

OUTCOMES OF PORTFOLIO REVIEW AND UPDATED EARNINGS GUIDANCE

22 May 2018

Healthscope today announced that it has completed the previously announced review of its portfolio of 45 hospitals. The review concluded that the Company is well placed to take advantage of industry growth and has identified a number of opportunities for investment in the portfolio that the Company is assessing as part of its ongoing expansion program.

One of the other outcomes identified by the review was a need for rationalisation of the Company's Victorian hospital portfolio, which has underperformed relative to the rest of the group. Today Healthscope announced that it has made a decision to close Geelong Private Hospital and Cotham Private Hospital in Victoria and to record an impairment relating to Frankston Private Hospital.

Commenting on the closure of Geelong Private Hospital and Cotham Private Hospital, Healthscope's Chief Executive Officer Gordon Ballantyne said:

"It is with regret that we announce the closures of these two facilities. We conducted an exhaustive evaluation of alternatives but unfortunately it is simply not viable to continue operations into the future. Geelong Private and Cotham Private have each played an important role in their local communities and the needs and concerns of patients, staff and doctors have been at the forefront of our considerations and planning."

The closure of the hospitals will be phased over the next four weeks in a way that will minimise disruption for patients and doctors.

"We are aware that this will be a very difficult time for our staff and we are working proactively with them to explore redeployment and relocation opportunities at other Healthscope locations" Mr Ballantyne said.

Commenting on the impairment charge relating to Frankston Private, Mr Ballantyne said, "The under-performance of the Frankston Private Hospital has resulted in a significant impairment. However, Frankston is an isolated case and does not impact our confidence in delivering appropriate returns on our brownfield developments."

Financial implications of portfolio review outcomes

Together, Geelong Private, Cotham Private and Frankston Private hospitals are expected to incur a Hospital Operating EBITDA loss in FY18 of approximately \$8 million, which will not recur in FY19.

With respect to the closures of Geelong Private and Cotham Private hospitals, Healthscope's FY18 results will include a non-operating charge of approximately \$17 million comprising asset write-downs, redundancies and other costs.

The FY18 results will also include a non-operating impairment charge of approximately \$68 million relating to asset write-downs and an onerous lease provision associated with Frankston Private Hospital.

Updated FY18 earnings guidance

The Company had previously indicated that, subject to there being no material change to external market conditions and barring unforeseen circumstances, it expected that Hospital Operating EBITDA for FY18 would be broadly similar to FY17.

The Company now expects Hospital Operating EBITDA for FY18 to be between \$340 million and \$345 million compared with FY17 Hospital Operating EBITDA of \$359.4 million. This reflects softer than planned market conditions in recent months and the continued impact of site-specific issues at Geelong Private, Cotham Private and Frankston Private hospitals.

Initiatives undertaken during the year have begun to take effect. These include actions to right-size the Company's cost base; to address underperforming hospitals in the portfolio; to improve operating performance and efficiency through the Group Hospitals Best Practice Project; and to enhance organizational capability. As a result, Hospitals Operating EBITDA in the second half is expected to be in line with the prior corresponding period and reflect an improved performance relative to 1HFY18, which recorded a decline of 8.6% on the prior corresponding period.

Update on Northern Beaches

Healthscope continues to make significant investments in its hospitals portfolio that are expected to deliver profitable growth and increased returns for shareholders. After nearly three and a half years of design and construction the Northern Beaches hospital is on track to achieve technical completion by the due date of 11 July 2018, and commence operations in October. Public and private patient volumes are expected to achieve a full ramp up within four to five years following opening. At this point, Northern Beaches is expected to deliver over \$300 million in additional revenue and an EBITDA return on invested capital of at least 15%.

Gordon Ballantyne said, "Northern Beaches Hospital is a landmark project that will deliver excellent quality healthcare outcomes to both public and private patients. We are confident that it will underpin future growth and returns to our shareholders. Our planning for opening has been rigorous, and, while projects of this scale are complex to deliver, our team is energised and focused on opening the hospital on 30 October 2018."

Update on strategic review of Asian Pathology business

Since announcement at the 1HFY18 results of a strategic review of its Asian Pathology business, Healthscope has received a number of approaches to acquire the business and has initiated a sale process to assess the value that could be generated by a divestment of Asian Pathology.

Conclusion and FY19 outlook

Commenting on today's announcement, Mr Ballantyne said, "In FY18 we have focused on laying the foundations for a significant improvement in our performance. We have made significant progress on our "Must Win" initiatives, achieving at or above market revenue growth; improving efficiency and operational effectiveness through our Group Hospitals Best Practice project; completing a comprehensive review of our hospital portfolio; and embarking on a sale process for Asian Pathology.

"At the same time, we have lifted the capability of the organisation and delivered outstanding quality care to thousands of patients. I am encouraged to see the positive impact of these initiatives.



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Mr Ballantyne added, “Our hospital expansion program is our growth engine. Our largest development at Northern Beaches is running on time and on budget and we have been very pleased with the level of staff and doctor interest in this facility. We are currently in the process of finalising funding and activity levels for the public patients who will be treated at Northern Beaches.”

“While it is early days for some of our facilities, we are confident that our brownfields projects will drive strong earnings growth and shareholder value in the coming years.”

Healthscope is targeting FY19 Hospital Operating EBITDA growth of at least 10% compared with FY18.

Healthscope is scheduled to announce its FY18 results on 21 August 2018.

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Additional information on portfolio review outcomes

About Frankston Private Hospital

Frankston Private Hospital is a 60 bed acute leasehold facility in Melbourne's South East, with five operating theatres and an oncology centre. Frankston Private forms part of the Frankston Health and Education Precinct, which incorporates Frankston Public Hospital and Monash University.

It was formed through the amalgamation of two existing businesses, Frankston Private Day Surgery (FPDS) and Peninsula Oncology Centre (POC). Healthscope acquired these businesses in 2014 and completed the process to bring them together under one name to develop a new site. Construction commenced in 2015 and completed in March 2017.

As indicated at the time of the 1HFY18 results announcement, the performance of Frankston Private Hospital has been well below expectations with occupancy rates well below the business plan. This reflects some site-specific issues including increased capacity in the surrounding area and increased competition.

Healthscope has explored a range of options to improve the performance of Frankston Private Hospital, including repurposing part of the site. None of these options are likely to deliver the improved financial performance required to support the lease obligations, which were entered into in FY14. The Company has therefore decided to write down the asset values and record an onerous lease provision for the facility. Healthscope will continue to explore potential options to grow the business at this site.

About Geelong Private Hospital

Geelong Private Hospital commenced operation in 1998 and has been operated by Healthscope since 2003. It is a 107 bed leasehold facility employing 293 people which currently provides acute surgical, cardiac and medical care. The hospital does not provide an accident and emergency service.

The closure of Geelong Private Hospital reflects a changed healthcare environment in Geelong and the surrounding region. Significant new hospital infrastructure has been built in Geelong in recent years and this has led to an oversupply of capacity with intense competition.

Healthscope's commitment to Geelong and the region will continue through its significant and growing provision of mental health services at The Geelong Clinic, a 45 bed private mental health hospital that is already the largest provider of mental health services in Geelong. Healthscope is currently investing in the construction of 7 additional inpatient beds as well as additional consulting suites which form part of the stage 2 expansion of The Geelong Clinic.

About Cotham Private Hospital

Cotham Private Hospital is a 60 bed private hospital located in Kew in Melbourne, which provides low acuity surgery in four operating suites as well as a dedicated lithotripsy unit. It employs 124 people. The Hospital was built in the 1960's and is a freehold property owned and operated by Healthscope.

Healthscope has explored several options including repurposing or redeveloping the hospital, however none of these were viable considering the hospital's current site and services.

The Company will now pursue divestment options for the Cotham site.

About Como Private Hospital

Como Private Hospital was a freehold 43 bed hospital which largely provided short stay Day Surgery and Rehabilitation. It was closed in January 2017 as part of the Relocate and Grow project when this business was moved into the newly opened Holmesglen Private Hospital.

The Company will now pursue divestment options for the Como Private site.



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About Healthscope

Healthscope is a leading private healthcare provider in Australia with 45 hospitals. In addition, it operates pathology laboratories across New Zealand, Singapore and Malaysia, with a small presence in Vietnam.

In 2017, the Group's 18,000 plus employees and 17,500 doctors provided approximately 12 million episodes of care to patients, ranging from pathology tests to complex surgery.

We place the highest priority on quality clinical outcomes, transparency of reporting and elevating the overall patient experience. Healthscope was the first private hospital operator in Australia to report performance against quality and clinical outcome metrics publicly-just one part of our program to maintain and continually improve our high standards.