

ASX ANNOUNCEMENT

15th February 2016

**Preliminary Results for Period 1st July 2016 to 31st December 2016
Based on Unaudited Financial Accounts**

- Operating revenue of \$80 mill (up 3% or \$2.6 mill on 1HFY16)
- Core radiology EBITDA expected to be \$9.3 mill before one-off restructuring costs, ahead of guidance of \$7.9 mill
- Full year results guidance: Group Operating Revenue of \$162 mill to \$165 mill and Core Radiology EBITDA of \$19.5 mill to \$21.5 mill (before one-off / restructuring costs)
- Sound progress on actions to deleverage balance sheet, reduce overheads, and consolidate or sell underperforming sites
- Second Quarter growth in Medicare DI receipts continued a trend toward longer term growth levels

Capitol Health Limited (ASX:CAJ) ("Capitol" or the "Company") provides preliminary unaudited half year results for the period 1 July 2016 through 31 December 2016, along with revenue and earnings guidance for the full year to 30 June 2017.

Trading

The growth in Medicare Diagnostic Imaging receipts noted in November 2016 continued throughout the second quarter and represents an encouraging return toward longer term growth rates (see chart below). This growth was reflected in the half year result and continued through January 2017 trading.

Capitol's operating revenue of \$80 mill for the year to 31st December 2016 was in line with guidance and up 3% or \$2.6 mill on the previous corresponding period of 1HFY16. Underlying core radiology EBITDA was \$9.3 mill (ahead of guidance of \$7.9 mill) before restructuring and one off costs.¹

Total group EBITDA	\$9.7m
Add back Individually Significant Items:	
– China Business Development Costs	\$0.3m
– Forfeiture of Share Options ² & Restructure Costs	\$1.1m
– One off profit on property sale and write back of deferred consideration on acquisition	(\$1.7m)
Core Radiology EBITDA	\$9.3m

Both revenue from NSW operations and underlying NSW Medicare receipts have shown a greater propensity for weakness than the Victorian operations.

The signs of growth in the underlying market, improved trading conditions, and the further delay and consultation around the government reduction in the bulk billing incentive provide cause for optimism in the full year results.

¹ Unaudited result before one off and restructuring costs and finalisation of asset impairment testing.

² Although the share options issued to Mr John Conidi were voluntarily forfeited, mandatory accounting standards require the unamortised balance of \$0.55m to be written off in full to reserves.

Full Year Outlook

Given the relatively strong half year result, the Company expects to deliver full year FY17 results as set out below:

Range of Total Group Operating Revenue	\$162 mill to \$165 mill
Range in Core Radiology EBITDA <i>(before one off and restructuring costs)</i>	\$19.5 mill to \$21.5 mill

Actions

As previously noted, the Board's focus is on prudent, measured and strategic actions to strengthen the business through reducing overheads, consolidating or selling underperforming sites, and deleveraging the balance sheet.

The Company has already made significant progress in overhead cost reductions in the order of \$2.5 to \$3.5 mill per annum - with further cost reductions expected to be achieved before the full year. These cost savings will have a full year impact in the FY18 financial year. Major overhead cuts include headcount, head office leasing costs, advertising and sponsorship arrangements, and IT spending.

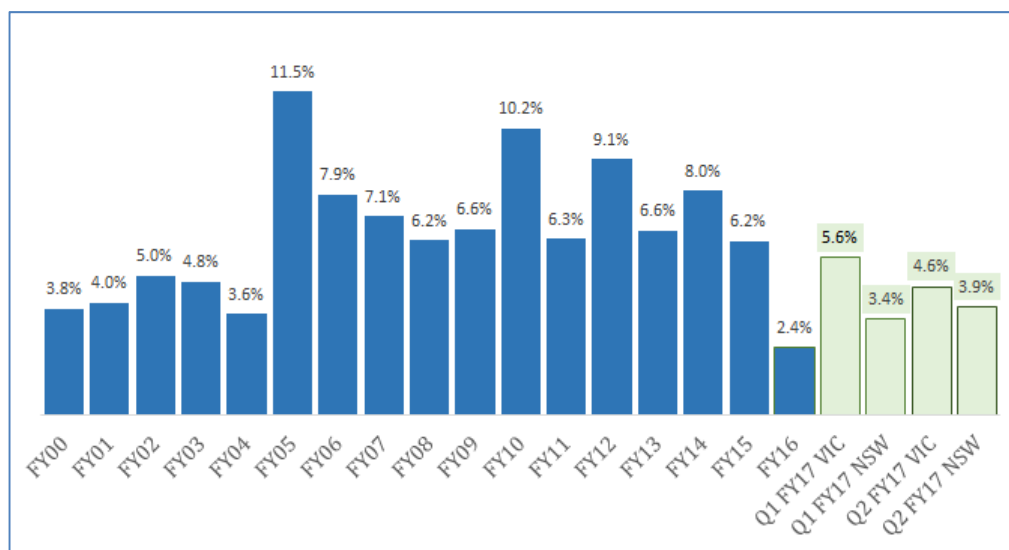
Capital expenditure has also been reduced to reflect the level of asset replacement required to support the core radiology operations.

The property sale program is expected to be finalized during February with the sale of 2 further properties expected to be contracted. The total proceeds from all property sales flagged last year is expected to be in the range of \$4.0 - \$4.5 mill.

As announced last year, the Company is exploring a range of strategic alternatives with the objective to deleverage the balance sheet and deliver value to shareholders. Subsequently a number of unsolicited, non-binding / conditional, confidential, indicative and incomplete proposals have been received by the Company relating to a range of alternatives (including asset sales, M&A opportunities, capital raising and refinancing). The Board remains flexible in reviewing these strategic alternatives and, in the best interests of shareholders, is concurrently exploring a number of those different alternatives.

Industry Outlook

The growth in Medicare Diagnostic Imaging billings for the first 2 quarters continued to show encouraging signs of a return toward historic growth levels. The results are shown in the chart below:



Source: Medicare

Half Year Results Release

The company will release its audited half year results to the market on the 28th of February 2017.

For more information, please contact:

Andrew Harrison

Managing Director

Capitol Health Limited

Tel: (03) 9348 3333

investors@capitolhealth.com.au

About Capitol Health

Capitol Health is a leading provider of diagnostic imaging and related services to the Australian healthcare market. Headquartered in Melbourne, Victoria, the Company owns and operates clinics throughout Victoria and New South Wales. The Company's operational focus is on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients.