

Annual General Meeting - Chairman's Address

19 October 2017

Since it was formed in 1985, Healthscope has grown to become a leading healthcare provider, synonymous with the provision of high quality services to our patients and doctors. Hospitals are the core of our business, with a network of 45 hospitals and a presence in every Australian State and Territory. In addition, we operate pathology laboratories across New Zealand, Singapore and Malaysia, with a small presence in Vietnam.

Until 30 September this year, Healthscope also operated 48 standalone medical centres. This business contributed approximately 2% of Group Operating EBITDA in FY17. Following a strategic review during the year, we took the decision to sell this business.

In FY17, over 18,000 employees and 17,500 doctors were responsible for providing approximately 12 million episodes of care to patients, ranging from pathology tests to complex surgery.

We recognise the importance of the services we provide, and the impact they have on the lives of our patients, their families and the broader community. We are committed to delivering quality clinical outcomes and exceptional patient care, underpinned by transparency in quality data reporting, support to our doctors, and the ongoing development of our workforce.

These priorities provide Healthscope with a robust platform to deliver strong financial returns to our shareholders.

FY17 financial performance

Turning to our financial performance, Healthscope delivered growth in revenue and Operating EBITDA in the face of challenging conditions for the private hospital sector.

On a continuing operations basis, Healthscope reported Statutory net profit after tax (NPAT) of \$162.6 million (down 9.2%), and Operating NPAT, after excluding one-off non-operating expenses, of \$180.0 million (down 5.6%).

The Company's balance sheet remains strong with flexibility to support the execution of our strategic priorities, including the \$1.2 billion in capital we are investing in growth projects across the hospital portfolio.

In September 2017, shareholders received a final dividend of 3.5 cents per share, taking the full year unfranked dividend to 7.0 cents per share. The dividend represents a payout ratio of approximately 70% of Statutory NPAT after adjusting for non-cash impairments. In FY17, Healthscope introduced a dividend reinvestment plan.

Executive team and Board of Directors

Succession planning is an important ongoing process at Healthscope. In April, the Board was delighted to announce the appointment of Gordon Ballantyne as Managing Director and CEO. Gordon brings extensive experience in public and private companies and has been highly successful in driving growth and cultural transformation across large workforces in complex and highly regulated industries.

He commenced his role on 15 May and we are already beginning to see his influence. The Board supports Gordon's focus, in working with the management team, on improving operational performance in FY18 and beyond through a number of "Must Win" initiatives. These initiatives include a review of the hospital portfolio and a benchmarking program to institutionalise best practice across the hospital group. The "Must Win" initiatives will be covered in more detail in the Managing Director's address.

I would now like to make a comment on the composition and skills mix of the Board. The Board comprises seven individuals who work together to serve the interests of shareholders. They bring a diverse range of skills and experience, including deep healthcare experience. The composition of the Board is regularly reviewed to ensure that the Board holds the core skills and competencies required to deliver on Healthscope's strategic objectives. The Board is well progressed in its search for an additional Non Executive Director with relevant senior hospital sector experience. This appointment will complement the skills and experience of the current directors.

Investing in the future

Our investment strategy for key hospital developments is based on investing in locations in population growth corridors, with ageing population demographics and high levels of private health insurance. Other investment considerations include catchment areas where demand for additional services exists and there is strong doctor support for our hospital network.

Our hospital expansion strategy will deliver accelerated revenue and bottom line growth, and incremental returns on invested capital over time. Our \$1.2 billion hospital development program is progressing well. During the year, we saw 8.4% revenue growth from hospitals with key expansion projects. This strong revenue growth demonstrates that capital has been deployed in the right catchments.

It is important to note that the ramp-up period for each development varies. The three major hospital projects which completed their first full financial year of operations during FY17 (Knox Private in Victoria, National Capital in the ACT and Gold Coast Private in Queensland) are all performing strongly. These projects are delivering returns in line with, or ahead of, our plans and are on track to achieve a return on capital invested of not less than 15%, by the end of the third operating year.

During FY17, Healthscope completed five hospital construction projects. Three of these projects were here in Victoria – Holmesglen Private, Northpark Private and Frankston Private. The Board also approved investment of an additional \$52 million in three new projects at The Melbourne Clinic and The Geelong Clinic in Victoria and National Capital in the ACT. Combined with the projects already under construction, the current expansion program will deliver a total of 642 beds and 38 operating theatres to the portfolio.

Industry themes and Government reform

I would now like to comment on some of the opportunities and challenges facing the Australian healthcare system. Let me say upfront that Australia's healthcare system is highly regarded internationally. According to OECD reports, Australia's system performs well in terms of both the quality, and the cost efficiency, of healthcare services provided. The private health care sector is a vital part of this system.

A growing and ageing population is driving demand for healthcare services, both in the private and public sectors. With Australian healthcare expenditure expected to exceed \$200 billion by 2020, we remain confident in the long-term fundamentals of the private hospital sector and the critical role it plays in the Australian healthcare system.

However, the rising demand for healthcare is placing pressure on the industry as a whole. Last week we were pleased to see the Federal Government outline a comprehensive private health insurance reform package. This focused on increasing private health insurance participation through more affordable policies for younger Australians, and increasing overall affordability of health insurance through savings from a reduction in prostheses pricing.

The prostheses changes are unlikely to have a material impact on Healthscope's business, however they are important as part of a broader imperative to keep regulation of healthcare contemporary and relevant.

We were particularly pleased to see changes to remove waiting periods for patients seeking mental health treatments in private hospitals. This policy change supports an increasing role for private hospitals in the delivery of these important services. Healthscope is well positioned in this regard through our leading facilities such as The Melbourne Clinic and The Sydney Clinic.

Encouragingly, these reforms recognise the integral part private hospitals play in the wider Australian healthcare system. Moreover, the Government has indicated that it will continue to introduce additional measures to pursue a balanced public-private healthcare system.

Healthscope seeks to be a strong partner to Government as it delivers healthcare reform. This is evidenced by our Northern Beaches Hospital project. The 450 bed hospital will provide services to both public and private patients in dedicated facilities on a single campus. Importantly, the project leverages the acknowledged efficiencies of the private sector in delivering healthcare outcomes in comparison to the public sector. We look forward to its opening in December 2018.



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At last year's meeting I spoke about the increasing number of private patients being treated in public hospitals at the expense of the taxpayer and public patients, exacerbating the issue of growing public waiting lists. Healthscope has taken an active and consultative approach to date and we continue to advocate for equity of access for all patients at public hospitals, regardless of health insurance status. We are encouraged by the Government's determination to address the growth of private patients in public hospitals as part of the renewal of the National Health Reform Agreement with the States and Territories next year.

Conclusion

In conclusion, Healthscope is well positioned to play an active and vital role in the Australian healthcare system. Our plans to engage our workforce, develop our hospital network, expand our services and maintain strong relationships with our stakeholders will underpin the delivery of strong and sustainable returns to shareholders.

On behalf of the Company, I would like to thank Healthscope's employees for their commitment and acknowledge the importance of the dedication and contribution of our doctor partners.

I will now invite Healthscope's Managing Director and CEO, Gordon Ballantyne to present his business review of FY17 and comment on our outlook for FY18.

Chairman's address



Healthscope group

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 delivered high quality care to our patients



12m

Over 12 million episodes of care to patients



45

45 hospitals offering inpatient and outpatient services^{1,2}



18k

Over 18,000 employees delivered exceptional care to our patients



#1

MyHealthscope ranked the most comprehensive health quality indicator website available to the public³

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

FY17 financial performance

Delivered growth in revenue and Operating EBITDA in the face of challenging conditions



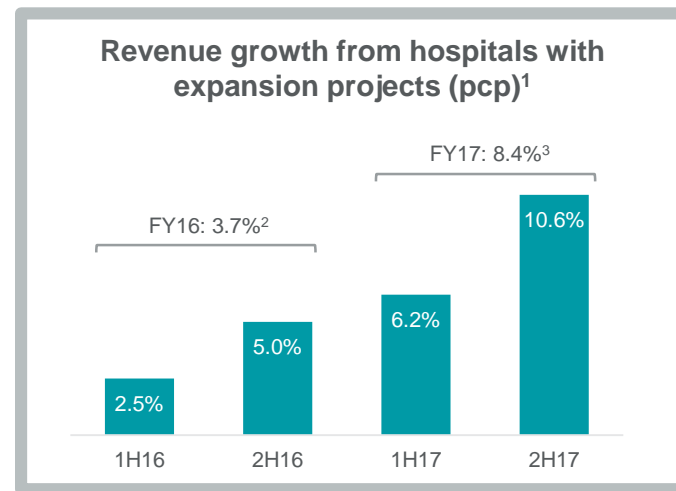
- Balance sheet remains strong to support execution of strategic priorities
- Dividend represents a payout ratio of approximately 70% of Statutory NPAT after adjusting for non-cash impairments

1. "Operating" results represent Statutory results from continuing operations adjusted for items of other income and expense of \$17.4m (net of tax)
2. From continuing operations which consists of Healthscope's hospital and international pathology businesses
3. Dividends are unfranked

Investing in the future

Confidence in hospital expansion strategy underpinned by revenue growth over the period

- Strong revenue growth of 8.4% demonstrates that capital has been deployed in the right catchments
- Three major projects which have completed their first full financial year of operations during FY17 are all performing strongly
- Projects are delivering returns in line with, or ahead of, our plans



1. Chart includes revenue from Darwin Private, Frankston Private, Gold Coast Private/Allamanda Private, Holmesglen Private/Como Private, Knox cluster (Knox, Bellbird, Ringwood), National Capital Private, Norwest Private. Being hospitals where a brownfield or relocate and grow project, with capital invested of greater than \$10m, was completed in either FY16 or FY17
2. These hospitals accounted for 32.0% of Hospital division revenue in FY16
3. These hospitals accounted for 33.6% of Hospital division revenue in FY17

Investing in the future

Current hospital expansion program

	Beds	Operating theatres
Projects under construction		
Northern Beaches (NSW)	450	20
John Fawcner Private (VIC)	41	2
Gold Coast Private (QLD)	30	8
Brisbane Private (QLD)	29	2
Newcastle Private (NSW)	16	2
Sunnybank Private (QLD)	-	2
Sydney Southwest Private (NSW)	-	2
Approved projects		
National Capital Private (ACT)	23	-
The Melbourne Clinic (VIC)	44	-
The Geelong Clinic (VIC)	9	-
Total	642	38

Industry themes and Government reform

Private hospital sector plays a critical role in the Australian healthcare system

- Pleased to see a comprehensive private health insurance reform package aimed at:
 - increasing private health insurance participation for younger Australians; and
 - increasing overall affordability of health insurance
- Support changes to remove waiting periods for patients seeking mental health treatments in private hospitals
- Government has indicated it will introduce additional measures to pursue a balanced public-private healthcare system



Conclusion

