

Annual General Meeting – Managing Director and CEO’s Address

21 October 2016

As the Chairman mentioned, the healthcare industry in Australia touches the lives of millions of people each day, either directly or indirectly. As a result, patient care is paramount. It is our licence to operate and this year we continued to invest heavily across the Company, both in terms of technology and infrastructure, as well as the training and education of our people, to ensure we maintained the highest standards of care.

Our success in doing so contributed to the delivery of another strong financial result in FY16. We produced consistent earnings growth, continued to demonstrate our ability to leverage our scale and operational expertise to extract operating efficiencies and invested significant capital in expanding our hospital portfolio to accommodate future demand.

The Group generated Operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA) of \$407.9 million, up 7.1% on the prior year, and we continued to deliver strong cash flow conversion with Operating EBITDA to cash flow of 96.0%.

Let me now take you through the performance of our operating divisions. As you would have seen from our Annual Report, this year our segment reporting changed and we now report our results under Hospitals, New Zealand Pathology and Other. These segment changes were introduced following the divestment of our Australian Pathology operations in July 2015, and importantly, they were driven by accounting standards, not a change in strategy.

Hospitals

Our largest business, Hospitals, performed well.

Revenue growth of 5.1% and Operating EBITDA growth of 8.3% reflected our ability to continue to deliver good top line growth and margin expansion through optimisation of our cost base.

We also continued to innovate to improve the Healthscope patient experience; support our 18,000 employees in reaching their highest potential through new training, development and leadership programs; and strengthen our partnerships with a range of external stakeholders from doctors through to our health fund payors.

One example of this innovation is the “Always Events” initiative that we developed in collaboration with Bupa. This is an extension of our “Pay for Quality” regime that has been in place for several years. The “Always Events” program is designed to tackle medication-related hospital re-admissions and is another example of our ongoing commitment to improving patient outcomes.

Our hospital expansion program remains on time and on budget with the completion of seven projects over the past 12 months, including the three major projects at Gold Coast Private, Knox Private and National Capital Private. We also made excellent progress in the construction of our landmark Northern Beaches Hospital.

This year we expect to complete another four projects. These include a major expansion at Norwest Private in New South Wales and the new 147 bed Holmesglen Private Hospital in Victoria. Holmesglen Private will not only provide much needed additional capacity in its catchment area but will also enhance our ability to attract and retain the highest quality nursing staff to our network given its co-location and strong ties to the Holmesglen Institute. The Holmesglen Institute is one of Victoria's largest providers of vocational and higher education for nurses.

Before I move on from hospitals, one final achievement worth highlighting is the strategic partnership we entered into in June this year with Icon Group, Australia's largest integrated cancer care provider. Icon has agreed to invest in excess of \$65 million to establish radiation oncology centres across several of our key growth sites. This investment will significantly enhance our integrated cancer care offering allowing patients to access fully co-ordinated care within a single facility, including surgery, radiotherapy and chemotherapy. It will also position Healthscope as a leading national provider in the growing area of cancer care.

New Zealand Pathology

Moving to New Zealand Pathology, we had another very successful year, consolidating our leading position in the market. This business has gone from strength to strength over the last few years with very strong growth from new contract wins.

This year we delivered revenue growth of 22.2% and Operating EBITDA growth of 21.8%, largely driven by the successful implementation of a new contract in the greater Wellington region with Healthscope providing services to three District Health Boards in the region from July 2015. During the year we also successfully commissioned a new state-of-the-art laboratory in Wellington and upgraded and expanded our core Auckland laboratory.

In FY17, we expect New Zealand to revert back to a more organic level of growth with our focus for the period being on driving efficiencies that will benefit both Healthscope and our District Health Board partners, growing community pathology volumes and exploring other adjacent revenue streams which complement the strong base that we already have.

Other

Our Other segment captures the Singapore, Malaysia and Vietnam pathology operations and our medical centres in Australia. Collectively these businesses represent 6% of Group Operating EBITDA.

This year we were delighted that Quest Laboratories, our Singapore pathology business, was successful in becoming the first full-service private medical laboratory in Singapore to receive accreditation from the College of American Pathologists, further strengthening our reputation for leadership in quality and clinical practices in the region.

Singapore pathology saw good organic revenue and EBITDA growth throughout the period. However, Malaysia pathology and medical centres faced some head winds which saw overall Operating EBITDA for the division fall to \$20 million in FY16, down \$3 million on the prior year.

In summary, across all of our divisions, growth and continuous operational improvement is a priority and I'm pleased that we were able to make further progress this year.

Commitment to quality and safety

In a healthcare business, financial results are not the only consideration. Providing high quality clinical outcomes for every patient, every day, is integral to the on-going success of our business. Our patient-centred approach ensures that we focus on the delivery of measurable, cost-effective quality care which puts the patient first in everything we do and this year we formed a National Consumer Participation Group to further increase our engagement with patients.

We also continued to advocate for industry wide transparent reporting of clinical data to strengthen accountability across the industry and we continue to lead by example with our *MyHealthscope* website providing the most comprehensive public reporting of quality indicators in Australia.

We believe that the quality of our clinical outcomes is one of our key competitive advantages and we will continually strive to improve our performance in order to enhance patient safety.

Our culture and our people

Now moving to our 18,000 employees across the Group. To encourage open communication with all our employees and to ensure we build a culture that they are proud to be part of, this year we implemented our first Australia-wide employee engagement survey.

We also continued to focus on female diversity and career progression and I'm pleased that we once again made positive progress in this regard. Amongst our achievements, we maintained female representation at 80% across management groups and 85% of our key leadership program participants were female.

Healthscope in the community

An important driver of our success is the strong ties that each of our sites has with the local communities in which they operate. This year we continued to partner with schools and sporting clubs in providing health and education programs and developed bespoke initiatives designed to address local community needs.

At a corporate level, we have also been involved in a number of important indigenous health and education initiatives in partnership with the Cape York Group and the Institute for Urban Indigenous Health. By working in partnership with these organisations, and with the help of a network of dedicated doctors, this year we were able to undertake clinical assessments of over 100 indigenous students and restore sight to many indigenous Australians who would otherwise have not been able to access what a lot of us would describe as basic healthcare services.

Market update

I would now like to take a few moments to look at current trading conditions and the year ahead.

We provided a market update via the ASX this morning.

The Company has experienced slower than expected revenue growth in Hospitals in the first quarter. Despite this recent softening in hospital activity during the period, Healthscope remains confident that the industry fundamentals have not changed and the long term demand outlook for the Hospitals division remains strong.

Over the last 12 months we have seen a heightened level of public commentary in relation to healthcare affordability and consumer confidence in private health insurance in Australia.

Various data points across the industry tell us that the average rate of hospital volume growth generally has slowed. We have seen this impact a number of our hospitals resulting in increased variability in volumes and case mix month to month in the first quarter and particularly in September. Management focus continues to be on driving revenue growth and disciplined cost control. However, if the trend for the first quarter was to continue, it is likely that Operating EBITDA growth for our Hospitals division would be flat year on year.

Healthscope continues to invest significant capital in its hospital expansion program focusing on key hospitals located in high growth corridors with ageing demographics. These projects are expected to deliver strong earnings growth as they complete and earnings ramp up over time.

Conclusion

Our priorities for FY17 are clear. Delivering continuous improvement in our underlying operations and ramping up activity within our recent hospital expansion projects will remain our key focus.

The increased variability in volumes will also need to be managed in the short term and will be a priority. However, the fundamentals of the industry and our business have not changed, and we remain confident in the long term outlook for the Group.

In conclusion, I was pleased with Healthscope's performance in FY16, I am proud of the high quality care that we have continued to provide across our network and I remain confident that we have the right strategies in place to continue to deliver long term value for shareholders.

I would like to thank all of our employees and our doctor partners for their hard work and tireless efforts to ensure that we are able to deliver exceptional care for our patients every day.

Managing Director and CEO's address



2016 highlights

FY16 was another successful year for Healthscope

- Operating EBITDA up 7.1% to \$407.9 million
- Operating cash flow conversion of 96.0%²
- Significant investment in technology and infrastructure as well as employee training and education
- Leveraged scale and operational expertise to extract further operating efficiencies
- Delivered three major hospital expansion projects and continued to invest in expansion pipeline

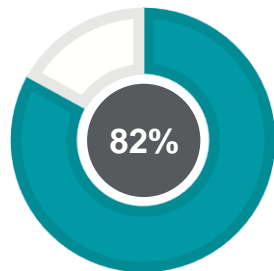


1. "Operating" results represent Statutory results from continuing operations adjusted for items of other income and expense of \$11.8m (net of tax)
2. Group Operating EBITDA to cash flow

Hospitals

Hospitals delivered good top line growth and further operating efficiencies

FY16 Operating EBITDA contribution to continuing operations



5.1% ↑

Revenue

\$1,947.7m

8.3% ↑

Operating EBITDA

\$354.9m

- Delivery of ongoing continuous improvement was a key priority during the period
 - Managing volumes and case mix and optimising cost base to deliver consistent earnings growth
 - Enhancing the patient experience
 - Investing in staff training and leadership development
 - Strengthening partnerships with key stakeholders

Hospital expansion program

Construction program remains on track with three major projects completed in FY16



Northern Beaches Hospital – 450 beds & 20 OTs



Norwest Private – 60 beds & 3 OTs



Holmesglen Private – 147 beds & 8 OTs



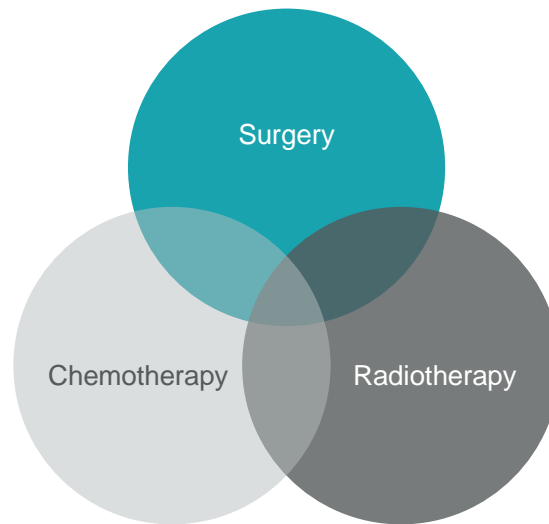
Frankston Private – 60 beds & 2 OTs

Targeting high growth specialties

An increased focus on providing comprehensive cancer care services

Integrated cancer care treatment model

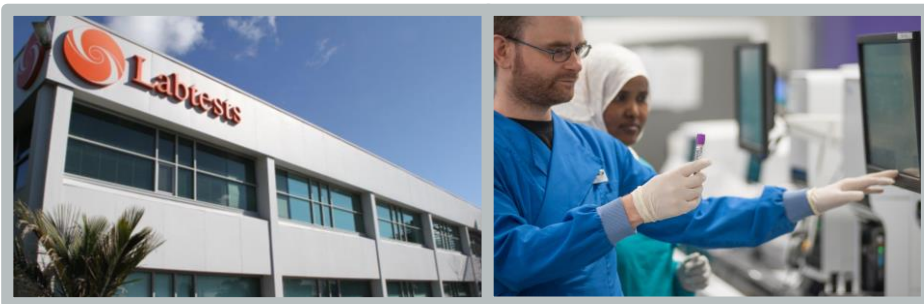
- Healthscope entered into preferred partner arrangements with Icon Group, Australia's largest integrated cancer care provider
- Icon Group will invest \$65 million to establish radiation oncology centres at key growth sites, significantly enhancing Healthscope's cancer care offering



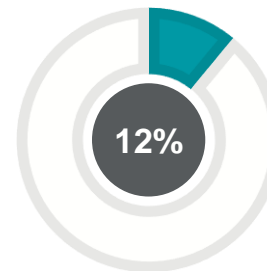
New Zealand pathology

Another very strong year for New Zealand pathology

- Strong growth driven by successful implementation of new contract in Greater Wellington region
- Commissioning of new state-of-the-art laboratory in Wellington and expansion of core Auckland laboratory completed



FY16 Operating EBITDA contribution to continuing operations



22.2% ↑

Revenue

\$222.7m

21.8% ↑

Operating EBITDA

\$50.7m

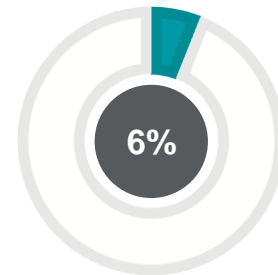
Other

Good growth in Singapore pathology offset by Malaysian pathology and medical centres

- Strong growth in Singapore from further penetration in specialist and commercial markets
- Malaysian operations were impacted by introduction of GST
- Medical centres faced headwinds from the MBS fee freeze and general volume weakness



FY16 Operating EBITDA contribution to continuing operations



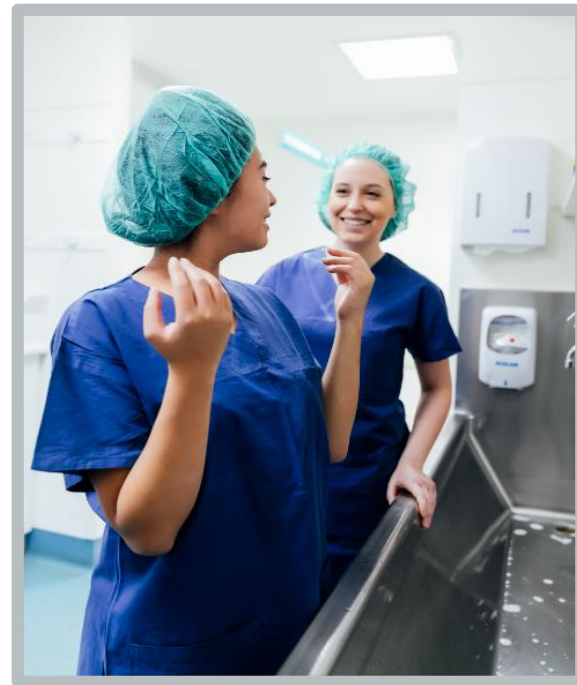
1.2% ↓
Revenue
\$120.5m

13.7% ↓
Operating EBITDA
\$28.8m

Commitment to quality and safety

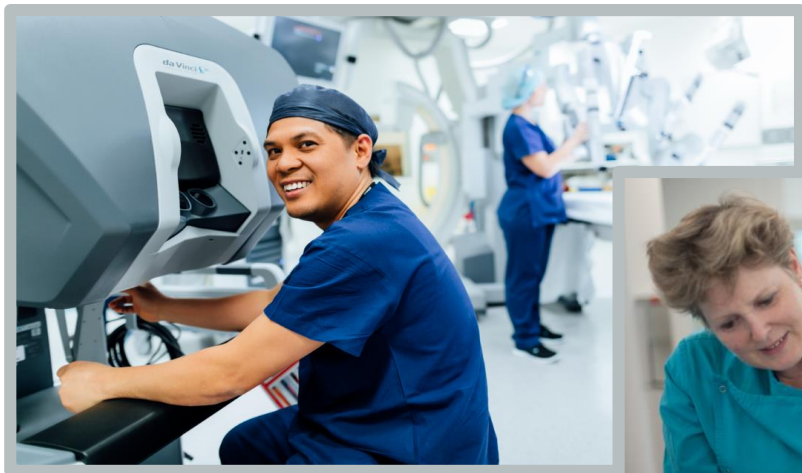
Patient clinical outcomes and safety are paramount

- National Consumer Participation Group established
- Continued to demonstrate leadership in transparent reporting of clinical data – our *MyHealthscope* website provides the most comprehensive public reporting of quality indicators in Australia



Our culture and people

With 18,000 employees, a positive culture underpins the success of our business



Healthscope in the community

Committed to supporting initiatives designed to address community needs

- Active engagement in local communities, supporting a broad range of health and education programs
- In partnership with the Cape York Group and the Institute for Urban Indigenous Health, Healthscope delivered important healthcare services to indigenous communities



FY17 market update

- Healthscope hospitals have seen increased variability in volumes and softer growth in 1Q17
- Management focus continues to be on driving revenue growth and disciplined cost control. However, if the trend for the first quarter was to continue, it is likely that Operating EBITDA growth for our Hospitals division would be flat year on year
- Industry fundamentals continue to be underpinned by a growing and ageing population and long term outlook for strong demand growth remains unchanged

