

ANNUAL GENERAL MEETING – MANAGING DIRECTOR AND CEO’S ADDRESS

31 OCTOBER 2018

I look back on my first year as CEO as one in which we made significant progress towards improving the business. We have built a platform for growth by delivering on three priorities: turning around operating performance; resetting the business portfolio; and aligning the entire Healthscope team to deliver market leading clinical outcomes and patient care.

Northern Beaches

Yesterday marked an exciting milestone for Healthscope. We opened our new landmark Northern Beaches Hospital in Sydney. Four years in the making, this 450 bed hospital will provide world-class patient-centred care to both public and private patients living in Sydney’s Northern Beaches community.

This has been a significant undertaking and demonstrates our capability to deliver on our commitments. I’d like to recognise the dedication and focus of the team involved – importantly it is the same team responsible for the initial bid in 2014 to design, build and operate the hospital. I believe this continuity in leadership has been key to our success in delivering this project on time and on budget.

Our dedicated team of 1,300, including 300 doctors, will provide medical, surgical, critical care and mental health services, together with specialties including maternity, paediatrics, renal, cancer care, and interventional cardiology.

670 of our new employees have successfully transitioned from the Manly and Mona Vale hospitals, and we will create hundreds of new jobs at the hospital in the next 12 months.

In the first year of operation we are expecting the hospital to deliver up to three thousand babies. We expect up to seventy thousand patient presentations at our state of the art Emergency Department.

Leading and innovative technology, including digital imaging and new diagnostic capabilities will support improved clinical outcomes for patients.

Our partnership with the New South Wales State Government and Northern Sydney Local Health District has been extraordinary, and we thank them for choosing us as their partner. Importantly, we remain confident that the Northern Beaches Hospital will evolve as a future model for healthcare delivery in Australia.

Public and private patient volumes are expected to increase over the next four to five years as the hospital ramps up to full capacity, at which time Northern Beaches Hospital is expected to generate over \$300m of revenue, and an EBITDA return on invested capital of at least 15%.



FY18 financial performance

Turning now to our financial performance in FY18.

Group revenue of \$2.3 billion was up 3.7% on the prior year. The Hospital division delivered revenue growth of 4.3%, with our completed major expansion projects growing at 10.2%, well above the overall private hospital market.

There is no doubt that private hospital market conditions during this last year have been challenging. We were disappointed to revise downwards our guidance for Hospital Operating EBITDA, which came in at \$344.7 million. This was at the top end of revised guidance, although down 4.1% on FY17.

We have not shied away from our challenges. In my first year as CEO, we took decisive action to improve our operating performance. We appointed new leadership across three of our four hospital portfolios. We significantly reset our cost base to better suit the operating environment we face and we made the difficult but necessary decisions to close two under-performing hospitals, and recognise an impairment against a third.

As a result of these actions, the hospital business significantly improved during the year, and achieved a turnaround in its growth trajectory. Following a decline in Hospital Operating EBITDA of 8.6% in the first half, the business delivered positive year on year growth of 0.8% in the second half. Our focus on driving operational efficiency delivered cost reductions of \$6 million in FY18, and is expected to deliver over \$10 million annualised in FY19.

In New Zealand, earnings from our pathology division were in line with the prior year. It has been a year of consolidation for this business on the back of strong organic growth in the last few years.

Purpose and Strategy

In this year of transition, we have made significant progress in strengthening our core business and building a platform for growth. As the Chairman noted earlier, many Australians are increasingly seeking out healthcare providers with a transparent approach in delivering quality clinical outcomes and an exceptional patient experience. With a national footprint and a presence in key population growth corridors; a strong brand that is trusted by our doctor partners; and a balance sheet capable of supporting significant ongoing investment in our hospitals, Healthscope is well placed to be a provider of choice.

To that end, we have a refreshed purpose:

“We work together for better care”.

It describes who we are, what we do, and why it matters – it is practical and patient centred.



This purpose, and the strategy and cultural transformation that underpin it, unites the organisation around delivering long-term value for our patients, our shareholders, stakeholders and the communities we serve.

Our purpose reflects our ongoing partnership and collaboration with other parts of the health system, our long-standing commitment to quality clinical outcomes, and the evolving needs and expectations of today's healthcare consumer.

Our purpose also expresses our ambition to be a market leader across four strategic pillars being: delivering quality clinical outcomes; exceptional patient care; creating extraordinary teams; and continually improving our operations for strong market returns. We have set ambitious goals to transform the business across all these areas.

Patient care

Living our purpose in practice, we have significantly improved our 'overall quality of treatment and care' which means patients feel valued, cared for and respected. It is measured by direct feedback from our patients. In FY18, 93% of our patients rated the quality of their experience and care overall as 'very good' or 'good'. This shows an important step change in our performance in the last 12 months. It reflects the commitment and dedication of our people to put patients at the centre of our decisions. This is what will truly set Healthscope apart from our peers.

A number of new initiatives were launched in FY18, such as our 'Back to Bedside' program. It is informed by feedback from over 50,000 patients on the quality of their treatment and care. "Back to Bedside" helps our people prioritise the demands on their time through enhanced systems and processes, and practical advice on the behaviours that most influence a patient's experience. I am personally very excited about our "Back to Bedside" program. It is our top priority.

A key measure of the quality of clinical outcomes for patients involves assessing the instances of Hospital Acquired Complications or HACs. Healthscope has a long standing commitment to quality and transparency, and we were an early adopter of this measure as set by the Australian Commission on Safety and Quality in Health Care. I am very pleased to report that we achieved a reduction of 23% in our key HAC measure in FY18 compared to the previous year, building on an already strong base.

People

The business of Healthscope is built on exceptional teams. During the year we welcomed several new executives to strengthen the Senior Leadership Team, and to inject a challenger mindset and new perspectives into our business.



Our operational leadership has been significantly strengthened with the addition of Bronte Kumm as State Manager for Victoria and Tasmania, and Arthur Yannakou as State Manager for Queensland, Northern Territory, South Australia and Western Australia. Together, Bronte and Arthur bring more than 50 years of senior leadership experience in the hospital sector.

We also welcomed Katherine Paroz as Group Executive Human Resources, and, most recently, Dr Victoria Atkinson joined as our Chief Medical Officer following the retirement of Dr Michael Coglin.

Our executive team have been set challenging objectives across our financial and strategic priorities.

In FY18, Healthscope employed more than 18,000 people.

Our focus is on providing a safe, inclusive and rewarding workplace for our people, so in turn they are able to provide the highest quality care to our patients. We are unrelenting in fostering and growing a workforce that reflects this.

Healthcare is a people business and it is essential that we have a high performing and highly engaged team. Pleasingly, in a year of significant change, we saw a one percent increase in our Sustainable Employee Engagement measure to 78% compared to the previous survey conducted in 2016.

Looking forward, we will measure our performance against this goal on an annual basis.

Outlook, trading update and FY19 guidance

During FY18, we made significant progress in driving operational performance, which is already supporting a turnaround in financial performance.

At the same time we have continued to invest in growth, with five new hospital developments, adding 75 beds and 13 operating theatres. Most of these developments were completed towards the end of FY18. While they provided only a modest earnings contribution during the period, they, together with projects like Northern Beaches Hospital, are expected to contribute to earnings growth in FY19 and beyond.

As we move forward, we do so from a position of financial strength. Our hospital expansion program continues to be funded through a combination of cash reserves, continuing strong operating cashflow, and available debt facilities. Whilst the Group's gearing ratio (defined as net debt to EBITDA) peaked at the end of FY18 at around 4.5 times with the completion of Northern Beaches Hospital, gearing is expected to reduce to approximately 3.0 times after we receive the Northern Beaches Hospital State Capital Payment of more than \$400 million in early 2019.



Our sound financial position has been further enhanced by the sale of the Asian Pathology business for \$279 million, and will benefit significantly from the release of future capital through the proposed establishment of an unlisted Property Trust, a process that is well progressed and has attracted strong support.

Turning to the operating and financial outlook for FY19. While hospital revenue growth is likely to remain subdued across the market, our decisive actions to reshape the portfolio and capture operational efficiencies have delivered promising early results.

Today I am pleased to announce that our financial performance in the first quarter of FY19 has been strong. Hospital Operating EBITDA growth was 10.4% for the quarter. This compares with a decline in Hospital Operating EBITDA of 6.8% in the prior corresponding period. This improved performance builds on the momentum achieved in the second half of FY18, and is evidence that our plan to turn around business performance is working.

Our guidance for FY19 Hospital Operating EBITDA growth of at least 10% compared with FY18 remains unchanged.

Conclusion

In conclusion, can I thank all our doctors, nurses, support staff and management teams for their dedication and commitment to our patients, the company and what we stand for. It is a privilege to lead a business that plays such a significant role in supporting patients and communities in moments of critical need.

In FY18 we took decisive action. We improved our existing portfolio of businesses. We strengthened the leadership team. We opened the Northern Beaches Hospital. We successfully divested Asian Pathology. We progressed our efficiency agenda. We implemented growth plans in specialist areas. We formed stronger partnerships with doctors and key stakeholders. We began to live our purpose of working together for better care.

We have a strong platform to build an even stronger future.

Gordon Ballantyne

Managing Director and Chief Executive Officer



Managing Director and CEO's Address

Gordon Ballantyne

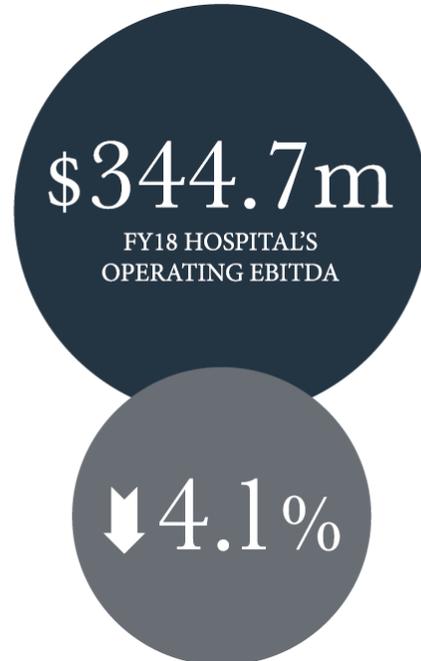
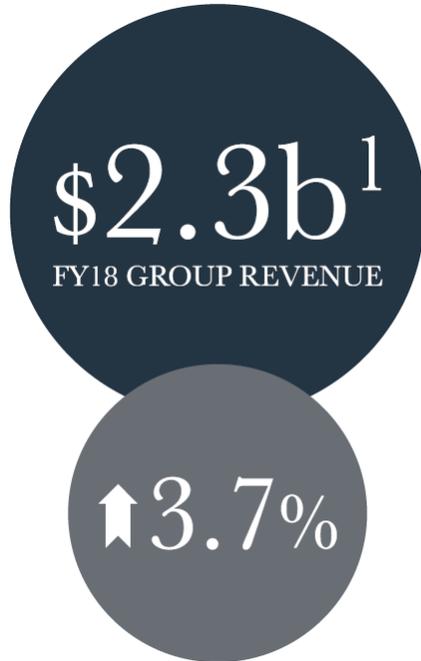


Northern Beaches Hospital



FY18 financial overview

Operating results from continuing operations



1. From continuing operations which consists of Healthscope's hospital and New Zealand pathology businesses

At Healthscope, we believe patients come first.
We're united by our passion for healthcare.
We're inspired by the opportunity to make things better.
Our ambition is to deliver exceptional patient-centred care.
Our success comes from working together as one team.

We work together for better care.



Quality clinical outcomes, patient care and our people

Quality clinical outcomes and exceptional patient care

- Clinical excellence and exceptional patient care
 - fundamental to the healthcare sector; and
 - integral to our success as an organisation
- Transparent delivery of high quality clinical outcomes
 - 23% reduction in key HAC measure in FY18 versus pcp
 - 93% of our patients rated the quality of their experience and care overall as 'very good' or 'good'

Exceptional teams

- Committed and dedicated team of over 18,000 employees
- Partner with over 17,500 Accredited Medical Practitioners
- New leadership
- One percent increase in our Sustainable Employee Engagement measure to 78% compared to the previous survey conducted in 2016.

Trading update and outlook

- In FY18, we have made significant progress to reset the business for improved operating performance and growth
- Continue to attract more patients, to improve and grow our hospital and pathology businesses and to explore new opportunities to grow into the future
- 1QFY19 Hospital Operating EBITDA growth of 10.4%
- **Outlook remains unchanged**
 - Targeting FY19 Hospital Operating EBITDA growth of at least 10% compared with FY18

