

## 2009 HEALTHSCOPE ANNUAL GENERAL MEETING

### CHAIRMAN'S ADDRESS

The last financial year was a successful year for Healthscope. While the global financial crisis presented many challenges, I am pleased to report that your company once again delivered the high standards of clinical quality and financial performance that are expected by our shareholders, our staff and our community. For the year 2008/09 net profit before non recurring items was \$88.2 million, an increase of nearly 18% over the prior year and revenue grew by over 11% to \$1.6 billion.

Earnings per share for the 2009 financial year were 28.9 cents, an increase of 8%. Reflecting that EPS growth, the total dividend for the year was declared at 21.5 cents which is an increase of 10% over last year. Since dividend payments recommenced in the 2002 financial year, the Company has paid progressive dividends. This year the Company paid its 15<sup>th</sup> progressive dividend to shareholders.

Healthscope is unarguably a significant hospital operator. We own or manage 44 hospitals around Australia. We employ approximately 18,000 people and one in every 17 Australian babies is born in a Healthscope hospital. The Company is also a significant international pathology provider. We operate 44 laboratories and hundreds of collection centres in Australia, Malaysia, Singapore and New Zealand.

I would like to speak in detail about the performance of each of these divisions over the last year.

#### **HOSPITALS**

Our hospitals recorded solid growth in patient volumes and recorded revenue growth at above market rates. Despite the changes to the Medicare surcharge levy threshold and the slower economic environment, membership in private health insurance continued to grow. During the year to June 2009, membership in private health funds grew by 2.2%. With 44.6% of the population continuing to be privately insured, the sound fundamentals of private healthcare have not altered.

In May of this year, the government announced a proposal to means test the private health insurance tax rebate. The Senate did not pass the proposed changes but it is our view that even if this change were legislated, the impact upon membership of private health insurance would be minimal. Those individuals or households affected by a reduction in the rebate still have a number of incentives both financial and non-financial to retain their health insurance. The waiting time for elective surgery in the public system is of course a major reason for many people to retain private health insurance.

In Victoria last year about a quarter of the 69,000 patients on the semi urgent surgery list waited longer than the Government benchmark of 90 days. The private hospital sector plays an important role in ensuring the community has access to health services with in excess of 57% of all surgery in Australia conducted in private hospitals. Healthscope's network of 44 hospitals spread throughout Australia is providing a critical role.

In May of this year we completed the expansion of the Campbelltown hospital and in September opened the new facilities at Norwest Private. We have commenced developments to expand capacity in a further six of our existing hospitals and have a number of further development projects in the planning phase. The company's investment in hospital expansion will be a key driver of revenue growth and margin improvement over the next 3-4 years.

### **AUSTRALIAN PATHOLOGY & MEDICAL CENTRES**

Pathology and Medical Centres businesses have also performed well contributing strongly to profit growth in FY2009. Increased volumes and a small increase in private billing enabled margins in Australia to improve during the second half of the year. Excluding acquisitions and medical centres, Australian pathology revenue grew by approximately 8%, which was well above market growth of 4.8%.

The growth in revenue was particularly strong in those markets where we have historically had lower market share. Increasing market share in NSW and Queensland will be a focus of our pathology business over the next 2 years as it is important that we develop greater volume and scale in these markets. The changes announced by the government to remove the cap on collection centre licences in July 2010 and the deregulation of pathology referrals in July 2011 will provide opportunities to further increase our market share.

During the last financial year, five pathology businesses and five medical centres were acquired and capital was invested in expanding laboratories and equipment to support the growth in these businesses.

In August 2009 we acquired Healthcare of Australia Holdings Pty Ltd a company with annual revenue of \$30 million that operates Victorian private pathology provider ARL. I am pleased to report that the integration of this business has been completed ahead of plan and is on track to deliver the expected cost synergies

### **INTERNATIONAL PATHOLOGY OPERATIONS**

Our International operations continue to expand with revenue increasing by 45% to \$104 million in FY2009 from our pathology businesses in Malaysia, Singapore and New Zealand. All of these businesses performed well in FY2009 with margins improving in each region. Our businesses in South East Asia have over 40% market share in the community pathology sector and have become well-established operators, which will provide a sound base for future investments in this region. Healthscope's focus for future

expansion in South East Asia is in the medium term of 3- 5 years and in areas that would compliment growth in pathology, hospitals and other healthcare services.

In New Zealand our Labtests business began a transition program in August 2009 to commence operation as the pathology provider for the Auckland community via its contract with the Auckland Region District Health Boards. This was a major project, which entailed developing a new laboratory, and within three weeks of opening was testing over 10,000 patients a day, and performing at a satisfactory level in most areas, given the size of the project.

The Labtests operation has demonstrated that it delivers the services and performs to the level required under the contract and to the standards expected by the Auckland community albeit in difficult market conditions.

### **BALANCE SHEET & CAPITAL RAISING**

Healthscope has had a strong history of growth by acquisition and being responsive to opportunities that are consistent with our strategy of capturing additional value from our healthcare business. We are attracted by opportunities to drive clinical quality and healthcare efficiencies, and the recent acquisition of ARL is a good example of this.

To fund that acquisition and the hospital expansion program, in August we launched a \$140 million capital raising with an institutional placement of new Healthscope ordinary shares, together with an offer to retail shareholders to participate in a share purchase plan. The response to both offers was outstanding with over 7,600 shareholders participating in the share purchase plan raising approximately \$90 million whilst the institutional placement completed at a low discount of 5% to the previous day's closing price.

The Board considered the alternative of raising capital via a rights issue and decided that the benefits of completing the institutional placement quickly and minimising the discount offered, when combined with the share purchase plan was most likely to assure the best outcome for all shareholders. In the weeks following the issue, the company's share price has performed well. Your board is very conscious of the different interests of shareholder groups in relation to capital raising structures and works hard to ensure that the interests of all shareholders are taken into account.

During the last financial year, some companies have experienced difficulties in relation to their debt positions. With the new capital raised, our balance sheet has been strengthened and the company is well positioned to fund the expansion of hospitals and to provide flexibility to pursue further potential bolt on acquisitions. Your board is comfortable that the Company is operating well within its debt covenants.

## **QUALITY AND SAFETY**

During my business career one important lesson that stands out for me and certainly applies to Healthscope is that a good business makes the numbers and lives the values. You don't get to do one or the other --- you have to do both. In sport we don't respect the winning athlete that's revealed as a drug cheat; in charities we don't respect the organization that has a noble mission but squanders our donations; at Healthscope we don't put profits before patients or commerce before quality.

Quality is a value on which we can't compromise because quality is our licence to operate. Quality means on time and on budget. Quality means uncompromising clinical standards. Quality means managing and meeting patient expectations and quality means a safe workplace for all our employees.

A cornerstone of Healthscope's Quality Programme is accreditation of our hospitals, laboratories and medical clinics by the relevant independent industry associated bodies. In the past 12 months we are proud that all of our hospitals surveyed by the Australian Council on Healthcare Standards (ACHS) attained results above the standards required for accreditation.

Highlights included industry leading Outstanding Achievement ratings for Infection Control and Documentation in Medical Records at Knox Private, and for research at The Geelong Clinic.

Our focus on safety has also seen an improved trend in the lost time injury frequency rate decreasing by 34% over the last twelve months, a milestone toward our goal of zero harm. Clinical safety and workplace safety are reviewed in detail by your Board at every meeting.

## **ENVIRONMENT**

Climate change and carbon emissions are an issue that has become a high priority for all of us and one that we take seriously. Healthscope has completed its first report on energy consumption and carbon emissions and submitted that report to the Department of Climate change as required by the National Greenhouse and Energy Reporting Act. A summary of the report has been posted on the company's website. .

The report helped us identify that 62% of our electricity consumption is attributed to temperature control and lighting. Initially we have focused our energy efficiency efforts at temperature control and have carried out upgrades of inefficient boilers and chillers at a number of hospitals over the last twelve months. The company has established targets for reducing emissions across all of our divisions.

Hospitals must be clean, sterile environments. To achieve and maintain that high level of cleanliness, hospitals use large volumes of water. Healthscope has undertaken water mapping at key sites to identify opportunities to reduce water use. A large portion of water

used in our hospitals is used in the sterilisation equipment for medical instruments. We are investigating alternative equipment and are selecting equipment based on an analysis of water and energy usage. Other water reduction measures have been taken including replacement of shower heads and tap fittings with low-flow devices, stopping the use of tap water on our gardens and installing tanks at many locations to capture rainwater and recycle some waste water. In terms of our procurement processes, we are engaging with our suppliers to ensure that they too are taking environment issues seriously. We will report regularly on these initiatives on our website.

### **THANK YOU**

I would like to acknowledge the contribution by one of our former directors, Colin Boltman, who passed away during the year after a long illness. Mr Boltman served on the board of Healthscope from its inception in 1985 until November 1996, a period over which the Company grew from a private company operating the Melbourne Clinic to a publicly listed company with 14 hospitals.

I would also like to express my sincere appreciation to Kevin McCann who retired from the Board in October 2008. During his fourteen years as Chairman, Kevin steered Healthscope through an unprecedented period of change in our company and industry, and set many of the standards for quality of service, safety and performance that we continue to uphold in the company today.

### **OUTLOOK**

The company has performed in line with our expectations for the first quarter of the year. Demand for health services has been consistent with the trends of the previous 6 months and revenue and margins have been in line with our budget expectation. Our strategic initiatives are on track with three hospital expansion projects scheduled to be completed in the second quarter, and the successful completion of the integration of the ARL pathology business.

In concluding, we have exceeded many of the goals we set for our company in the last financial year and in that regard I would like to take this opportunity to thank my fellow directors, our staff and all of the clinicians who have contributed to that result. Of course we have also set some challenging goals for our company for the next twelve months.

Linda Bardo Nicholls AO

Chairman