HEALTHSCOPE GROUP

AGGREGATED ANNUAL REPORT

For the year ended 30 June 2013

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HEALTHSCOPE GROUP

RESPONSIBLE BODY'S REPORT

*The Responsible Body submits the financial report of the Healthscope Group for the year ended 30 June 2013 (**Report**).*

PURPOSE

Healthscope Notes Limited (ACN 147 250 780) ('Issuer') was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty. Ltd. (ACN 145 126 067), a member of the Healthscope Group (as defined below).

Since incorporation the Issuer has raised the following debt instruments:

- $200 million by issuing 2 million $100 redeemable, exchangeable, secured but subordinated Notes ('**Healthscope Notes I**') on 17 December 2010 and;

- $305 million by issuing 3 million and 50 thousand $100 redeemable, exchangeable, secured but subordinated Notes ('**Healthscope Notes II**') on 27 March 2013.

The Issuer was admitted to the Official List of the Australian Securities Exchange ('**ASX**') (ASX code: HLN) on 17 December 2010. Healthscope Notes I have been quoted on the ASX since 20 December 2010 (ASX code: HLNG) and Healthscope Notes II have been quoted on the ASX since 28 March 2013 (ASX code: HLNGA). The ordinary shares of the Issuer are not quoted.

As a result of its listing on the ASX, the Issuer is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, the Issuer will lodge with the ASX annual and half yearly aggregated financial reports for the Healthscope Group, which aggregates the financial performance, the financial position and the cash flows of:

- Healthscope Hospitals Holdings No. 2 Pty. Ltd., (ACN 145 126 094) and its controlled entities;
- Healthscope Pathology Holdings No. 2 Pty. Ltd., (ACN 146 342 832) and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. (registration no. 34308383) and its controlled entities;

(together the **'Healthscope Group**') to provide the holders of Healthscope Notes I and Healthscope Notes II with an understanding of the financial position of the 'Security Group' as referred to in the issuers prospectuses dated 24 November 2010 (Healthscope Notes I) and 12 March 2013 (Healthscope Notes II). For the year ended 30 June 2013, the Security Group reflects 98% of the total assets of the Healthscope Group and 95% of its operating EBITDA as disclosed in the review of operations.

Healthscope Notes I and Healthscope Notes II are secured over the key operating assets of the Security Group on a subordinated basis to the Senior Debt.

DIRECTORS

For the purposes of this Report, the Responsible Body consists of the directors' of the following entities:

- Healthscope Hospitals Holdings Pty. Ltd., (ACN 144 840 639);
- Healthscope Pathology Holdings Pty. Ltd., (ACN 145 250 157);
- CT HSP Holdings (Dutch) B.V. (registration no. 34308383).

The names of the directors of each of the above entities in office at any time during or since the end of the financial year are:

Healthscope Hospitals Holdings Pty. Ltd.	**Healthscope Pathology Holdings Pty. Ltd.**	**CT HSP Holdings (Dutch) B.V.**
Mr S.C. Moore	Mr S.C. Moore	Mr D.J. Jaarsma
Mr R.J. Cooke	Mr R.J. Cooke	Mr T.B Mayrhofer
Ms K.K. Bechtel	Ms K.K. Bechtel	Mr M. Davidson
Mr M.D. Hunter	Mr M.D. Hunter	Mr G.A.R. Warris
Mr S.J. Schneider	Mr S.J. Schneider	
Mr R. Seow	Mr R. Seow	
Mr A.J. Shastry (resigned)(1)	Mr A.J. Shastry (resigned)(1)	
Mr T.B. Sisitsky	Mr T.B. Sisitsky	
Mr S. Wise	Mr S. Wise	
Mr. A. M. Eng (appointed)(2)	Mr. A. M. Eng (appointed)(2)	

(1) 15 February 2013
(2) 29 May 2013

HEALTHSCOPE GROUP

RESPONSIBLE BODY'S REPORT

REMUNERATION OF THE MEMBERS OF THE RESPONSIBLE BODY

None of the members of the Responsible Body received any payment for the services provided as a member of the Responsible Body of the Healthscope Group during the year, from the Companies within the Healthscope Group or related parties.

PRINCIPAL ACTIVITIES

The principal activities of the Healthscope Group during the course of the financial year were the provision of healthcare services through the ownership and management of hospitals, medical centres and the provision of pathology diagnostic services.

DIVIDENDS

No dividend has been declared during or since the end of the year by any of Healthscope Hospitals Holdings No. 2 Pty. Ltd., Healthscope Pathology Holdings No. 2 Pty. Ltd. or CT HSP Holdings (Dutch) B.V.

OPERATING RESULTS

The aggregated loss of the Healthscope Group for the year, after income tax expense, was $117.1 million (2012: profit $15.5 million).

REVIEW OF OPERATIONS

The following table reconciles the net profit/ (loss) for the year to Operating EBITDA which is the key performance metric used by management to assess the financial performance of each operating segment:

Operating EBITDA	**Year ended 30 June 2013 $'000**	**Year ended 30 June 2012 $'000**
Net profit/(loss) for the year	(117,076)	15,492
Add back		
Income tax expense	2,366	6,643
Net finance cost	185,253	185,614
Depreciation and amortisation	91,954	84,705
Earnings before finance costs, income tax, depreciation, and amortisation (EBITDA)	**162,497**	**292,454**
Add back		
Other income and expense items		
Restructure and other costs	12,415	10,592
Impairment of goodwill	120,000	-
Profit on sale of businesses	(4,633)	-
Onerous leases and related costs	37,810	-
Total other income and expense items	165,592	10,592
Corporate Costs	12,269	11,495
Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA)	**340,358**	**314,541**

Restructure costs and other costs
Restructure costs relate primarily to the re-organisation of the pathology division following the termination of the intended disposals of the NSW and QLD businesses.

Impairment of goodwill
The carrying value of the Pathology Australia cash generating unit (CGU) exceeded its value in use as at 31 December 2012. Accordingly an impairment charge of $120.0 million was recognised against the carrying value of goodwill held by the Pathology Australia CGU. Impairment testing analysis did not result in an impairment charge being allocated beyond goodwill and as such the impairment charge has been disclosed as "impairment of goodwill" in the Aggregated Statement of Profit or Loss and Other Comprehensive Income. This impairment charge is a "non-cash" item and has no impact on the Group's syndicated debt facility or banking covenant ratios.

The impact of the federal government's deregulation of the Australian pathology industry resulted in a rapid increase in Approved Collection Centres (ACC's) as pathology operators sought to protect and maintain existing volumes and market share. The costs of operating these additional facilities have had an adverse impact on margins. Federal government funding cuts to the pathology sector in the form of changes to the Medicare funding models have also negatively impacted the industry.

Profit on sale of businesses
During the year the Group disposed of certain Pathology operations resulting in a profit of $5.4 million and certain Diagnostic Imaging operations for a loss of $0.8 million.

Onerous leases and related costs
Due to the proposed re-location to the Gold Coast Private Hospital, the Group recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The restructuring of the pathology division has also given rise to additional onerous contracts resulting from excess capacity.

The following table provides an analysis of the Operating EBITDA achieved by each reportable segment for the financial year ended 30 June 2013.

	Year ended 30 June 2013	**Year ended 30 June 2012**
Operating EBITDA	**$'000**	**$'000**
Hospitals Australia	275,834	252,504
Pathology Australia	20,004	23,371
Pathology International	44,520	38,666
	340,358	**314,541**

STATE OF AFFAIRS

During the financial year, the Healthscope Group disposed of part of its Australian pathology and diagnostic imaging operations. The Group also raised $305 Million from the proceeds of the Healthscope Notes II issue. Other than these matters there was no significant change in the state of affairs of the Healthscope Group during the financial year.

SUBSEQUENT EVENTS

To the best of the knowledge of the Responsible Body, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected or may affect the Healthscope Group's operations or state of affairs in future financial years.

FUTURE DEVELOPMENTS

In the opinion of the Responsible Body, it would prejudice the interests of the Healthscope Group if the Responsible Body's Report were to refer to any likely developments in the operations of the Healthscope Group in subsequent financial years or to the expected results of those operations, beyond the coverage given to these matters herein.

RESPONSIBLE BODY'S REPORT

ENVIRONMENTAL REGULATIONS

The Healthscope Group is not subject to any significant environmental regulations under a law of the Commonwealth or of a state or territory.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Healthscope Group paid a premium in respect of a contract insuring the directors of Healthscope Hospitals Holdings Pty. Ltd., Healthscope Pathology Holdings Pty. Ltd., CT HSP Holdings (Dutch) B.V the Company Secretary and Executives of the Healthscope Group against liability to the extent incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium are not to be disclosed.

The Healthscope Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Healthscope Group or of any related body corporate against liability incurred as such an officer or auditor.

PROCEEDINGS ON BEHALF OF THE HEALTHSCOPE GROUP

No person has applied for leave of Court to bring proceedings on behalf of the Healthscope Group or intervene in proceedings to which the Healthscope Group is a party for the purpose of taking responsibility on behalf of the Healthscope Group for all or any part of those proceedings.

The Healthscope Group was not a party to any such proceedings during the year.

ROUNDING OFF OF AMOUNTS

For the benefits of clarity and ease of understanding, the Responsible Body has chosen to round off amounts shown in the Report to the nearest thousand dollars, unless otherwise stated.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 34 to the financial statements. The Responsible Body are satisfied that the non-audit services provided by the auditor are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

AUDITOR INDEPENDENCE

The auditor's independence declaration is included on Page 5 of the financial report.

Signed in accordance with a resolution of the Responsible Body

Robert Cooke

R Cooke
Executive Chairman and Managing Director

Melbourne, 28 August 2013

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Responsible Body
Healthscope Group
Level 1, 312 St Kilda Road
Melbourne VIC 3004

28 August 2013

Dear Responsible Body members,

Healthscope Group

In compliance with the independence requirements of the professional accounting bodies in Australia, I am pleased to provide the following declaration of independence to the Responsible Body of the Healthscope Group.

As lead audit partner for the audit of the financial statements of the Healthscope Group for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the professional accounting bodies in Australian in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tony Imbesi

T Imbesi
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Responsible Body of the Healthscope Group

We have audited the accompanying financial report of the Healthscope Group, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Responsible Body's declaration as set out on pages 8 to 58.

The Healthscope Group comprises the aggregation of:

- Healthscope Hospitals Holdings No. 2 Pty. Ltd. (ACN 145 126 094)
- Healthscope Pathology Holdings No. 2 Pty. Ltd. (ACN 146 342 832)
- CT HSP Holdings (Dutch) B.V. (Company number 34308383)

and the entities they controlled as at 30 June 2013 or from time to time during the year.

Responsible Body's Responsibility for the Financial Report

The Responsible Body is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the Responsible Body determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the Responsible Body also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Responsible Body, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the financial report of the Healthscope Group presents fairly, in all material respects, the Healthscope Group's financial position as at 30 June 2013 and its financial performance for the year then ended in accordance with Australian Accounting Standards.

In our opinion:

(a) the financial report of the Healthscope Group presents fairly, in all material respects, the Healthscope Group's financial position as at 30 June 2013 and its financial performance for the year then ended in accordance with Australian Accounting Standards; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

T Imbesi
Partner
Chartered Accountants
Melbourne, 28 August 2013

AGGREGATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $'000	2012 $'000
Revenue	5	2,211,329	2,115,831
Share of profits of associates and joint ventures	14	1,999	2,623
Employee benefits expense	7(b)	(1,029,034)	(979,107)
Medical and consumable supplies		(304,652)	(300,505)
Prosthetics expenses		(236,645)	(223,819)
Occupancy costs		(114,234)	(105,745)
Service costs		(200,674)	(206,232)
Other income and expense items:			
Restructure and other costs	8	(12,415)	(10,592)
Impairment of goodwill	8	(120,000)	-
Profit on sale of operations	8	4,633	-
Onerous leases and related costs	8	(37,810)	-
Profit before depreciation, amortisation, finance costs and income tax		**162,497**	**292,454**
Depreciation and amortisation	7(c)	(91,954)	(84,705)
Profit before finance costs and income tax		**70,543**	**207,749**
Net finance costs	6	(185,253)	(185,614)
Profit/(loss) before income tax		**(114,710)**	**22,135**
Income tax expense	9	(2,366)	(6,643)
Net profit/(loss) for the year		**(117,076)**	**15,492**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchanges differences arising on translation of foreign operations		13,026	3,601
Gain/(loss) on cash flow hedges taken directly to equity		15,827	(50,127)
Income tax benefit relating to other comprehensive income		(4,748)	15,038
Other comprehensive income / (loss) for the year, net of tax		24,105	(31,488)
Total comprehensive loss for the year		**(92,971)**	**(15,996)**

The accompanying notes numbered 1 to 37 form part of this financial report.

HEALTHSCOPE GROUP

AGGREGATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	2013 $'000	2012 $'000
CURRENT ASSETS			
Cash and cash equivalents	30(a)	70,090	56,644
Trade and other receivables	10	113,399	85,466
Prepayments		16,067	14,777
Current tax assets	9	-	1,793
Inventories	11	46,293	43,205
Other financial assets	12	36,236	29,889
Assets classified as held for sale	13	-	88,552
TOTAL CURRENT ASSETS		**282,085**	**320,326**
NON-CURRENT ASSETS			
Trade and other receivables	10	2,000	4,000
Other financial assets	12	2,520	2,730
Investments in associates and joint ventures	14	802	711
Property, plant and equipment	15	1,195,021	1,141,421
Intangible assets	16	1,834,998	1,904,430
Deferred tax assets	9	88,471	77,298
TOTAL NON-CURRENT ASSETS		**3,123,812**	**3,130,590**
TOTAL ASSETS		**3,405,897**	**3,450,916**
CURRENT LIABILITIES			
Trade and other payables	17	213,589	212,795
Current tax liabilities	9	2,724	1,093
Deferred purchase consideration	18	-	1,160
Deferred revenue		1,444	2,858
Borrowings	19	49,800	63,956
Other financial liabilities	20	22,823	23,631
Provisions	21	114,589	107,911
Liabilities directly associated with assets classified as held for sale	13	-	4,110
TOTAL CURRENT LIABILITIES		**404,969**	**417,514**
NON-CURRENT LIABILITIES			
Borrowings	19	1,547,288	1,515,016
Other financial liabilities	20	568,893	583,912
Deferred tax liabilities	9	53,684	37,900
Provisions	21	52,697	25,237
TOTAL NON-CURRENT LIABILITIES		**2,222,562**	**2,162,065**
TOTAL LIABILITIES		**2,627,531**	**2,579,579**
NET ASSETS		**778,366**	**871,337**
EQUITY			
Issued capital	22	962,167	962,167
Reserves	24	(18,396)	(42,501)
Accumulated losses	23	(165,405)	(48,329)
TOTAL EQUITY		**778,366**	**871,337**

The accompanying notes numbered 1 to 37 form part of this financial report.

HEALTHSCOPE GROUP

AGGREGATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $'000	2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,193,777	2,126,474
Payment to suppliers and employees		(1,882,824)	(1,825,108)
Cash generated from operations		**310,953**	**301,366**
Interest received		2,008	1,850
Interest and costs of finance paid		(177,328)	(173,938)
Income tax paid		(5,440)	(4,965)
Other income and expense items		(20,033)	(12,602)
Net cash provided by operating activities	30(e)	**110,160**	**111,711**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		719	12,702
Proceeds from disposal of operations	30(d)	22,154	-
Payments for property, plant and equipment		(71,556)	(87,744)
Brownfield facility developments		(44,316)	(48,238)
Payments for operating rights		(2,760)	(7,546)
Proceeds from ACHA loan		2,000	2,000
Payments for business combinations	30(c)	(1,086)	(2,784)
Net cash used in investing activities		**(94,845)**	**(131,610)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of Healthscope Notes II		305,000	-
Proceeds from bank borrowings		56,000	89,000
Repayments of bank borrowings		(347,515)	(32,500)
Net proceeds from / (repayment of) receivables securitisation		(2,397)	631
Finance leasing		(1,853)	548
Facility fees paid		(13,432)	-
Net cash provided by / (used in) finance activities		**(4,197)**	**57,679**
Net increase in cash and cash equivalents		**11,118**	**37,780**
Cash and cash equivalents at the beginning of the year		56,644	18,864
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,328	-
Cash and cash equivalents at the end of the year	30(a)	**70,090**	**56,644**

The accompanying notes numbered 1 to 37 form part of this financial report.

HEALTHSCOPE GROUP

AGGREGATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

2012	Issued capital $'000	Accumulated losses $'000	Foreign currency translation reserve $'000	Hedge reserve $'000	Total equity $'000
Opening balance at 1 July 2011	**962,167**	**(63,821)**	**(3,168)**	**(7,845)**	**887,333**
Profit for the year	-	15,492	-	-	15,492
Exchange differences arising on translation of foreign operations	-	-	3,601	-	3,601
Loss on cash flow hedges	-	-	-	(50,127)	(50,127)
Income tax relating to components of other comprehensive income	-	-	-	15,038	15,038
Other comprehensive income/(loss) for the year net of tax	-	-	3,601	(35,089)	(31,488)
Total comprehensive income/(loss) for the year	**-**	**15,492**	**3,601**	**(35,089)**	**(15,996)**
Closing balance at 30 June 2012	**962,167**	**(48,329)**	**433**	**(42,934)**	**871,337**

2013	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2012	**962,167**	**(48,329)**	**433**	**(42,934)**	**871,337**
Loss for the year	-	(117,076)	-	-	(117,076)
Exchange differences arising on translation of foreign operations	-	-	13,026	-	13,026
Gain on cash flow hedges	-	-	-	15,827	15,827
Income tax relating to components of other comprehensive income	-	-	-	(4,748)	(4,748)
Other comprehensive income/(loss) for the year net of tax	-	-	13,026	11,079	24,105
Total comprehensive income/(loss) for the year	**-**	**(117,076)**	**13,026**	**11,079**	**(92,971)**
Closing balance at 30 June 2013	**962,167**	**(165,405)**	**13,459**	**(31,855)**	**778,366**

The accompanying notes numbered 1 to 37 form part of this financial report.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: GENERAL INFORMATION

Healthscope Notes Limited (ACN 147 250 780) ('Issuer') was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty. Ltd. (ACN 145 126 067), a member of the Healthscope Group (as defined below).

Since incorporation the Issuer has raised the following debt instruments:

- $200 million by issuing 2 million $100 redeemable, exchangeable, secured but subordinated Notes ('Healthscope Notes I') on 17 December 2010 and ;

- $305 million by issuing 3 million and 50 thousand $100 redeemable, exchangeable, secured but subordinated Notes ('Healthscope Notes II') on 27 March 2013.

The Issuer was admitted to the Official List of the Australian Securities Exchange ('**ASX**') (**ASX code: HLN**) on 17 December 2010. Healthscope Notes I have been quoted on the ASX since 20 December 2010 (ASX code: HLNG) and Healthscope Notes II have been quoted on the ASX since 28 March 2013 (**ASX code: HLNGA**). The ordinary shares of the Issuer are not quoted.

As a result of its listing on the ASX, the Issuer is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, the Issuer will lodge with the ASX annual and half yearly aggregated financial reports for the Healthscope Group, which aggregates the financial performance, the financial position and the cash flows of:

- Healthscope Hospitals Holdings No. 2 Pty. Ltd., (ACN 145 126 094) and its controlled entities;
- Healthscope Pathology Holdings No. 2 Pty. Ltd., (ACN 146 342 832) and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. (registration no. 34308383) and its controlled entities;

(together the 'Healthscope Group') to provide the holders of Healthscope Notes I and Healthscope Notes II with an understanding of the financial position of the 'Security Group' as referred to in the issuers prospectuses dated 24 November 2010 (**Healthscope Notes I**) and 12 March 2013 (**Healthscope Notes II**). For the year ended 30 June 2013, the Security Group reflects 98% of the total assets of the Healthscope Group and 95% of its operating EBITDA.

Healthscope Notes I and Healthscope Notes II are secured over the key operating assets of the Security Group on a subordinated basis to the Senior Debt.

The principal place of business of the Group is:

Level 1
312 St Kilda Road
Melbourne VIC 3004
Tel: (03) 9926 7500

The principal activities of the Healthscope Group during the financial year ended 30 June 2013 were the provision of healthcare services through the ownership and management of hospitals, medical centres and the provision of pathology diagnostic services.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The aggregated financial statements of the Healthscope Group are general purpose combined financial statements which have been prepared in accordance with the Accounting Standards and Interpretations.

The financial statements comprise the aggregated financial statements of the Healthscope Group. For the purposes of preparing the aggregated financial statements, the Healthscope Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Responsible Body on 28 August 2013. The Responsible Body comprises the directors of Healthscope Hospitals Holdings Pty. Ltd., Healthscope Pathology Holdings Pty. Ltd. and CT HSP Holdings (Dutch) B.V.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Working Capital Position

The working capital position as at 30 June 2013 for the Group continues to reflect a net current liability position of $122.9 million (2012: $97.2 million). The Healthscope Group has consistently reflected a net current liability position in prior periods.

The factors that contribute to the net current liabilities position include:

(i) The Group continued to utilise the accounts receivable securitisation facility of $140 million. During the year $111.7 million of receivables were sold to the Bank under this facility resulting in reduced current assets and reduced non-current debt which reduced the overall cost of debt servicing.

(ii) Certain liabilities are classified as "current liabilities" according to the requirements of accounting standards however the Group do not anticipate that all of these amounts will be settled in cash within the next 12 months from the date of this financial report. Such liabilities include current employee entitlements of $100.2 million (30 June 2012: $93.0 million) and current other financial liabilities relating to the fair value of interest rate swaps of $22.8 million (30 June 2012: $23.6 million).

The Healthscope Group has continued to generate cash flows from operating activities, after servicing debt costs of $110.2 million (30 June 2012: $111.7 million) and consistently recorded a cash conversion ratio of greater than 90%, representing operating EBITDA divided by cash generated from operations.

The Responsible Body continually monitor the Group's working capital position including forecast working capital requirements in light of the Group's existing debt facilities and available cash reserves and are satisfied that the Healthscope Group will be able to pay its debts as and when they fall due for a period of 12 months from the date of this financial report.

Basis of preparation

The aggregated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For clarity and relevance, the entity has chosen to report amounts in the financial report rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of aggregation

The aggregated financial statements incorporate the consolidated financial information of each of the following sub-groups:

- Healthscope Hospitals Holdings No. 2 Pty. Ltd. and all of its controlled entities,
- Healthscope Pathology Holdings No. 2 Pty. Ltd. and all of its controlled entities and,
- CT HSP Holdings (Dutch) B.V. and all of its controlled entities,

Consistent accounting policies are employed by each sub-group in the presentation and preparation of their consolidated financial information.

All inter-company balances and transactions between entities in the Healthscope Group, including any unrealised profits or losses, have been eliminated on aggregation.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Healthscope Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement year adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the Healthscope Group attains control) and the resulting gain or loss, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Reporting Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Healthscope Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement year is the year from the date of acquisition to the date the Healthscope Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Taxation
Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current Tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

Deferred Tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation
Healthscope Hospitals Holdings Pty. Ltd. elected to form a multiple entry consolidated group with effect from 22 September 2010. Healthscope Ltd and its controlled entities joined the consolidated group with effect from 12 October 2010.

Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from the unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by Healthscope Hospitals Holdings Pty. Ltd. (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivables by the company and each member of the group in relation to the tax contribution amounts paid or payable between the head entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular year is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that year, the difference is recognised as a contribution from (or distribution to) equity partners.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Inventories
Inventories are measured at the lower of cost, on a first in first out basis, and net realisable value. Net realisable value represents the estimated selling prices of inventories less all estimated costs of completion and costs necessary to make the sale.

(d) Financial assets
Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter year, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as at 'fair value through profit or loss'.

Financial assets at fair value through profit or loss
Financial assets are classified as financial assets at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss:

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the statement of comprehensive income.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting year. Financial assets are considered to be impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.
When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

De-recognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- The Group has transferred its rights to receive cash flows from the asset and either:
  - Has transferred substantially all the risks and rewards of the asset; or
  - Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(e) Property, plant and equipment
Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Freehold land and buildings are measured on the cost basis.
- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.
- Finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments. Each is determined at the inception of the lease.

Depreciation
The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired year of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting year, with the effect of any changes recognised on a prospective basis.

The ranges of depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rate
Buildings	2% to 20%
Leasehold improvements	2% to 100%
Plant & equipment	5% to 50%
Leased assets	14% to 20%

Freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment, is determined as the difference between the carrying amount of the asset at the time of disposal and the sale proceeds on disposal, and is recognised in profit or loss.

(f) Goodwill
Goodwill arising in a business combination is recognised as an asset and carried at cost as established at the date that control is acquired (the acquisition date) less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortised but is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's), or groups of CGU's, expected to benefit from the synergies of the business combination. CGU's or groups of CGU's to which goodwill has been allocated are tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

If the recoverable amount of the CGU or group of CGU's is less than the carrying amount of the CGU or groups of CGU's, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or groups of CGU's and then to the other assets of the CGU or groups of CGU's pro-rata on the basis of the carrying amount of each asset in the CGU or groups of CGU's.

An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent year. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(g) Intangible assets
Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at fair value (which is cost less accumulated amortisation and accumulated impairment losses) on the same basis as intangible assets that are acquired separately.

Intangible assets acquired separately
Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting year, with any changes in these accounting estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Research & development costs
Expenditure on research activities is recognised as an expense in the year in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the year it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight-line basis over their useful lives of no longer than 5 years.

(h) Impairment of tangible and intangible assets excluding goodwill
At the end of each reporting year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Leased assets
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The liability to the lessor is included in the statement of financial position as a finance lease obligation. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease. Lease payments are apportioned between finance expenses and the reduction of the lease liability obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.
Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals are recognised as expenses in the years in which they are incurred.

(j) Employee benefits
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans
Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(k) Joint venture arrangements
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled operations
Where the Group is a venturer and so it has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that it incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled entities
Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, unless the investment is classified as held for sale in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent terms in the consolidated financial statements on a line by line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination. When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting in the aggregated financial statements.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are identical and both use consistent accounting policies.

The investment in the associates is carried in the aggregated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The aggregated statement of comprehensive income reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the aggregated statement of changes in equity.

(m) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(n) Financial liability and equity instruments issued by the Group
Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter year to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Group de-recognises financial liabilities when and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(o) Foreign currency
Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in net profit or loss in the year in which they arise.

The individual financial information of each Group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the aggregated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Group and the presentation currency for the aggregated financial statements.

In preparing the financial information of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

On aggregation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing at the end of the reporting year. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive and accumulated in equity. Such exchange differences are recognised in profit or loss in the year in which the foreign operation is exposed.

(p) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.
Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts/leases
Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Insurance claims
The provision is based on the schedule of outstanding claims and the costs have been estimated based on currently available data where the Group has no related insurance policy. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and when appropriate, the risks specific to the liability. The provision is reviewed at the end of each reporting year and updated for additional information.

Restructuring
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(q) Revenue
Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of a service is recognised once the service has been provided.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from the sale of goods is recognised when the Group has transferred to the buyer, the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(r) Derivative financial instruments
The Group enters into interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting year. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives
Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge Accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the Statement of Changes in Equity.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the years when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(s) Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(t) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial year of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the year in which they were incurred.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Government grants
Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised as income over the years necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the year in which it becomes receivable.

(v) Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair vale less costs to sell.

(w) Share-based payments transactions
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

(x) Standards and Interpretations affecting amounts reported in the current year (and/or prior years)
The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure
Amendments to AASB 101 'Presentation of Financial Statements'
The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income') introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:
(a) items that will not be reclassified subsequently to profit or loss and
(b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income

Standards and Interpretations affecting the reported results or financial position
There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) Standards and Interpretations in issue not yet adopted
At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective:

Standards / Interpretations	**Effective date**	**First applicable reporting date**
AASB 9 'Financial Instruments' and the relevant amending standards The Group has not yet adopted this standard and has not yet determined the potential effect of the standard.	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' The Group do not expect any significant change in control conclusions arising from the application of this standard. The application of this is not expected to have a material effect on the Group's financial statements.	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' The new standard may result in joint ventures that are currently being equity accounted been proportionately consolidated as joint operations. The new standard is expected to result in a change to total assets and liabilities of the Group, the impact of which has yet to be determined.	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' This standard may result in changes to disclosures with respect to interest in subsidiaries, joint arrangement s and associates.	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' No material change to the Group's financial statements is expected from the application of this standard and amendment.	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' No material change to the Group's financial statements is expected from the application of this standard and amendment.	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13' Application may affect amounts reported in the financial statements and result in more extensive disclosures in the financial statements. The potential effect is yet to be determined.	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' The amendments to the standard principally related to defined benefit plans and the classification of employee benefits. No material change to the Group's financial statements is expected from the application of the amendment to this standard.	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements; No impact is expected from the application of this amendment.	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures- Offsetting Financial Assets and Financial Liabilities The Group has not yet assessed the potential effect of this amendment.	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities. The Group has not yet assessed the potential effect of this amendment.	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements 2009-2011 Cycle The Group has not yet assessed the potential effect of this amendment.	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments' The Group has not yet assessed the potential effect of this amendment.	1 January 2013	30 June 2014

Other than as noted above, the adoption of the various Australian Accounting Standards and Interpretations in issue but not yet effective are not expected to impact the Group's accounting policies, although the pronouncements may result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

(a) Critical judgements in applying the entity's accounting policies
The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Employee entitlements
Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:
- Future increases in wages in salaries;
- Future on-cost rates; and
- Experience of employee departures and year of service.

(b) Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Medical Malpractice Insurance
During the year, management performed the regular review of the medical malpractice insurance claims provision across the Group, which is included in the statement of financial position as at 30 June 2013 at $4.9 million (2012: $6.9 million).The provision represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the Group.

Onerous lease contracts
The onerous lease contract provision has been derived on the basis of the most recent assessment of the likely net unavoidable cost to the end of the contract term. Management have considered the future costs of the contract which can be determined with a high degree of accuracy. However, the future economic benefits expected to be received are based on forecasts. Management consider the liability to be the best estimate of the net unavoidable costs as at 30 June 2013.

Impairment of goodwill and other intangible assets
Determining whether goodwill and other intangible assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Further details with respect to key assumptions are disclosed in Note 16.

The carrying amount of goodwill at the end of the reporting period was $1.8 billion (2012: $1.8 billion). The carrying amount of other intangible assets at the end of the reporting year was $80.4 million (2012: $90.5 million). Details of the impairment loss calculation are set out in note 16.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 4: SEGMENT INFORMATION

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Accordingly the Group has determined the following operating segments:

- Hospitals Australia - the management and provision of surgical and non-surgical private hospitals
- Pathology Australia - the provision of pathology and medical services
- Pathology International - the provision of pathology services overseas

	Segment revenue (i)		Segment operating EBITDA (ii)		Segment profit (iii)	
	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000
Hospitals Australia	1,660,304	1,584,206	275,834	252,504	222,265	205,278
Pathology Australia	360,453	364,579	20,004	23,371	664	4,328
Pathology International	190,572	167,046	44,520	38,666	30,524	24,649
Total all segments	**2,211,329**	**2,115,831**	**340,358**	**314,541**	**253,453**	**234,255**
Corporate			(12,269)	(11,495)	(17,318)	(15,914)
Total all segments after corporate			**328,089**	**303,046**	**236,135**	**218,341**
Other income and expense items (Note 8)					(165,592)	(10,592)
Finance costs (Note 6)					(185,253)	(185,614)
Profit / (loss) before income tax					**(114,710)**	**22,135**
Income tax expense					(2,366)	(6,643)
Net profit/ (loss)					**(117,076)**	**15,492**

(i) The revenue reported above represents revenue generated from operations as disclosed in Note 5.

(ii) Segment operating EBITDA represents the profit earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense and other items of income and expense (Note 8).

(iii) Segment profit represents the profit earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense and other items of income and expense (Note 8). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Other segment information (i)

2013	Hospitals Australia	Pathology Australia	Pathology International	Total all segments	Corporate	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Total assets	2,738,483	275,314	340,758	3,354,555	15,106	3,369,661
Total liabilities	(2,080,973)	(447,525)	(62,796)	(2,591,294)	(36,237)	(2,627,531)
Additions to non-current assets	94,103	8,760	8,055	110,918	8,127	119,045
Depreciation & amortisation	53,569	19,340	13,996	86,905	5,049	91,954
Investments in associates and joint ventures	802	-	-	802	-	802
Impairment of goodwill	-	120,000	-	120,000	-	120,000

2012	Hospitals Australia	Pathology Australia	Pathology International	Total all segments	Corporate	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Total assets	2,655,810	428,161	328,146	3,412,117	8,910	3,421,027
Total liabilities	(1,988,855)	(473,522)	(87,313)	(2,549,690)	(29,889)	(2,579,579)
Additions to non-current assets	95,837	31,690	14,733	142,260	1,495	143,755
Depreciation & amortisation	47,226	19,043	14,017	80,286	4,419	84,705
Investments in associates and joint ventures	711	-	-	711	-	711
Impairment of goodwill	-	-	-	-	-	-

(i) Disclosed after elimination of intercompany balances.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 5: REVENUE

	2013	2012
	$'000	$'000
An analysis of the Group's revenue for the year is as follows:		
Revenue from rendering services	2,154,193	2,065,974
Rental revenue	23,465	21,552
Management fees	16,202	14,577
Other revenue	17,469	13,728
Total revenue	**2,211,329**	**2,115,831**

NOTE 6: FINANCE INCOME AND EXPENSE

	2013	2012
	$'000	$'000
Finance Income		
Bank deposits	2,008	1,850
Finance Expenses		
Interest on bank overdrafts and loans	(170,308)	(171,970)
Facility fees	(16,228)	(15,509)
Interest capitalised to qualifying assets	1,020	1,957
Interest on obligations under finance leases	(1,745)	(1,942)
	(187,261)	(187,464)
Net finance costs	**(185,253)**	**(185,614)**

The weighted average capitalisation rate on funds borrowed is approximately 9.60% p.a. (2012: 10.08% p.a.)

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 7: PROFIT FOR THE YEAR BEFORE TAX

	2013 $'000	2012 $'000
(a) Gains and losses		
Gain on disposal of property, plant and equipment	620	2,010
	620	**2,010**
(b) Other Expenses		
Employee benefits expense		
Post-employment - defined contribution superannuation expense	70,628	68,651
Termination benefits	1,070	960
Other employee benefits including share based payments	957,336	909,496
Total employee benefits expense	**1,029,034**	**979,107**
Research and development costs expensed	3,472	3,345
(c) Depreciation and amortisation expense		
Depreciation of non-current assets		
Buildings	19,473	18,654
Leasehold improvements	10,977	9,315
Plant and equipment	43,536	37,768
Leased plant and equipment	4,258	3,782
Total depreciation	78,244	69,519
Amortisation of intangible assets		
Contract management rights	6,800	8,154
Operating rights	5,178	5,273
Contract acquisition costs	1,732	1,759
Total amortisation	13,710	15,186
Total depreciation and amortisation	**91,954**	**84,705**
(d) Operating lease rental expense		
Minimum lease payments	75,864	71,653

NOTE 8: OTHER INCOME AND EXPENSE ITEMS

	2013 $'000	2012 $'000
Restructure and other costs (i)	12,415	10,592
Impairment of goodwill (ii)	120,000	-
Profit on sale of operations (iii)	(4,633)	-
Onerous leases and related costs (iv)	37,810	-
Total	**165,592**	**10,592**

(i) Restructure costs relate primarily to the re-organisation of the pathology division following the termination of the intended disposals of the NSW and QLD businesses.

(ii) Impairment of goodwill relates to the Australian pathology operations.

(iii) Profit on disposal relates to the disposal of operations as disclosed in note 29.

(iv) Due to the proposed re-location to the Gold Coast Private Hospital, the Group recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The restructuring of the pathology division has also given rise to additional onerous contracts resulting from excess capacity.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9: INCOME TAXES

Income tax recognised in the profit or loss

	2013 $'000	2012 $'000
Tax expenses comprises		
Current tax expense in respect of the current year	390	(7,866)
Deferred tax expense relating to the origination and reversal of temporary differences	(287)	14,509
Other adjustments recognised in the current year	2,263	-
Total tax expense	**2,366**	**6,643**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Income tax recognised in the income statement

	2013 $'000	2012 $'000
Profit / (loss) before income tax	(114,710)	22,135
Income tax calculated at 30%	(34,413)	6,641
Increase in income tax expense due to:		
Impairment of goodwill	36,000	-
Non-deductible expenses	911	1,068
Prior year under/over provision	(445)	665
Decrease in income tax expense due to:		
Effect on tax rate in foreign jurisdictions	(1,292)	(1,126)
Non-assessable income	(1,103)	(274)
Other adjustments recognised in the current year	2,708	(331)
Income tax expense	**2,366**	**6,643**

Income tax recognised directly in other comprehensive income

	2013 $'000	2012 $'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Fair value re-measurement of cash flow hedges	4,748	(15,038)
	4,748	**(15,038)**
Current tax asset		
Income tax attributable to:		
Tax refund receivable relating to former tax consolidated group	-	1,793
	-	**1,793**
Current tax liabilities		
Income tax payable	(2,724)	(1,093)
	(2,724)	**(1,093)**

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9: INCOME TAXES (cont'd)

Deferred tax balances	Opening Balance	Charged to Income	Charged to Other Comprehensive Income	Other	Closing Balance
	$'000	$'000	$'000	$'000	$'000
AGGREGATED					
2013 Gross Deferred Tax Liabilities					
Property, plant and equipment	(19,679)	3,696	-	(88)	(16,071)
Intangibles	(889)	(14,752)	-	(122)	(15,763)
Inventories	(12,403)	(453)	-	-	(12,856)
Cash flow hedges	-	-	-	-	-
Other	(4,929)	(3,739)	-	(326)	(8,994)
	(37,900)	(15,248)	-	(536)	(53,684)
2013 Gross Deferred Tax Assets					
Provisions	43,170	3,663	-	121	46,954
Property, plant and equipment	(5,593)	5,637	-	7	51
Cash flow hedges	18,402	-	(4,748)	-	13,654
Acquisition costs	14,292	(6,641)	-	5,253	12,904
Other	7,027	12,876	-	(4,995)	14,908
	77,298	15,535	(4,748)	386	88,471
2012 Gross Deferred Tax Liabilities					
Property, plant and equipment	(16,449)	(3,229)	-	(1)	(19,679)
Intangibles	(4,844)	3,916	-	39	(889)
Inventories	(12,081)	(322)	-	-	(12,403)
Cash flow hedges	-	-	-	-	-
Other	(4,125)	(772)	-	(32)	(4,929)
	(37,499)	(407)	-	6	(37,900)
2012 Gross Deferred Tax Assets					
Provisions	47,870	(4,688)	-	(12)	43,170
Property, plant and equipment	(2,968)	(2,628)	-	3	(5,593)
Cash flow hedges	3,364	-	15,038	-	18,402
Acquisition costs	21,075	(6,783)	-	-	14,292
Other	6,637	390	-	-	7,027
	75,978	(13,709)	15,038	(9)	77,298

	2013	2012
	$'000	$'000
The following deferred tax assets have not been brought to account as assets:		
- Tax losses - revenue	-	-
- Tax losses - capital	-	-
- Unused tax credits	-	-
	-	-

NOTE 9: INCOME TAXES (cont'd)

Tax Consolidation
Healthscope Hospitals Holdings Pty. Ltd. elected to form a multiple entry consolidated group with effect from 22 September 2010. Healthscope Ltd and its controlled entities joined the consolidated group with effect from 12 October 2010. The accounting policy in relation to this legislation is set out in Note 2(b).
Entities within the tax-consolidated group have entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable / (payable) equal in amounts to the tax liability / (asset) assumed. The inter-entity receivable / (payable) is at call.
Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflects the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

NOTE 10: TRADE AND OTHER RECEIVABLES

	2013	2012
	$'000	**$'000**
CURRENT		
Trade receivables	113,034	85,933
Provision for doubtful debts	(5,438)	(6,095)
	107,596	79,838
Loan to Adelaide Community Healthcare Alliance Inc. (i)	2,000	2,000
Goods and services tax recoverable	2,285	2,209
Other	1,518	1,419
	113,399	85,466
NON CURRENT		
Loan to Adelaide Community Healthcare Alliance Inc. (i)	2,000	4,000

(i) The loans due from the ACHA bear interest at the sum of the bid rate and a commercial credit margin.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 10: TRADE AND OTHER RECEIVABLES (cont'd)

	2013 $'000	2012 $'000
Movement in the provision for doubtful debts		
Balance at beginning of the year	6,095	7,057
Amounts written off during the year	1,882	1,478
Amounts recovered during the year	(2,431)	(2,929)
Increase / (decrease) in allowance recognised in profit and loss	(108)	489
Balance at the end of the year	5,438	6,095
Age of trade receivables that are past due but not impaired		
30 - 60 days	6,646	5,446
60 - 90 days	8,647	9,045
90 - 120 days	1,915	1,972
120 - 150 days	572	509
150 - 180 days +	3,302	2,993
Total	21,082	19,965

The average credit period for the provision of services is 30 days (2012: 30 days). No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past provision of services, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts decreased by $657 thousand (2012: $962 thousand) in the Group.

Included in the Group's trade receivable balance are debtors with a carrying amount of $21.1 million (2012: $20.0 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 69 days (2012: 70 days).

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly the Responsibly Body believes that there is no further credit provision in excess of the allowance for doubtful debts.

As at 30 June 2013 $111.7 million (2012: $113.4 million) of trade receivables remain sold to our financier under the Receivables Securitisation Program. The proceeds from the sale were used to retire non-current debt and reduce the overall cost of debt servicing.

NOTE 11: INVENTORIES

	2013 $'000	2012 $'000
Consumable supplies at cost	46,293	43,205

NOTE 12: OTHER FINANCIAL ASSETS

CURRENT		
Loans and receivables are carried at amortised cost:		
Related party loans[i]	36,236	29,889
NON CURRENT		
Loans and receivables carried at amortised cost:		
Bonds and sub-ordinated debts	2,516	2,573
Available-for-sale investments carried at fair value		
Shares	4	146
Other Financial Assets	-	11
	4	157
	2,520	2,730

(i) Relates predominantly to loans with the head entity in the Healthscope tax consolidated group.

NOTE 13: ASSETS CLASSIFIED AS HELD FOR SALE

At 30 June 2012, the Group was in the process of disposing part of its Australian pathology operations and also the remainder of its diagnostic imaging assets. The sale of the WA pathology operations and diagnostic imaging assets completed successfully whilst the sales of the NSW and Qld pathology operations failed to achieve regulatory approval.

	2013	**2012**
	$'000	**$'000**
The major classes of assets and liabilities of the intended disposals are as follows:		
Inventories	-	1,627
Prepayments	-	991
Rental security bonds	-	66
Buildings	-	2,018
Leasehold improvements	-	7,345
Plant and equipment	-	15,574
Leased plant and equipment	-	425
Goodwill	-	60,506
Assets held for sale	-	88,552
Employee benefits	-	3,705
Lease liabilities	-	405
Liabilities associated with assets classified as held for sale	-	4,110
Net assets classified as held for sale	-	84,442

During the year, the sale of the WA pathology operations and the diagnostic imaging operations resulted in the disposal of $18.5 million of net assets. Accordingly $65.9 million of net assets were returned to the Healthscope Group on the mutual termination of the sale of the NSW and QLD pathology operations.

NOTE 14: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2013 $'000	2012 $'000
Investment in associates	586	496
Investment in jointly controlled ventures	216	215
	802	711

Name	Principle Activities	Ownership Interest 2013 %	Carrying Amount of Investment 2013 $'000	Ownership Interest 2012 %	Carrying Amount of Investment 2012 $'000
Associates:					
Unlisted:					
Mount Hospital Cath Labs Pty. Ltd. (incorporated in Australia)	Cardiac catheterisation	50	530	50	496
Mount Hospitals Cardiology Services Pty. Ltd. (incorporated in Australia)	Cardiac catheterisation	50	56	-	-
Jointly controlled ventures:					
Darwin Cardiac Angiography Laboratory Joint Venture (Unincorporated and operating in Australia)	Cardiac catheterisation	50	216	50	215

Reconciliation of movement in Investments accounted for using the equity method	**$'000**	**$'000**
Balance at the beginning of the year	711	661
Share of profit for the year	1,999	2,623
Dividends/distribution	(1,908)	(2,573)
	802	711

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

NOTE 14: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (cont'd)

Summarised financial information of associates	**2013**	**2012**
	$'000	**$'000**
Financial Position:		
Current assets	1,930	2,102
Total assets	1,930	2,102
Current liabilities	(378)	(530)
Total liabilities	(378)	(530)
Net assets	1,552	1,572
Group's share of net assets	586	496
Financial Performance:		
Share of associated entity's profit before income tax expense	2,259	2,971
Share of associated entity's income tax expense	(679)	(896)
Share of associated entity's profit after income tax	1,580	2,075
Summarised financial information of jointly controlled ventures		
Financial Position:		
Current assets	38	16
Non-current assets	489	565
Total assets	527	581
Current liabilities	(93)	(143)
Non-current liabilities	(1)	(9)
Total liabilities	(94)	(152)
Net assets	433	429
Group's share of net assets	216	215
Financial Performance:		
Share of jointly controlled ventures profit before income tax expense	419	548
Share of jointly controlled ventures profit after income tax	419	548
	1,999	2,623

Dividends and distributions received during the year
During the year the Group received dividends of $1.5 million (2012: $2.1 million) from its investments in associates and distributions of $0.4 million (2012: $0.4 million) from its investment in jointly controlled entities.

Capital commitments and contingent liabilities
There are no capital commitments or contingent liabilities relating to associates and jointly controlled entities in the current year.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 15: PROPERTY, PLANT & EQUIPMENT

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current and previous financial years:

	Freehold Land	Buildings	Leasehold Improvements	Plant & Equipment	Leased Plant & Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2012 - AGGREGATED						
Balance at 1 July 2011	239,598	540,354	71,287	235,747	18,742	1,105,728
Acquisitions through business combinations	-	-	500	820	-	1,320
Additions	3,263	32,431	15,942	79,135	2,549	133,320
Transfers	(6,522)	32,108	-	(25,586)	-	-
Depreciation	-	(18,654)	(9,315)	(37,768)	(3,782)	(69,519)
Disposals	-	-	(164)	(4,384)	(140)	(4,688)
Reclassified as held for sale	-	(2,018)	(7,345)	(15,573)	(425)	(25,361)
Effect of foreign currency exchange differences	-	23	169	164	265	621
Balance at 30 June 2012	**236,339**	**584,244**	**71,074**	**232,555**	**17,209**	**1,141,421**
2013 - AGGREGATED						
Balance at 1 July 2012	236,339	584,244	71,074	232,555	17,209	1,141,421
Additions	-	28,358	5,375	78,997	3,142	115,872
Transfers	-	12	(17)	5	-	-
Depreciation	-	(19,473)	(10,977)	(43,536)	(4,258)	(78,244)
Disposals	-	(37)	(4,054)	(7,972)	(359)	(12,422)
Reclassified from assets held for sale	-	2,018	7,345	15,573	425	25,361
Effect of foreign currency exchange differences	-	(20)	922	1,227	904	3,033
Balance at 30 June 2013	**236,339**	**595,102**	**69,668**	**276,849**	**17,063**	**1,195,021**
Net book value						
At the beginning of the year	236,339	584,244	71,074	232,555	17,209	1,141,421
At 30 June 2013	236,339	595,102	69,668	276,849	17,063	1,195,021
Net book value						
At the beginning of the year	239,598	540,354	71,287	235,747	18,742	1,105,728
At 30 June 2012	236,339	584,244	71,074	232,555	17,209	1,141,421

During the year ended 30 June 2013, the Group purchased property, plant and equipment to the value of $115.9 million (2012: $134.6 million) and disposed of property, plant and equipment with a written down value of $12.4 million (2012: $4.7 million). The purchase price of property, plant and equipment is considered by the Responsible Body to at least equate to the market value of the assets at 30 June 2013.

The Responsible Body believe that the carrying value of property, plant and equipment will be fully recoverable from the assets use and subsequent disposal (refer Note 2(e)).

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 16: INTANGIBLES

2012 - AGGREGATED	**Goodwill**	**Contract Management Rights**	**Operating Rights**	**Contract Development Costs**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2011	1,868,551	66,328	13,713	18,674	1,967,266
Acquisitions through business combinations	2,610	1,368	126	-	4,104
Additions	-	-	3,694	1,316	5,010
Amortisation	-	(8,154)	(5,273)	(1,759)	(15,186)
Reclassified to assets held for sale	(60,506)	-	-	-	(60,506)
Effect of foreign currency exchange differences	3,297	198	-	247	3,742
Balance as 30 June 2012	**1,813,952**	**59,740**	**12,260**	**18,478**	**1,904,430**
Net book value					
At beginning of the year	1,868,551	66,328	13,713	18,674	1,967,266
As at 30 June 2012	1,813,952	59,740	12,260	18,478	1,904,430

2013 - AGGREGATED					
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2012	1,813,952	59,740	12,260	18,478	1,904,430
Fair value adjustment to prior year acquisitions	991	(502)	-	-	489
Additions	-	-	1,943	741	2,684
Amortisation	-	(6,800)	(5,178)	(1,732)	(13,710)
Impairment	(120,000)	-	-	-	(120,000)
Reclassified from assets held for sale	50,636	-	-	-	50,636
Effect of foreign currency exchange differences	9,024	412	-	1,033	10,469
Balance as 30 June 2013	**1,754,603**	**52,850**	**9,025**	**18,520**	**1,834,998**
Net book value					
At beginning of the year	1,813,952	59,740	12,260	18,478	1,904,430
As at 30 June 2013	1,754,603	52,850	9,025	18,520	1,834,998

Allocation of goodwill and other intangibles to cash-generating units

The aggregate carrying amount of goodwill and other intangible assets allocated to the Group's cash generating units is provided below.

	Hospitals Australia	**Pathology Australia (ii)**	**Pathology International (ii)**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Goodwill				
2013	1,392,288	126,112	236,203	1,754,603
2012	1,392,288	195,576	226,088	1,813,952
Other Intangibles				
2013	48,239	13,360	18,796	80,395
2012	50,814	16,032	23,632	90,478

(i) Pathology Australia comprises the Pathology Australia and Medical Centres cash generating units.

(ii) Pathology International comprises the cash generating units relating to the Pathology businesses in New Zealand, Malaysia and Singapore.

NOTE 16: INTANGIBLES (cont'd)

Impairment of goodwill
As required under accounting standard AASB 136 Impairment of Assets, the Healthscope Group performs an impairment assessment when there is an indication or trigger of a possible impairment of its non-current assets. In addition, at least annually, the Healthscope Group performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment indicator has been identified. The annual review of goodwill and indefinite life intangible assets was performed at 30 June 2013. A review for impairment indicators was undertaken at 31 December 2012.

Impairment indicators
After considering the trading performance of each of the Healthscope Group's CGU's for the six months to 31 December 2012, an impairment indicator was identified with respect to the Pathology Australia CGU.

Impairment testing approach
Impairment testing compares the carrying value of a CGU with its recoverable amount based on the higher of its value in use (present value of future cash flows) or fair value less costs to sell (net selling price).

At 30 June 2012, the Healthscope Group assessed the Pathology Australia CGU for impairment using the fair value less cost to sell method based on the expected proceeds from the sale of the QLD, NSW and WA Pathology businesses to Sonic Healthcare Ltd. Using this method, no impairment was identified.

Subsequent to the release of the annual financial statements of the Healthscope Group for the year ended 30 June 2012:

- The sale of the Western Australian operation to Sonic Healthcare Ltd was successfully executed on 17 October 2012.
- The agreed timeline to execute the sale of the New South Wales business lapsed causing both parties to terminate the sale by mutual agreement
- The proposed sale of the Queensland business failed to achieve the necessary regulatory approval from the Australian Competition and Consumer Commission (ACCC).

As a result, the assets previously held for sale with respect to the QLD and NSW Pathology businesses were transferred from assets held for sale to their previous classification.

Furthermore, as no active market or committed sale agreement existed Healthscope elected to adopt the value in use method as at 31 December 2012.

Assumptions
The assumptions used for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on management's forecasts. These forecasts require management estimates to determine income, expenses, working capital movements, capital expenditure, and cash flows for each CGU. The projected cash flows for each individual CGU are discounted using an appropriate discount rate and terminal growth rate unique to each CGU.

The following assumptions were used in determining the recoverable amount of the Pathology Australia CGU as at 31 December 2012.

- *Discount rate* - The discount rate of 9.7% represents the pre-tax discount rate applied to the cash flow projections of the Pathology Australia CGU.
- *Organic growth rate* - The organic growth rate of 3.0% represents the growth rate applied to the cash flows within the five year forecast period, reflecting operational efficiencies, capacity utilisation, volume growth and cost rationalisation.
- *Terminal growth rate* - The terminal growth rate rate of 3.0% represents the growth rate applied to extrapolate the cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGU's long term performance

Results
The carrying value of the Pathology Australia CGU exceeded its value in use as at 31 December 2012. Accordingly an impairment charge of $120.0 million has been recognised against the carrying value of goodwill held by the Pathology Australia CGU.

Impairment testing analysis did not result in an impairment charge being allocated beyond goodwill and as such the impairment charges have been disclosed as "impairment of goodwill" in the Condensed Aggregated Statement of Profit or Loss and Other Comprehensive Income.

NOTE 16: INTANGIBLES (cont'd)

This impairment charge is a "non-cash" item and has no impact on the Group's syndicated debt facility or banking covenant ratios.

The impact of the federal government's deregulation of the Australian pathology industry resulted in a rapid increase in Approved Collection Centre's (ACC's) as pathology operators sought to protect and maintain existing volumes and market share. The costs of operating these additional facilities have had an adverse impact on margins. Federal government funding cuts to the pathology sector in the form of changes to the Medicare funding models have also negatively impacted the industry.

Whilst these industry conditions have been considered in estimating the expected future cash flows of the Pathology Australia CGU, it is possible that the assumptions used in estimating value in use may change over time which could impact on the assessment of the carrying amount of the Pathology Australia CGU in the future.

Impairment assumptions as at 30 June 2013

The following assumptions were used in determining the recoverable amount of each cash generation unit based on value in use as at 30 June 2013.

- 2013/2014 management approved profit and loss and cash flow budgets for each cash-generating unit;
- Inherent growth factors consistent with current performance for each CGU;

	Hospitals Australia	Pathology Australia	Pathology International
2013	5-6%	2-3%	3-5%
2012	4-5%	3%	3-4%

- Prevailing market based pre-tax discount rates for both the Group's debt and equity instruments is:

  Hospitals 8.3% (2012 9.7%), Pathology 9.7% (2012 9.7%), International Pathology 9.7% (2012 9.7%)
- Cash flow projections covering a five-year period and terminal value; and
- Terminal growth factors have been set at 3%

Aside from Pathology Australia which remains sensitive to future cash flows and other impairment assumptions, management believes that any reasonable possible change in the key assumptions, on which recoverable amount has been assessed would not cause any shortfall of recoverable amount in the cash generating units described above.

NOTE 17: TRADE AND OTHER PAYABLES

	2013	2012
	$'000	$'000
CURRENT		
Trade creditors	89,449	85,682
Sundry creditors and accruals	124,140	127,113
	213,589	212,795

The average credit year on purchases of goods is 30 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 18: DEFERRED PURCHASE CONSIDERATION

	2013	2012
	$'000	$'000
CURRENT		
Deferred purchase consideration	-	1,160

NOTE 19: BORROWINGS

	2013	2012
	$'000	$'000
CURRENT		
Secured - at amortised cost		
Finance lease liabilities (I)	4,411	4,927
Hire purchase facilities	6,804	7,029
Mortgage (II)	10,000	10,000
Bank loans (III)	28,585	42,000
	49,800	63,956
NON-CURRENT		
Secured - at amortised cost		
Hire purchase facilities	1,879	-
Finance lease liabilities (I)	14,655	13,971
Mortgage (II)	-	10,000
Bank loans (III)	1,074,401	1,342,500
Capitalised borrowing costs	(48,647)	(51,455)
Debt securities - Healthscope Notes I (IV)	200,000	200,000
Debt securities - Healthscope Notes II (V)	305,000	-
	1,547,288	1,515,016

Summary of borrowing arrangements

(i) The finance lease liabilities are secured by way of fixed charges over the leased assets to which they relate and have lease terms ranging from 1 to 7 years.

(ii) The obligation to pay the final instalment on the purchase of Newcastle Hospital site.

(iii) Bank loans are secured by asset security (in the nature of fixed and floating charges, share and loan mortgages and real property mortgages over certain parcels of material real property interests held by certain Group members) from certain entities of the Group including the entities who own the key operating assets of the Group.

(iv) Healthscope Notes I debt securities are subordinated debt obligations of Healthscope Notes Limited which rank behind the Senior Debt as set out in the Inter-creditor Deed, and rank equally without any preference among themselves. The maturity date of these notes is 17 June 2016. The notes are secured over the assets and entities of the Healthscope Group on a subordinated basis to the Senior Debt.

(v) Healthscope Notes II debt securities are subordinated debt obligations of Healthscope Notes Limited which rank behind the Senior Debt as set out in the Inter-creditor Deed, and rank equally without any preference among themselves. The maturity date of these notes is 25 March 2018. The notes are secured over the assets and entities of the Healthscope Group on a subordinated basis to the Senior Debt.

For the purposes of section 283BH of the Corporations Act which requires debt instruments that are offered to the public with disclosure under chapter 6D of the Corporations Act to be described as either “mortgage debentures”, “debentures” or “unsecured notes”, the notes are considered to be “unsecured notes”.

A syndicated facility of $1.55 billion was put in place on 22nd September 2010. The facility is a 5-year revolving debt and part amortising facility, which matures on 11 October 2015. The facility is currently utilised to $1.10 billion (2012: $1.43 billion). During the year, proceeds received from the issue of Healthscope Notes II totalled $305 million and were used to repay senior debt under the terms of the facility agreement. Due to mandatory repayments of $377 million since inception of the facility and the establishment of an additional tranche, the total facility size has decreased to $1.34 billion (Note 30).

NOTE 20: OTHER FINANCIAL LIABILITIES

	2013	2012
CURRENT		
Interest rate swaps	22,823	23,631
NON CURRENT		
Advance from related parties (I)	546,207	546,207
Interest rate swaps	22,686	37,705
	568,893	583,912

(i) Represents an advance from Healthscope Hospitals Holdings Pty Ltd and Healthscope Pathology Holdings Pty Ltd as part of the acquisition of Healthscope Limited in 2010. The advance is non-interest bearing and will only become payable upon completion of an exit event at the discretion of the Responsible Body with reference to whether the Healthscope Group has the financial capacity to repay.

NOTE 21: PROVISIONS

	2013	2012
	$'000	$'000
CURRENT		
Employee benefits (i)	100,196	92,998
Medical malpractice insurance (ii)	4,875	6,876
Onerous lease contracts and related costs (iii)	7,885	4,546
Other	1,633	3,491
	114,589	107,911
NON-CURRENT		
Employee benefits	18,409	16,620
Onerous lease contracts (iii)	34,288	8,617
	52,697	25,237
Medical malpractice insurance		
Balance at the beginning of the year	6,876	7,140
Additional provisions recognised	2,369	2,843
Reductions arising from payments / other sacrifices of future economic benefits	(3,690)	(2,132)
Reductions resulting from re-measurement or settlement without cost	(680)	(975)
Balance at the end of the year	**4,875**	**6,876**
Current	4,875	6,876
Non-current	-	-
	4,875	**6,876**
Onerous lease contracts		
Balance at the beginning of the year	13,163	25,633
Additional provisions recognised	33,089	-
Reductions arising from payments / other sacrifices of future economic benefits	(4,079)	(12,470)
Balance at the end of the year	**42,173**	**13,163**
Current	7,885	4,546
Non-current	34,288	8,617
	42,173	**13,163**

(i) The current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future rates, discounted to present value at appropriate discount rates. They are inclusive of on-costs.

(ii) The provision for medical malpractice insurance represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the Group.

(iii) The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangement where applicable. The unexpired term of the leases range from 1 to 20 years.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: ISSUED CAPITAL

	2013 $'000	2012 $'000
605,366,794 fully paid ordinary shares – Healthscope Hospitals Holdings No. 2 Pty. Ltd.	605,367	605,367
120,000,000 fully paid ordinary shares – Healthscope Pathology Holdings No. 2 Pty. Ltd.	120,000	120,000
236,800,000 fully paid ordinary shares – CT HSP Holdings (Dutch) B.V.	236,800	236,800
	962,167	962,167
Fully paid ordinary shares		
At the start of the financial year	962,167	962,167
Issue of shares – Healthscope Hospitals Holdings No. 2 Pty. Ltd.	-	-
Issue of shares – Healthscope Pathology Holdings No. 2 Pty. Ltd.	-	-
Issue of shares – CT HSP Holdings (Dutch) B.V.	-	-
At the end of the financial year	962,167	962,167

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par values concept in relation to share capital from 1 July 1998. Therefore, the Healthscope Hospitals Holdings No. 2 Pty. Ltd. and Healthscope Pathology Holdings No. 2 Pty. Ltd. do not have a limited amount of authorised capital and issued shares do not have a par value.

NOTE 23: ACCUMULATED LOSSES

	2013 $'000	2012 $'000
Healthscope Hospitals Holdings No. 2 Pty. Ltd.	(85,067)	(70,735)
Healthscope Pathology Holdings No. 2 Pty. Ltd.	(125,531)	1,318
CT HSP Holdings (Dutch) B.V.	45,193	21,088
	(165,405)	(48,329)
Balance at the start of the financial year	(48,329)	(63,821)
Loss for the year - Healthscope Hospitals Holdings No. 2 Pty. Ltd.	(14,331)	(2,350)
Profit/(loss) for the year - Healthscope Pathology Holdings No. 2 Pty. Ltd.	(126,850)	4,668
Profit/(loss) for the year - CT HSP Holdings (Dutch) B.V.	24,105	13,174
Balance at the end of the financial year	(165,405)	(48,329)

NOTE 24: RESERVES

(a) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from, the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

(b) Hedging reserve
The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

(c) Equity-settled employee benefits reserve
The equity-settled employee benefits reserve relates to share options granted by the Company to its employees under its management equity program. Items included in equity-settled employee's benefits reserve will not be reclassified subsequently to profit or loss. Further information about equity-settled benefits is set out in note 37.

NOTE 25: DIVIDENDS

During the year the Healthscope Group did not make any dividend or distribution payments (2012: Nil). Since the end of the current year, the Group has not declared any dividends or distributions (2012: Nil).

NOTE 26: COMMITMENTS FOR EXPENDITURE

	2013 $'000	2012 $'000
Capital expenditure commitments:		
Capital expenditure projects		
Plant and equipment		
- Not longer than 1 year	65,000	24,979
- Longer than 1 year but no longer than 5 years	12,400	-
- Longer than 5 years	-	-
	77,400	24,979

NOTE 27: CONTINGENT LIABILITIES

	2013 $'000	2012 $'000
Estimates of material amounts of contingent liabilities, not provided for in the financial report:		
Bank guarantee to the Workcover Corporation of South Australia, in order to satisfy certain statutory agreements.	1,434	2,940
Bank guarantees in respect of property leases.	13,474	13,877

NOTE 28: LEASES

	2013 $'000	2012 $'000
(a) Finance lease commitments:		
Minimum future lease payments		
Payable		
- Not later than 1 year	5,477	4,500
- Later than 1 year but no later than 5 years	15,166	16,374
- Later than 5 years	1,666	1,976
Minimum lease payments	22,309	22,850
Less future finance charges	(3,243)	(3,952)
Present value of minimum lease payments	19,066	18,898

These commitments represent future payments for various plant and equipment and have been recognised as a liability in the current financial year. No lease has a term greater than 12 years (2012: 12 years) and all leases expire within the next 6 years (2012: 6 years). The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

	2013 $'000	2012 $'000
Present value of minimum lease payments		
Payable:		
- Not later than 1 year	4,412	3,197
- Later than 1 year but no later than 5 years	13,091	13,869
- Later than 5 years	1,563	1,832
Present value of minimum lease payments	19,066	18,898
Included in the financial statements:		
- Current borrowings (Note 19)	4,411	4,927
- Non-current borrowings (Note 19)	14,655	13,971
Total	19,066	18,898

In relation to finance leases there are no restrictions imposed by lease arrangements.

(b) Operating lease commitments

	2013 $'000	2012 $'000
Non-cancellable operating leases contracted for but not capitalised in the financial report		
Payable:		
- Not later than 1 year	56,547	45,908
- Later than 1 year but no later than 5 years	121,843	101,661
- Later than 5 years	119,599	120,345
	297,989	267,914
Liabilities recognised in respect of non-cancellable operating leases		
Onerous lease contracts (Note 21)		
- Current	7,885	4,546
- Non-current	34,288	8,617
	42,173	13,163

Operating leases relate to properties leased by the Group with lease terms between 1 and 30 years. (2012: 1 and 30 years). All operating leases contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease year.

NOTE 29: BUSINESS COMBINATIONS

During the year, the following changes to the aggregated group were completed.

Acquisitions	**Date of acquisition**	**Proportion of ownership acquired %**	**Cost of acquisition $'000**
2013			
No acquisitions			
2012			
Dr Ross Wines Medical Practice	05-Mar-12	100%	
Chermside Medical Centre	06-Mar-12	100%	
Medlab South Limited (New Zealand pathology provider)	31-Mar-12	100%	
Consideration transferred			
Consideration in respect of current year acquisitions			-
Deferred purchase consideration in respect of prior year acquisitions paid in the current year			1,086
Total			**1,086**

Disposals	**Date of disposal**	**Proportion of ownership disposed%**	**Consideration received $'000**
2013			
Imaging Southport	31-Aug-12	100%	
Pathology WA	17-Oct-12	100%	
Imaging Nepean	14-Dec-12	100%	
Wyong Skin Cancer Clinic	31-Jan-13	100%	
Pathology Vets NSW & QLD	06-Feb-13	100%	
Pathology ACT & Southern Tablelands	28-Feb-13	100%	
Pathology Illawarra & South Coast	15-Apr-13	100%	
2012			
No disposals			
Consideration received in the current year			
Consideration received in cash & cash equivalents			22,154
Deferred sale proceeds			1,780
			23,934

NOTE 30: NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2013	2012
	$'000	$'000
Cash and cash equivalents	70,090	56,644

(b) Finance facilities		
Secured bank overdraft credit facility		
Amount utilised	-	-
Unused credit facility	5,000	5,000
	5,000	5,000
Secured credit facility (i)		
Amount utilised	1,102,985	1,384,500
Unused credit facility	240,000	143,000
	1,342,985	1,527,500
Receivables securitisation facility (ii)		
Amount utilised	111,657	114,054
Unused credit facility	28,343	25,946
	140,000	140,000

(i) The loan facility advances are secured by all asset security (in the nature of fixed and floating charges, share and loan mortgages and real property mortgages over certain parcels of material real property interests held by certain Group members) from certain entities of the Group including the entities who own the key operating assets of the Group

(ii) The Group has in place a receivables securitisation facility with its financier. Under the terms of the facility the Group was able to take off balance sheet $111,657 thousand (2012: $113,423 thousand) of eligible receivables and use the proceeds for working capital purposes. The facility has a scheduled commitment termination date of 25th October 2015.

(c) Acquisitions
During the financial year, the Group did not acquire any new businesses. However, a deferred purchase payment was made in respect of the prior year acquisition of Medlab South Limited, as disclosed in Note 29.The net cash outflow on acquisitions was $1,086,000 (2012: $2,784,000).

(d) Disposals
During the financial year, the Group disposed of part of its Australian pathology and diagnostic imaging operations. The net cash inflow from these disposals was $22.2 million.

NOTE 30: NOTES TO THE STATEMENT OF CASH FLOWS (Cont'd)

	2013 $'000	2012 $'000
(e) Reconciliation of net profit for the year to net cash flows from operating activities		
Profit/(Loss) for the year	(117,076)	15,492
Non-cash flows in operating profit		
- Depreciation and amortisation	91,954	84,705
- Impairment of goodwill	120,000	-
- Onerous leases and related costs	37,810	-
- Profit on sale of assets	(620)	(2,010)
- Profit on sale of businesses	(4,633)	-
- Amortisation of facility fees	16,228	15,509
- Interest capitalised to qualifying assets	(1,020)	(1,951)
Movement in deferred tax asset	(11,807)	(1,320)
Movement in current tax liability	(1,631)	878
Movement in deferred taxes liability	15,784	784
Changes in assets and liabilities:		
- Decrease / (increase) in receivables	(28,566)	10,410
- Decrease / (increase) in prepayments	(493)	1,243
- Increase in inventories	(1,944)	(847)
- Decrease to provisions	(5,926)	(8,753)
- Increase / (decrease) in payables	2,100	(2,429)
Net cash from operating activities	**110,160**	**111,711**

NOTE 31: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses, reserves, and non-controlling interests as disclosed in Notes 22, 23 and 24 respectively.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the group's assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt.

The Group's policy is to borrow centrally using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

The Responsible Body of the Group reviews the capital structure on an annual basis. As a part of this review the Responsible Body considers the cost of capital and the risks associated with each class of capital.

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

The gearing ratio at year-end was as follows:

	2013 $'000	2012 $'000
Borrowings - Current	49,800	63,956
Borrowings - Non Current	1,547,288	1,515,016
Debt (i)	1,597,088	1,578,972
Cash and cash equivalents	(70,090)	(56,644)
Net debt	1,526,998	1,522,328
Equity (ii)	778,366	871,337
Net debt to equity ratio	196%	175%

(i) Debt is defined as long and short-term borrowings (excluding derivatives and financial guarantee contracts), as detailed in Note 19
(ii) Equity includes all capital and reserves of the Group that are managed as capital

(b) Significant accounting policies
Details of the significant accounting policies and methods adopted, (including the criteria for recognition, the bases of measurement and the bases on which income and expenses are recognised) in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

(c) Financial risk management objectives
The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using interest rate swaps to hedge interest rate exposures. The use of financial derivatives is governed by the Responsible Body, which provide written principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports regularly to executive management and the Responsible Body.

The Group's activities expose it primarily to the financial risks of changes in interest rates. To manage its exposure to interest rate risk, the Group enters into interest rate swaps to mitigate the risk of rising interest rates.

(d) Categories of financial instruments
The Group managed the following financial instruments as at the end of the financial year.

	2013 $'000	2012 $'000
Financial assets		
Cash and cash equivalents	70,090	56,644
Trade and other receivables - at amortised cost	111,399	83,466
Loans and lease facilities - at amortised cost	4,000	6,000
Available-for-sale financial assets	4	157
Financial liabilities		
Trade and other payables - at amortised cost	213,589	212,795
Loans and lease facilities - at amortised cost	1,597,088	1,578,972
Derivative instruments in designated hedge accounting relationships	45,509	61,335
Financial guarantee contracts	14,908	16,817

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

(e) Credit risk management
Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counter parties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counter parties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter parties. Credit exposure is controlled by counter party limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counter party. The credit risk on liquid funds and derivative financial instruments is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other credit enhancements held.

(f) Foreign currency risk management
Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

The Group is not significantly exposed to transactional foreign currency risk associated with receipts and payments that are required to be settled in foreign currencies. These transactions are minor in value and quantum with the exposure managed on an individual basis usually through the spot rate purchase of foreign currencies.

Foreign currency risk arising on the translation of the net assets of the Group's foreign controlled entities, which have a different functional currency, is managed at the Group level. Foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve."

(g) Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Responsible Body, which has established an appropriate liquidity risk management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. Included in Note 30 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

The Healthscope Group's finance facilities are subject to certain covenants as outlined in the Senior Facility Agreement and Healthscope Notes Terms of Issue as at 30 September 2010.

The financial covenants comprise:

- Interest cover ratio;
- Senior gearing ratio;
- Debt service cover ratio;
- Capital expenditure.

At the date of this financial report the Responsible Body of the Healthscope Group is satisfied that the minimum requirements of the covenants have been met and is not aware of any event or potential event of default under the Senior Finance Documents.

Liquidity and interest risk table: Non-derivative financial instruments

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment years. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 year	1-5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000
2013					
Non-interest bearing		213,589	-	-	213,589
Finance lease liability	6.48%	4,412	13,091	1,563	19,066
Financial guarantees		1,769	5,072	8,067	14,908
Variable interest rate instruments	9.32%	242,167	1,182,116	-	1,424,283
Fixed interest rate instruments	10.65%	53,763	666,910	-	720,673
		515,700	**1,867,189**	**9,630**	**2,392,519**
2012					
Non-interest bearing		212,795	-	-	212,795
Finance lease liability	7.79%	3,197	13,869	1,832	18,898
Financial guarantees		484	8,656	7,677	16,817
Variable interest rate instruments	9.23%	282,947	1,574,169	-	1,857,116
Fixed interest rate instruments	11.25%	22,500	267,069	-	289,569
		521,923	**1,863,763**	**9,509**	**2,395,195**

Liquidity and interest risk table: Derivative financial instruments

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual cash flows on derivative instruments that settle on a net basis.

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
2013						
Net settled:						
Interest rate swaps	-	7,268	18,256	27,049	-	52,573
	-	**7,268**	**18,256**	**27,049**	**-**	**52,573**
2012						
Net settled:						
Interest rate swaps	-	812	24,017	39,617	-	64,446
	-	**812**	**24,017**	**39,617**	**-**	**64,446**

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

(h) Interest rate risk management
The Group are exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings, through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the statement of financial position or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 100 basis points lower or higher and all other variables were held constant, the Group's:

- Net profit/ (loss) after tax would increase by $2.44 million (2012: $3.26 million) and decrease by $2.44 million (2012: $3.26 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Interest rate swap contracts
Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable debt held. The fair value of interest swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following table details the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as at the reporting date. All interest rate swaps are held in the name of the Healthscope Limited.

Cash Flow hedges

	Average contracted fixed rate	Notional principal amount	Fair Values
	%	$'000	$'000
2013			
Less than 1 year	5.34%	75,000	(576)
1 to 2 years	5.80%	1,017,263	(44,933)
2 to 3 years		-	-
3 to 4 years		-	-
5 years +		-	-
		1,092,263	**(45,509)**
2012			
Less than 1 year	-	-	-
1 to 2 years	5.34%	75,000	(2,070)
2 to 3 years	5.76%	983,888	(59,265)
3 to 4 years	-	-	-
5 years +	-	-	-
		1,058,888	**(61,335)**

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in the profit or loss over the year that the floating interest rate payments on the debt impact profit of loss.

(i) Fair value of financial instruments carried at amortised cost

Except as detailed below, the Responsible Body considers the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value of financial instruments carried at amortised cost

	2013		2012	
	Carrying amount $'000	Fair Value $'000	Carrying amount $'000	Fair Value $'000
Financial assets				
Trade receivables	113,034	113,034	85,933	85,933
Financial Liabilities				
Trade and other payables	213,589	213,589	212,795	212,795
Loans and lease facilities	1,597,088	1,597,088	1,578,972	1,578,972

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Available for sale financial assets	4	-	-	4
Derivative financial assets	-	-	-	-
	4	-	-	4
Financial liabilities				
Derivative financial liabilities	-	(45,509)	-	(45,509)
	-	(45,509)	-	(45,509)

There were no transfers between level 1 and level 2 in the year.

2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				-
Available for sale financial assets	157	-	-	157
Derivative financial assets	-	-	-	-
	157	-	-	157
Financial liabilities				
Derivative financial liabilities	-	(61,335)	-	(61,335)
	-	(61,335)	-	(61,335)

There were no transfers between level 1 and level 2 in the year.

NOTE 32: RELATED PARTY TRANSACTIONS

Transactions with key management personnel and their related entities
From time to time the company and the Group enter into transactions with Responsible Body related parties. These transactions are on normal commercial terms and conditions and are no more favourable than those available to other parties. Accordingly such transactions are not disclosed.

During the year, CT Healthscope Holdings L.P. (in its capacity ultimate parent of the Healthscope Group) established an ownership-based compensation plan for certain executives and senior employees. Details of the plan are included within Note 37.

Other than the ownership-based compensation plan referred to above, the Group does not have any loans payable to or receivable from key management personnel. No loans were issued or repaid with such personnel during the year.

Loans payable to related parties are disclosed in Note 20.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 33: KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to key management personnel of the Group is set out below:

	2013	(Restated) 2012
	$'000	**$'000**
Short term employment benefits	3,569	3,296
Post-employment benefits	50	86
Termination benefits	-	22
Balance at the end of the year	3,619	3,404

Equity interests in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 36 to the financial statements.

Equity interests in associates and joint ventures
Details of interests in associates and joint ventures are disclosed in Note 14 to the financial statements.

NOTE 34: AUDITORS' REMUNERATION

	2013	2012
	$'000	**$'000**
Auditor of the Healthscope Group - Audit Services		
Audit or review of the financial report	716	705
Auditor of the Healthscope Group - Other Services		
Other assurance services	28	52
Other non-audit services	190	127
	934	884

All amounts were paid to Deloitte or Deloitte affiliated firms.

The auditor of the Healthscope Group is Deloitte Touche Tohmatsu

NOTE 35: SUBSEQUENT EVENTS

To the best knowledge of the Responsible Body, there has been no matter or circumstance that has arisen since the end of the year that has significantly affected or may affect the Group’s operations or state of affairs in future financial years.

NOTES TO THE AGGREGATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 36: ENTITES WITHIN THE AGGREGATED GROUP

Name of Entity	County of Incorporation	% Owned 2013 %	% Owned 2012 %
Parent Entity: Healthscope Hospitals Holdings No. 2 Pty. Ltd.	**Australia**		
Healthscope Limited	Australia	100	100
Healthscope Finance Pty. Ltd.	Australia	100	100
Asia Pacific Healthcare Group Pty. Ltd.	Australia	100	100
Healthscope South Australia Pty. Ltd.	Australia	100	100
Healthscope (Tasmania) Pty. Ltd.	Australia	100	100
Healthscope (Tasmania Finance) Pty. Ltd.	Australia	100	100
Maybury Craft Pty. Ltd.	Australia	100	100
Darwin Private Hospital Pty. Ltd.	Australia	100	100
Australian Hospital Care (Como) Pty. Ltd.	Australia	100	100
Australian Hospital Care (Dorset) Pty. Ltd.	Australia	100	100
Australian Hospital Care (Knox) Pty. Ltd.	Australia	100	100
Australian Hospital Care (Lady Davidson) Pty. Ltd.	Australia	100	100
Australian Hospital Care (Ringwood) Pty. Ltd.	Australia	100	100
The Victorian Rehabilitation Centre Pty. Ltd.	Australia	100	100
Healthscope Diagnostic Imaging Pty. Ltd.	Australia	100	100
Melbourne Hospital Pty. Limited	Australia	100	100
P.O.W Hospital Pty. Ltd.	Australia	100	100
Brisbane Private Hospital Pty. Ltd.	Australia	100	100
QPH Wickham Pty. Ltd.	Australia	100	100
Newcastle Private Hospital Pty. Ltd.	Australia	100	100
Nova Health Pty. Limited	Australia	100	100
Brisbane Waters Administration Pty. Ltd.	Australia	100	100
Brisbane Waters Equities Pty. Ltd.	Australia	100	100
HCA Holdings (Southport) Pty. Ltd.	Australia	100	100
HCA Management Company Pty. Ltd.	Australia	100	100
Pacific Private Hospital Pty. Ltd.	Australia	100	100
A.C.N. 141 265 714 Pty. Ltd. previously (Healthscope Aged Care Pty. Ltd.)	Australia	100	100
Allamanda Private Hospital Pty. Ltd.	Australia	100	100
Allamanda Surgicentre Pty. Ltd.	Australia	100	100
Healthscope Hospitals Holdings No. 2 Pty. Ltd. (cont'd)			
Rivercity Private Hospital Pty. Ltd.	Australia	100	100
Tweed Surgicentre Pty. Ltd.	Australia	100	100
Histoderm Pty. Ltd.	Australia	100	100
Healthscope Property Pty. Ltd.	Australia	100	100
Gold Coast Private Property Pty. Ltd.	Australia	100	100
Gold Coast Private Hospital Pty. Ltd.	Australia	100	100
Parent entity: Healthscope Pathology Holdings No. 2 Pty. Ltd.	**Australia**		
A.C.N 009 076 555 Pty. Ltd.	Australia	100	100
Clinical Laboratories Pty. Ltd.	Australia	100	100
FHIC Pty. Ltd.	Australia	100	100
General Pathology Laboratories Pty. Ltd.	Australia	100	100
Gribbles Molecular Science Pty. Ltd.	Australia	100	100
Gribbles Administrative Services Pty. Ltd.	Australia	100	100
Gribbles Pathology Pty. Ltd.	Australia	100	100
Mazlin Investments Pty. Ltd.	Australia	100	100
The Gribbles Group Pty. Ltd.	Australia	100	100
28-050-049-780 Pty. Ltd.	Australia	100	100
43 065 317 106 Pty. Ltd.	Australia	100	100
96 002 869 632 Pty. Ltd.	Australia	100	100
Davies, Campbell & de Lambert Pty. Ltd.	Australia	100	100
Medibill Pty. Ltd.	Australia	100	100
Grahame Hookway & James Carroll Medical Practice Company Pty. Ltd.	Australia	100	100
Nextpath Pty. Ltd.	Australia	100	100
Analytical References Laboratories Pty. Ltd.	Australia	100	100
Yarra Ranges Pathology Pty. Ltd.	Australia	100	100
Australian Dermatopathology Laboratory Pty. Ltd.	Australia	100	100
Bayside Pathology Pty. Ltd.	Australia	100	100
Advanced Medical Technology Pty. Ltd.	Australia	100	100

NOTE 36: ENTITIES WITHIN THE AGGREGATED GROUP (Cont'd)

Name of Entity	County of Incorporation	% Owned 2013 %	% Owned 2012 %
Healthscope Pathology Holdings No. 2 Pty. Ltd. (cont'd)			
Solaris Pathology Pty. Ltd.	Australia	100	100
E-clinic Pty. Ltd.	Australia	100	100
D F G Clinics Pty. Ltd.	Australia	100	100
Skin Alert Pty. Ltd.	Australia	100	100
Healthscope Medical Centres Pty. Ltd.	Australia	100	100
Hopkins Services Pty. Ltd.	Australia	100	100
Molescan Australia Pty. Ltd.	Australia	100	100
HCOA Pty. Ltd.	Australia	100	100
Healthcare of Australia Pty. Ltd.	Australia	100	100
Healthcare of Australia Holdings Pty. Ltd.	Australia	100	100
Healthbridge Diagnostics Holdings Pty. Limited	Australia	100	100
Diagnostic Finance Pty. Limited	Australia	100	100
Australian Diagnostics Group Pty. Limited	Australia	100	100
Pathology Victoria Pty. Limited	Australia	100	100
Pathology Specialists Pty. Limited	Australia	100	100
Pathology Diagnostics Pty. Limited	Australia	100	100
Pathology NSW Pty. Limited	Australia	100	100
Pathology First Pty. Limited	Australia	100	100
Pathology Vision Pty. Limited	Australia	100	100
Pathology South Coast Pty. Limited	Australia	100	100
APHG No. 2 Holdings 3 Pty. Ltd.	Australia	100	100
APHG No. 2 Pty. Ltd.	Australia	100	100
The Gribbles Group (Mauritius) Limited	Mauritius	100	100
Parent entity: CT HSP Holdings (Dutch) B.V.	**Netherlands**		
Healthscope New Zealand Ltd	New Zealand	100	100
New Zealand Diagnostic Group Ltd	New Zealand	100	100
Southern Community Laboratories Ltd	New Zealand	100	100

Name of Entity	County of Incorporation	% Owned 2013 %	% Owned 2012 %
CT HSP Holdings (Dutch) B.V. (cont'd)			
SCL Hawkes Bay Ltd	New Zealand	100	100
Canterbury SCL Ltd (formerly SCL Canterbury Ltd)	New Zealand	100	100
SCL Otago Southland Ltd	New Zealand	100	100
SCL Otago Southland Services Ltd	New Zealand	100	100
SCL Otago Southland Code Services Ltd	New Zealand	100	100
Northland Pathology Laboratory Ltd	New Zealand	100	100
Labtests Limited	New Zealand	100	100
Lab Tests Auckland Ltd	New Zealand	100	100
Gribbles Veterinary Pathology Ltd	New Zealand	100	100
APHG NZ Investments Limited	New Zealand	100	100
Medlab South Limited	New Zealand	100	100
Gribbles Pathology (Malaysia) SDN BHD	Malaysia	100	100
Gribbles Cytology Services SDN BHD	Malaysia	100	100
Gribbles Information Technology SDN BHD	Malaysia	100	100
Quest Laboratories Pte. Ltd.	Singapore	100	100
Doctors lab Diagnostic Pte. Ltd.[(i).]	Singapore	-	100
Quest Laboratories Vietnam Co. Ltd	Vietnam	100	100

(i) Doctors lab Diagnostic Pte. Ltd. was de-registered on 8 April 2013.

NOTE 37: SHARE BASED PAYMENTS

During the year, CT Healthscope Holdings L.P. (in its capacity ultimate parent of the Healthscope Group) established an ownership-based compensation plan for certain executives and senior employees. The Plan is designed to provide long term incentives for executives and senior employees to deliver long term returns. In accordance with the terms of the plan, certain executives and senior employees may be granted Options and Zero Exercise Price Options ("ZEPOs") over interests in CT Healthscope Holdings L.P. These interests represent equity settled interests.

345.2 Options were granted in the period from November 2012 to January 2013 with an exercise price of $97,967 and maximum 5 year period to expiry. The Options contain both service based conditions, performance based conditions in the form of annual Group financial performance targets and the achievement of an exit event with certain exit event financial performance hurdles. As at 30 June 2013, 2.3 Options have been forfeited and no Options were exercised or expired. 342.9 Options remain granted. 35.4 ZEPOs were granted in the period from November 2012 to January 2013 that have no exercise price and are exercisable on an exit event. The ZEPOs contained an option fee of $97,967 per interest that has been paid by the participants and recognised on balance sheet as at 30 June 2013. ZEPOs do not carry voting rights. As at 30 June 2013, 0.2 ZEPOs have been forfeited and no ZEPOs were exercised or expired and 35.2 ZEPOs remain granted.

The fair value of the Options and ZEPOs at grant date has been determined based on a market valuation of the Group as at grant date and taking into consideration management's best estimate of the probability of achieving respective market based condition and other assumptions for an option pricing model including volatility, term to exercise, future dividend payments and risk free interest rate. Due to the uncertainty of the eventual exit method, the value of the exit returns and having regard to the exercise price, the aggregate fair value of the Options and ZEPOs are not considered to be material. No expense has been recognised as at 30 June 2013 as a result of the application of the relevant accounting standard, AASB 2 'Share based payments'.

HEALTHSCOPE GROUP

RESPONSIBLE BODY'S DECLARATION

The Directors of each of:

- Healthscope Hospitals Holdings Pty. Ltd. (ACN 144 840 639);
- Healthscope Pathology Holdings Pty. Ltd. (ACN 145 250 157); and
- CT HSP Holdings (Dutch) B.V. (registration no. 34308383),

(together the '**Responsible Body'**) have agreed to appoint Mr Robert Cooke to act on their behalf for the purposes of making this Responsible Body's Declaration for the Healthscope Group.

The Responsible Body declares that in its opinion:

(a) there are reasonable grounds to believe that the Healthscope Group will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements, and give a true and fair view of the financial position and performance of the Healthscope Group.

On behalf of the Responsible Body

Robert Cooke

R. Cooke
Executive Chairman and Managing Director
Melbourne: 28 August 2013