sammells ($563,115 for 21 October 2016 grant) and ($693,950 for 15 May 2017 grant); M Briscoe ($167,390); A Singh ($138,535). This is based on the fair value as at the grant date. The minimum possible total value of the grant is nil.

6.4.3 LTI Performance Rights vesting in FY17 (FY15 LTI)

The performance period for the FY15 LTI Performance Rights ended on 30 June 2017. The FY15 LTI Performance Rights were subject to two performance conditions – EPS and RTSR.

Following testing of performance against the two performance conditions, 50% of the FY15 LTI Performance Rights vested and 50% lapsed. The overall vesting outcomes for the Performance Rights granted to Senior Executives as part of the FY15 LTI are summarised in the table below.

	FY15 LTI		
Hurdle	**Weighting**	**Vested %**	**Lapsed %**
EPS	75%	67%	33%
RTSR[1]	25%	0%	100%
Overall outcome		**50%**	**50%**

1 The associated RTSR performance conditions are set out in section 6.4.1 are as per the FY17 LTI grant with the exception of the peer group. FY15's peer group was based on the S&P ASX 100 excluding companies classified as bank, energy, metals and mining, trusts and overseas domiciled companies.

The detail of the targets and performance outcomes for each condition are disclosed below in accordance with the Board's commitment to disclose the performance conditions, which applied to the FY15 LTI Performance Rights, after the conclusion of the performance period.

- The RTSR performance condition had an absolute TSR gateway of 7.5% which had to be achieved before RTSR could be assessed for vesting. The absolute TSR outcome achieved was 8.3% however as RTSR was less than the 50th percentile, this condition was not met and, accordingly, the performance rights subject to this performance condition lapsed.
- The EPS target consisted of three annual EPS targets set by the Board based on projected performance for each year of the performance period[1]. The aggregate threshold growth target for the performance period was 1.23c (15% growth) and the maximum EPS target for the performance period was 2.78c (33% growth). Actual EPS growth (calculated using Operating NPAT) for over the performance period was 2.11c (25% growth). Given performance exceeded targets in Years 1 and 2 of the performance period but was below target in year 3, this resulted in 67% of the EPS Performance Rights vesting.

The Board believes this outcome is reflective of the achievements made over the performance period. Over the performance period, three key brownfield developments at Knox Private, Gold Coast Private and National Capital Private were opened, with projects being delivered on time and within budget. In addition, the NSW government awarded Healthscope the Northern Beaches project. The construction of this project is well progressed and 2.5 years into the construction phase, the project remains on budget and due to open on time in late 2018. These key strategic major projects set up a platform to deliver accelerated growth for Healthscope over the medium to long term.

1 The baseline EPS (8.46c) for EPS performance measurement was derived by taking the FY14 company performance pro-forma to reflect the capital structure put in place at IPO divided by the number of shares issued at IPO on 28 July 2014.

7. 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 Limited).

7.1 Key terms of executive service agreement for Mr G Ballantyne (MD & CEO from 15 May 2017)

DURATION	ONGOING
Periods of notice required to terminate	12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for serious negligence, breach of the service agreement, fraud or misconduct (in which case no notice is required). Payment in lieu of all or a portion of the notice period may be made at the Company's discretion. Executive may terminate immediately in the case of a fundamental change in his role and responsibilities and is entitled to 12 months' TFR.
Termination payments	May not exceed the maximum amount which the Company is permitted to pay the CEO under the Corporations Act. Unvested securities will be treated in accordance with the relevant Plan Rules.
Restraint of trade	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.

7.2 Key terms of executive service agreement for Mr R Cooke (MD & CEO until 14 May 2017)

Mr Cooke ceased as MD & CEO on 14 May 2017. Set out below are the key terms of his executive service agreement as applied to that date. Further details regarding the CEO transition are set out in section 1.

DURATION	ONGOING
Periods of notice required to terminate	12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for, amongst other things, dishonesty, fraud, wilful disobedience or misconduct (in which case no notice is required). Payment in lieu of all or a portion of the notice period may be made at the Company's discretion.
Termination payments	May not exceed the maximum amount which the Company is permitted to pay the CEO under the Corporations Act. 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. Average base salary is payable during any restraint period. Unvested securities will be treated in accordance with the relevant Plan Rules.
Restraint of trade	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.

Remuneration report

7. Executive service agreements (continued)

7.3 Key terms of executive service agreement for other Senior Executives

DURATION	ONGOING
Periods of notice required to terminate	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 required). Other Senior Executives have 6 month notice periods (other than where employment is terminated for serious misconduct, in which case no notice is required). Payment in lieu of all or a portion of the notice period may be made at the Company's discretion.
Termination payments	May not exceed the maximum amount which the Company is permitted to pay the Senior Executive under the Corporations Act. STI is not payable where the Senior Executive 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. Average base salary is payable during any restraint period. Unvested securities will be treated in accordance with the relevant Plan Rules.
Restraint of trade	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. 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.

8. Statutory remuneration disclosures

8.1 Senior Executive remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 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[1]	Non-Monetary Benefits[2]	Superannuation Benefits	Long Service Leave[3]	Value of STI – Performance Rights[4 5]	Value of LTI – Performance Rights[6]	Value of LTI Performance Rights[7] - Prior periods expense write-back	
Current Senior Executives									
Gordon Ballantyne (from 15 May 2017)									
FY17	**208,668**	-	-	4,668	688	-	56,622	0	**270,646**
Michael Sammells									
FY17	**740,317**	**217,104**	**7,024**	**35,000**	**15,651**	**121,402**	**670,421**	**(318,572)**	**1,488,346**
FY16	719,552	650,799	6,890	35,000	16,228	85,224	404,733	0	1,918,425
Mark Briscoe									
FY17	**430,937**	**64,051**	**5,789**	**30,000**	**9,509**	**28,574**	**190,866**	**(95,055)**	**664,671**
FY16	418,592	141,306	5,664	30,000	10,394	18,504	120,555	0	745,016
Anoop Singh (GM International Pathology)									
FY17	**361,862**	**125,101**	**5,750**	**19,616**	**9,634**	**34,945**	**153,255**	**(71,779)**	**638,384**
FY16	352,478	129,942	5,664	18,783	8,977	17,016	95,051	0	627,911
Former Senior Executives									
Robert Cooke (until 14 May 2017)									
FY17	**1,345,002**	**385,139**	**5,028**	**30,397**	**36,662**	**215,365**	**1,208,938**	**(665,557)**	**2,560,975**
FY16	1,506,250	1,329,324	5,664	35,000	39,349	174,078	851,391	0	3,941,056
Total-FY17	**3,086,787**	**791,395**	**23,591**	**119,681**	**72,145**	**400,286**	**2,280,101**	**(1,150,962)**	**5,623,023**
Total-FY16	2,996,872	2,251,371	23,882	118,783	74,948	294,822	1,471,730	0	7,232,409

1 Bonus payments relate to the cash component of the FY17 STI and will be paid in FY18.

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

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

4 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 $339,169. 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. These Performance Rights were granted at no cost and no payment is required to be made in order for the Performance Rights to vest.

5 The estimated maximum possible total value of the STI Performance Rights for each KMP is as follows: R Cooke ($165,060); M Sammells ($93,045); M Briscoe ($27,450); A Singh ($53,615). This is based on the face value of the deferred STI. The minimum possible total value of the grant is nil.

6 Mr Ballantyne's Performance Rights and 355,872 of Mr Sammells' Performance Rights were issued as EIP Performance Rights (which are subject to service conditions). The value is calculated at grant date, based on the fair value, measured using a Black Scholes valuation model. The remaining Performance Rights (issued as LTI Performance Rights) granted to the Senior Executives is based on the fair value at grant date, 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 19 of the financial statements. These Performance Rights were granted at no cost and no payment is required to be made in order for the Performance Rights to vest.

7 Represents the accounting value of performance rights that have lapsed or are expected to lapse as a result of actual or expected performance against performance conditions. The amount presented for Robert Cooke represents the write back of the fair value on Performance Rights which have lapsed for the period up to 14 May 2017 when he ceased to be a member of KMP.

8. Statutory remuneration disclosures (continued)

8.2 Movements in Performance Rights held by Senior Executives

The following table sets out the movement during FY17, by number and value, of Performance Rights held by each Senior Executive and their personally related entities. This includes Performance Rights issued under the STI, LTI and EIP rules.

	UNVESTED BALANCE 1 JULY 2016	GRANTED		VESTED			LAPSED			UNVESTED BALANCE 30 JUNE 2017
		Number	Value[1]	Number	Value[2]	Percentage	Number[3]	Value	Percentage	
Current Executive Director										
Gordon Ballantyne (commenced as Managing Director and CEO on 15 May 2017)	-	444,836	898,569	-	-	-	-	-	-	444,836
Former Executive Director										
Robert Cooke (Managing Director and CEO until 14 May 2017)	1,531,259	625,119	1,151,782	416,667	696,876	50%	416,667	696,876	50%	1,323,044
Other Executive Director										
Michael Sammells	722,637	661,913	1,257,831	190,477	318,572	50%	190,477	318,572	50%	1,003,597
Mark Briscoe	215,236	90,973	167,618	56,834	95,055	50%	56,834	95,055	50%	192,541
Anoop Singh	169,894	75,291	138,724	42,917	71,779	50%	42,917	71,779	50%	159,351

1 The value of LTI 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. For EIP Performance Rights (which are only subject to service conditions), the value of Rights granted in the year is calculated at grant date based on the fair value, measured using a Black Scholes valuation model. For STI Performance Rights (which are only subject to service conditions), the value of Rights granted in the year is calculated based on the face value of the deferred STI. The factors and assumptions used in determining the fair value on grant date are set out in Note 19 of the financial statements.

2 The value of vested Performance Rights is calculated based on the fair value at the time of grant.

3 This column represents Performance Rights that were granted as part of the FY15 LTI grant that have lapsed during FY17. This column does not include any Performance Rights granted under the STI Plan as the FY15 STI grant did not contain a deferral element.

8.3 Non Executive Director remuneration – statutory disclosures

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

	SHORT -TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS			TOTAL
	Board & Committee Fees	Non-Monetary Benefits	Other Benefits (non-cash)	Termination Benefits	Superannuation Benefits	Remuneration for Services as Non Executive Director
Paula J. Dwyer (Chairman)						
FY17	**465,384**	**-**	**-**	**-**	**19,616**	**485,000**
FY16	456,217	-	-	-	18,783	475,000
Tony Cipa						
FY17	**196,347**	**-**	**-**	**-**	**18,653**	**215,000**
FY16	182,648				17,352	200,000
Jane McAloon						
FY17	**164,384**	**-**	**-**	**-**	**15,616**	**180,000**
FY16[1]	51,750	-	-	-	4,916	56,666
Rupert Myer AO						
FY17	**196,347**	**-**	**-**	**-**	**18,653**	**215,000**
FY16	182,648	-	-	-	17,352	200,000
Paul O'Sullivan						
FY17	**164,384**	**-**	**-**	**-**	**15,616**	**180,000**
FY16[1]	77,626	-	-	-	7,374	85,000
Ziggy Switkowski AO						
FY17	**182,648**	**-**	**-**	**-**	**17,352**	**200,000**
FY16[1]	43,379	-	-	-	4,121	47,500
Total - FY17	**1,369,494**	**-**	**-**	**-**	**105,506**	**1,475,000**
Total - FY16	994,268	-	-	-	69,898	1,064,166

1 Three directors were appointed during FY16 (Jane McAloon (1 March 2016), Paul O'Sullivan (1 January 2016) and Ziggy Switkowski (4 April 2016)). As such, FY16 remuneration was accordingly pro-rated.

Remuneration report

8. Statutory remuneration disclosures (continued)

8.4 KMP shareholdings

The following table summarises the movements in the shareholdings of KMP (including relevant interests) for FY17.

	NO. OF SHARES HELD AT 1 JULY 2016	ON VESTING OF PERFORMANCE RIGHTS	OTHER NET CHANGE[1]	NO. OF SHARES UPON CEASING TO BE KMP	NO. OF SHARES HELD AT 30 JUNE 2017
Directors					
Paula J. Dwyer	160,000	-	65,000	n/a	225,000
Tony Cipa	95,238	-	1,126	n/a	96,364
Jane McAloon	19,380	-	20,620	n/a	40,000
Rupert Myer AO	238,095	-	3,753	n/a	241,848
Paul O'Sullivan	81,000	-	-	n/a	81,000
Ziggy Switkowski AO	-	-	70,000	n/a	70,000
Gordon Ballantyne	-	-	444,836	n/a	444,836
Robert Cooke	1,799,314	-	(1,400,000)	399,314[2]	n/a
Senior Executives					
Michael Sammells	1,122,154	-	(872,154)	n/a	250,000
Mark Briscoe	399,717	-	(399,717)	n/a	-
Anoop Singh	267,880	-	(200,000)	n/a	67,880

1 Reflects shares sold or on market share purchases made by KMP over the course of FY17.

2 Reflects shareholding as at 14 May 2017.

8.5 Transactions and loans with KMP

There were no transactions or loans between KMP and the Company or any of its subsidiaries during FY17.


Registered Nurse

Financial report

for the year ended 30 June 2017

Contents

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2017

	Note	2017 $'m	2016 $'m
Continuing operations			
Revenue	2	2,318.2	2,232.9
Employee benefits expense	2	(1,036.7)	(991.5)
Medical and consumable supplies		(288.7)	(289.6)
Prosthetics expenses		(290.8)	(285.3)
Occupancy costs		(64.0)	(68.2)
Service costs		(226.6)	(200.9)
Other income and expense items	2	(24.7)	(14.9)
Profit before finance costs, income tax, depreciation and amortisation		**386.7**	**382.5**
Depreciation and amortisation	11, 12	(108.9)	(92.8)
Profit before finance costs and income tax		**277.8**	**289.7**
Net finance costs	2	(52.7)	(43.8)
Profit before income tax		**225.1**	**245.9**
Income tax expense	3	(62.5)	(66.9)
Profit for the year from continuing operations		**162.6**	**179.0**
Discontinued operations			
Net (loss) / profit for the year from discontinued operations	20	(51.7)	2.1
NET PROFIT FOR THE YEAR		**110.9**	**181.1**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchanges differences arising on translation of foreign operations		(1.0)	14.7
Gain / (Loss) on cash flow hedges taken directly to equity		11.6	(23.0)
Income tax (expense) / benefit relating to other comprehensive income		(3.3)	7.4
Other comprehensive income for the year, net of tax		**7.3**	**(0.9)**
Total comprehensive income for the year		**118.2**	**180.2**
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)	5	6.4	10.4
Diluted (cents per share)	5	6.3	10.4
From continuing operations			
Basic (cents per share)	5	9.4	10.3
Diluted (cents per share)	5	9.3	10.3

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

for the year ended 30 June 2017

		2017	2016
	Note	$'m	$'m
CURRENT ASSETS			
Cash and cash equivalents	10(a)	195.9	278.8
Trade and other receivables	4	165.8	145.7
Consumables supplies at cost		54.6	57.4
Prepayments		16.4	16.6
Derivative financial instruments	9	-	1.8
Assets classified as held for sale	13	58.8	-
TOTAL CURRENT ASSETS		**491.5**	**500.3**
NON-CURRENT ASSETS			
Other financial assets		8.1	8.6
Derivative financial instruments	9	-	16.5
Other receivable	4	298.3	123.0
Investments in joint ventures		0.9	0.9
Property, plant and equipment	11	2,077.0	1,800.3
Intangibles	12	1,739.1	1,843.6
Deferred tax assets	3	86.1	151.9
TOTAL NON-CURRENT ASSETS		**4,209.5**	**3,944.8**
TOTAL ASSETS		**4,701.0**	**4,445.1**
CURRENT LIABILITIES			
Trade and other payables	4	251.6	246.2
Current tax liabilities	3	3.6	2.3
Borrowings	8	3.8	4.9
Derivative financial instruments	9	10.7	8.8
Other financial liabilities		3.6	4.8
Provisions	16	123.5	121.9
Liabilities directly associated with assets classified as held for sale	13	6.3	-
TOTAL CURRENT LIABILITIES		**403.1**	**388.9**
NON-CURRENT LIABILITIES			
Borrowings	8	1,802.4	1,557.0
Derivative financial instruments	9	23.8	13.0
Other financial liabilities		-	0.1
Other payables	4	23.8	18.4
Deferred tax liabilities	3	49.2	63.5
Provisions	16	31.0	31.5
TOTAL NON-CURRENT LIABILITIES		**1,930.2**	**1,683.5**
TOTAL LIABILITIES		**2,333.3**	**2,072.4**
NET ASSETS		**2,367.7**	**2,372.7**
EQUITY			
Issued capital	7	2,708.2	2,706.1
Reserves		(247.2)	(257.7)
Accumulated losses		(93.3)	(75.7)
TOTAL EQUITY		**2,367.7**	**2,372.7**

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 June 2017

	Note	2017 $'m	2016 $'m
Continuing and Discontinued Operations			
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,410.7	2,269.2
Payments to suppliers and employees		(1,992.5)	(1,877.5)
Cash generated from operations		**418.2**	**391.7**
Interest received		3.7	4.5
Interest and costs of finance paid		(54.1)	(47.9)
Income tax paid		(13.7)	(13.4)
Other income and expense items		(23.1)	(10.5)
Net cash provided by operating activities	**10(b)**	**331.0**	**324.4**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		4.0	0.8
Proceeds from disposal of operations		-	92.3
Payments for property, plant and equipment		(75.8)	(86.2)
Brownfield developments		(179.7)	(300.5)
Northern Beaches facility development		(309.5)	(134.5)
Payments for operating rights		(1.1)	(1.2)
Net payments for business combinations		(0.1)	(63.6)
Net cash used in investing activities		**(562.2)**	**(492.9)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		-	155.0
Repayments of bank borrowings		-	(384.1)
Proceeds from issue of US Private Placement		-	395.1
Dividend reinvested though Dividend Reinvestment Plan		2.1	-
Proceeds from project finance (Northern Beaches)		280.9	200.1
Net repayment of receivables securitisation		0.8	(2.1)
Finance leasing		(6.5)	(3.4)
Dividends paid		(128.5)	(124.9)
Facility fees paid		(0.1)	(6.3)
Net cash provided by financing activities		**148.7**	**229.4**
Net (decrease) / increase in cash and cash equivalents		**(82.5)**	**60.9**
Cash and cash equivalents at the beginning of the year		278.8	217.7
Cash and cash equivalents transferred to assets classified as held for sale	10(a)	(0.2)	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		(0.2)	0.2
Cash and cash equivalents at the end of the year	10(a)	**195.9**	**278.8**

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 June 2017

	ISSUED CAPITAL	ACCUMULATED LOSSES
2016	**$'m**	**$'m**
Opening balance at 1 July 2015	**2,697.2**	**(131.9)**
Profit for the year	-	181.1
Other comprehensive income / (loss) for the year net of tax	-	-
Total comprehensive income / (loss) for the year	**-**	**181.1**
New shares issued	8.2	-
Equity raising costs - refund net of tax	0.7	-
Recognition of share based payments	-	-
Dividends paid	-	(124.9)
Balance at 30 June 2016	**2,706.1**	**(75.7)**
2017		
Opening balance at 1 July 2016	**2,706.1**	**(75.7)**
Profit for the year	-	110.9
Other comprehensive income / (loss) for the year net of tax	-	-
Total comprehensive income / (loss) for the year	**-**	**110.9**
New shares issued	2.1	-
Recognition of share based payments	-	-
Dividends paid	-	(128.5)
Closing balance at 30 June 2017	**2,708.2**	**(93.3)**

The above statement should be read in conjunction with the accompanying notes.

Group reorganisation reserve

The Group reorganisation reserve 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, L.P.) and Carlyle (Carlyle HSP Partners, L.P.) on 12 October 2010.

The balance in the reserve is not expected to be transferred and will remain in the reserve for the foreseeable future.

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.

GROUP REORGANISATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVE	EQUITY SETTLED EMPLOYEE BENEFITS RESERVE	TOTAL EQUITY
$'m	$'m	$'m	$'m	$'m
(282.2)	**26.6**	**(5.0)**	**1.0**	**2,305.7**
-	-	-	-	181.1
-	14.7	(15.6)	-	(0.9)
-	**14.7**	**(15.6)**	**-**	**180.2**
-	-	-	-	8.2
-	-	-	-	0.7
-	-	-	2.8	2.8
-	-	-	-	(124.9)
(282.2)	**41.3**	**(20.6)**	**3.8**	**2,372.7**
(282.2)	**41.3**	**(20.6)**	**3.8**	**2,372.7**
-	-	-	-	110.9
-	(1.0)	8.3	-	7.3
-	**(1.0)**	**8.3**	**-**	**118.2**
-	-	-	-	2.1
-	-	-	3.2	3.2
-	-	-	-	(128.5)
(282.2)	**40.3**	**(12.3)**	**7.0**	**2,367.7**

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 19.

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.

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 2017 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 financial instruments and assets held for sale 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 2017.

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 in included in Note 24.

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.

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 1: Segment information

As a result of the agreement entered into on 17 August 2017 to divest Healthscope's standalone medical centres business, 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.

CONTINUING OPERATIONS	SEGMENT REVENUE		SEGMENT OPERATING EBITDA[1]		SEGMENT OPERATING EBIT[2]	
	2017	2016	2017	2016	2017	2016
	$'m	$'m	$'m	$'m	$'m	$'m
Hospitals Australia	2,014.0	1,947.7	359.4	354.9	272.6	281.4
Pathology New Zealand	242.5	222.7	59.7	50.7	46.6	40.1
Other	61.7	62.5	18.2	18.3	14.0	14.2
Total all segments	**2,318.2**	**2,232.9**	**437.3**	**423.9**	**333.2**	**335.7**
Corporate			(25.9)	(26.5)	(30.7)	(31.1)
Total all segments after Corporate			**411.4**	**397.4**	**302.5**	**304.6**
Other income and expense items (Note 2)					(24.7)	(14.9)
Finance costs (Note 2)					(52.7)	(43.8)
Profit before income tax					**225.1**	**245.9**
Income tax expense (Note 3)					(62.5)	(66.9)
Net profit from continuing operations					**162.6**	**179.0**

DISCONTINUED OPERATIONS	SEGMENT REVENUE		SEGMENT OPERATING EBITDA[1]		SEGMENT OPERATING EBIT[2]	
	2017	2016	2017	2016	2017	2016
	$'m	$'m	$'m	$'m	$'m	$'m
Medical Centres	54.3	58.0	8.8	10.5	4.6	5.8
Pathology Australia	-	3.0	-	(1.8)	-	(2.4)
Total all segments	**54.3**	**61.0**	**8.8**	**8.7**	**4.6**	**3.4**
Other income and expense items					(55.2)	(0.2)
Finance costs					-	-
(Loss) / Profit before income tax					**(50.6)**	**3.2**
Income tax expense					(1.1)	(1.1)
Net (loss) / profit from discontinued operations					**(51.7)**	**2.1**
Net profit from continuing & discontinued operations					**110.9**	**181.1**

1 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.

2 Segment Operating EBIT represents the profit 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.

Note 1: Segment information (continued)

Other segment information

	HOSPITALS AUSTRALIA	PATHOLOGY NEW ZEALAND	OTHER	CORPORATE	TOTAL CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
2017	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Total assets	4,239.7	270.5	116.0	16.0	4,642.2	58.8	**4,701.0**
Total liabilities	(2,272.2)	(27.6)	(27.2)	-	(2,327.0)	(6.3)	**(2,333.3)**
2016							
Total assets	3,929.7	267.2	116.0	15.8	4,328.7	116.4	**4,445.1**
Total liabilities	(1,995.0)	(53.5)	(17.0)	-	(2,065.5)	(6.9)	**(2,072.4)**

Note 2: Revenue and expenses

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

	Note	2017 $'m	2016 $'m
REVENUE			
Continuing operations			
Revenue from rendering services		2,250.0	2,169.4
Rental revenue		28.3	27.8
Management fees		32.7	27.1
Other revenue		7.2	8.6
Total revenue		**2,318.2**	**2,232.9**
EXPENSES			
Continuing operations			
Finance Income			
Bank deposits		3.7	4.5
Finance Expenses			
Interest on bank overdrafts and loans		(74.8)	(63.3)
Interest capitalised on qualifying assets[1]		21.9	18.6
Amortisation of facility fees		(1.9)	(1.6)
Interest on obligations under finance leases		(1.3)	(0.9)
Unwinding of discount on provisions		(0.3)	(1.1)
		(56.4)	**(48.3)**
Net finance costs		**(52.7)**	**(43.8)**
Employee benefits expense			
Superannuation contributions		(72.6)	(69.6)
Termination benefits		(1.2)	(2.0)
Other employee benefits		(959.7)	(917.1)
Share based payments expense	19	(3.2)	(2.8)
Total employment benefits expense		**(1,036.7)**	**(991.5)**
Minimum lease payments for operating leases		**(42.0)**	**(45.0)**

1 The weighted average capitalisation rate on funds borrowed is 5.01% p.a. (2016: 4.37% p.a.).

	Note	2017 $'m	2016 $'m
EXPENSES (continued)			
Continuing operations			
Other income and expense items			
Restructure and other costs[1]		(2.4)	(2.2)
Loss relating to appointment of liquidators for a supplier group[2]		(5.7)	-
Hospital commissioning costs[3]		(2.7)	(1.8)
Allamanda Private Hospital closure costs[4]		-	(7.4)
Acquisitions and tender costs[5]		(0.2)	(3.5)
Impairment of Geelong Private Hospital assets[6]		(11.5)	-
Onerous leases and related costs[7]		(2.2)	-
Total other income and expense items		**(24.7)**	**(14.9)**

1 Restructure and other costs primarily relate to redundancies as a result of a restructure within the Hospitals Division and Corporate.

2 During the financial year, liquidators were appointed for a supplier group. These costs represent write-offs in relation to stock in transit and deposits paid for the purchase of theatre equipment which are unlikely to be recovered.

3 Hospital commissioning costs primarily relate to the commissioning of Holmesglen Private Hospital.

4 The prior year expense relates to the closure of Allamanda Private Hospital.

5 The current year expense relates to professional costs incurred in relation to the Maitland Hospital tender. The prior year expense relates to professional and transaction costs incurred in relation to the acquisition of Hunter Valley Private Hospital.

6 Impairment of plant and equipment held by the Geelong Private Hospital.

7 The Group has recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received under the contracts. This charge primarily relates to the lease obligations of the Geelong 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 patients is recognised on the date the services are provided to the patient.

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 Alliance (“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.

Note 2: Revenue and expenses (continued)

Standards in issue but not yet effective

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new revenue model is that revenue should be recognised to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Directors have undertaken a preliminary assessment of the impact of applying the requirements of AASB 15, the effect of which has been assessed as follows:

Hospital services

Each surgical and non-surgical service provided to a patient represents a performance obligation. Accordingly, revenue will be recognised for each of these performance obligations over the period from admission of the patient to discharge. The timing of revenue recognition for each performance obligation is expected to be broadly in line with current practice.

Pathology services

In relation to the provision of pathology services in New Zealand, each pathology service contract represents a single performance obligation which is satisfied over time. The obligation is to provide pathology testing to eligible patients during the contract term. The timing of revenue recognition for each performance obligation is expected to be broadly in line with current practice.

In respect of pathology operations in Malaysia and Singapore, each pathology service provided to a patient represents a performance obligation. Accordingly, revenue will be recognised for each of these performance obligations upon the provision of results to the doctor or patient. The timing of revenue recognition for each performance obligation is expected to be broadly in line with current practice.

Hospital management services

The recognition of management fee income will occur over time in accordance with the relevant agreement. The timing of revenue recognition is expected to be in line with current practice.

The Directors are continuing to assess the potential impact on system and disclosure requirements ahead of the initial application of AASB 15 on 1 July 2018 (year ending 30 June 2019).

AASB 16 Leases

Lessee accounting

AASB 16 eliminates the classification of leases either as operating leases or finance leases, which is currently required by AASB 117 and instead, introduces a single comprehensive accounting model. Applying that model, a lessee is required to recognise:

- Right-of-use assets and lease liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low value); and
- Amortisation of lease assets separately from interest on lease liability in the income statement.

For Healthscope, operating leases with terms of more than 12 months primarily relate to leased facilities.

The right-of-use asset will initially be measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The lease liability will initially be measured at the present value of lease payments that are not paid at that date. Subsequently, the lease liability will be adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements, in particular the level of gearing in the statement of financial position and the classification of amounts in the statement of profit or loss and other comprehensive income.

The Directors are in the process of assessing the financial impact of adopting AASB 16 as well as the system changes necessary to capture and report the information required. It is not practicable at this time to provide a reasonable estimate of the financial effect expected to arise upon initial application of AASB 16 on 1 July 2019 (year ending 30 June 2020).

Note 3: Income taxes

Income tax recognised in the profit or loss

	2017	2016
	$'m	$'m
Income tax expense from continuing and discontinued operations		
Current tax expense	(15.1)	(13.5)
Deferred tax benefit expense relating to the origination and reversal of temporary differences	(48.3)	(60.0)
Other adjustments recognised in the current year	(0.2)	5.5
Total income tax expense	**(63.6)**	**(68.0)**
Income tax expense from continuing and discontinued operations		
Tax expense from continuing operations	(62.5)	(66.9)
Tax expense from discontinued operations	(1.1)	(1.1)
Total income tax expense	**(63.6)**	**(68.0)**

The income tax expense for the year from continuing and discontinued operations can be reconciled to the accounting profit before tax as follows:

Income tax recognised in the income statement

	2017	2016
	$'m	$'m
Profit before income tax for continuing and discontinued operations		
Continuing operations	225.1	245.9
Discontinued operations	(50.6)	3.2
	174.5	**249.1**
Income tax calculated at 30%	(52.4)	(74.7)
Increase in income tax expense due to:		
Effect of expenses that are not deductible in determining taxable profit	(17.6)	(1.5)
Decrease in income tax expense due to:		
Effect of tax rate in foreign jurisdictions	2.3	2.0
Effect of non-assessable income	0.7	0.5
Adjustments recognised in the current year in relation to the current tax of prior years	0.2	2.9
Adjustments recognised in the current year in relation to the deferred tax of prior years	2.4	2.3
Other adjustments recognised in the current year	0.8	0.5
Income tax expense	**(63.6)**	**(68.0)**
Deferred tax		
Arising from income and expenses recognised in other comprehensive income:		
Fair value re-measurement of cash flow hedges	(3.3)	7.4
Current tax liabilities		
Income tax payable	3.6	2.3
Income tax recognised directly to Equity		
Equity raising costs	-	(0.2)

Note 3: Income taxes (continued)

DEFERRED TAX BALANCES	OPENING BALANCE	CHARGED TO INCOME	CHARGED TO OTHER COMPREHENSIVE INCOME	CHARGED TO EQUITY	TRANSFERRED TO ASSETS CLASSIFIED AS HELD FOR SALE	CLOSING BALANCE
	$'m	$'m	$'m	$'m	$'m	$'m
2017						
Gross Deferred Tax Liabilities						
Property, plant and equipment	29.0	1.0	-	-	-	30.0
Intangibles	13.2	(1.0)	-	-	(0.7)	11.5
Inventories	15.5	(0.8)	-	-	(0.2)	14.5
Other	0.3	(0.1)	-	-	-	0.2
Derivative financial instruments	5.5	(9.0)	(3.5)	-	-	(7.0)
	63.5	**(9.9)**	**(3.5)**	**-**	**(0.9)**	**49.2**
2017						
Gross Deferred Tax Assets						
Provisions	43.6	0.5	-	-	(0.7)	43.4
Accruals	7.4	(1.0)	-	-	(0.1)	6.3
Borrowing costs	0.3	(0.2)	-	-	-	0.1
Transaction costs	12.4	(4.1)	-	-	-	8.3
Borrowings (arising from hedge accounting)	8.5	(9.4)	(4.1)	-	-	(5.0)
Tax losses	71.6	(44.1)	-	-	-	27.5
Derivative financial instruments	6.5	(0.5)	(2.7)	-	-	3.3
Other	1.6	0.6	-	-	-	2.2
	151.9	**(58.2)**	**(6.8)**	**-**	**(0.8)**	**86.1**
2016						
Gross Deferred Tax Liabilities						
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
	52.6	**5.4**	**5.5**	**-**	**-**	**63.5**
2016						
Gross Deferred Tax Assets						
Provisions	46.5	(2.9)	-	-	-	43.6
Accruals	7.6	(0.2)	-	-	-	7.4
Borrowing costs	-	0.3	-	-	-	0.3
Transaction costs	17.4	(4.8)	-	(0.2)	-	12.4
Borrowings (arising from hedge accounting)	-	-	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
	193.8	**(54.6)**	**12.9**	**(0.2)**	**-**	**151.9**

	2017	2016
	$'m	$'m
The following deferred tax assets have not been brought to account as assets:		
Tax losses - capital	33.2	33.6

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.

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 the Medical Centres business on the recoverability of deferred tax assets. In the Directors' opinion, the divestment of the Medical Centres business has not had an impact on the recoverability of deferred tax assets.

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 4: Trade and other assets and liabilities

	2017	2016
	$'m	$'m
Trade and other receivables		
CURRENT		
Trade receivables	161.2	141.5
Provision for doubtful debts	(1.2)	(1.5)
	160.0	**140.0**
Goods and services tax recoverable	4.6	4.3
Other	1.2	1.4
	165.8	**145.7**
NON-CURRENT		
Receivable from NSW State Government[1]	**298.3**	**123.0**

1 The receivable is due upon completion of the NSW government review process following the commissioning of Northern Beaches Hospital which is currently scheduled to open in December 2018.

	2017	2016
	$'m	$'m
Age of trade receivables that are past due but not impaired		
30 - 60 days	4.5	4.2
60 - 90 days	6.1	2.5
90 - 120 days	1.2	1.1
120 - 150 days	0.6	0.8
150 - 180 days +	3.2	1.8
Total	**15.6**	**10.4**

The average credit period for the provision of services is 28 days (2016: 28 days).

As at 30 June 2017 $112.1 million (2016: $111.3 million) of trade receivables were sold under the Receivables Securitisation Program. The proceeds from the sale were used for working capital purposes.

	2017	2016
	$'m	$'m
Trade and other payables		
CURRENT		
Trade creditors	107.8	107.0
Sundry creditors and accruals	67.2	74.0
Labour accruals	43.7	39.5
Capital accruals	32.9	25.7
	251.6	**246.2**
NON-CURRENT		
Rent received in advance[1]	**23.8**	**18.4**

1 Rent primarily represents rent received in advance in relation to the operating leases of certain hospital car parks and consulting suites.

The average credit period on purchases of goods is 30 days (2016: 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.

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 5: Earnings per share

	2017	2016
Basic earnings per share (cents per share)		
From continuing operations	9.4	10.3
From discontinued operations	(3.0)	0.1
Total basic earnings per share	**6.4**	**10.4**
Diluted earnings per share (cents per share)		
From continuing operations	9.3	10.3
From discontinued operations	(3.0)	0.1
Total diluted earnings per share	**6.3**	**10.4**

(a) Reconciliation of earnings used in calculating earnings per share

	2017	2016
	$'m	$'m
Basic and diluted earnings per share		
Profit / (Loss) for the year attributable to owners of the Company		
- from continuing operations	162.6	179.0
- from discontinuing operations	(51.7)	2.1
	110.9	**181.1**

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

(b) Weighted average number of shares used in calculating earnings per share

	2017	2016
	Number 'm	Number 'm
Weighted average number of ordinary shares used in calculating basic earnings per share	1,735.4	1,733.9
Adjustments for calculation of diluted earnings per share:		
- LTI Performance rights	3.9	2.9
- STI Performance rights	1.6	0.9
Weighted average number of ordinary shares and potential ordinary shares used as denominator in calculating diluted earnings per share	**1,740.9**	**1,737.7**

(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.

Note 6: Dividends

	2017		2016	
	Cents per share	$'m	Cents per share	$'m
Fully paid ordinary shares				
Interim dividend	3.5	60.7	3.5	60.7
Final dividend	3.5	60.9	3.9	67.7

On 23 August 2017, the Directors resolved to pay an unfranked dividend of 3.5 cents per share to the holders of fully paid ordinary share in respect of the financial year ended 30 June 2017, to be paid to shareholders 28 September 2017. This dividend has not been included as a liability in these consolidated financial statements. The total estimated dividend to be paid is $60.9 million.

Key accounting policies

Dividends

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

Note 7: Issued Capital

	NUMBER OF SHARES	SHARE CAPITAL $'m
Balance at 1 July 2015	1,732,094,838	2,697.2
New shares issued	2,998,634	8.2
Adjustment to equity raising costs related to the IPO of Healthscope Limited net of tax	-	0.7
Balance at 30 June 2016 and 1 July 2017	1,735,093,472	2,706.1
New shares issued	946,442	2.1
Balance at 30 June 2017	**1,736,039,914**	**2,708.2**

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.

Note 8: Borrowings and other financial liabilities

	2017	2016
	$'m	$'m
CURRENT		
Secured - at amortised cost		
Finance lease liabilities	3.8	4.9
	3.8	**4.9**
NON-CURRENT		
Unsecured - at amortised cost		
Bank loans	850.0	850.0
Capitalised facility costs	(3.6)	(5.1)
	846.4	**844.9**
US Private Placement[1]	378.4	422.2
Capitalised facility costs	(2.7)	(3.1)
	375.7	**419.1**
Secured - at amortised cost		
Finance lease liabilities	8.7	6.0
Project finance	576.9	296.0
Capitalised facility costs	(5.3)	(9.0)
	571.6	**287.0**
	1,802.4	**1,557.0**

1 During the current financial year, there were no repayments of the principal. The movement relates to foreign exchange translation difference and fair value adjustments arising from the application of hedge accounting.

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 18 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.

		2017			2016		
		Drawn	Unused	Total	Drawn	Unused	Total
	Notes	$'m	$'m	$'m	$'m	$'m	$'m
FINANCE FACILITIES DENOMINATED IN AUD							
Bank loans - Syndicated debt facility	(i)	850.0	300.0	1,150.0	850.0	300.0	1,150.0
- Facility A1		155.0	-	155.0	155.0	-	155.0
- Facility A2		195.0	-	195.0	195.0	-	195.0
- Facility A3		500.0	-	500.0	500.0	-	500.0
- Facility B		-	300.0	300.0	-	300.0	300.0
Project finance	(ii)	576.8	113.2	690.0	-	690.0	690.0
Bank overdraft credit facility		-	5.0	5.0	-	5.0	5.0
Receivables securitisation facility	(iii)	112.1	27.9	140.0	111.3	28.7	140.0
DENOMINATED IN USD							
US Private Placement (USD)	(iv)	300.0	-	300.0	300.0	-	300.0

Summary of borrowing arrangements

(i) Syndicated debt facility

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

The unsecured 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 refinance.

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

As at 30 June 2017 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 2018 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 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).

(iii) Receivables securitisation

Under the terms of the receivables securitisation facility, the Group has de-recognised $112.1 million (2016: $111.3 million) of eligible receivables and used the proceeds for working capital purposes. This facility was renewed during the financial year. The facility now has a maturity date of 28 July 2019.

(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 2017, 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$390.1 million at spot rate as at 30 June 2017 (2016: $404.0 million). The difference to the carrying amount of $375.7 million (2016: $419.1 million) represents the fair value adjustment arising from the application of hedge accounting.

Note 9: Derivative financial instruments

	2017	2016
	$'m	$'m
DERIVATIVE FINANCIAL ASSETS		
CURRENT ASSETS		
Cross currency interest rate swaps	**-**	**1.8**
NON-CURRENT ASSETS		
Cross currency interest rate swaps	**-**	**16.5**
DERIVATIVE FINANCIAL LIABILITIES		
CURRENT LIABILITIES		
Interest rate swaps	8.1	8.8
Cross currency interest rate swaps	2.6	-
	10.7	**8.8**
NON-CURRENT LIABILITIES		
Interest rate swaps	3.0	13.0
Cross currency interest rate swaps	20.8	-
	23.8	**13.0**

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.

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.

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 are reconciled to the related items in the consolidated statement of financial position as follows:

	2017	2016
	$'m	$'m
Cash and cash equivalents	145.8	200.6
Restricted cash[1]	50.3	78.2
	196.1	**278.8**
Transferred to assets held for sale	(0.2)	-
Total cash and cash equivalents	**195.9**	**278.8**

1 Restricted cash can only be applied towards the development of Northern Beaches Hospital which is subject to separate funding arrangements.

(b) Reconciliation of net profit for the year to net cash flows from operating activities

	2017	2016
	$'m	$'m
Continuing and Discontinued Operations		
Profit for the year	110.9	181.1
Non-cash flows in operating profit		
- Depreciation and amortisation	113.3	98.7
- Income tax expense recognised in profit or loss	63.6	68.0
- Impairment of goodwill associated to the Medical Centres business	54.7	-
- Finance costs recognised in profit or loss	52.8	43.8
- Share of profit of associates and joint ventures	(2.1)	(2.0)
- Equity settled share based payments	3.2	2.8
- Other income and expense items	25.2	13.2
- Change in fair value of derivative financial instruments	2.8	-
- Gain on sale of assets	(0.8)	-
	423.6	**405.6**
Changes in assets and liabilities		
- Increase in receivables and other assets	(16.6)	(38.5)
- Increase in prepayments	(0.2)	(1.4)
- Decrease / (Increase) in consumable supplies at cost	2.6	(4.7)
- Increase to trade and other payables	7.9	26.1
- Increase to provisions	0.9	2.7
	418.2	**389.8**
Cash generated by operating activities		
Interest received	3.7	4.5
Interest paid	(54.1)	(47.9)
Other income and expense items	(23.1)	(8.6)
Income taxes paid	(13.7)	(13.4)
Net cash generated by operating activities	**331.0**	**324.4**

Notes to the consolidated financial statements

for the year ended 30 June 2017

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 LAND	BUILDINGS
2017	**$'m**	**$'m**
Balance at 1 July 2016	257.2	899.2
Additions	-	71.4
Transfers	-	3.4
Depreciation - Continuing operations	-	(27.0)
Depreciation - Discontinued operations	-	-
Impairment of assets	-	-
Net disposals	-	-
Reclassified to assets held for sale	-	-
Effect of foreign currency exchange differences	-	-
Balance at 30 June 2017	**257.2**	**947.0**
2016		
Balance at 1 July 2015	224.9	603.8
Acquisitions through business combinations	3.2	32.9
Additions	-	13.3
Transfers	31.3	271.9
Depreciation - Continuing operations	-	(22.3)
Depreciation - Discontinued operations	-	-
Net disposals	(2.2)	(0.5)
Effect of foreign currency exchange differences	-	0.1
Balance at 30 June 2016	**257.2**	**899.2**

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 are 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.

The carrying amounts of assets are reviewed to determine if there is any indication of impairment. If any such indication exists, these assets' recoverable amounts are estimated and, if required, an impairment is recognised in the income statement. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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.

LEASEHOLD IMPROVEMENTS	PLANT & EQUIPMENT	LEASED PLANT & EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
$'m	$'m	$'m	$'m	$'m
88.1	319.3	9.5	227.0	1,800.3
72.1	81.1	7.2	175.6	407.4
7.1	17.3	1.8	(29.6)	-
(8.0)	(62.0)	(5.4)	-	(102.4)
(0.9)	(1.5)	-	-	(2.4)
-	(11.5)	-	-	(11.5)
(0.1)	(1.7)	(0.8)	0.6	(2.0)
(6.6)	(4.7)	-	-	(11.3)
(0.1)	(2.8)	(0.6)	2.4	(1.1)
151.6	**333.5**	**11.7**	**376.0**	**2,077.0**
53.0	249.4	11.9	271.7	1,414.7
-	6.0	-	-	42.1
4.5	73.2	1.6	348.6	441.2
41.0	49.0	0.2	(393.4)	-
(7.4)	(52.7)	(4.3)	-	(86.7)
(1.0)	(2.2)	-	-	(3.2)
(2.9)	(4.6)	-	-	(10.2)
0.9	1.2	0.1	0.1	2.4
88.1	**319.3**	**9.5**	**227.0**	**1,800.3**

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, are 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%

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 12: Intangibles

	GOODWILL	CONTRACT MANAGEMENT RIGHTS	OPERATING RIGHTS	CONTRACT DEVELOPMENT COSTS	TOTAL
2017	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Balance at 1 July 2016	1,784.2	42.4	3.3	13.7	1,843.6
Additions	-	-	1.3	-	1.3
Disposals	-	-	(0.2)	-	(0.2)
Amortisation - Continuing operations	-	(4.2)	-	(2.3)	(6.5)
Amortisation - Discontinued operations	-	-	(1.8)	-	(1.8)
Reclassified to held for sale	(94.9)	-	(2.6)	-	(97.5)
Effect of foreign currency exchange differences	-	0.2	-	-	0.2
Balance as 30 June 2017	**1,689.3**	**38.4**	**-**	**11.4**	**1,739.1**
2016					
Balance at 1 July 2015	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)	-	(2.3)	(6.1)
Amortisation - Discontinued operations	-	-	(2.1)	-	(2.1)
Fair value adjustment	-	(1.3)	-	-	(1.3)
Effect of foreign currency exchange differences	12.7	0.2	-	1.1	14.0
Balance as 30 June 2016	**1,784.2**	**42.4**	**3.3**	**13.7**	**1,843.6**

Allocation of goodwill

For impairment testing purposes, the Group identifies its cash generating units (CGUs), which are 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 AUSTRALIA	PATHOLOGY NEW ZEALAND	OTHER[1]	DISCONTINUED OPERATIONS[2]	TOTAL
Goodwill	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
2017	1,427.2	177.6	84.5	-	**1,689.3**
2016	1,427.2	177.6	84.5	94.9	**1,784.2**

1 Other comprises the cash generating units relating to the pathology businesses in Malaysia, Singapore and Vietnam.

2 Reflects goodwill attributable to the Medical Centres business which has been classified as part of assets held for sale. Refer to Note 13 for further details.

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		

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 2017.

Impairment indicators

The results of the annual impairment test performed by management concluded that all continuing CGU's had sufficient head room as at 30 June 2017 and that no impairment was required.

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell hence they have been excluded from the annual impairment assessment.

Refer to note 13 for further details.

Impairment testing approach

Impairment testing compares the carrying value of a CGU with its recoverable amount based on the higher of its value in use (present value of future cash flows) or fair value less costs to sell (net selling price).

The Group has prepared value-in-use models for the purpose of impairment testing of continuing CGUs as at 30 June 2017, 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 2017.

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 2017.

- 2017/2018 Board approved profit and loss and cash flow budgets for each cash-generating unit;
- Inherent growth factors consistent with current performance for each CGU;

	HOSPITALS AUSTRALIA	PATHOLOGY NEW ZEALAND	PATHOLOGY SINGAPORE	PATHOLOGY MALAYSIA
2017	2.5 – 3.5%	3.0 – 4.0%	2.5 – 3.5%	2.5 – 3.5%
2016	4.0 – 5.0%	2.5 – 3.5%	2.5 – 3.5%	1.5 – 2.5%

- Prevailing market based pre-tax discount rates for the Group's CGUs are as follows:

  Hospitals 10.1% (2016: 8.7%), Pathology New Zealand 11.5% (2016: 9.3%), Pathology Singapore 10.4% (2016: 10.6%), and Pathology Malaysia 12.7% (2016: 10.6%);

- Cash flow projections covering a five-year period and terminal value; and
- Terminal growth factors have been set at:

  Hospitals 2.5% (2016: 3.0%), Pathology New Zealand 2.5% (2016: 2.5%), Pathology Singapore 2.0% (2016: 2.0%), and Pathology Malaysia 2.0% (2016: 2.0%).

Note 12: Intangibles (continued)

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.

Note 13: Assets classified as held for sale

As at 30 June 2017, Healthscope was in the process of disposing its interests in Healthscope Medical Centres Pty Limited and Sydney Breast Clinic Pty Limited, otherwise referred to as the standalone Medical Centres business. As a result, the Medical Centres business has been classified as 'held for sale' and presented as a 'discontinued operation'. On 17 August 2017, Healthscope entered into an agreement with Fullerton Primary Care Pty Limited to sell the operations for $55 million, subject to standard completion adjustments.

The fair value less costs to sell of the business unit was lower than the aggregate carrying amount of the related assets and liabilities. Therefore an impairment charge of $54.7 million was recognised on reclassification of the asset and liabilities as held for sale as at 30 June 2017.

The major classes of assets and liabilities of the intended disposal are:

	2017
	$'m
Carrying value of net assets classified as held for sale	107.2
Impairment loss on re-measurement to fair value less costs to sell	(54.7)
Fair value of net assets classified as held for sale	52.5
Receivables	2.4
Inventories	0.7
Property, plant and equipment	11.3
Intangibles (net of impairment)	42.8
Cash and bank balances	0.2
Deferred tax assets	0.8
Other assets	0.6
Assets held for sale	**58.8**
Payables	(3.0)
Deferred tax liabilities	(0.9)
Other liabilities	(2.4)
Liabilities associated with assets held for sale	**(6.3)**
The fair value of net assets classified as held for sale have been disclosed in the statement of financial position as follows:	
Current assets	58.8
Current liabilities	(6.3)
	52.5

The impairment loss of $54.7 million has been recognised against the intangible assets held by the standalone Medical Centres business.

Before the application of the impairment loss, Medical Centres held intangible assets of $97.5 million, comprising goodwill of $94.9 million and operating rights of $2.6 million. The reclassification of these amounts from 'intangibles' to 'assets held for sale' is reflected in Note 12.

Note 14: Commitments

(a) Capital expenditure commitments

	2017	2016
	$'m	$'m
Capital expenditure committed but not provided for and payable:		
- Not longer than 1 year	380.2	593.6
- Longer than 1 year but no longer than 5 years	313.0	600.3
- Longer than 5 years	-	-
	693.2	**1,193.9**

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

(b) Operating lease commitments

	2017	2016
	$'m	$'m
Non-cancellable operating leases contracted for but not capitalised:		
Payable:		
- Not later than 1 year[1]	32.0	42.8
- Later than 1 year but no later than 5 years[1]	119.4	99.4
- Later than 5 years[1]	324.3	86.5
	475.7	**228.7**

1 The operating lease commitments for the current year include long term leases for the Frankston Private Hospital and Holmesglen Private Hospital. The comparatives include the Medical Centres business, however the current year figures exclude them due to the sale process of the Medical Centres business.

Operating leases relate to properties leased by the Group with lease terms between 1 and 30 years. (2016: 1 and 30 years). All operating leases contain market review clauses in the event that the lessee exercises its option to renew.

Note 15: Contingent liabilities

	2017	2016
	$'m	$'m
Estimates of material amounts of contingent liabilities not provided for:		
Bank guarantees to various Workcover authorities	12.3	8.5
Bank guarantee in respect of Northern Beaches development	161.8	161.8
Bank guarantees in respect of property leases	11.8	12.0

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.

Note 16: Provisions

	2017	2016
	$'m	$'m
CURRENT		
Employee benefits[1]	110.7	105.9
Medical malpractice insurance[2]	6.8	6.8
Onerous lease contracts and related costs[3]	2.3	5.8
Other	3.7	3.4
	123.5	**121.9**
NON-CURRENT		
Employee benefits	21.8	23.1
Onerous lease contracts[3]	9.2	8.4
	31.0	**31.5**

Summary of provisions

1 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.

2 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.

3 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.

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 and 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 2017 at $6.8 million (2016: $6.8 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 2017.

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.

Note 17: 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:

	2017	2016
	$'m	$'m
Borrowings - current	3.8	4.9
Borrowings - non-current	1,802.4	1,557.0
	1,806.2	**1,561.9**
Add back:		
USPP - Fair value adjustment associated with hedge accounting	11.7	(18.2)
Capitalised facility costs	11.6	17.2
Debt[1]	**1,829.5**	**1,560.9**
Cash and cash equivalents	(195.9)	(278.8)
Net debt	**1,633.6**	**1,282.1**
Equity[2]	**2,367.7**	**2,372.7**
Net debt + equity	**4,001.3**	**3,654.8**
Net debt / (Net debt + equity)	**41%**	**35%**

1 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.

2 Equity includes all capital and reserves of the Group that are managed as capital.

Note 17: Financial instruments (continued)

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.

Interest rate sensitivity analysis

With all other variables held constant, a 1% increase in interest rates would reduce profit after tax by $8.8 million (2016: $7.8 million) reflecting the impact of higher interest rates on variable rate debt. A 1% decrease in interest rates would result in a corresponding $8.8 million increase in profit after tax (2016: $7.8 million).

(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.

(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 (2016: 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 24.

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.

(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 AVERAGE EFFECTIVE INTEREST RATE	LESS THAN 1 YEAR	1-5 YEARS	5+ YEARS	TOTAL
2017	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Non-derivative financial instruments					
Trade creditors and accrued expenses		251.6	-	-	251.6
Variable interest rate instruments	3.80%	60.2	1,315.2	-	1,375.4
Fixed interest rate instruments	4.43%	16.4	81.8	453.1	551.3
Finance lease liability	4.18%	3.8	8.0	0.7	12.5
Financial guarantees		1.1	179.6	5.2	185.9
Derivative financial instruments					
Interest rate swaps		8.2	3.0	-	11.2
Cross currency swaps		1.3	6.4	3.8	11.5
		342.6	**1,594.0**	**462.8**	**2,399.4**
2016					
Non-derivative financial instruments					
Trade creditors and accrued expenses		236.5	-	-	236.5
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
Derivative financial instruments					
Interest rate swaps		5.4	9.2	-	14.6
Cross currency swaps		2.0	8.2	10.2	20.4
		302.4	**1,296.5**	**501.7**	**2,100.6**

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.

Note 18: 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 are recognised at amounts that represent a reasonable approximation of fair value, with the exception of the following borrowings:

	2017		2016	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Borrowings	**$'m**	**$'m**	**$'m**	**$'m**
US Private Placement (AUD)	375.7	414.1	419.1	410.8

The fair value 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

Healthscope is a party to a promissory note receivable in connection with the sale of the Australian Pathology business. The balance is presented as non-current other financial assets in the Consolidated Statement of Financial Position.

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.

Note 19: 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, including details of performance conditions relevant to the LTI Performance Rights.

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 2017 cannot be calculated and have not yet been issued. Based on the share price of the Company as at 30 June 2017 ($2.21), 887,718 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 FY17 will be reported to shareholders in the Company's 2018 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
LTI July 2014	1,706,433	28/07/2014	30/06/2017	30/06/2017	-	$1.67
LTI October 2015	1,175,597	30/10/2015	30/06/2018	30/06/2018	-	$2.18
LTI November 2015	697,925	24/11/2015	30/06/2018	30/06/2018	-	$2.31
LTI October 2016	1,619,198	21/10/2016	30/06/2019	30/06/2019	-	$1.84
STI October 2016	443,063	27/10/2016	30/06/2018	30/06/2018	-	$3.04
STI October 2016	443,253	27/10/2016	30/06/2018	30/06/2018	-	$3.04
LTI May 2017	444,836	15/05/2017	15/05/2019	15/05/2019	-	$2.02
LTI May 2017	355,872	15/05/2017	15/05/2020	15/05/2020	-	$1.95

Movement in Performance Rights held during the year:

	2017	2016
	NUMBER	NUMBER
Balance at the beginning of the year	3,579,955	1,706,433
- Number issued during the financial year	3,306,222	1,873,522
Balance at the end of the year	**6,886,177**	**3,579,955**
Exercisable at 30 June 2017	-	-

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

Note 19: 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 the relevent vesting period, being the period between grant date and vesting date. 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 2017 PERFORMANCE RIGHT PRICING MODEL			
Grant date	21 October 2016	15 May 2017	15 May 2017
Grant date share price	$2.38	$2.17	$2.17
Exercise price	$0.00	$0.00	$0.00
Estimated Volatility	30%	Not applicable	Not applicable
Expected life	2.7 years	2.0 years	3.0 years
Risk free interest rate	1.68%	1.66%	1.80%
Dividend yield	3.0%	3.5%	3.5%

The weighted average fair value of the LTI Performance Rights granted during the financial year is $1.89 (2016: $2.23).

Expenses arising from share-based payment transactions

	2017	2016
	$'m	$'m
LTI Performance Rights - Current period expense	3.4	2.0
LTI Performance Rights - Prior period expense write back	(1.5)	-
STI Performance Rights	1.3	0.8
Total	**3.2**	**2.8**

Key accounting policies

The rights to share granted to employees under the terms of the incentive plans in operation 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.

Note 20: Changes in the composition of the Healthscope Group

Acquisitions during the year

There were no acquisitions during the financial year ended 30 June 2017.

Discontinued operations

Discontinued operations for the year ended 30 June 2017

On 17 August 2017 Healthscope entered into an agreement with Fullerton Primary Care Pty Limited to sell its standalone medical centres for $55 million, subject to standard completion adjustments. The divestment is scheduled to complete by the end of September 2017.

An impairment loss of $54.7 million has been recognised in order to reduce the carrying value of the assets and liabilities held by the Medical Centres business to their fair value less costs to sell. See Note 13 for further details.

As Healthscope were in the process of disposing the standalone Medical Centres business as at 30 June 2017, the assets and liabilities of the Medical Centres business have been classified as 'held for sale' whilst the financial results of the business have been presented as a 'discontinued operation' as set out below.

Discontinued operations for the year ended 30 June 2016

On 6 July 2015, Healthscope completed the sale of its Australian Pathology operations and six skin clinics ("Pathology Australia") to Crescent Capital Partners. As Healthscope sold the business during the year ended 30 June 2016, the trading results of the business for the period 1 July 2015 to 6 July 2015 have been reflected in the financial report as a discontinued operation.

Analysis of results for the year from discontinued operations

	2017	2016
	$'m	$'m
Revenue	54.3	61.0
Expenses	(50.2)	(57.8)
Impairment of Medical Centres business	(54.7)	-
(Loss) / Profit before finance costs and income tax	**(50.6)**	**3.2**
Net finance costs	-	-
(Loss) / Profit before income tax	**(50.6)**	**3.2**
Income tax expense	(1.1)	(1.1)
Net (loss) / profit for the year from discontinued operations	**(51.7)**	**2.1**
Reconciliation of statutory net profit from discontinued operations to operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA)		
Net (loss) / profit for the year from discontinued operations	(51.7)	2.1
Add back:		
Income tax expense	1.1	1.1
Net finance costs	-	-
Depreciation and amortisation	4.2	5.3
Other income and expense items:		
- Impairment of Medical Centres business	54.7	-
- Other	0.5	0.2
Operating EBITDA from discontinued operations	**8.8**	**8.7**
Medical Centres	8.8	10.5
Pathology Australia	-	(1.8)
Operating EBITDA from discontinued operations	**8.8**	**8.7**

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 21: Key management personnel compensation and related parties

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

	2017	2016
	$'m	$'m
Short term employment benefits	3.9	5.3
Share based payments - Current period expense	2.7	1.8
Share based payments - Prior period expense write back	(1.2)	-
Post-employment benefits	0.2	0.2
	5.6	**7.3**

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 2017, there were no loans to key management personnel and their related parties (2016: nil).

Transactions with related parties

Details of all entities within the consolidated group are disclosed in Note 24. There were no transactions between the related parties that require disclosure.

Note 22: Auditor's remuneration

	2017	2016
	$	$
Auditor of the parent entity		
Audit or review of the financial report	615,000	610,200
Agreed upon procedures and other assurance services	102,000	52,500
Corporate governance advisory services	35,000	50,000
	752,000	**712,700**
Network firm of the parent entity auditor		
Audit or review of the financial statements	227,080	218,000
Other assurance services	-	-
	979,080	**930,700**

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 23: Events subsequent to reporting date

On 17 August 2017, Healthscope entered into a binding agreement to divest its standalone Medical Centres business to Fullerton Primary Care Pty Limited for cash consideration of $55 million. An impairment of $54.7 million was recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017 as the sale clarified the recoverable amount of the business which is classified as 'held for sale' in the Statement of Financial Position as at 30 June 2017.

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.

Note 24: 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:

Advanced Medical Technology Pty. Ltd.	Allamanda Private Hospital 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 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.	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 Pty. Ltd.	Maybury Craft Pty. Ltd.
Mazlin Investments Pty. Ltd.	Melbourne Hospital Pty. Limited	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.	P.O.W Hospital Pty. Ltd.
Pacific Private Hospital Pty. Ltd.	QPH Wickham 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.	ABN 154 902 913 Pty. Ltd.[3]	Nova Health Pty. Ltd.[3]	HCA Holdings (Southport) Pty. Ltd.[3]
HCA Management Company Pty. Ltd.[3]	Allamanda Surgicentre Pty. Ltd.[3]	Healthcare of Australia Holdings Pty. Ltd.[3]	Molescan Australia Pty. Ltd.[3]	Skin Alert Pty. Ltd.[3]

The Australian entities listed above formed part of the tax consolidation group[1] and Deed of Cross Guarantee[2].

1 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.

2 Except for ABN 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, NBH Operator Co Pty Ltd., Nova Health Pty. Ltd., HCA Holdings (Southport) Pty. Ltd., HCA Management Company Pty. Ltd., Allamanda Private Hospital Pty. Ltd., Allamanda Surgicentre Pty. Ltd., Healthcare of Australia Holdings Pty. Ltd., Molescan Australia Pty. Ltd. and Skin Alert Pty. Ltd.

3 Applications have been made to ASIC to voluntarily deregister these dormant entities. ASIC published deregistration notices for these entities on 2 June 2017.

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
Canterbury SCL Limited	New Zealand	Gribbles Veterinary Pathology Limited	New Zealand
Labtests Limited	New Zealand	Labtests Auckland Ltd	New Zealand
New Zealand Diagnostic Group Limited	New Zealand	Medlab South Limited	New Zealand
SCL Hawkes Bay Limited	New Zealand	Northland Pathology Laboratory Limited	New Zealand
SCL Otago Southland Limited	New Zealand	SCL Otago Southland Code Services Limited	New Zealand
Southern Community Laboratories Limited	New Zealand	SCL Otago Southland Services Limited	New Zealand
APHG NZ Investments Limited[1]	New Zealand	Wellington SCL Limited[1]	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

1 Effective 12 May 2017, the following New Zealand companies were amalgamated pursuant to section 222(1) of the NZ Companies Act 1993:

- Healthscope New Zealand Ltd into APHG NZ Investments Limited; and
- Aotea Pathology Ltd into Wellington SCL Limited.

Notes to the consolidated financial statements

for the year ended 30 June 2017

Note 24: 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:

	2017	2016
	$'m	$'m
Consolidated Statement of Financial Position		
Current assets		
Cash and cash equivalents	136.4	212.8
Trade and other receivables	123.9	108.6
Inventories	48.5	51.7
Prepayments	14.5	14.4
Assets classified as held for sale	4.1	-
Total Current Assets	**327.4**	**387.5**
Non-current assets		
Other financial assets	241.4	115.9
Other receivable	8.1	24.7
Property, plant and equipment	1,779.3	1,648.9
Intangible assets	1,465.5	1,566.2
Deferred tax assets	77.6	145.4
Total non-current assets	**3,571.9**	**3,501.1**
Total assets	**3,899.3**	**3,888.6**
Current liabilities		
Trade and other payables	196.3	197.5
Other financial liabilities	185.5	168.0
Provisions	118.6	121.2
Liabilities associated to assets classified as held for sale	6.3	-
Total current liabilities	**506.7**	**486.7**
Non-current liabilities		
Borrowings	1,222.2	1,264.3
Other financial liabilities	0.6	5.3
Other payables	23.8	18.4
Deferred tax liabilities	43.5	57.7
Provisions	29.3	29.9
Total non-current liabilities	**1,319.4**	**1,375.6**
Total liabilities	**1,826.1**	**1,862.3**
Net Assets	**2,073.2**	**2,026.3**

	2017	2016
	$'m	$'m
Consolidated Statement of Financial Position (continued)		
Equity		
Issued capital	2,708.2	2,709.2
Reserves	(281.8)	(290.1)
Accumulated losses	(353.2)	(392.8)
Total Equity	**2,073.2**	**2,026.3**
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Net profit for the year	11.5	46.5
Other comprehensive income, net of income tax	9.8	7.2
Total comprehensive income for the year	**21.3**	**53.7**

Note 25: Parent entity information

During the financial year ended 30 June 2017, the parent company of the Group was Healthscope Limited.

	2017	2016
	$'m	$'m
Assets		
Current assets	181.3	84.9
Non-current assets	2,747.4	2,675.3
Total assets	**2,928.7**	**2,760.2**
Liabilities		
Current liabilities	0.8	0.4
Non-current liabilities	2.2	1.7
Total liabilities	**3.0**	**2.1**
Net assets	**2,925.7**	**2,758.1**
Equity		
Issued capital	2,708.2	2,706.1
Reserves	-	-
Dividends	(128.5)	(124.9)
Accumulated profit	346.0	176.9
Total equity	**2,925.7**	**2,758.1**
Financial performance		
Profit for the year	294.0	113.0
Total comprehensive income for the year	**294.0**	**113.0**

Healthscope Limited has entered into a deed of cross guarantee with its wholly owned subsidiaries. Details of which are included in Note 24. 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.

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 24 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 J. Dwyer
Chairman

Gordon Ballantyne
Managing Director and Chief Executive Officer

Melbourne, 23 August 2017

Independent Auditor's report

Deloitte.

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Independent Auditor's Report to the members of Healthscope Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Healthscope Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Independent Auditor's report

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Divestment of the Medical Centres business
Refer to Note 20 'Changes in the composition of the Healthscope Group' and Note 13 'Assets classified as held for sale' in the financial report
As at 30 June 2017, the Group was in the process of divesting its Medical Centres business. The Group has presented the trading results of the business as a 'discontinued operation' and classified its net assets as 'held for sale'.
Subsequent to balance date, the Group received a binding offer to acquire 100% of the business for consideration of $55.0 million. The receipt of the offer clarified the outcome of the sale process and provided market evidence for the recoverable amount of the business.
Management has recognised an impairment loss of $54.7 million as the carrying value of the business was in excess of its recoverable amount (binding offer less costs to sell).
We focused on this area as a key audit matter due to the risk of impairment arising from the sale process and the complexity of disclosures arising from the business being held for sale and presented as a discontinued operation.
	Our audit procedures included, amongst others:
	• reviewing the terms of the binding offer;
	• assessing the accuracy and completeness of the assets and liabilities classified as held for sale for the business;
	• recalculating the impairment loss by comparing the carrying value of the assets and liabilities for the business to their recoverable amount; and
	• evaluating the disclosures included in the financial report:
	  ○ associated with the business being classified as 'held for sale' and presented as a 'discontinued operation'; and
	  ○ the subsequent event disclosures on the receipt of the offer.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Carrying value of the Geelong Private Hospital
 	
Refer to Note 2 'Revenue and expenses' and Note 11 'Property, Plant and Equipment' in the financial report
 	
The financial performance of the Geelong Private Hospital has declined as a result of competitive pressures in the local area.
 	
Management identified the decline in financial performance as an indicator of impairment and undertook an impairment assessment for the site. As a result of this assessment, an impairment loss of $11.5 million was recognised in relation to plant and equipment not otherwise transferrable to other sites.
 	
We focused on this area as a key audit matter due to the judgement required to determine the recoverable amount and the identification of assets not otherwise transferrable to other sites.
	Our audit procedures included, amongst others:
	• obtaining an understanding of management's process to assess recoverable amount and identify assets not otherwise transferrable to other sites;
	• evaluating management's assessment by:
	  ○ agreeing expected future cash flows to the latest Board approved budget;
	  ○ obtaining an understanding from management about market conditions and future expectations;
	  ○ assessing future cash flows against historical performance and our understanding of future expectations;
	  ○ challenging the identification of assets deemed transferrable; and
	• evaluating the disclosures included in Note 2 and Note 11 to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities 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.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's report

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's report

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 48 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Healthscope Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants
Melbourne, 23 August 2017

Securityholder information

Class of securities

As at 15 July 2017 the only class of security on issue by Healthscope Limited is fully paid ordinary shares.

Distribution of securities

The following table summarises the distribution of securities as at 15 July 2017.

Range	Total holders	Units
1 - 1,000	4,706	2,871,357
1,001 - 5,000	14,692	45,798,192
5,001 - 10,000	9,329	72,913,803
10,001 - 100,000	10,394	246,141,465
100,001 and over	335	1,368,315,097
Total	**39,456**	**1,736,039,914**

The number of shareholdings in less than marketable parcels is 526, based on the closing market price on 15 July 2017.

Voting rights

At a general meeting every ordinary shareholder, present in person or by proxy, attorney or representative has one vote on a show of hands (unless a shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

Performance Rights do not carry dividends or voting rights prior to vesting.

Substantial shareholders

As at 15 July 2017, the names of substantial holders in Healthscope Ltd and the number of shares to which each substantial holder and the substantial holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company are as follows:

Name	No. of shares held	% of issued shares
AustralianSuper	194,877,708	11.23
Ellerston Capital	139,234,535	8.02
Hyperion Asset Mgt	102,545,543	5.91

Securityholder information

The names of the 20 largest shareholders

The following table sets out the 20 largest shareholders as at 15 July 2017.

Rank	Name	Units	% of Units
1.	J P Morgan Nominees Australia Limited	484,339,741	27.90
2.	HSBC Custody Nominees (Australia) Limited	399,525,050	23.01
3.	Citicorp Nominees Pty Limited	97,717,125	5.63
4.	National Nominees Limited	91,086,406	5.25
5.	BNP Paribas Noms Pty Ltd <DRP>	55,047,065	3.17
6.	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	40,134,141	2.31
7.	Australian Foundation Investment Company Limited	26,700,000	1.54
8.	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	21,259,139	1.22
9.	Custodial Services Limited <Beneficiaries Holding A/C>	7,435,720	0.43
10.	Avanteos Investments Limited <2477966 DNR A/C>	6,963,667	0.40
11.	Avanteos Investments Limited <Encircle IMA A/C>	6,380,138	0.37
12.	UBS Nominees Pty Ltd	3,800,000	0.22
13.	Invia Custodian Pty Limited <Best Superannuation P/L A/C>	3,625,438	0.21
14.	Netwealth Investments Limited <Wrap Services A/C>	3,489,795	0.20
15.	RBC Investor Services Australia Nominees Pty Limited <Bkmini A/C>	3,450,918	0.20
16.	RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	3,159,741	0.18
17.	HSBC Custody Nominees (Australia) Limited - A/C 2	3,072,923	0.18
18.	Sandhurst Trustees Ltd <DMP Asset Management A/C>	3,034,801	0.17
19.	Mirrabooka Investments Limited	3,000,000	0.17
20.	HSBC Custody Nominees (Australia) Limited <NT-Commnwlth Super Corp A/C>	2,955,914	0.17

Company directory

Healthscope Limited ACN 144 840 639

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Telephone from outside Australia:
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Exchange listing

Healthscope's Shares are quoted on the Australian Securities Exchange (ASX) under the ASX Code 'HSO'.

Healthscope

www.healthscope.com.au