

APPENDIX 4E

FULL YEAR ENDED 30 JUNE 2015 INFORMATION GIVEN TO THE ASX UNDER LISTING RULE 4.3A

Reporting period

Year ended 30 June 2015

Comparative period

Year ended 30 June 2014

Results for announcement to the market

From continuing and discontinued operations				\$'000
Revenue from ordinary activities	up	4.8%	to	2,438,243
Profit from ordinary activities after tax attributable to members	up	177%	to	140,848
Net profit/(loss) attributable to members	up	177%	to	140,848
From continuing operations				
Revenue from ordinary activities	up	5.8%	to	2,156,634
Profit from ordinary activities after tax attributable to members	up	188%	to	153,723
Net profit/(loss) attributable to members	up	188%	to	153,723

Dividends and distributions	Amount per security	Franked amount per security
Interim dividend – year ended 30 June 2015	3.3 cents	nil
Final dividend – year ended 30 June 2015	3.7 cents	nil
Record date for determining entitlement to dividend		14 September 2015
Payment date for dividend		29 September 2015

Net tangible assets (NTA backing)	30 June 2015	30 June 2014
Net tangible assets per ordinary security ⁽ⁱ⁾	\$0.19	(\$0.92)

(i) Net tangible assets represent the consolidated net assets of Healthscope Limited after subtracting intangible assets and deferred tax balances, including amounts classified within assets held for sale. For comparative purposes, the 30 June 2014 NTA backing calculation is based on the number of shares outstanding as at 30 June 2015 consistent with the basis of preparation adopted as disclosed within Note 2 of the attached financial statements. The number of shares on issue at 30 June 2015 was 1,732,094,838 (30 June 2014: 883,561,760).

Other information regarding the accounts

The information contained in this Appendix 4E is based on financial statements, which have been audited. An explanation of the figures presented above can be found in the director's report and the notes to the financial statements.



HEALTHSCOPE LIMITED

**CONSOLIDATED
FINANCIAL REPORT**

For the year ended 30 June 2015

TABLE OF CONTENTS

	Page
Directors' Report	1-32
Auditor's Independence Declaration	33
Independent Auditor's Report	34-35
Statement of Profit or Loss and Other Comprehensive Income	36
Statement of Financial Position	37
Statement of Cash Flows	38
Statement of Changes in Equity	39
Notes to the Financial Statements	40-100
Directors' Declaration	101

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

OVERVIEW

The Directors present their report for the financial year ended 30 June 2015 accompanied by the financial report of Healthscope Limited (ACN: 144 840 639) and the entities it controlled during the year ('Healthscope Group', 'the Group').

In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names of the directors of the company any time during or since the end of the financial year are:

Name	Position
Ms Paula J. Dwyer	Chairman
Mr Robert J. Cooke	Managing Director and Chief Executive Officer
Mr Antoni M. Cipa	Non Executive Director
Mr Aik Meng Eng	Non Executive Director
Mr Simon C Moore	Non Executive Director
Mr Rupert H. Myer AO	Non Executive Director

BOARD OF DIRECTORS

The details of each current Director's qualifications, special responsibilities and experience are set out below.

Ms Paula J. Dwyer

BComm, FCA, SF Fin, FAICD

Non Executive Chairman and Chair of the Nomination Committee from June 2014. Paula is an ex officio member of the Audit, Risk & Compliance and Remuneration Committees.

Skills, experience and expertise

Paula is an established Non Executive Director who had an executive career in finance holding senior positions in investment management, investment banking and chartered accounting with Ord Minnett (now JP Morgan) and PricewaterhouseCoopers.

Current Directorships

Chairman: Tabcorp Holdings Limited (from 2011, Director from 2005) Director: Australia & New Zealand Banking Group Limited (from 2012) and Lion Pty Limited (from 2012).

Member: International Advisory Board of Kirin Holdings of Japan, Business and Economics Board of the University of Melbourne and the ASIC External Advisory Panel.

Former Directorships include

Deputy Chairman: Leighton Holdings Limited (2013-2014, Director 2012), Baker IDI Heart and Diabetes Research Institute (2003-2013).

Director: Suncorp Group Limited (2007-2012), Astro Japan Property Group Limited (2005-2011), Fosters Group Limited (2011), Healthscope Limited (2010), Promina Limited (2002-2007), CCI Investment Management Ltd (1999-2011).

Member: Takeovers Panel (2008-2014).

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

DIRECTORS (cont'd)

Mr Robert J. Cooke

Bachelor of Health Administration, Grad Dip (Accounting & Finance)

Managing Director & Chief Executive Office from 2010. Executive Chairman from 2010 – 2014).

Skills, experience and expertise

Robert has had a 38 year career in the health industry, and has worked in management and corporate leadership positions in the public and private health sectors.

Robert's experience spans executive leadership of publicly listed and private healthcare companies, the management of private and public hospitals in Australia, and involvement in a number of due diligence teams for both Australian and international acquisitions.

Current Directorships

Managing Director: Healthscope Limited (from 2010).

Member: National Board of the Australian Private Hospitals Association

Former Directorships include

Chairman: Spire Healthcare Group plc (UK, now listed on the London Stock Exchange) (2008-2010), Healthscope Limited (2010-2014).

Managing Director and Chief Executive Officer: Symbion Health Limited (2005-2008).

Managing Director: Affinity Health Limited (2003-2005)

Mr Antoni M. Cipa

BBus, Grad. Dip. Accounting, AGIA

Non Executive Director since 2014. Chair of the Audit Risk & Compliance Committee and Member of the Remuneration and Nomination Committees

Skills, experience and expertise

Tony previously spent 20 years with CSL Limited in various senior finance roles. Tony was Chief Financial Officer, CSL (1994–2010) and was appointed to the Board of CSL Limited as Finance Director in 2000 until his retirement in 2010.

Current Directorships

Non Executive Director: SKILLED Group Limited (from April 2011), Navitas Limited (from May 2014) and Mansfield District Hospital (from July 2011).

Previous Directorships include

Executive Director: CSL Limited (2000-2010).

Mr Aik Meng Eng

BACct (Hons), MBA

Non Executive Director since 2013. Member of the Remuneration and Nomination Committees.

Skills, experience and expertise

Aik Meng was COO of Fortis Healthcare and responsible for all its international businesses ranging from dental clinics in Australia to primary care network in Hong Kong to hospitals in Singapore and Vietnam. He led business transformation and post-merger activities across the international business as part of Fortis' growth strategy.

Prior to joining the healthcare industry, Aik Meng spent 18 years in the maritime sector. His last position in that industry was as President of APL. APL is a leading container shipping and maritime terminal operator with global revenues of US\$8 billion.

Current Directorships:

Non Executive Director: Jurong Port Pte Ltd (from 2012). As a senior adviser to TPG, Aik Meng also sits as a Non Executive director of some of TPG's portfolio companies.

Adviser: Member of the Advisory Board, Nanyang Business School, Singapore, and ASEAN Advisory to the Human Capital Leadership Institute, Singapore.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

DIRECTORS (cont'd)

Mr Simon C. Moore

B.Comm (Hons), L.L.B. (Hons)

Non Executive Director since 2010. Member of the Audit, Risk & Compliance and Nomination Committees.

Skills, experience and expertise

Prior to joining The Carlyle Group, Simon was a Managing Director and Investment Committee Member of Investcorp International, Inc. based in New York. Prior to that, Simon worked in private equity investments and investment banking at J.P. Morgan & Co. in New York, Hong Kong and Melbourne.

Current Directorships:

Partner and Managing Director: The Carlyle Group (Sydney).

Chairman: Coates Hire Ltd (from 2015, director from 2008)

Alternate Director: Qube Holdings Limited (from 2011).

Mr Rupert H. Myer AO

BComm, MA, FAICD

Non Executive Director since 2014. Chair of the Remuneration Committee and Member of the Audit Risk & Compliance and Nomination Committees.

Skills, experience and expertise

Rupert's background includes roles in the retail and property sector, healthcare, e-commerce, investment, family office, wealth management, philanthropy services, and the community sector. He previously worked as a Manager at Citibank Limited in London and Melbourne. In 2015, Rupert became an Officer of the Order of Australia.

Current Directorships:

Deputy Chairman: Myer Holdings Limited (from 2012, director from 2006)

Director: Amcil Limited (from 2000) and eCargo Holdings Limited (from 2014).

Chairman: Australia Council for the Arts and Nuco Pty Ltd.

Member: Business and Economics Advisory Board of the University of Melbourne.

Board member: The Myer Foundation, Jawun – Indigenous Corporate Partnerships, the Yulgilbar Foundation, and the Felton Bequests' Committee.

Former Directorships include

Chairman: The Myer Family Group.

Director: Diversified United Investments Limited (2002-2012)

COMPANY SECRETARY

The Company Secretary is Ingrid Player. Ms Player was appointed to the position of Company Secretary on 8 November 2010. Ms Player is responsible for the legal affairs of the Healthscope Group and for all company secretarial matters. Prior to joining the Healthscope Group, Ms Player had over 10 years of experience working as a lawyer in Australia and overseas.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

DIRECTORS (cont'd)

Meetings of Directors

The number of meetings of the Board of Directors and of each Board Committee held during the year, and each Director's attendance at those meetings, are set out below:

(i) Board of Directors Meetings

	SCHEDULED		UNSCHEDULED	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Paula Dwyer (Chair)	11	11	2	2
Robert Cooke	11	11	2	2
Antoni Cipa	11	10	2	2
Aik Meng Eng	11	10	2	2
Simon Moore	11	11	2	2
Rupert Myer AO	11	11	2	2

(ii) Board Committee Meetings

	Audit, Risk & Compliance Committee		Remuneration Committee		Nominations Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Paula Dwyer ¹	2	2	4	4	1	1
Robert Cooke	-	-	-	-	-	-
Antoni Cipa	2	2	4	4	1	1
Aik Meng Eng	-	-	4	4	1	1
Simon Moore	2	2	-	-	1	1
Rupert Myer AO	2	2	4	4	1	1

¹ The Chairman is an ex-officio member of the Audit Risk & Compliance and Remuneration Committees.

The table above records attendance of Committee members. Any Director is entitled to attend these meetings and from time to time Directors attend meetings of Committees of which they are not a member.

The Board also forms and delegate's authority to ad hoc committees of the Board as and when needed to carry out specific tasks.

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

The interim dividend was recorded on 10 March 2015. The Directors approved the payment of an interim dividend of 3.3 cents per share and the total dividend paid was \$57.2 million.

The Directors resolved to pay a final dividend of 3.7 cents per share. The record date is 14 September 2015. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$64.1 million.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

OPERATING RESULTS

The consolidated profit of the Healthscope Group for the year, after income tax expense, was \$140.9 million (2014: \$183.2 million loss).

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

Healthscope is one of Australia's leading healthcare providers, with 45¹ private hospitals and 52 medical centres and skin clinics across Australia, and is a leading provider of pathology services in New Zealand, Singapore and Malaysia. Healthscope also previously owned and operated an Australian pathology business, which was divested on 6 July 2015.

Healthscope was originally formed in 1985 and listed on the Australian Securities Exchange (ASX) in 1994. In October 2010, the Healthscope business was acquired by a consortium of funds advised and managed by TPG and The Carlyle Group and subsequently de-listed from the ASX. On 28 July 2014, Healthscope was re-listed on the ASX. TPG and Carlyle retained a 38% shareholding in Healthscope following the IPO, which was subject to an escrow period concluding on 25 August 2015.

Hospitals

Healthscope is Australia's second largest private hospital operator with a portfolio of 45¹ private hospitals and over 4,400 beds nationwide. Of the 45 Hospitals Healthscope operates, 30 facilities are owned by Healthscope, 12 are leased by Healthscope and 3 are managed on behalf of Adelaide Community Healthcare Alliance (ACHA).

Healthscope's private hospital portfolio comprises 32 acute hospitals, seven psychiatric hospitals and six rehabilitation and extended care facilities. The hospital portfolio includes large high acuity hospitals, with 11 co-located with public teaching hospitals.

The hospitals are concentrated in Australia's large metropolitan centres with a presence in every State and Territory.

In 2003, Healthscope entered into an agreement with ACHA to manage three acute hospitals in South Australia. ACHA is a not-for-profit community health organisation based in South Australia, and is the largest private hospital group in that State. Healthscope is responsible for daily management of the hospitals' operations, while ACHA retains responsibility for strategic direction and governance.

Healthscope has over 17,000 Accredited Medical Practitioners registered within our hospital network across Australia. The patients of these Accredited Medical Practitioners are the main source of admissions into Healthscope hospitals, and Healthscope hospitals have a range of attributes that are attractive to Accredited Medical Practitioners, including high quality facilities in attractive locations, high quality nursing staff, industry leading quality and clinical outcomes, on site consulting suites and a number of other support services.

All of Healthscope's hospitals are accredited under the National Safety and Quality Health Services Standards, and Healthscope prides itself on providing market leading quality and clinical outcomes. Healthscope reports 22 quality and clinical outcomes publicly on the My Healthscope website, and outperforms the industry benchmark and its peers on the vast majority of indicators.

International Pathology

Healthscope's International Pathology division operates in New Zealand, Malaysia and Singapore with a small presence in Vietnam.

New Zealand

The New Zealand community pathology market is primarily based on exclusive contracts between pathology providers and government funded District Health Boards (DHBs). Healthscope trades under the Labtests, SCL and Northland brands. Healthscope also operates a veterinary pathology business in New Zealand, which trades as Gribbles Veterinary.

Healthscope holds DHB contracts in 13 of the 20 DHB regions, including community pathology contracts for the major cities of Auckland, Wellington and Christchurch. Healthscope's largest contract covers the greater Auckland region through Labtests Auckland which commenced in September 2009 and expires in September 2020.

Malaysia

Healthscope, operating as Gribbles Pathology, is one of the largest community pathology providers in Malaysia, with 28 laboratories across the country. These laboratories serviced over 1.5 million patient episodes for the year ended 30 June 2015. Revenue is sourced from general practitioners, hospitals and government/corporate programs.

¹ Includes LaTrobe Private Hospital which Healthscope commenced operating on 14 July 2015.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

Singapore

In Singapore, Healthscope, operating as Quest Laboratories, is one of the largest community pathology providers. Healthscope has one central laboratory supported by two satellite laboratories, which serviced approximately 1.5 million patient episodes for the year ended 30 June 2015. The Singaporean operations service general practitioners, specialists and corporate screening clients.

Vietnam

In Vietnam, Healthscope manages one laboratory in a private hospital outside Ho Chi Minh City specialising in women's and children's health. Given its size, this laboratory is managed as part of the Singaporean business.

Medical Centres

Healthscope owns and operates 47 medical centres and 5 specialist skin cancer clinics around Australia, providing serviced medical centres to approximately 420 General Practitioners².

General practitioners that operate in Healthscope's medical centres are not employed by Healthscope, but instead negotiate a service agreement with each individual medical centre. Under this agreement, Healthscope provides general practitioners with practice management services which typically include access to a consulting room at a serviced medical centre, nursing staff and other administrative support. As part of that arrangement, general practitioners pay Healthscope a service fee which is expressed as a percentage of the general practitioners' patient billings.

Australian Pathology

Prior to 6 July 2015, Healthscope operated an Australian Pathology business which included 30 laboratories and 560 collection centres across Victoria, New South Wales, South Australia and Northern Territory³. Previously, Healthscope also had pathology operations in Queensland which were closed in February 2015.

² Excludes the six skin clinics that Healthscope has agreed to divest as part of the sale of the Australian Pathology business.

³ As at date of divestment 6 July 2015.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

COMPARISON TO THE FY2015 STATUTORY FORECASTS IN THE PROSPECTUS

Group Comparison

	FY2015A Group \$M	FY2015 Prospectus Statutory \$M	% Variance
Revenue	2,438.2	2,448.4	(0.4%)
Operating EBITDA ¹	388.3	387.3	0.3%
Operating EBIT ¹	286.9	284.7	0.8%
Operating profit/(loss) after tax ¹	153.1	147.2	4.0%
Net profit/(loss) after tax	140.9	147.2	(4.3%)

(1) FY2015 results have been presented before other income and expense items ("non-operating items") of \$12.2 million (tax effected) in order to present the underlying trading performance of the business

Group Operating results delivered on Prospectus forecasts, with Group Operating Profit of \$153.1 million – 4.0% above the Prospectus forecasts.

Divisional comparison

	FY2015 Actual \$M	FY2015 Prospectus \$M	% Variance
Revenue			
Hospitals	1,852.5	1,848.6	0.2%
International Pathology	243.2	234.6	3.7%
Medical Centres	60.9	62.5	(2.6%)
Australian Pathology	281.6	302.7	(7.0%)
Total Revenue	2,438.2	2,448.4	(0.4%)
Operating EBITDA			
Hospitals	327.6	325.9	0.5%
International Pathology	60.0	56.4	6.3%
Medical Centres	15.0	15.3	(1.5%)
Australian Pathology	7.5	11.0	(32.3%)
Corporate	(21.8)	(21.3)	(2.4%)
Total Operating EBITDA	388.3	387.3	0.3%
Operating EBIT			
Hospitals	263.3	259.7	1.4%
International Pathology	45.6	43.1	5.7%
Medical Centres	8.7	8.6	0.7%
Australian Pathology	(4.1)	0.1	NM
Corporate	(26.6)	(26.8)	0.9%
Total Operating EBIT	286.9	284.7	0.7%

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

SUMMARY OF FY2015 FINANCIAL PERFORMANCE – GROUP RESULT

	FY2015 (\$M)	FY2014 (\$M)	% movement
Revenue	2,438.2	2,326.1	4.8%
Operating EBITDA ¹	388.3	357.3	8.7%
Operating EBIT ¹	286.9	262.3	9.4%
Operating profit/(loss) after tax ¹	153.1	(120.9)	NM
Net profit/(loss) after tax	140.9	(183.2)	NM
Earnings per Share (EPS)	8.6	(11.1)	NM
Diluted EPS	8.5	(11.1)	NM
Dividend per Share (DPS)	7.0	-	NM

(1) FY2015 results have been presented before other income and expense items ("non-operating items") of \$12.2 million (tax effected) in order to present the underlying trading performance of the business. FY2014 results have been presented before non-operating items of \$62.9 million (tax effected) on the same basis.

The FY2015 Operating EBITDA result of \$388.3 million represents 8.7% year on year growth, with growth driven by the Hospitals and International Pathology divisions. Operating EBIT of \$286.9 million was recorded, an increase of 9.4% on the previous year. The FY2015 Net Profit After Tax of \$140.9 million, compares to a net loss after tax of \$183.2 million in FY2014. The increase in Net Profit After Tax in FY2015 represents the operating performance of the business combined with a lower interest expense in FY2015 due to the post IPO capital structure.

FY2015 EPS is 8.6 cents, while the final unfranked dividend is 3.7 cents per share taking the full year dividend to 7.0 cents per share. The full year dividend per share is in line with a payout ratio of 70% based on Pro-forma net profit after tax after adjustment for interest and non-operating expenses.

BRIDGE OF CONTINUING OPERATIONS TO GROUP RESULTS

	FY2015 Statutory Continuing Operations (\$M)	FY2015 Statutory Discontinued Operations (\$M)	FY2015 Total (\$M)
Revenue	2,156.6	281.6	2,438.2
Operating EBITDA ¹	380.8	7.5	388.3
Operating EBIT ¹	291.0	(4.1)	286.9
Operating profit/(loss) after tax ¹	155.6	(2.5)	153.1
Net profit/(loss) after tax	153.7	(12.9)	140.9

(1) FY2015 results have been presented before other income and expense items ("non-operating items") of \$12.2 million (tax effected) in order to present the underlying trading performance of the business.

DIVISIONAL FY2015 FINANCIAL PERFORMANCE

Hospitals

	FY2015 (\$M)	FY2014 (\$M)	% Movement
Revenue	1,852.5	1,753.0	5.7%
Operating EBITDA	327.6	296.9	10.4%
Operating EBIT	263.3	238.1	10.6%
EBITDA margin (incl. ACHA fee) ¹	17.7%	16.9%	+80 bps
EBIT margin (incl. ACHA fee) ¹	14.2%	13.6%	+60 bps

(1) Operating EBITDA and EBIT margin includes prosthetics revenue and costs

The Hospitals division recorded revenue growth of 5.7% to \$1,852.5 million in the year ended 30 June 2015. Revenue growth was principally driven by increases in patient admissions to Healthscope's hospitals, case mix management and agreed increases in Private Health Insurance rates.

The Hospitals division Operating EBITDA increased by 10.4% to \$327.6 million in the year ended 30 June 2015, with the Operating EBITDA margin increasing by 80 basis points to 17.7%. Operating EBITDA growth and the increase in Operating EBITDA margin were principally driven by the revenue growth referred to above, and further cost efficiencies resulting from labour and procurement initiatives.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

International Pathology

	FY2015 (\$M)	FY2014 (\$M)	% Movement
Revenue	243.2	224.2	8.5%
Operating EBITDA	60.0	52.8	13.7%
Operating EBIT	45.6	40.1	13.7%
EBITDA margin	24.7%	23.5%	+120bps
EBIT margin	18.7%	17.9%	+80 bps

The International Pathology division recorded revenue growth of 8.5% to \$243.2 million in the year ended 30 June 2015, and EBITDA growth of 13.7% to \$60.0 million. The International Pathology EBITDA margin increased by 120 basis points to 24.7% in the year ended 30 June 2015. All countries within the International Pathology division contributed to the increase in earnings.

New Zealand

The New Zealand pathology business delivered revenue growth of 5.5% and EBITDA growth of 9.5% in the year ended 30 June 2015. Revenue growth was principally attributable to an increase in revenue under existing contracts, the full year impact of the Diagnostic Medlab business which was acquired in October 2013 and revenue from services provided to the greater Wellington region from May 2015. The increase in EBITDA was largely driven by the revenue growth outlined above and improved laboratory efficiencies and procurement benefits.

Singapore

The Singapore pathology business delivered revenue growth of 7.9% and EBITDA growth of 5.9% in the year ended 30 June 2015, reflecting continued growth in the specialist and commercial contract segments combined with labour efficiencies, partly offset by increased rent from further laboratory investment.

Malaysia

The Malaysian pathology business recorded revenue growth of 0.4% and EBITDA growth of 17.6% in the year ended 30 June 2015. Revenue growth was reflective of limited growth across the market which was impacted by a reduction in health screening programs and implementation of a GST policy during the year. EBITDA growth was delivered through efficiency improvements and also benefited from FY2014 results having been unfavourably impacted by doubtful debts provisioning.

Medical Centres

	FY2015 (\$M)	FY2014 (\$M)	% Movement
Revenue	60.9	60.4	0.8%
Operating EBITDA	15.0	15.0	0.3%
Operating EBIT	8.7	7.4	16.8%
EBITDA margin	24.7%	24.8%	(10 bps)
EBIT margin	14.3%	12.2%	+200 bps

The Medical Centres business recorded revenue growth of 0.8% to \$60.9 million in the year ended 30 June 2015. The relatively subdued revenue growth was largely a result of Healthscope's decision to transition away from upfront capital payments resulting in changes to the fee splits for doctors, which largely offset the benefits of fee increases and strong growth in vaccine sales.

The Medical Centres business recorded EBITDA growth of 0.3% to \$15.0 million in the year ended 30 June 2015. The benefits from efficiencies realised from labour and procurement initiatives were largely offset by the changes in fee splits with doctors outlined above.

The EBIT increase of 16.8% to \$8.7 million reflects the operating performance of the business outlined above and lower depreciation as a result of the move away from upfront capital payments to doctors.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

Australian Pathology

	FY2015 (\$M)	FY2014 (\$M)	% Movement
Revenue	281.6	288.5	(2.4%)
Operating EBITDA	7.5	11.1	(32.7%)
Operating EBIT	(4.1)	0.2	NM
EBITDA margin	2.7%	3.8%	(110 bps)
EBIT margin	(1.5%)	0.1%	(160 bps)

The Australian Pathology division revenue decreased by 2.4% to \$281.6 million in the year ended 30 June 2015. The decrease in revenue principally reflects the decrease in revenue from the Queensland business which was closed in February 2015 and the impact of the Medicare fee reduction on 1 November 2014, which more than offset the organic volume growth recorded by the business.

The Australian Pathology division EBITDA decreased by 32.7% to \$7.5 million in the year ended 30 June 2015, with continued progress on labour and procurement efficiencies being offset by the Medicare fee reduction and continued rent pressure.

These operations were divested on 6 July 2015 for total consideration of \$105 million⁴.

FINANCIAL POSITION

The Group has a strong financial position with \$4 billion in assets underpinned by \$2.3 billion of shareholder funds. With positive working capital and a gearing ratio of 29.4%, the Group has capacity to fund future growth. There is \$155 million in unrestricted cash reserves and \$300 million in loans available to fund the Group's expansion plans. Capital requirements for the Gold Coast and Northern Beaches developments are secured via project finance debt facilities.

CASHFLOW

Cash generated from operations of \$377.6 million represents an increase of 3.3% on FY2014 resulting in cash conversion (cash generated from operations/EBITDA) of 97.3%. Cash conversion on Continuing Operations was 99.2%.

Total capital expenditure of \$362.8 million was \$207.3 million higher than FY2014 primarily driven by increased brownfield capital investment associated with the Company's hospital expansion program. Construction on the Northern Beaches Hospital project also commenced during the year.

⁴ Includes proceeds from Healthscope's agreement to sell six of its skin clinics as part of the Australian Pathology transaction.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE YEARS

Healthscope has a range of operational and growth strategies for each of its businesses, and these, together with favourable industry dynamics across each of the markets in which the Company operates, provide a strong outlook for growth. Key strategies for each of Healthscope's businesses are outlined below.

Hospitals



Organic growth

Organic growth will continue to benefit from increasing demand for private hospital services, coupled with the delivery of further operational improvements in relation to case mix and continued efficiencies resulting from labour and procurement initiatives.

Healthscope will also continue to focus on delivering market leading quality and clinical outcomes and the promotion of transparent reporting of these and will continue to work collaboratively with health funds to explore additional pay for quality opportunities.

Brownfields and "Relocate and Grow" projects

Healthscope has significant experience in designing and building private hospital facilities, and is well positioned to expand its hospital facilities to meet additional patient demand through brownfield projects and relocate and grow projects.

Brownfield projects are those where an existing hospital is expanded through the addition of new beds and theatres, and in some cases other additional infrastructure such as consulting suites and car parking. "Relocate and Grow" projects involve the construction of a new hospital close to an existing hospital and the transfer of services from the existing hospital to the new facility which typically has increased capacity and higher quality amenities.

Healthscope currently has nine brownfield and relocate and grow projects currently under construction with a total estimated project cost of over \$600 million. These projects are expected to start to deliver growth in bed numbers from 2H F20Y16 and beyond.

- National Capital (ACT) – 41 beds, 3 theatres
- Knox (VIC) – 60 beds
- Norwest (NSW) – 60 beds, 3 theatres
- Gold Coast Private Hospital (QLD) - 284 beds, 13 theatres (net increase 64 beds and 3 theatres)
- Holmesglen - 144 and 8 theatres
- John Fawcner – day surgery and ED upgrade
- Geelong Private – 6 ICU beds
- Nepean Private – Hybrid theatre expansion
- Darwin Private - 2 theatres

In addition to projects under construction, Healthscope has a further five projects that are Board approved and in the final stages of planning.

- John Fawcner (VIC) – 42 beds, 2 theatres
- Sunnybank (QLD) – 2 theatres, consulting suites, car parking, refurb
- Northpark (VIC) – Emergency department
- Frankston (VIC) – 60 beds, 2 theatres
- Brisbane Private (QLD) – 60 beds, 4 theatres, day surgery and consulting suites

Healthscope has a number of other projects in planning stages, and we expect the project pipeline to be added to over time given the strong underlying demand dynamics and the significant development potential within the portfolio.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

Government partnerships and outsourcing

In response to growing demand for healthcare services and a public system under increasing pressure, it is expected that State and Territory Governments will increasingly seek to partner with private hospital operators for the construction and operation of public hospitals, and outsourcing of some aspects of service delivery to the private hospital sector. As Australia's second largest private hospital operator, with demonstrated leadership in quality and clinical outcomes, Healthscope is well positioned to capitalise on these opportunities.

In December 2014, Healthscope entered into a contract with the New South Wales Government to design, build, operate and maintain the new Northern Beaches Hospital in Sydney. The hospital will have 450 overnight beds, of which approximately 60% will be utilised by public patients. Construction of the hospital commenced in March 2015 and the hospital is expected to be operational in late 2018.

International expansion

With growing demand for healthcare services in Asia, Healthscope is actively assessing opportunities to leverage our hospital management expertise in the region. The most likely entry point into the Asian hospital market for Healthscope would be through a management contract or joint venture, which enables the leveraging of Healthscope's operational expertise, knowledge and training capabilities.

International Pathology

New Zealand

The priority for Healthscope in New Zealand is to continue to enhance its value proposition of high quality services and superior operational efficiencies to the District Health Boards ("DHBs").

In March 2015, Healthscope was awarded a new contract with three DHBs (Capital and Coast, Hutt Valley and Wairarapa) which will drive additional growth in FY2016

Operationally, Healthscope is focused on extracting further economies of scale benefits, including cost synergies, through greater operational integration of its expanded laboratory network.

Malaysia

In Malaysia, Healthscope has identified a number of growth opportunities including pursuing additional hospital outsourcing contracts and new screening packages for community patients.

Healthscope operates 26 laboratories across Malaysia and there are opportunities to improve workflow and efficiency through automation, as well as more centralised testing at the main laboratory. Opportunities for procurement efficiencies are also being explored through leveraging Healthscope's group buying power.

Singapore

In Singapore, Healthscope is focused on greater penetration in the hospitals and specialists segments. Healthscope has identified potential for greater laboratory labour efficiencies through benchmarking and increased laboratory automation. In addition to labour efficiencies, further procurement savings are being targeted by leveraging Healthscope's group purchasing power, consistent with our strategy in Malaysia.

Medical Centres

In the medical centres business, additional efficiencies are expected to be gained by maximising the number of patient consultations at existing centres, increasing the focus on cost management and strengthening the links between Healthscope's Medical Centres and Hospitals divisions, as well as the links between the medical centres and private health insurance funds.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

MATERIAL BUSINESS RISKS

Healthscope has a risk management framework in place that facilitates the identification, assessment and reporting of material business risks at a business and Group level.

Healthscope's risk management framework is reviewed annually by the Audit, Risk and Compliance Committee, and the Committee reports to the Board in relation to its effectiveness. In addition, a Head of Assurance has been recently appointed who is responsible for standardising the approach to financial, strategic, emerging, clinical, operational, safety, environmental and legal risks.

The material business risks that have the potential to impact achievement of the Group's strategic priorities and business objectives, with relevant mitigation strategies, are outlined below.

These risks should not be taken to be a complete or exhaustive list of the risks and uncertainties associated with Healthscope. Many of the risks are outside the control of the Directors. There can be no guarantee that Healthscope will achieve its stated objectives, that it will meet trading performance or financial results guidance that it may provide to the market, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

We have not included below the more generic risk areas that affect most companies or general economic factors that may impact Healthscope.

Government policy and regulation

Healthscope operates in healthcare industries which are subject to extensive laws and regulations relating to, among other things, the conduct of operations, the licencing and accreditation of facilities and the addition and development of facilities and services. There are a number of government policies and regulations that, if changed, may have a material adverse impact on the financial and operational performance of Healthscope. Healthscope monitors legislative and regulatory developments and engages appropriately with legislative and regulatory bodies to manage this risk.

Private health insurance funds

The majority of Healthscope's revenue is derived from private health insurance funds. The profitability of Healthscope's business is influenced by Healthscope's ability to reach ongoing commercial agreement with private health insurance funds. Failure to reach a satisfactory commercial agreement with a key private health insurance fund has the potential to negatively impact the financial and operational performance of Healthscope. Healthscope maintains a regular dialogue with each of the private health insurance funds and continues to work closely with them on various strategies, including pay for quality initiatives, to deliver mutually beneficial outcomes to both parties as part of our on-going contract negotiations.

Private health insurance fund membership and level of cover

A worsening economic climate, changes in economic incentives, annual increases in private health insurance premiums and other factors may cause the number of members in private health insurance funds to fall or result in members choosing to decrease their level of private health insurance coverage, which has the potential to reduce demand for Healthscope's services, resulting in decreased revenues.

If the profitability of private health insurance funds deteriorates, there is a risk that private health insurance funds may put increased pricing pressure on private hospital operators such as Healthscope. Healthscope monitors private health insurance participation rates and engages with the private health insurers on a regular basis.

Relationships with Accredited Medical Practitioners

Accredited Medical Practitioners tend to prefer to work at hospitals that have high quality facilities, equipment, nursing staff and clinical safety outcomes and are conveniently located, amongst other factors. In the event Healthscope's hospitals become less attractive to Accredited Medical Practitioners, there is a risk that Accredited Medical Practitioners will cease to practice at Healthscope's hospitals or refer patients to Healthscope's facilities. This, in turn, would adversely impact Healthscope's financial and operational performance. Healthscope seeks to maintain a strong relationship with its Accredited Medical Practitioners through regular engagement to understand their preferences and requirements and operates its hospital portfolio within a strict quality and clinical framework to mitigate the risk of poor quality and clinical outcomes.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

Licences and accreditation

If Healthscope is unable to secure or retain licences or accreditations for the operation of its hospitals and pathology laboratories (where required) in the future, or any of its existing licences or accreditations are adversely amended or revoked, this may adversely impact Healthscope's ability to operate its businesses. This risk is mitigated by Healthscope's comprehensive quality and clinical framework which seeks to ensure that facilities are maintained and operations are conducted to the standards required to retain licences and accreditation.

Competition

There is a risk that the actions of Healthscope's current or potential future competitors will negatively affect Healthscope's ability to:

- attract and retain Accredited Medical Practitioners to practice in Healthscope's hospitals;
- successfully tender for District Health Board contracts in New Zealand;
- attract community pathology work in Singapore or Malaysia; and
- attract and retain General Practitioners to practice in Healthscope's medical centres.

Healthscope is focused on providing high quality healthcare services across all its businesses and maintaining facilities to a high standard, so it can effectively compete in its each of its markets.

Nursing labour

The most significant cost in Healthscope's hospital operations is nursing labour. Increases in the cost of nursing labour or tightening of supply for nursing labour could have a material impact on the financial and operational performance of Healthscope.

Healthscope has a comprehensive recruitment program for nurses, including an active graduate recruitment program. Healthscope employs a range of nurses with different levels of experience and qualifications, so that nursing labour is matched to clinical needs.

Medical indemnity claims and associated costs

Current or former patients may, in the normal course of business, commence or threaten litigation for medical negligence against Healthscope. Subject to indemnity insurance arrangements, future medical malpractice litigation, or threatened litigation, could have an adverse impact on the financial performance and position and future prospects of Healthscope. Healthscope actively monitors and manages potential and actual claims and disputes.

Insurance

Insurance coverage is maintained by Healthscope consistent with industry practice, including workers compensation, business interruption, property damage, public liability and medical malpractice. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover all or any future claims. Healthscope's insurance coverage is managed by an experienced team who works closely with respective insurers, and also ensures that any claims are appropriately handled.

Development projects

Healthscope enters into development projects in its regular course of business such as brownfield and "relocate and grow" hospital developments. There are a number of risks associated with development projects, including business disruption during construction, cost overruns, and delays in anticipated revenues flowing from proposed developments. Healthscope has project specific risk management and reporting systems in place and the progress and performance of material projects is regularly reviewed by senior management and the Board.

New Zealand pathology contracts

Healthscope currently has contracts with 13 District Health Boards for the provision of pathology services in New Zealand. There is a risk that each time a contract becomes due for renewal, the relevant District Health Board enters into a new contract with another party or renews the contract with Healthscope but on less favourable terms. The majority of these contracts are multi-year contracts and Healthscope seeks to maintain strong relationships with each of the District Health Boards to mitigate the risk that a contract is not renewed or renewed on unfavourable terms.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

International expansion

Healthscope is exploring a range of international expansion opportunities. There is no certainty that any of these opportunities will result in new revenue streams and there is a risk that any new business venture may not be successful which could have a negative impact on Healthscope's financial results and reputation. Healthscope undertakes comprehensive due diligence in relation to any prospective acquisition or partnership and takes a disciplined approach to investment of capital to mitigate these risks.

Operating EBITDA

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:

	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Continuing operations		
Statutory net profit/(loss) for the year	153,723	(174,315)
<i>Add back</i>		
Income tax expense / (benefit)	64,762	(24,178)
Net finance cost	70,305	407,513
Depreciation and amortisation	89,848	84,113
Earnings before income tax, finance costs depreciation, and amortisation (EBITDA)	378,638	293,133
<i>Add back</i>		
Other income and expense items	2,201	53,035
Corporate Costs	21,769	18,445
Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA) from continuing operations	402,608	364,613
Discontinued operations (Pathology Australia)		
Statutory net profit/(loss) for the year	(12,875)	(8,836)
<i>Add back</i>		
Income tax expense / (benefit)	(2,575)	(4,954)
Net finance cost	249	316
Depreciation and amortisation	11,599	10,896
Earnings before income tax, finance costs depreciation, and amortisation (EBITDA)	(3,602)	(2,578)
<i>Add back</i>		
Other income and expense items	11,066	13,675
Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA) from discontinued operations	7,464	11,097

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REVIEW OF OPERATIONS (cont'd)

Operating EBITDA by reportable segments

The following table provides an analysis of the Operating EBITDA achieved by each reportable segment for the financial year ended 30 June 2015.

	Year ended 30 June 2015	Year ended 30 June 2014
	\$'000	\$'000
Operating EBITDA		
Hospitals Australia	327,595	296,858
Medical Centres	15,032	14,984
Pathology International	59,981	52,771
Total all segments	402,608	364,613
Corporate	(21,769)	(18,445)
Pathology Australia (now discontinued)	7,464	11,097
Total all segments after corporate costs	388,303	357,265

Operating EBITDA

Operating EBITDA represents profit before income tax expense, net finance costs, depreciation and amortisation adjusted for certain revenue and expense items that are unrelated to the underlying performance of the business. The Company believes that presenting Operating EBITDA provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating EBITDA is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information".

EARNINGS PER SHARE (Unaudited)

The directors have elected to present Earnings per Share (EPS) on both a statutory and pro forma basis. The calculation of "Statutory EPS" is presented in Note 19. The calculation of "Pro forma EPS" is presented below.

Statutory EPS has been calculated in accordance with the requirements of Accounting Standards based on:

- profit after tax attributable to shareholders (Statutory Profit); and the weighted average number of ordinary shares outstanding during the year ended 30 June 2015, which have been applied retrospectively in calculating EPS for the comparative period. The diluted average number of ordinary shares includes performance rights issued during the current year.

Pro forma EPS is a non-IFRS measure which has been calculated based on:

- "Operating EBITDA" which represents earnings before interest, taxation and, depreciation and amortisation, adjusted on a pro forma basis for:
 - the impacts arising from the change in debt profile upon IPO;
 - related income tax effect (Pro forma Profit); and
 - other income and expense items.
- the weighted average number of ordinary shares outstanding during the financial year ended 30 June 2015, assuming the IPO of Healthscope Limited occurred on or prior to 1 July 2014:
 - Basic: 1,732,094,838 (30 June 2014: 1,732,094,838)
 - Diluted: 1,733,801,271 (30 June 2014: 1,732,094,838)

The presentation of Pro forma EPS reflects the in-substance continuation of the "Healthscope Aggregated Group" within the financial report of Healthscope Limited, and is consistent with the basis of preparation adopted as disclosed within Note 1 under the heading *Group reorganisation and comparative information*.

The Directors consider that the presentation of Pro forma EPS provides users with a better understanding of financial performance and allows for a more relevant comparison of financial performance between financial periods.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

EARNINGS PER SHARE (Unaudited) (cont'd)

Continuing and Discontinued Operations	Note	30 Jun 2015 cents per share	30 Jun 2014 cents per share
Statutory EPS			
Basic	19	8.6	(11.1)
Diluted	19	8.5	(11.1)
Pro forma EPS			
Basic		10.0	9.1
Diluted		10.0	9.1
Reconciliation of earnings used in calculating Statutory and Pro forma EPS		30 Jun 2015 \$'000	30 Jun 2014 \$'000
Statutory Profit / (loss) from continuing and discontinued operations		140,848	(183,151)
Pro forma Profit (Unaudited) from continuing and discontinued operations		173,030	156,855
		2015 \$'000	2014 \$'000
Statutory net profit / (loss) for the year ⁽ⁱ⁾		140,848	(183,151)
Add: Other income and expense items ⁽ⁱ⁾		13,267	66,710
Add: Interest expense related to the pre-IPO debt profile ⁽ⁱⁱ⁾		70,305	407,513
Less: Pro forma interest expense based on the post-IPO debt profile ⁽ⁱⁱⁱ⁾		(45,739)	(45,739)
Less: Related tax effect ^(iv)		(8,394)	(112,964)
Add: One-off tax items ^(v)		2,743	24,486
Proforma Profit (unaudited)		173,030	156,855

⁽ⁱ⁾ From continuing and discontinued operations.

⁽ⁱⁱ⁾ Represents interest expense incurred during the period 1 July 2014 to 28 July 2014 based on the pre-IPO debt profile of the Group.

⁽ⁱⁱⁱ⁾ Represents pro forma interest expense for the period 1 July 2014 to 28 July 2014 assuming the post-IPO debt profile had been in place from 1 July 2014.

^(iv) Represents the net tax effect associated with the pro forma interest expense adjustment as well as the tax effect attributable to other income and expense items.

^(v) One-off tax items relate to non-deductible expenses and one-off adjustments prior to IPO which are not expected to arise in future years.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

STATE OF AFFAIRS

Initial Public Offering of Healthscope Limited

On 30 June 2014, Healthscope Hospitals Holdings Pty. Ltd., the ultimate parent entity of the Healthscope Group, lodged a prospectus with the Australia Securities and Investments Commission ("ASIC") related to the listing and quotation of its ordinary shares on the Australian Securities Exchange ("ASX") (the "Initial Public Offering" or "IPO").

On 3 July 2014, Healthscope Hospitals Holdings Pty. Ltd. became an unlisted public company and on 4 July 2014 changed its name to Healthscope Limited. The quotation of Healthscope Limited occurred 28 July 2014 under the ASX code: HSO, with shares trading on a conditional and deferred basis. Normal trading commenced on 4 August 2014.

In conjunction with the IPO, a capital raising occurred by way of an issue of 1,073.9 million Fully Paid Ordinary Shares in Healthscope Limited at a price of \$2.10 per share, being \$2,255.2 million. In addition, Healthscope Limited drew down \$995.0 million under its new banking facilities (before transaction costs).

Proceeds from the capital raising received by Healthscope Limited and the draw down on the new banking facilities were used to:

- repay existing liabilities of the Healthscope Group including existing bank loans;
- fund the redemption of Healthscope Notes I and Healthscope Notes II (cash settlement portion);
- fund the settlement of liabilities outside of the Healthscope Group including shareholder loans and costs of the IPO; and
- repay equity to shareholders.

As a result of the redemption of Healthscope Notes I & II, Healthscope Notes Limited was officially delisted from the ASX on 12 August 2014.

Group reorganisation and comparative information

In preparation for the IPO of Healthscope Limited, two group reorganisation transactions were undertaken which resulted in Healthscope Limited acquiring 100% of the shares in:

- Healthscope Pathology Holdings Pty Ltd and its controlled entities ("Pathology Australia") on 29 June 2014; and
- CT HSP (Dutch) Cooperatief U.A. and its controlled entities ("Pathology International") on 28 July 2014

These transactions occurred whilst Healthscope Limited, Pathology Australia and Pathology International were under the common control of CT Healthscope Holdings L.P. CT Healthscope Holdings L.P. was the legal parent entity of the Healthscope business for the period from 12 October 2010 (the date the Healthscope business was acquired by a consortium of funds advised and managed by TPG and The Carlyle Group) until its IPO on 28 July 2014.

For consolidation purposes, the transactions have been accounted for as business combinations between entities under common control at carrying value. Consequently, the assets and liabilities have not been remeasured to fair value nor has any additional goodwill arisen. Accordingly, the assets and liabilities of both Pathology Australia and Pathology International continue to reflect their carrying values as per the accounting records of CT Healthscope Holdings L.P. immediately prior to acquisition by Healthscope Limited. The difference between the consideration given and the carrying value of the assets and liabilities acquired by Healthscope Limited has been recognised within equity as part of the "Group reorganisation reserve".

Hospital acquisitions and disposals

On 1 July 2014 the Group acquired Frankston Private Day Surgery and Peninsula Oncology Centre for \$5 million.

On 22 July 2014 the Group disposed of its interests in the Brisbane Waters Private Hospital for \$20 million, representing the carrying amount of the net assets.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

SUBSEQUENT EVENTS

On 6 July 2015, Healthscope completed the sale of its Australian Pathology operations to Crescent Capital Partners for A\$105 million. As part of the sale Healthscope have also agreed to transfer six skin clinics from its Medical Centre operations to Crescent. The consideration of A\$105 million comprised cash proceeds of A\$92.5 million and a promissory note of A\$12.5 million. The resulting profit or loss on sale was not material.

As set out in the prospectus dated 30 June 2014, shares held in Healthscope by CT Healthscope Holdings L.P. (TPG/Carlyle) are subject to voluntary escrow arrangements. The number of shares subject to voluntary escrow was 658,195,966. The voluntary escrow arrangements expired, and the 658,195,966 shares were released from escrow, after the release of this financial report.

FUTURE DEVELOPMENTS

Healthscope Limited is well positioned to expand its hospital facilities to meet additional patient demand. Planning is in place for the expansion of major hospital facilities for the next 10 years, with developments planned at a number of key hospitals. Where developments are planned, Healthscope has applied for development approvals, consistent with the hospital's medium and long-term plans. This is intended to allow hospital expansions (including beds and operating theatres) to be delivered in a staged approach to meet patient demand, without the project delays which are associated with applying for new permits. Development applications typically last for two to four years (depending on the project) and can be extended for a further two to four years.

New Zealand

The priority for Healthscope in New Zealand is to continue to enhance its value proposition of high quality services and superior operational efficiencies to the District Health Boards (DHBs). Operationally, Healthscope is focused on extracting further economies of scale, including cost synergies, through the operational integration of its expanded laboratory network. Healthscope will seek to secure additional DHB contracts as they become contestable, and is well positioned to replace existing providers given its reputation for quality and service.

Malaysia, Singapore and Vietnam

In South East Asia, Healthscope is focused on further strengthening its market positions through an enhanced service offering and greater segmental market penetration. Across all its Asian pathology businesses, Healthscope has identified potential for greater laboratory labour efficiencies through benchmarking and increased laboratory automation. In addition to labour efficiencies, procurement savings can be achieved by leveraging Healthscope's centralised purchasing power. In Malaysia, Healthscope has identified a number of growth opportunities including pursuing additional hospital outsourcing contracts and new screening packages for community patients. Beyond its existing pathology operations, Healthscope will also look to capitalise on its knowledge and experience in the region to actively explore further opportunities for growth.

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 Limited, 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

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT

1 INTRODUCTION

This has been a significant year for Healthscope, with the company's successful Initial Public Offering seeing Healthscope return to the Australian Securities Exchange on 28 July 2014.

The Board believes the company's success depends on the performance of all Healthscope's employees. The structure of the remuneration, particularly at the Senior Executive level, is a key component in driving positive outcomes for employees, shareholders and the company as a whole. Healthscope's remuneration strategy and associated programs have therefore been specifically designed to align Senior Executive reward with the creation of shareholder value.

Healthscope has reported a good overall FY2015 result, achieving Operating EBIT¹ of \$286.9 million, an increase of 9.4% over the prior year.

Remuneration outcomes in FY2015 were consistent with Healthscope's positive performance against financial targets and, accordingly, awards were made to Senior Executives under the Short-Term Incentive (STI) Plan. The Board considers that FY2015 STI outcomes are consistent with shareholder outcomes across the same period.

2 WHO DOES THIS REPORT COVER?

This Report sets out the remuneration arrangements for the Healthscope Group's Key Management Personnel (KMP) (who are listed in the table below). For the remainder of this Remuneration Report, the KMP are referred to as either Senior Executives or Non Executive Directors.

Name	Position
Non Executive Directors	
Paula Dwyer	Chairman (Non Executive)
Antoni Cipa	Non Executive Director
Aik Meng Eng	Non Executive Director
Simon Moore	Non Executive Director
Rupert Myer AO	Non Executive Director
Senior Executives	
Robert Cooke	Managing Director and Chief Executive Officer (CEO)
Michael Sammells	Chief Financial Officer (CFO)
Mark Briscoe	General Manager Operations (GM Operations)
Anoop Singh	Chief Operating Officer Pathology (COO Pathology)

All Non Executive Directors and Senior Executives have held their positions for the duration of FY2015.

This Remuneration Report covers the entirety of FY2015 (rather than only the period post Healthscope's IPO) to ensure consistency with the basis of the preparation of the remainder of the financial report.

3 FY2015 REMUNERATION POLICY AND GUIDING PRINCIPLES

3.1 Non Executive Director Remuneration

Healthscope's remuneration policy for Non Executive Directors aims to ensure that Healthscope can attract and retain suitably qualified and experienced Non Executive Directors having regard to:

- the level of fees paid to Non Executive Directors of other major Australian companies;
- the size and complexity of Healthscope's operations; and
- the responsibilities and work requirements of Board members.

¹ Operating EBIT represents statutory earnings before interest, tax and other income and expense items ("non-operating items") of \$12.2 million (tax effected). Refer to the Review of Operations section for further details.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

3.2 Senior Executive Remuneration

The Board is committed to developing and maintaining a remuneration framework that is equitable and aligned with the long-term interests of Healthscope and its shareholders and which enables Healthscope to attract and retain skilled Senior Executives.

The particular principles that guide the Board and the Remuneration Committee when setting Senior Executive remuneration and the links to the remuneration framework are illustrated below. In FY2015 Senior Executive remuneration was made up of three components; Fixed Remuneration, STI paid in cash and Long Term Incentives (LTI) granted by way of performance rights to Healthscope shares (Performance Rights).

Remuneration principles		
<ul style="list-style-type: none"> – Ensure remuneration structures are equitable and aligned with the long-term interests of Healthscope and its shareholders; – Attract and retain skilled Senior Executives; – Structure short and long term incentives that are challenging and linked to the creation of sustainable shareholder returns; and – Ensure any termination benefits are justified and appropriate. 		
↓		
Remuneration framework FY2015		
Fixed Remuneration reflects seniority, complexity, nature and size of the role	At risk reward is performance-based, with a mix of STI and LTI aligned with Healthscope's strategic direction to deliver value to shareholders in both the short and long term.	
FIXED	AT RISK	
Total Fixed Remuneration (TFR) - cash <ul style="list-style-type: none"> – reviewed annually – formal benchmarking against peer companies with Senior Executive Fixed Remuneration generally positioned around the peer median – influenced by individual performance 	Short Term Incentives (STI) – cash For the CEO and CFO: <ul style="list-style-type: none"> – determined based on performance against financial targets – STI target opportunity at 100% of Total Fixed Remuneration (TFR); maximum opportunity set at 200% of TFR For other Senior Executives: <ul style="list-style-type: none"> – determined based on financial measures – a 'gateway' applied - 90% of overall company EBIT target must be achieved before any STI was earned – STI opportunity set at between 50% and 100% of TFR 	Long term incentives (LTI) – Performance Rights <ul style="list-style-type: none"> – the FY2015 LTI grant was made in the form of Performance Rights (i.e. rights to receive shares in Healthscope if the TSR and EPS performance measures are satisfied at the end of the measurement period) – for the CEO and CFO, the LTI opportunity set at 117% of TFR – for other Senior Executives, the LTI opportunity set at either 50% or 60% of TFR

4 REMUNERATION GOVERNANCE FRAMEWORK

4.1 Role of the Board and Remuneration Committee

The Board is responsible for ensuring that Healthscope's remuneration structures are equitable and aligned with the long-term interests of Healthscope and its stakeholders. The Remuneration Committee, established by the Board, is made up of a majority of independent directors, with responsibility for reviewing key aspects of Healthscope's remuneration structure and arrangements.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

The Remuneration Committee reviews and recommends to the Board:

- arrangements for the Executive directors, the Senior Executives and other executives reporting to the CEO (including annual remuneration and participation in incentive plans);
- major changes and developments to employee incentive plans; and
- remuneration arrangements for Non Executive Directors.

4.2 Remuneration consultants and other advisors

The Remuneration Committee consulted with various external advisers during the process of developing Healthscope's remuneration framework. The Committee intends to continue to obtain external independent advice when required, and will use it to guide and inform their considered decision-making.

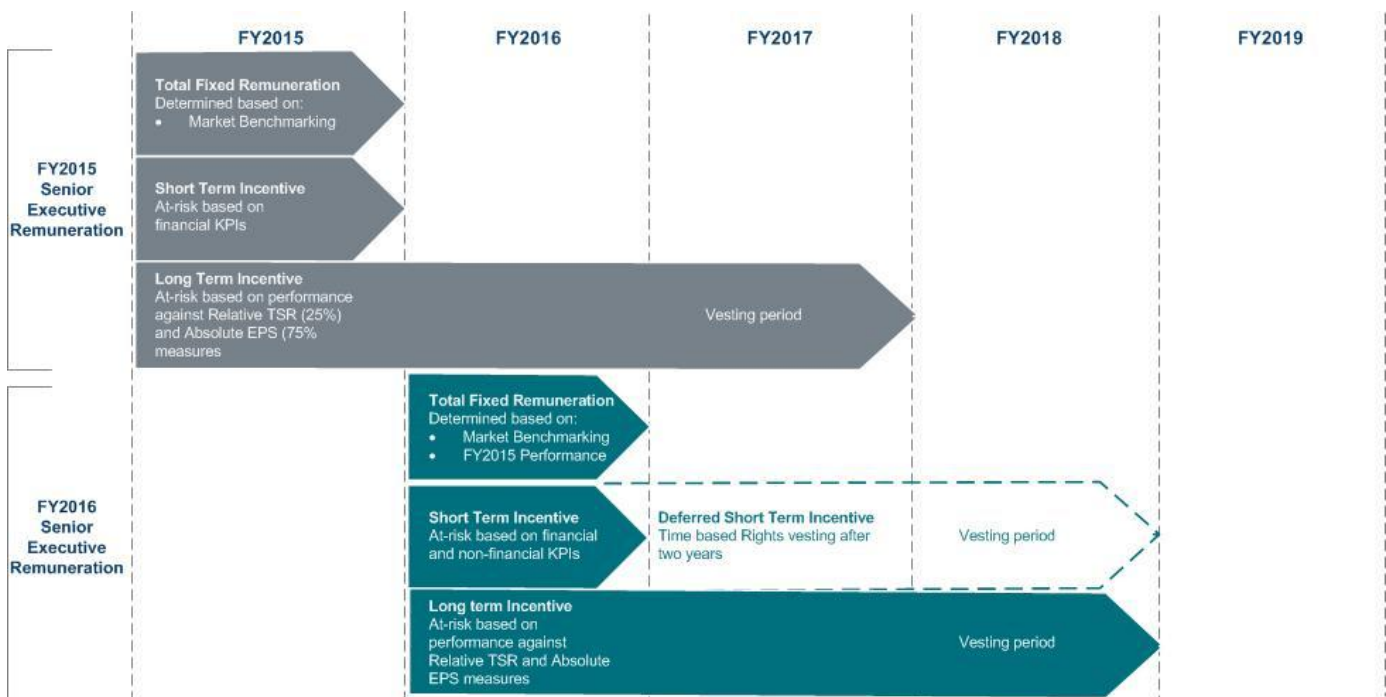
Healthscope did not receive any 'remuneration recommendations' as defined under the Corporations Act 2001 in FY2015.

5 REMUNERATION CHANGES FOR FY2016

5.1 STI changes

Key changes have been made to the STI component of Senior Executive remuneration in FY2016 to ensure that the remuneration structure is well suited to the company's new listed environment. The STI will be restructured from a 100% financial focus, to include strategically aligned, individually focused quantitative KPIs that will account for 30% of the target reward. In addition, Senior Executives receiving an STI award under this new structure will in FY2016 have 30% of any reward deferred into Performance Rights to Healthscope shares that will vest after a two-year period. The maximum STI opportunity for the CEO and CFO has been reduced from 200% of TFR to 150% of TFR, whilst stretch targets will be introduced for all other Senior Executive STI Plan participants.

The diagram below shows the impact of the introduction of STI deferral in FY2016, as compared with the FY2015 remuneration structure.



5.2 LTI changes

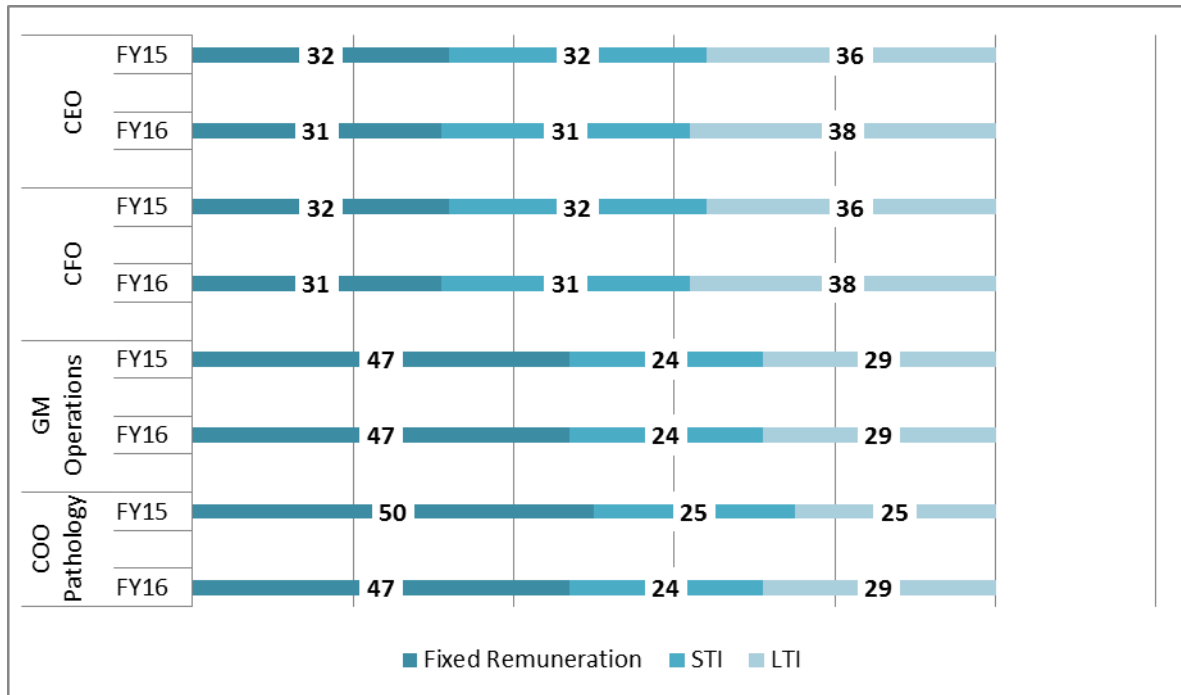
Participation in Healthscope's LTI Plan will be broadened to include other executives.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

5.3 Remuneration mix changes

In addition to the STI and LTI changes above, some rebalancing of remuneration components will also occur in FY2016 to ensure greater consistency across the Senior Executive group, as shown in the table below.



In FY2015, the CEO and CFO had a target and stretch STI opportunity while the GM Operations and COO Pathology had a single maximum STI opportunity (i.e. they did not have a stretch opportunity). In FY2016, the GM Operations and COO Pathology will also have target and stretch opportunities. Accordingly, for year on year comparative purposes, in this table, the GM Operations and COO Pathology's maximum STI opportunity in FY2015 has been halved so that it mirrors a remuneration mix with a target and stretch opportunity.

The Board believes that these changes will provide a competitive remuneration structure that strengthens the alignment of Senior Executives' interests with the long-term success of Healthscope and its shareholders and serves to retain skilled Senior Executives who are important contributors to the company's success.

6 NON EXECUTIVE DIRECTOR REMUNERATION

6.1 Current Non Executive Director fee pool

The current Non Executive Director fee pool was set by Healthscope at a general meeting on 28 June 2014 at \$2,000,000 per annum.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

6.2 Non Executive Director fee structure

Position	Board Fees	Board Committees		
		Audit Risk and Compliance Committee	Remuneration Committee	Nominations Committee ⁽¹⁾
Chairman	\$475,000 ⁽²⁾			
Non Executive Director	\$150,000			
Committee Chairman		\$30,000	\$30,000	
Committee Member		\$20,000	\$20,000	

Notes: All director fees include superannuation, as applicable. Until further notice, the Non Executive Director nominated by the Carlyle Group, Simon Moore, has waived his entitlement to any Board and Committee fees. The Non Executive Director nominated by TPG, Aik Meng Eng, has waived his entitlement to any Board and Committee fees from the date of listing.

⁽¹⁾ Included in Board fees

⁽²⁾ Fees include services on all committees

Other payments may be made for additional services outside the scope of Board and Board Committee duties.

Non Executive Directors are also entitled to be reimbursed for all travel and other expenses reasonably incurred in attending to Healthscope's affairs.

6.3 IPO specific arrangements

As disclosed in Healthscope's Prospectus, Non Executive Directors, Paula Dwyer, Tony Cipa and Rupert Myer, subscribed for shares in the IPO at the final IPO price of \$2.10 per share and were issued with offer bonus shares at no cost. The issue of offer bonus shares to the Non Executive Directors was intended to align their interests with those of shareholders.

7 SENIOR EXECUTIVE REMUNERATION IN DETAIL

7.1 Fixed Remuneration

Fixed Remuneration is made up of cash salary, superannuation and other approved benefits.

Benchmarking of Fixed Remuneration of the Senior Executives was conducted during FY2015 against peer companies. Fixed Remuneration of Senior Executives is generally positioned around the peer median.

7.2 Short Term Incentive

The STI Plan, (including its performance conditions) is designed to provide increased focus on and reward for performance against those areas that most significantly drive the delivery of Healthscope's strategic initiatives. Targets were set at the commencement of FY2015 and assessed at the end of the financial year, based on the company's audited annual results. Potential awards are expressed as a percentage of Fixed Remuneration. For FY2015, awards were paid in cash. For Senior Executives, other than the CEO and CFO, a gateway was in place which means a minimum of 90% of the Group EBIT target must be achieved before any incentives are paid. There was no gateway in place for the CEO and CFO.

7.2.1 STI KPIs

For FY2015, all STI targets for Senior Executives were financial, based on prospective forecasts for Group, and/or Divisional or State EBIT targets. These are set out below:

Senior Executive	Position	Targets and Weightings (as a percentage of the maximum potential reward)			
		Group Operating EBIT	Hospital Division Operating EBIT	Pathology Australia Operating EBIT	Pathology International Operating EBIT
Robert Cooke	MD & CEO	100%			
Michael Sammells	CFO	100%			
Mark Briscoe	GM Operations	50%	50%		
Anoop Singh	COO Pathology	20%		40%	40%

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

Performance against financial targets is assessed by the Board following the release of the company's annual audited results to ensure transparency of outcomes.

7.2.2 Cessation of employment

On cessation of employment, Senior Executives are not entitled to any unpaid STI, other than where the Senior Executive resigns for illness or other approved reasons, or where employment is terminated due to redundancy. In such cases, the Senior Executive, subject to Board discretion, may receive a pro-rata STI award based on performance over the period of the year that they were employed.

For the CEO and CFO, STI is not payable where the CEO or CFO has resigned and employment terminates before the payment becomes payable (as determined at the sole discretion of the Board). STI is payable if the STI becomes due and employment is terminated by the Company.

7.2.3 STI Awards for FY2015

In relation to the Senior Executive STI KPIs for FY2015, all EBIT KPIs were met at target, other than the Pathology Australia EBIT target. The CEO and CFO did not achieve their stretch targets.

Details of STI outcomes for the FY2015 performance year are set out in the table below. These outcomes were formalised immediately prior to issue of this financial report based on the company's audited results for FY2015.

Percentage of STI paid and forfeited for Senior Executives

Senior Executive	Position	Actual STI awarded (\$)	Actual STI awarded as % of maximum STI	% of maximum STI award forfeited
Robert Cooke	MD & CEO	1,500,000	50%	50%
Michael Sammells	CFO	685,956	50%	50%
Mark Briscoe	GM Operations	398,748	100%	0%
Anoop Singh	COO Pathology	108,397	60%	40%

7.3 Long Term Incentive

The LTI Plan is designed to align the interests of Senior Executives with the interests of shareholders by providing the opportunity for participants to receive an equity interest in Healthscope through the granting of Performance Rights.

Growth remains a key plank of Healthscope's strategic plan and it is appropriate that Senior Executives be incentivised around measures which demonstrate sustainable growth. The LTI Plan also acts to retain key executives who have the capacity to influence company strategy and direction and therefore supports company performance and the interests of shareholders over the longer term. Grants pursuant to the LTI Plan are made a face value.

Healthscope introduced the LTI Plan at the time of IPO and the FY2015 LTI grant delivered awards in the form of Performance Rights. Each Performance Right entitles the holder to acquire one ordinary share in Healthscope on satisfaction of performance conditions.

Performance Rights were granted at no cost to the participants as they form part of remuneration. The Performance Rights are subject to two separate performance measures – 75% of the LTI grant is measured against Absolute Earnings Per Share (EPS as defined in section 7.3.3) and 25% of the LTI grant is measured against Relative Total Shareholder Return (RTSR). Performance is tested against these measures at the end of the performance period, being 30 June 2017. Performance Rights do not carry any voting or dividend entitlements.

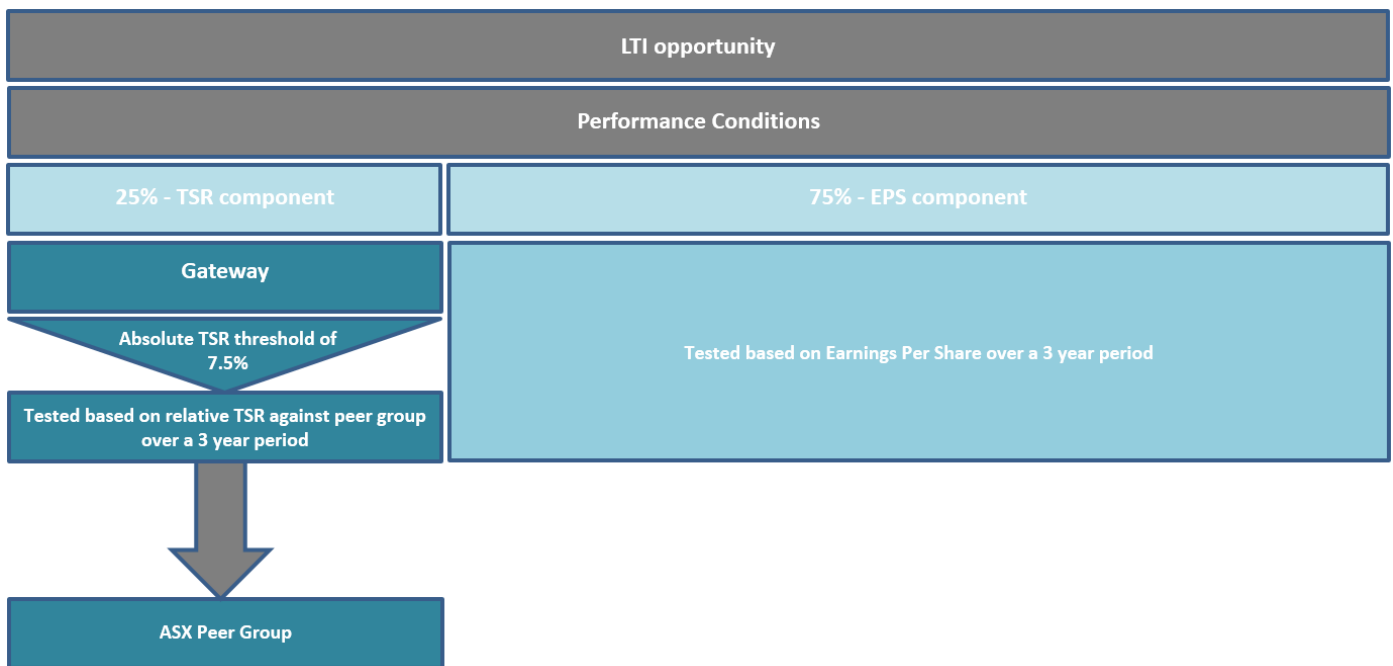
Pursuant to the LTI Plan Rules, the Board also has broad "clawback" powers to determine that Performance Rights lapse or are forfeited, or that amounts are to be repaid in certain circumstances (e.g. in the case of serious misconduct). This protects Healthscope against the payment of LTI benefits where participants have acted inappropriately.

Grants under the LTI Plan are expressed as a percentage of Total Fixed Remuneration. Grants for FY2015 ranged from 50% to approximately 120% of Fixed Remuneration.

The diagram below is a snapshot of the terms and conditions applying to the LTI arrangements for all Senior Executives in FY2015, with further details of the LTI arrangements outlined in sections 7.3.1-7.3.6 below.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT



7.3.1 Participation

All Senior Executives participated in the LTI Plan in FY2015.

7.3.2 Performance Hurdles

The LTI Plan has dual performance hurdles – EPS and RTSR (with an absolute TSR gate or threshold of 7.5% to be achieved before RTSR can be assessed). The mix of measures means that both lead indicators (indicative of Healthscope business operations) and lag indicators (reflecting the market's reaction to the company's past performance) are utilised.

The EPS measure was selected because of its correlation with long term shareholder return and its lower susceptibility to short term share price volatility. This measure also provides a greater 'line of sight' between Senior Executives' actions and the way in which their performance is measured. Consequently, this component was more heavily weighted in order drive performance and provide an appropriate retention incentive.

RTSR measures the performance of an ordinary Healthscope share (including the value of any cash dividend and any other shareholder benefits paid during the period) against total shareholder return performance of a comparator group of companies, comprising a segment of the S&P ASX100 Index, over the same period. The Board believes that RTSR is an appropriate hurdle, as it links Senior Executive reward to Healthscope's relative share performance which is consistent with creating shareholder value relative to Healthscope's peer group. No reward is achieved unless Healthscope's TSR is higher than the median of this comparator group.

These hurdles and vesting schedules are set out below:

Absolute EPS Performance (75% Weighting)	Relative TSR Performance (25% Weighting)	Portion of PRs that will vest against relevant target
Less than the threshold target	Less than the 50th percentile	Nil
Equal to the threshold target	At 50th percentile	50%
Greater than the threshold target, up to maximum target	Between 50th and 75th percentile	Straight line vesting between 50% and 100%
At or above maximum target	At or above the 75th percentile	100%

7.3.3 Measurement

The performance period for the FY2015 grant runs from the date that Healthscope was listed on the ASX (28 July 2014) to 30 June 2017. The slightly shorter than three year period was determined so that the end of the period aligns with Healthscope's financial reporting calendar.

Before the RTSR hurdle is measured, the Company must obtain a minimum TSR of 7.5% over the performance period. If this gateway is not achieved, no awards will vest, regardless of the RTSR performance.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

For the FY2015 grant, RTSR performance is independently assessed over the performance period against a peer group comprising constituents of the S&P ASX 100 index (excluding companies classified as banks, energy, metals and mining, trusts and overseas domiciled companies).

No retesting is permitted.

EPS is calculated using net profit after tax excluding other income and expense items (Operating profit after tax), divided by the weighted average number of shares on issue during the year. For the FY2015 grant, two methods have and will be used in setting EPS targets. Healthscope as a newly listed company could not draw upon recent EPS data to use as a basis for setting EPS targets. The EPS target for Year 1 (FY2015) was therefore set on the basis of financial forecasts in Healthscope's Prospectus. Targets for the subsequent two years of the grant will be set annually by the Board, based on budgeted EPS performance for each year. EPS results for the three years will be averaged to provide an overall outcome for the performance period.

An average threshold of 50% of target over the performance period must be reached before any Performance Rights measured against the EPS target can vest.

7.3.4 Cessation of Employment

Where a participant ceases employment for cause or due to resignation (other than due to death, ill health or disability) all unvested Performance Rights will automatically lapse.

In all other circumstances, the Performance Rights will remain on foot and subject to the original performance conditions, as if the participant had not ceased employment.

However, pursuant to the LTI Plan Rules, the Board retains absolute discretion to determine, vest or lapse some or all Performance Rights in all circumstances.

7.3.5 Change of Control

Where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the Performance Rights. Where only some of the Performance Rights are vested on a change of control, the remainder of the Performance Rights will immediately lapse.

If a change of control occurs before the Board exercises its discretion, a pro-rata portion of the Performance Rights (equal to the portion of the relevant Performance Period that has elapsed up to the change of control) will immediately and automatically vest.

7.3.6 Performance Rights Granted for FY2015

Senior Executive	Position	Number of Rights Granted	Grant Date	Face value at Grant Date \$
Robert Cooke	MD & CEO	833,334	28 July 2014	2.10
Michael Sammells	CFO	380,953	28 July 2014	2.10
Mark Briscoe	GM Operations	113,668	28 July 2014	2.10
Anoop Singh	COO Pathology	85,834	28 July 2014	2.10

7.4 Company performance for FY2015

The table below provides a snapshot of Healthscope's performance over FY2015. The link between Healthscope's performance and STI outcomes is considered above at section 7.2.3.

Share Performance (\$)				Earnings Performance (\$M)				Liquidity	
Closing share price (A\$)	Dividend p/share (cents)	TSR ⁽¹⁾ (%)	EPS (cents)	Statutory EBIT (\$M)	Statutory NPAT (\$M)	Operating profit after tax (\$M)	ROE (%)	Net cash provided by operating activities (\$M)	Debt Equity Ratio %
2.72	3.3	31	8.6	288.8	140.9	153.7	6.1	301.8	51

(1) The opening share price on 28 July 2014 was \$2.10. Dividends include only those amounts declared and paid up to 30 June 2015.

In the future, Healthscope will be able provide comparative metrics for previous financial years during which it was listed.

In FY2015, Healthscope has delivered on its Prospectus forecasts, continued to invest in its strong pipeline of growth opportunities and has provided the highest standards of healthcare to nearly ten million patients in Australia, New Zealand and South East Asia.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

7.5 IPO specific arrangements

7.5.1 Legacy LTI Plan

All Senior Executives were previously participants in Healthscope's legacy 2012 LTI Plan, which provided participants with the capacity to acquire options and zero exercise priced options over shareholder loan notes in entities in the Group (Options). The legacy LTI plan was broadly based, covering approximately 50 participating executives and senior managers.

The Options were subject to both performance and service conditions. Under the terms of the Senior Executives' employment agreements, in the event of an IPO, any unvested Options vested and became exercisable provided that the Senior Executive continued to be employed by Healthscope at the date of the IPO.

The Options over shareholder loan notes in Group companies (as outlined below) held by the Senior Executives at 1 July 2014 were:

Senior Executive	Position	Options in Healthscope Hospitals Holdings Pty Ltd (now the Company)	Options in Healthscope Pathology Holdings Pty Ltd (now a subsidiary of the Company)
Robert Cooke	MD & CEO	5,042,378	541,853
Michael Sammells	CFO	2,779,774	298,715
Mark Briscoe	GM Operations	937,365	100,729
Anoop Singh	COO Pathology	581,811	62,521

All Options vested prior to the IPO. The Senior Executives were entitled to sell the vested Options and were required to reinvest 50% (in the case of Robert Cooke) and 60% (for other Senior Executives) of the after tax proceeds in Healthscope shares to be issued at the final IPO price of \$2.10 per share.

These shares cannot be disposed of or otherwise dealt with until two years after completion of the IPO (being 31 July 2016) and are subject to voluntary escrow during this period. If a Senior Executive gives notice of resignation during that period, other than in the case of death, total permanent disability or terminal illness, the shares will be forfeited.

See section 8.4 for further details on KMP shareholdings.

7.5.2 Retention Payments

In order to focus the efforts of Senior Executives on achieving an IPO and to encourage management stability post Healthscope's

IPO, one-off retention payments were made to Senior Executives. These payments (less any amount of taxation payable by the Senior Executive) were applied as a subscription payment for Healthscope shares at the final IPO price of \$2.10 per share. These shares cannot be disposed of or otherwise dealt with until two years after completion of the IPO (being 31 July 2016) and are subject to voluntary escrow. If a Senior Executive gives notice of resignation during this period, other than in the case of death, total permanent disability or terminal illness, the shares will be forfeited.

See section 8.4 for further details on KMP shareholdings.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

7.6 Key terms of Executive service agreements

All Senior Executives are party to a written Executive service agreement with Healthscope Operations Pty Ltd (ACN 006 405 152) (a wholly owned subsidiary of Healthscope).

7.6.1 Key terms of Executive Service Agreement for CEO

Duration	Ongoing
Periods of notice required to terminate	12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for dishonesty, fraud, wilful disobedience or misconduct (in which case no notice is payable). Payment in lieu of all or a portion of the notice period may be made at the Company's discretion
Termination payments	May not exceed the maximum amount which the Company is permitted to pay the CEO under the Corporations Act. STI is not payable where the CEO has resigned and terminates before the payment becomes payable (as determined at the sole discretion of the Board). STI is payable if the STI becomes due and employment is terminated by the Company. Average base salary is payable during any restraint period. Unvested securities will be treated in accordance with the relevant Plan Rules.
Restraint of trade	The CEO is restrained from competing with Healthscope or other members of the Healthscope Group during his employment and for up to 12 months post termination of his employment

7.6.2 Key terms of Executive Service Agreements for other Senior Executives

Duration	Ongoing
Periods of notice required to terminate	CFO – 12 months' notice by either party in writing is required to terminate the contract other than where employment is terminated for dishonesty, fraud, wilful disobedience or misconduct (in which case no notice is payable). Other Senior Executives have 6 months' notice periods (other than where employment is terminated for serious misconduct, in which case no notice is payable). Payment in lieu of all or a portion of the notice period may be made at the Company's discretion
Termination payments	May not exceed the maximum amount which the Company is permitted to pay the Senior Executive under the Corporations Act. CFO - STI is not payable where the CFO has resigned and terminates before the payment becomes payable (as determined at the sole discretion of the Board). STI is payable if the STI becomes due and employment is terminated by the Company. Average base salary is payable during any restraint period. Unvested securities will be treated in accordance with the relevant Plan Rules.
Restraint of trade	The CFO is restrained from competing with Healthscope or other members of the Healthscope Group during his employment and for up to 12 months post termination of his employment. For other Senior Executives, non-solicitation provisions (relating to employees, contractors and medical officers) of between 6 and 12 months are in place.

The Corporations Act restricts the termination benefits that can be provided to KMP on cessation of their employment, unless shareholder approval is obtained. The shareholders of the Company and Healthscope Operations Pty Ltd approved the termination arrangements of Robert Cooke and Michael Sammells at a general meeting on 28 June 2014.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

8 IMPORTANT STATUTORY REMUNERATION DISCLOSURES

8.1 Senior Executive remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth)[^] and in accordance with the Accounting Standards.

	Short-term Employee Benefits				Post-employment Benefits		Other Long Term Benefits	Share-based Payments		Total
	Cash Salary	Bonuses (A)	Non-Monetary Benefits (B)	Other	Superannuation benefits	Other	Long Service Leave (C)	Shares	Rights (D)	
Senior Executives										
Robert Cooke	1,442,766	1,500,000	5,605	-	35,000	-	33,561	-	439,789	3,456,720
Michael Sammells	650,956	685,956	6,708	-	35,000	-	8,466	-	201,046	1,588,133
Mark Briscoe	368,748	398,748	5,605	-	30,000	-	5,156	-	59,988	868,244
Anoop Singh	342,542	108,397	5,605	-	18,783	-	6,111	-	45,299	526,737
Total	2,805,012	2,693,101	23,523	-	118,783	-	53,294	-	746,121	6,439,834

(A) Bonus payments relate to FY2015 STI and will be paid in FY2016.

(B) The amounts disclosed as non-monetary benefits relate to car spaces, professional fees and other similar items.

(C) Reflects the value of the movement in long service leave entitlement and was not actually paid to the employee.

(D) The value of rights granted to the Senior Executives is based on the fair value, measured using a Monte Carlo simulation for the RTSR Performance Rights and a Black Scholes valuation model for the EPS Performance Rights. The factors and assumptions used in determining the fair value on grant date are set out in Note 39 of the financial statements.

[^] In accordance with the Corporations Act, as this is the first year in which the Company is reporting on remuneration for each of the KMP, the Company is not required to provide comparative information for the prior year (i.e. FY2014).

8.2 Movements in rights held by Senior Executives

The following table sets out the movement during FY2015, by number and value, of rights held by each Senior Executive.

	Balance 1 July 2014	Granted (number)	Granted (value) (A)	Vested (number)	Vested (value)	Vested (percentage)	Lapsed (number)	Lapsed (value)	Lapsed (percentage)	Balance 30 July 2015
Executive Directors										
Robert Cooke	-	833,334	1,393,751	-	-	-	-	-	-	833,334
Senior Executives										
Michael Sammells	-	380,953	637,144	-	-	-	-	-	-	380,953
Mark Briscoe	-	113,668	190,110	-	-	-	-	-	-	113,668
Anoop Singh	-	85,834	143,557	-	-	-	-	-	-	85,834

(A) The value of rights granted in the year is the fair value of the rights calculated at grant date using the Monte Carlo simulation model for the RTSR Performance Rights and a Black Scholes valuation model for the EPS Performance Rights.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

8.3 Non Executive Director remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth)[^] and in accordance with the Accounting Standards.

	Short -term Employee Benefits		Post-employment Benefits			Total
	Board & Committee fees	Non-Monetary Benefits (A)	Other Benefits (non-cash)	Termination Benefits	Superannuation Benefits	Remuneration for services as Non Executive Director
Paula Dwyer (Chairman)	425,217	100,000	-	-	17,218	542,435
Tony Cipa	170,237	50,001	-	-	16,173	236,411
Aik Meng Eng	18,150	-	-	-	1,724	19,874
Simon Moore	-	-	-	-	-	-
Rupert Myer AO	170,237	50,001	-	-	16,173	236,411
Total	783,841	200,002	-	-	51,288	1,035,131

(A) Value of offer bonus shares received as part of the IPO.

(B) Board and Committee fees and superannuation benefits were payable to Paula Dwyer, Tony Cipa and Rupert Myer from the date of IPO on 28 July 2014. Simon Moore has waived his right to fees. Aik Meng Eng also waived his right to fees from the date of IPO on 28 July 2014. The \$18,150 paid to Aik Meng Eng in Board and Committee fees represents fees paid in respect of the period from 1 July 2014 to 28 July 2014.

[^] In accordance with the Corporations Act, as this is the first year in which the Company is reporting on remuneration for each of the KMP, the Company is not required to provide comparative information for the prior year (i.e. FY2014).

8.4 KMP shareholdings

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY2015.

	No. of shares held at listing date	Held following IPO	Received as remuneration	Other net change	Held at 30 June 2015
Directors					
Paula Dwyer	-	95,238 (A)	-	4,762	100,000
Tony Cipa	-	95,238 (A)	-	-	95,238
Rupert Myer AO	-	238,095 (A)	-	-	238,095
Aik Meng Eng	-	-	-	-	-
Simon Moore	-	-	-	-	-
Robert Cooke	-	1,799,314 (B)	-	-	1,799,314
Senior Executives					
Michael Sammells	-	1,122,154 (B)	-	-	1,122,154
Mark Briscoe	-	399,717 (B)	-	-	399,717
Anoop Singh	-	267,880 (B)	-	-	267,880

(A) This includes shares acquired in the IPO, as well as offer bonus shares.

(B) This is the number of shares the Senior Executives subscribed for in the IPO using the one off retention payments and proceeds from the vested options under the legacy LTI plan.

HEALTHSCOPE LIMITED

DIRECTORS' REPORT

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 36 to the financial statements. The Directors 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 33 of the financial report.

Signed in accordance with a resolution of the Directors

A handwritten signature in black ink, appearing to read 'Paula J Dwyer', written in a cursive style.

Paula J Dwyer
Chairman

Melbourne, 25 August 2015

Board of Directors
Healthscope Limited
Level 1, 312 St Kilda Road
Melbourne VIC 3004

25 August 2015

Dear Board Members,

Healthscope Limited

In accordance with Section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Healthscope Limited.

As lead audit partner for the audit of the financial statements of Healthscope Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



T Imbesi
Partner
Chartered Accountants

Independent Auditor's Report to the members of Healthscope Limited

Report on the Financial Report

We have audited the accompanying financial report of Healthscope Limited, which comprises the statement of financial position as at 30 June 2015, the statement of profit and 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 directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 36 to 101.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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 company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Healthscope Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Healthscope Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 31 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Healthscope Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



T Imbesi
Partner
Chartered Accountants
Melbourne, 25 August 2015

HEALTHSCOPE LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 \$'000	2014 \$'000
Continuing operations			
Revenue	5	2,156,634	2,037,573
Share of profits of joint ventures	15	2,032	1,946
Employee benefits expense	7(b)	(951,474)	(915,252)
Medical and consumable supplies		(281,962)	(271,585)
Prosthetics expenses		(271,712)	(255,968)
Occupancy costs		(76,111)	(73,382)
Service costs		(196,568)	(177,174)
Other income and expense items	8	(2,201)	(53,035)
Profit before finance costs, income tax, depreciation and amortisation		378,638	293,123
Depreciation and amortisation	7(c)	(89,848)	(84,103)
Profit before finance costs and income tax		288,790	209,020
Net finance costs	6	(70,305)	(407,513)
Profit/ (loss) before income tax		218,485	(198,493)
Income tax benefit / (expense)	9	(64,762)	24,178
Profit/ (loss) for the year from continuing operations		153,723	(174,315)
Discontinued operations			
Net profit / (loss) for the year from discontinued operations	14	(12,875)	(8,836)
NET PROFIT / (LOSS) FOR THE YEAR		140,848	(183,151)
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchanges differences arising on translation of foreign operations		(6,272)	19,484
Reclassification of hedge reserve through profit or loss		-	28,316
Gain / (loss) on cash flow hedges taken directly to equity		(7,146)	17,193
Income tax benefit relating to other comprehensive income		2,144	(13,654)
Other comprehensive income for the year, net of tax		(11,274)	51,339
Total comprehensive income / (loss) for the year		129,574	(131,812)
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)	19	8.6	(11.1)
Diluted (cents per share)	19	8.5	(11.1)
From continuing operations			
Basic (cents per share)	19	9.4	(10.6)
Diluted (cents per share)	19	9.3	(10.6)

The accompanying notes numbered 1 to 39 form part of this financial report.

HEALTHSCOPE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	2015 \$'000	2014 \$'000
CURRENT ASSETS			
Cash and cash equivalents	31(a)	217,705	138,189
Trade and other receivables	10	96,361	108,608
Inventories	11	52,854	50,621
Prepayments		14,839	16,454
Assets classified as held for sale	13	140,363	21,300
TOTAL CURRENT ASSETS		522,122	335,172
NON-CURRENT ASSETS			
Other financial assets	12	2,570	2,505
Other receivable	10	43,842	-
Investments in joint ventures	15	1,001	911
Property, plant and equipment	16	1,414,726	1,238,291
Intangibles	17	1,803,035	1,852,237
Deferred tax assets	9	193,780	247,455
TOTAL NON-CURRENT ASSETS		3,458,954	3,341,399
TOTAL ASSETS		3,981,076	3,676,571
CURRENT LIABILITIES			
Trade and other payables	18	229,886	215,183
Current tax liabilities	9	3,982	4,606
Deferred revenue		949	1,311
Borrowings	20	8,592	2,217,773
Other financial liabilities	21	10,538	554,986
Provisions	22	112,730	115,164
Liabilities directly associated with assets classified as held for sale	13	40,387	1,703
TOTAL CURRENT LIABILITIES		407,064	3,110,726
NON-CURRENT LIABILITIES			
Borrowings	20	1,167,923	11,131
Other financial liabilities	21	4,252	-
Deferred tax liabilities	9	52,608	54,819
Provisions	22	43,483	49,265
TOTAL NON-CURRENT LIABILITIES		1,268,266	115,215
TOTAL LIABILITIES		1,675,330	3,225,941
NET ASSETS		2,305,746	450,630
EQUITY			
Issued capital	23	2,697,237	1,219,805
Reserves	25	(259,609)	(249,236)
Accumulated losses	24	(131,882)	(519,939)
TOTAL EQUITY		2,305,746	450,630

The accompanying notes numbered 1 to 39 form part of this financial report.

HEALTHSCOPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
	Note	\$'000	\$'000
Continuing and Discontinued Operations			
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,428,620	2,329,484
Payments to suppliers and employees		(2,050,980)	(1,963,874)
Cash generated from operations		377,640	365,610
Interest received		3,679	2,578
Interest and costs of finance paid		(58,328)	(177,660)
Income tax paid		(10,731)	(8,720)
Other income and expense items		(10,446)	(23,899)
Net cash provided by operating activities	31(c)	301,814	157,909
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		3,153	1,597
Proceeds from disposal of operations	30	20,606	1,772
Payments for property, plant and equipment		(83,351)	(70,036)
Brownfield facility development payments for plant and equipment		(90,147)	(56,109)
Gold Coast facility development payments for plant and equipment		(100,504)	(22,860)
Northern Beaches facility development payment for plant and equipment		(85,250)	-
Payments for operating rights		(3,540)	(6,451)
Proceeds from ACHA loan		2,000	2,000
Payment of deferred settlement		(400)	-
Net payments for business combinations	30	(4,555)	(3,283)
Net cash used in investing activities		(341,988)	(153,370)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings - Healthscope Notes I & II		(369,287)	-
Proceeds from bank borrowings		995,000	115,000
Repayments of bank borrowings		(1,162,401)	(55,585)
Repayments of other borrowings		-	(10,000)
Repayment of shareholder loans and related costs		(967,185)	-
Proceeds from issue of new shares		1,624,650	-
Transaction costs relating to issue of new shares		(78,482)	-
Interest paid on early redemption of interest rate hedges		(28,316)	-
Proceeds from project finance		179,977	-
Net proceeds from / (repayment of) receivables securitisation		(13)	1,783
Finance leasing		(3,899)	(3,624)
Dividends paid		(57,183)	-
Facility fees paid		(5,112)	(952)
Net cash provided by / (used in) finance activities		127,749	46,622
Net increase in cash and cash equivalents		87,575	51,161
Cash and cash equivalents at the beginning of the year		138,189	86,713
Cash and cash equivalents transferred to assets classified as held for sale		(8,124)	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		65	315
Cash and cash equivalents at the end of the year	31(a)	217,705	138,189

The accompanying notes numbered 1 to 39 form part of this financial report.

HEALTHSCOPE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Issued capital \$'000	Accumulated losses \$'000	Group reorganisation Reserve \$'000	Foreign currency translation reserve \$'000	Hedge reserve \$'000	Equity Settled Employee Benefits Reserve \$'000	Total equity \$'000
2014							
Opening balance at 1 July 2013	1,261,841	(336,787)	(282,174)	13,459	(31,855)	-	624,484
Loss for the year	-	(183,152)	-	-	-	-	(183,152)
Other comprehensive income/(loss) for the year net of tax	-	-	-	19,479	31,855	-	51,334
Total comprehensive income/(loss) for the year	-	(183,152)	-	19,479	31,855	-	(131,818)
Equity raising costs net of tax	(42,036)	-	-	-	-	-	(42,036)
Balance at 30 June 2014	1,219,805	(519,939)	(282,174)	32,938	-	-	450,630
2015							
Opening balance at 1 July 2014	1,219,805	(519,939)	(282,174)	32,938	-	-	450,630
Profit for the year	-	140,848	-	-	-	-	140,848
Other comprehensive income/(loss) for the year net of tax	-	-	-	(6,272)	(5,002)	-	(11,274)
Total comprehensive income/(loss) for the year	-	140,848	-	(6,272)	(5,002)	-	129,574
New shares issued	1,781,719	-	-	-	-	-	1,781,719
Equity raising costs net of tax	105	-	-	-	-	-	105
Reduction of share capital ⁽ⁱ⁾	(304,392)	304,392	-	-	-	-	-
Recognition of share based payments	-	-	-	-	-	901	901
Dividends	-	(57,183)	-	-	-	-	(57,183)
Closing balance at 30 June 2015	2,697,237	(131,882)	(282,174)	26,666	(5,002)	901	2,305,746

(i) On 24 February 2015, the Board resolved to reduce Healthscope's share capital by \$304 million in accordance with Section 258F of the Corporations Act. The capital reduction had the effect of reducing the share capital account and reducing Healthscope's accumulated accounting losses. The number of shares on issue will not change as a result of the capital reduction. There are no fractional entitlements arising from the capital reduction.

The accompanying notes numbered 1 to 39 form part of this financial report.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 1: GENERAL INFORMATION

Healthscope Limited is a public company listed on the Australian Securities Exchange (trading under the code 'HSO'), incorporated and domiciled in Australia with trading operations in Australia, New Zealand and South East Asia.

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 2015 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

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Healthscope Group. For the purposes of preparing the consolidated 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 Directors on 25 August 2015.

Group reorganisation and comparative information

In preparation for the IPO of Healthscope Limited on the ASX, two group reorganisation transactions were undertaken which resulted in Healthscope Limited acquiring 100% of the shares in:

- Healthscope Pathology Holdings Pty Ltd and its controlled entities ("Pathology Australia") on 29 June 2014; and
- CT HSP (Dutch) Cooperatief U.A. and its controlled entities ("Pathology International") on 28 July 2014.

These transactions occurred whilst Healthscope Limited, Pathology Australia and Pathology International were under common control of CT Healthscope Holdings L.P. CT Healthscope Holdings L.P. was the legal parent entity of the Healthscope business for the period from 12 October 2010 (the date the Healthscope business was acquired by a consortium of funds advised and managed by TPG and The Carlyle Group) until its IPO on 28 July 2014.

For consolidation purposes, the transactions have been accounted for as business combinations between entities under common control at carrying value. Consequently, the assets and liabilities have not been remeasured to fair value nor has any additional goodwill arisen. Accordingly, the assets and liabilities of both Pathology Australia and Pathology International continue to reflect their carrying values as per the accounting records of CT Healthscope Holdings L.P. immediately prior to acquisition by Healthscope Limited. The difference between the consideration given and the carrying value of the assets and liabilities acquired by Healthscope Limited has been recognised within equity as part of the "Group reorganisation reserve".

The two approaches most commonly used to present consolidated financial statements following a business combination between entities under common control are:

- Restatement of comparatives ("Predecessor accounting" method)
- No restatement of comparatives ("Acquisition method")

The financial report presents the financial results of Healthscope Limited and its controlled entities using the "Predecessor accounting" method meaning the financial report has been presented as if the combinations with Pathology Australia and Pathology International had occurred prior to 1 July 2013, the beginning of the earliest period presented in the financial report.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 consolidation

The consolidated financial statements of Healthscope Limited incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities 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 share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; 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.

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. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds 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 interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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.

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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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 before tax' as reported in the consolidated 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 current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred Tax

Deferred tax is recognised 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 utilised. 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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors of the Company reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to AASB 112 is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Taxation (cont'd)

Tax consolidation

Healthscope Limited elected to form a multiple entry consolidated group with effect from 22 September 2010. Healthscope Limited and its controlled entities joined the consolidated group with effect from 12 October 2010. As a result of the group reorganisation on 29 June 2014, the Healthscope Group ceased being a multiple entry consolidated group and became a tax consolidated group.

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 Limited (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.

(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 classified into the following specified categories: financial assets as 'at fair value through profit or loss (FVTPL)', 'held-to-maturity investments', 'available-for-sale (AFS)' 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Financial assets (cont'd)

Financial assets at fair value through profit or loss (cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 28 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised 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.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Financial assets (cont'd)

Impairment of financial assets (cont'd)

For financial assets measured at amortised cost, if, in a subsequent period, 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 that 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.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(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.
- Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Property, plant and equipment (cont'd)

Depreciation (cont'd)

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

Class of property, plant and equipment	Depreciation rate
Buildings	2% to 5%
Leasehold improvements	2% to 100%
Plant & equipment	5% to 50%
Leased assets	4% to 20%

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 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.

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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 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 recognised 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.

Amortisation of intangible assets

The following useful lives are used in the calculation of amortisation:

Class of intangible assets	Useful life
Contract management rights	3 to 30 years
Operating rights	3 to 6 years
Contract development costs	5 to 12 years

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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Impairment of tangible and intangible assets excluding goodwill (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 revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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 are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease 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. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments 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 economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The total benefit of incentives is 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.

(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.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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

Termination benefit

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture.

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

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

(l) 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.

(m) 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 and the definitions of a financial liability and an equity instrument. 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.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Group's own equity instruments.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Financial liability and equity instruments issued by the Group (cont'd)

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 period 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.

(n) 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 consolidated 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 consolidated 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.

On consolidation, 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 income and accumulated in equity. Such exchange differences are recognised in profit or loss in the year in which the foreign operation is exposed.

(o) 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.

When 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Provisions (cont'd)

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.

Other provisions

Other provisions primarily consist of restructuring and related provisions. 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.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Rendering of services

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

Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

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.

(q) 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 period. 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Derivative financial instruments (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.

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.

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 income and expense items' 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 Group revokes the hedging relationship, 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.

(r) Goods and services tax (GST)

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

- 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
- 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.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) 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 period in which it becomes receivable.

(u) 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.

When the Group is committed to a sale plan involving disposal of an investment, a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above is met, and the Group discontinues the use of equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for retained interest in the associate or joint venture in accordance with AASB 139 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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

(v) 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Adoption of new and revised Accounting

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 1031 *Materiality*
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*
- Interpretation 21 'Levies'

Impact of the application of AASB 1031 & AASB 2013-9

The revised AASB 1031 is an interim standard that cross-references to other Standards and the 'Framework for the Preparation and Presentation of Financial Statements' (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all standards and Interpretations. Once all these references have been removed, AASB 1031 will be withdrawn. The adoption of AASB 1031, AASB 2013-9 (Part B) and AASB 2014-1 (Part C) does not have any material impact on the disclosures or the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 2012-3

The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments does not have any material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 2013-3

The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'. The application of these amendments does not have any material impact on the disclosures in the consolidated financial statements.

Impact of the application of AASB 2013-4

The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. As the Group does not have any derivatives that are subject to novation, the application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

Impact of the application of Interpretation 21 'Levies'

Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. Interpretation 21 has been applied retrospectively. The application of this Interpretation does not have any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(x) 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:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
- AASB 9 'Financial Instruments', and the relevant amending standards ¹ .	1 January 2017	30 June 2018
- AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	30 June 2018
- AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
- AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
- AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 January 2016	30 June 2017

¹ The AASB has issued the following versions of AASB 9:

- AASB 9 'Financial Instruments' (December 2009) and the relevant amending standard;
 - AASB 9 'Financial Instruments' (December 2010) and the relevant amending standards;
 - AASB 2013-9 'Amendment to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments', Part C – Financial Instruments
 - AASB 9 'Financial Instruments' (December 2014) and the relevant amending standards
- All the standards have an effective date of annual reporting periods beginning on or after 1 January 2018. Either AASB 9 (December 2009) or AASB 9 (December 2010) can be early adopted if the initial application date is before 1 February 2015. After this date only AASB 9 (December 2014) can be early adopted.

At the date of authorisation of the financial statements, the following IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
- IFRS 14 Regulatory Deferral Accounts	1 January 2016	30 June 2017
- IFRS 15 Revenue	1 January 2017	30 June 2018

The impact of adopting the various Australian Accounting Standards and Interpretations in issue but not yet effective has not been assessed by the Group. The Group does not intend to adopt any of these pronouncements before their effective dates.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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 the Directors have 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;
- Experience of employee departures and year of service; and
- Appropriate discount rate to reflect long term liabilities at present value.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Management determines the appropriate valuation techniques and inputs for fair value measurements and reports these to the Board of Directors.

In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 33.

Recovery of deferred tax assets

Deferred tax assets, including those arising from temporary differences and tax losses, are recognised only when it is considered probable that they will be recovered. Various factors are used to assess the recoverability of deferred tax assets including the nature and timing of their origination, future operating results, operational plans and compliance with relevant tax legislation associated with their recoupment. Recoupment of tax losses recognised in the consolidated statement of financial position is based on justifying tax loss recoupment rules (including the Same Business Test in the year losses are recouped).

These judgements and assumptions are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet. In such circumstances, some or all, of the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge to the statement of profit or loss and other comprehensive income.

(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 2015 at \$7.1 million (2014: \$6.3 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 2015.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS (cont'd)

(b) Key sources of estimation uncertainty (cont'd)

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 17.

The carrying amount of goodwill at the end of the year was \$1.74 billion (2014: \$1.77 billion). The carrying amount of other intangible assets at the end of the reporting year was \$66.5 million (2014: \$78.1 million). Details of the impairment assessments are set out in Note 17.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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
- Medical Centres - the provision of practice management services
- Pathology International - the provision of pathology services overseas

Continuing Operations	Segment revenue		Segment Operating EBITDA ⁽ⁱ⁾		Segment profit ⁽ⁱⁱ⁾	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Hospitals Australia	1,852,514	1,752,991	327,595	296,858	263,333	238,123
Medical Centres	60,882	60,429	15,032	14,984	8,700	7,448
Pathology International	243,238	224,153	59,981	52,771	45,575	40,073
Total	2,156,634	2,037,573	402,608	364,613	317,608	285,644
Corporate					(26,617)	(23,589)
Total after corporate					290,991	262,055
Other income and expense items (Note 8)					(2,201)	(53,035)
Finance costs (Note 6)					(70,305)	(407,513)
Profit / (loss) before income tax					218,485	(198,493)
Income tax benefit / (expense)					(64,762)	24,178
Net profit / (loss) from continuing operations					153,723	(174,315)

Discontinued Operations	Segment revenue		Operating EBITDA ⁽ⁱ⁾		Segment loss ⁽ⁱⁱ⁾	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Pathology Australia	281,609	288,498	7,464	11,097	(4,136)	201
Other income and expense items ⁽ⁱⁱⁱ⁾					(11,065)	(13,675)
Finance costs (Note 14)					(249)	(316)
Loss before income tax					(15,450)	(13,790)
Income tax benefit					2,575	4,954
Loss from discontinued operations					(12,875)	(8,836)
Net profit / (loss) from continuing & discontinued operations					140,848	(183,151)

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

⁽ⁱⁱ⁾ Segment profit represents Operating EBIT being 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.

⁽ⁱⁱⁱ⁾ Other income and expense items for discontinued operations include an impairment charge of \$5.6 million dollars for the current year.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 4: SEGMENT INFORMATION (cont'd)

Other segment information

	Hospitals Australia	Medical Centres	Pathology International	Corporate	Total continuing segments	Pathology Australia (Discontinued)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2015							
Total assets	3,300,134	115,259	365,536	59,605	3,840,534	140,363	3,980,897
Total liabilities	(1,520,232)	(47,693)	(36,753)	(30,265)	(1,634,943)	(40,387)	(1,675,330)
Additions to non-current assets	327,232	4,618	11,939	4,303	348,092	11,896	359,988
Depreciation & amortisation	64,262	6,332	14,406	4,848	89,848	11,598	101,446
Investments in joint ventures	1,001	-	-	-	1,001	-	1,001
2014							
Total assets	3,035,218	117,405	359,591	12,436	3,524,650	151,921	3,676,571
Total liabilities	(2,713,898)	(61,763)	(49,821)	-	(2,825,482)	(400,459)	(3,225,941)
Additions to non-current assets	132,541	6,520	9,665	2,660	151,386	8,086	159,472
Depreciation & amortisation	58,734	7,527	12,698	5,144	84,103	10,905	95,008
Investments in joint ventures	911	-	-	-	911	-	911

NOTE 5: REVENUE

An analysis of the Group's revenue for the year is as follows:

Continuing operations

	2015 \$'000	2014 \$'000
Revenue from rendering services	2,094,247	1,983,955
Rental revenue	23,868	21,766
Management fees	23,802	18,260
Other revenue	14,717	13,592
Total revenue	2,156,634	2,037,573

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 6: FINANCE INCOME AND EXPENSE

	2015 \$'000	2014 \$'000
Continuing operations		
Finance Income		
Bank deposits	3,628	2,853
Investments	47	225
	<u>3,675</u>	<u>3,078</u>
Finance Expenses		
Interest on bank overdrafts and loans	(80,523)	(389,395)
Amortisation of facility fees	(3,186)	(18,978)
Interest capitalised on qualifying assets	12,706	1,423
Interest on obligations under finance leases	(960)	(1,266)
Unwinding of discount on provisions	(2,017)	(2,375)
	<u>(73,980)</u>	<u>(410,591)</u>
Net finance costs	(70,305)	(407,513)

The weighted average capitalisation rate on funds borrowed is 4.98% p.a. (2014: 9.60% p.a.)

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 7: PROFIT FOR THE YEAR BEFORE TAX

	2015 \$'000	2014 \$'000
Continuing operations		
(a) Gains and losses		
Loss on disposal of property, plant and equipment	(20)	(59)
(b) Other Expenses		
Employee benefits expense		
Post-employment - defined contribution superannuation expense	68,390	63,631
Termination benefits	1,895	887
Other employee benefits	880,288	850,734
Share based payments expense	901	-
Total employee benefits expense	951,474	915,252
(c) Depreciation and amortisation expense		
Depreciation of non-current assets		
Buildings	19,819	19,262
Leasehold improvements	8,522	8,751
Plant and equipment	46,613	41,681
Leased plant and equipment	4,618	3,847
Total depreciation	79,572	73,541
Amortisation of intangible assets		
Contract management rights	4,622	3,970
Operating rights	3,643	4,907
Contract acquisition costs	2,011	1,685
Total amortisation	10,276	10,562
Total depreciation and amortisation	89,848	84,103
(d) Operating lease rental expense		
Minimum lease payments	41,374	37,898

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 8: OTHER INCOME AND EXPENSE ITEMS

	2015 \$'000	2014 \$'000
Continuing operations		
Restructure and other costs ⁽ⁱ⁾	1,213	23,177
Acquisition costs	394	1,386
Onerous leases and related costs ⁽ⁱⁱ⁾	-	(2,534)
Impairment of assets ⁽ⁱⁱⁱ⁾	-	3,946
Costs of the initial public offering process ^(iv)	-	20,757
Tender costs ^(v)	594	6,303
Total	2,201	53,035

^(vi) Restructure and other costs primarily relate to the general reorganisation within the Hospital and International divisions.

^(vii) The Group has previously recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The value of the provision was re-assessed at the end of the prior period resulting in a release of \$2.5 million to the statement of profit or loss.

^(viii) In the prior year, the Group was in the process of disposing of its interest in the Brisbane Waters Private Hospital. An impairment charge of \$3.9 million was recognised reflecting the re-measurement of the assets held for sale to fair value.

^(ix) Relates to the costs paid to advisors as part of the initial public offering process.

^(x) Relates to costs in connection with the development of the Northern Beaches Hospital.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 9: INCOME TAXES

Income tax recognised in the profit or loss

	2015 \$'000	2014 \$'000
Tax expense from continuing and discontinued operations		
Current tax expense in respect of the current year	(18,461)	(3,067)
Deferred tax benefit / (expense) relating to the origination and reversal of temporary differences	(44,982)	31,901
Other adjustments recognised in the current year	1,256	298
Total tax benefit / (expense)	(62,187)	29,132

Income tax benefit / (expense) from continuing and discontinued operations

Tax benefit / (expense) from continuing operations	(64,762)	24,178
Tax benefit / (expense) from discontinued operations	2,575	4,954
Total tax benefit / (expense)	(62,187)	29,132

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

Continuing operations

Profit / (loss) before income tax for continuing operations	218,485	(198,493)
Income tax calculated at 30%	(65,545)	59,548
Increase in income tax expense due to:		
Effect of expenses that are not deductible in determining taxable profit	(3,965)	(33,994)
Adjustments recognised in the current year in relation to the current tax of prior years	2,573	173
Decrease in income tax expense due to:		-
Effect of tax rate in foreign jurisdictions	1,464	1,603
Effect of non-assessable income	609	-
Other adjustments recognised in the current year	102	(3,152)
Income tax expense relating to continuing operations	(64,762)	24,178

Deferred tax

Arising on income and expenses recognised in other comprehensive income:

Fair value re-measurement of cash flow hedges	2,144	(13,653)
---	-------	----------

Current tax liabilities

Income tax payable	3,982	4,606
--------------------	-------	-------

Income tax recognised directly to Equity

Equity raising costs	23	15,651
----------------------	----	--------

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 9: INCOME TAXES (cont'd)

Deferred tax balances	Opening Balance \$'000	Charged to Income \$'000	Charged to Other Comprehensive Income \$'000	Charged to Equity \$'000	Transferred to Assets classified as held for sale \$'000	Closing Balance \$'000
2015 Gross Deferred Tax Liabilities						
Property, plant and equipment	14,138	7,870	-	-	(1,611)	20,397
Intangibles	21,555	(7,170)	-	-	-	14,385
Inventories	13,984	1,775	-	-	(1,386)	14,373
Other	5,142	(358)	-	-	(1,331)	3,453
	54,819	2,117	-	-	(4,328)	52,608
2015 Gross Deferred Tax Assets						
Provisions	50,236	3,567	-	-	(7,313)	46,490
Accruals	21,214	(13,120)	-	-	(523)	7,571
Cash flow hedges	8,494	(8,494)	2,144	-	-	2,144
Borrowing costs	12,060	(12,060)	-	-	-	-
Transaction costs	27,450	(10,045)	-	23	-	17,428
Tax losses	123,797	(6,530)	-	-	-	117,267
Other	4,204	(949)	-	-	(375)	2,880
	247,455	(47,631)	2,144	23	(8,211)	193,780
2014 Gross Deferred Tax Liabilities						
Property, plant and equipment	13,646	492	-	-	-	14,138
Intangibles	21,971	(416)	-	-	-	21,555
Inventories	12,856	1,128	-	-	-	13,984
Other	5,353	(211)	-	-	-	5,142
	53,826	993	-	-	-	54,819
2014 Gross Deferred Tax Assets						
Provisions	51,099	(863)	-	-	-	50,236
Accruals	5,999	15,215	-	-	-	21,214
Cash flow hedges	13,653	8,494	(13,653)	-	-	8,494
Borrowing costs	107	11,953	-	-	-	12,060
Transaction costs	12,906	(1,107)	-	15,651	-	27,450
Tax losses	116,273	7,524	-	-	-	123,797
Other	4,851	(647)	-	-	-	4,204
	204,888	40,569	(13,653)	15,651	-	247,455

	2015 \$'000	2014 \$'000
--	----------------	----------------

The following deferred tax assets have not been brought to account as assets:

- Tax losses - revenue	-	-
- Tax losses - capital	2,210	846
- Unused tax credits	-	-
	2,210	846

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 9: INCOME TAXES (cont'd)

Tax Consolidation

Healthscope Limited elected to form a multiple entry consolidated group with effect from 22 September 2010. Healthscope Limited and its controlled entities joined the consolidated group with effect from 12 October 2010. The multiple entry tax consolidated group converted to a tax consolidated group on 29 July 2014. 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.

Unrecognised taxable temporary differences associated with investments

Investments within tax-consolidated groups

Healthscope Limited calculates deferred taxes in relation to investments within tax-consolidated groups using the 'change in tax status' view. Under this view, an entity leaving a tax-consolidated group would be considered a voluntary change in tax status, i.e. the entity no longer is taxed as part of the tax-consolidated group, but is taxed either as a stand-alone taxpayer, or alternatively as part of another tax-consolidated group (with different reset tax values).

This view results in no deferred tax being recognised until such time as an entity leaves the tax-consolidated group. Whilst the entity was a member of the group, the investment would be considered to have no tax consequences because all transactions and balances between entities in the tax-consolidated group are ignored for tax purposes. This approach is consistent with the option of treating the pre-implementation effects of tax consolidation as a change in tax status.

NOTE 10: TRADE AND OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
CURRENT		
Trade receivables	92,113	106,457
Provision for doubtful debts	(1,630)	(5,512)
	90,483	100,945
 Loan to Adelaide Community Healthcare Alliance Inc.	-	2,000
Goods and services tax recoverable	4,564	4,135
Other	1,314	1,528
	96,361	108,608
 NON CURRENT		
Receivable from NSW State Government ⁽ⁱ⁾	43,842	-

⁽ⁱ⁾ NSW State Government receivable in relation to the Northern Beaches Private Hospital. The receivable is due upon the completion of Northern Beaches Private Hospital in December 2018.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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

	2015 \$'000	2014 \$'000
Movement in the provision for doubtful debts		
Balance at beginning of the year	5,512	5,438
Amounts written off during the year	950	1,202
Amounts recovered during the year	(1,021)	(1,673)
Transferred to assets classified as held for sale	(4,179)	-
Increase / (decrease) in allowance recognised in profit and loss	368	545
Balance at the end of the year	1,630	5,512
Age of trade receivables that are past due but not impaired		
30 - 60 days	7,774	10,524
60 - 90 days	2,671	3,769
90 - 120 days	1,884	2,227
120 - 150 days	928	5,568
150 - 180 days +	2,948	3,307
Total	16,205	25,395

The average credit period for the provision of services is 28 days (2014: 26 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 \$3,882 thousand (2014: decreased by \$657 thousand) due to the transfer of the provision balance to liabilities associated to assets classified as held for sale.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$14.4 million (2014: \$21.1 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 80 days (2014: 69 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 Directors believe that there is no further credit provision in excess of the allowance for doubtful debts.

As at 30 June 2015 \$113.4 million (2014: \$113.4 million) of trade receivables remain sold to our financier needed under the Receivables Securitisation Program. The proceeds from the sale were used for working capital purposes.

NOTE 11: INVENTORIES

	2015 \$'000	2014 \$'000
Consumable supplies at cost	52,854	50,621

NOTE 12: OTHER FINANCIAL ASSETS

	2015 \$'000	2014 \$'000
NON CURRENT		
Loans and receivables carried at amortised cost:		
Bonds and sub-ordinated debts	2,565	2,500
Available-for-sale investments carried at fair value		
Shares	5	5
	2,570	2,505

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 13: ASSETS CLASSIFIED AS HELD FOR SALE

As at 30 June 2015, the Group was in the process of disposing its interests in Clinical Laboratories Pty Ltd and Gribbles Information Technology S/B (Malaysia), otherwise referred to as Pathology Australia, to Crescent Capital Partners. The fair value less costs to sell of the business unit was lower than the aggregate carrying amount of the related assets and liabilities. Therefore, an impairment charge of \$5.6 million was recognised on reclassification of the asset and liabilities as held for sale as at 30 June 2015.

On 6 July 2015, Healthscope completed this divestment.

The major classes of assets and liabilities of the intended disposal are:

	2015 \$'000	2014 \$'000
Carrying value of net assets classified as held for sale	105,584	23,543
Impairment loss on re-measurement to fair value less costs to sell	(5,608)	(3,946)
Fair value of net assets classified as held for sale	99,976	19,597
Receivables	24,940	1,403
Inventories	4,651	1,080
Property, plant and equipment	58,638	18,719
Intangibles (net of impairment)	30,980	-
Cash and bank balances	8,124	-
Deferred tax assets	8,211	-
Other assets	4,819	98
Assets held for sale	140,363	21,300
Payables	(13,565)	(602)
Current tax liabilities	(2)	-
Deferred tax liabilities	(4,328)	-
Employee provisions	(20,274)	(1,101)
Other liabilities	(2,218)	-
Liabilities associated with assets held for sale	(40,387)	(1,703)

The fair value of net assets classified as held for sale have been disclosed in the statement of financial position as follows:

Current assets	140,363	21,300
Current liabilities	(40,387)	(1,703)
	99,976	19,597

Intangibles include an impairment charge of \$5.6 million for the current year.

As at 30 June 2014, the Group was in the process of disposing of its interest in the Brisbane Waters Private Hospital. As such, the assets and liabilities relating to Brisbane Waters Private Hospital were presented as held for sale.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 14: DISCONTINUED OPERATIONS

On 23 June 2015, Healthscope executed an agreement to sell the Australian Pathology operations to Crescent Capital Partners, the sale completed on 6 July 2015. As part of the sale, Healthscope also agreed to transfer six skin clinics from its Medical Centre operations to Crescent Capital Partners.

The combined results of the discontinued Pathology Australia operations included in the profit for the year are set out below. The comparative loss from discontinued operations has been re-stated to include those operations classified as discontinued in the current year.

	2015 \$'000	2014 \$'000
Revenue	281,609	288,498
Expenses	(296,810)	(301,972)
Loss before finance costs and income tax	(15,201)	(13,474)
Net finance costs	(249)	(316)
Loss before income tax	(15,450)	(13,790)
Income tax benefit	2,575	4,954
Net loss for the year from discontinued operations	(12,875)	(8,836)

The total expenses include an impairment charge of \$5.6 million for the current year.

The Pathology Australia business has been classified and accounted for at 30 June 2015 as a disposal group held for sale.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 15: INVESTMENTS IN JOINT VENTURES

Name	Principal Activities	Ownership Interest	Carrying Amount of Investment	Ownership Interest	Carrying Amount of Investment
		2015 %	2015 \$'000	2014 %	2014 \$'000
Unlisted:					
Mount Hospital Cath Labs Pty. Ltd. (incorporated in Australia)	Cardiac catheterisation	50	656	50	638
Mount Hospitals Cardiology Services Pty. Ltd. (incorporated in Australia)	Cardiac catheterisation	50	345	50	273
Investments in joint ventures			<u>1,001</u>		<u>911</u>

The above joint ventures are accounted for using the equity method in these consolidated financial statements.

All joint venture entities are individually immaterial.

Reconciliation of movement in Investments accounted for using the equity method	2015 \$'000	2014 \$'000
Balance at the beginning of the year	911	586
Share of profit for the year	2,032	1,946
Dividends received	(1,942)	(1,621)
	<u>1,001</u>	<u>911</u>

Aggregate information of joint ventures that are not individually material	2015 \$'000	2014 \$'000
Financial Position:		
Current assets	3,211	2,434
Non-current assets	695	781
Total assets	<u>3,906</u>	<u>3,215</u>
Current liabilities	(1,349)	(727)
Non-current liabilities	(555)	(666)
Total liabilities	<u>(1,904)</u>	<u>(1,393)</u>
Net assets	<u>2,002</u>	<u>1,822</u>
Group's share of net assets (50% of total net assets)	<u>1,001</u>	<u>911</u>

Financial Performance:		
Share of joint venture's profit after income tax	2,032	1,946
Share of joint venture's other comprehensive income, net of tax	-	-
Share of joint venture's total comprehensive income for the year	<u>2,032</u>	<u>1,946</u>

Dividends and distributions received during the year

During the year the Group received dividends of \$1.9 million (2014: \$1.6 million) from its investments in joint ventures.

Capital commitments and contingent liabilities

There are no capital commitments or contingent liabilities relating to joint ventures.

Joint operations

The Group holds a 50% interest in a joint operation, Darwin Cardiac Angiography Laboratory Joint Venture (unincorporated and operating in Australia). As a joint operator, the Group recognises its share of the assets, liabilities, revenue and expenses in the joint operation.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 16: 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 \$'000	Buildings \$'000	Leasehold Improvements \$'000	Plant & Equipment \$'000	Leased Plant & Equipment \$'000	Capital Work in Progress \$'000	Total \$'000
2014							
Balance at 1 July 2013	236,339	595,102	69,668	248,314	17,078	28,535	1,195,036
Acquisitions through business combinations	-	-	194	201	-	-	395
Additions	3,257	-	8,201	57,236	1,344	78,969	149,007
Transfers	-	20,075	-	5,082	-	(25,157)	-
Depreciation	-	(19,723)	(11,174)	(48,932)	(4,316)	-	(84,145)
Impairment of assets	-	(3,946)	-	-	-	-	(3,946)
Disposals	-	(131)	(141)	(1,011)	(337)	-	(1,620)
Reclassified to assets held for sale	(3,785)	(11,306)	-	(3,628)	-	-	(18,719)
Effect of foreign currency exchange differences	-	297	1,107	1,140	(261)	-	2,283
Balance at 30 June 2014	235,811	580,368	67,855	258,402	13,508	82,347	1,238,291
2015							
Balance at 1 July 2014	235,811	580,368	67,855	258,402	13,508	82,347	1,238,291
Acquisitions through business combinations	-	-	2,937	1,812	-	-	4,749
Additions	-	9,455	7,757	63,001	3,160	243,923	327,296
Transfers	-	44,330	298	9,830	-	(54,458)	-
Depreciation for continuing operations	-	(19,819)	(8,522)	(46,613)	(4,618)	-	(79,572)
Depreciation associated discontinued operations	-	(460)	(3,215)	(7,047)	(462)	-	(11,184)
Net disposals	(1,052)	(265)	(1,542)	(3,111)	(236)	-	(6,206)
Reclassified to assets held for sale	(9,855)	(9,703)	(12,248)	(26,133)	(699)	-	(58,638)
Effect of foreign currency exchange differences	-	(135)	(289)	(813)	1,227	-	(10)
Balance at 30 June 2015	224,904	603,771	53,031	249,328	11,880	271,812	1,414,726
Net book value							
At the beginning of the year	236,339	595,102	69,668	248,314	17,078	28,535	1,195,036
At 30 June 2014	235,811	580,368	67,855	258,402	13,508	82,347	1,238,291
Net book value							
At the beginning of the year	235,811	580,368	67,855	258,402	13,508	82,347	1,238,291
At 30 June 2015	224,904	603,771	53,031	249,328	11,880	271,812	1,414,726

During the year ended 30 June 2015, the Group purchased property, plant and equipment to the value of \$332.0 million (2014: \$149.4 million) and disposed of property, plant and equipment (other than via a business combination) with a written down value of \$6.2 million (2014: \$1.6 million). The purchase price of property, plant and equipment is considered by the Directors to at least equate to the market value of the assets at 30 June 2015.

The Directors 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)).

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 17: INTANGIBLES

2014	Goodwill \$'000	Contract Management Rights \$'000	Operating Rights \$'000	Contract Development Costs \$'000	Total \$'000
Balance at 1 July 2013	1,754,603	52,850	9,025	18,520	1,834,998
Acquisitions through business combinations	3,619	-	-	-	3,619
Additions	-	1,251	1,408	3,792	6,451
Amortisation	-	(3,970)	(4,956)	(1,937)	(10,863)
Effect of foreign currency exchange differences	15,961	492	-	1,579	18,032
Balance as 30 June 2014	1,774,183	50,623	5,477	21,954	1,852,237

Net book value

At 1 July 2013	1,754,603	52,850	9,025	18,520	1,834,998
As at 30 June 2014	1,774,183	50,623	5,477	21,954	1,852,237

2015

	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014	1,774,183	50,623	5,477	21,954	1,852,237
Acquisitions through business combinations	-	-	-	-	-
Additions	1,618	1,390	2,909	600	6,517
Amortisation for continuing operations	-	(4,622)	(3,643)	(2,011)	(10,276)
Amortisation associated with discontinued operations	-	-	(50)	(361)	(411)
Reclassified to held for sale	(31,588)	-	(30)	(4,969)	(36,587)
Effect of foreign currency exchange differences	(7,640)	(146)	-	(659)	(8,445)
Balance as 30 June 2015	1,736,573	47,245	4,663	14,554	1,803,035

Net book value

At 1 July 2014	1,774,183	50,623	5,477	21,954	1,852,237
As at 30 June 2015	1,736,573	47,245	4,663	14,554	1,803,035

Allocation of goodwill and other intangibles to cash-generating units

The gross carrying amount of goodwill and other intangible assets allocated to the Group's cash generating units or group of cash generating units (CGUs) is provided below.

	Hospitals Australia	Medical Centres	Pathology International ⁽ⁱⁱ⁾	Pathology Australia ⁽ⁱ⁾ (now discontinued)	Total
Goodwill	\$'000	\$'000	\$'000	\$'000	\$'000
2015	1,393,726	98,323	244,524	-	1,736,573
2014	1,392,288	98,143	252,164	31,588	1,774,183
Other Intangibles					
2015	43,254	4,677	18,531	-	66,462
2014	45,747	5,411	22,100	4,796	78,054

⁽ⁱ⁾ On 23 June 2015, Healthscope Limited announced the sale of its Pathology Australia business. The sale completed on 6 July 2015.

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

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 17: 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 2015.

Impairment indicators

After considering the trading performance of each of the Healthscope Group's CGU's for the twelve months to 30 June 2015 and the terms of sale related to the Pathology Australia business announced on 23 June 2015, an impairment indicator was identified for the Pathology Australia CGU. No impairment indicators were identified for the Healthscope Group's other CGU's.

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).

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 each cash generation unit based on value in use as at 30 June 2015.

- 2015/2016 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	Medical Centres	Pathology International
2015	4-5%	2.5-3.5%	3.5-4.5%
2014	4-5%	2.5-3.5%	3.5-4.5%

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

Hospitals 9.9% (2014: 9.9%), Medical Centres 9.9% (2014: 9.9%), Pathology International 9.9% (2014: 9.9%),

- Cash flow projections covering a five-year period and terminal value; and
- Terminal growth factors have been set at:

Hospitals 3.0% (2014: 3.0%), Medical Centres 2.5% (2014: 3.0%) & Pathology International 3.5-4.5% (2014: 3.0-4.0%).

For Hospitals Australia, Medical Centres and Pathology International management believes that any reasonably possible change in key assumptions on which recoverable amount has been assessed would not cause the carrying amount of the CGU to exceed its recoverable amount. Management assessed Pathology Australia for impairment with reference to the fair value of consideration expected to arise on sale less cost to sell and recorded an impairment of \$5.6 million to goodwill.

NOTE 18: TRADE AND OTHER PAYABLES

	2015 \$'000	2014 \$'000
CURRENT		
Trade creditors	90,868	98,884
Sundry creditors and accruals	139,018	116,299
	229,886	215,183

The average credit period on purchases of goods is 30 days (2014: 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 time-frame.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 19: EARNINGS PER SHARE

	2015	2014
Basic earnings per share (cents per share)		
From continuing operations	9.4	(10.6)
From discontinued operations	(0.8)	(0.5)
Total basic earnings per share	8.6	(11.1)

Diluted earnings per share (cents per share)		
From continuing operations	9.3	(10.6)
From discontinued operations	(0.8)	(0.5)
Total diluted earnings per share	8.5	(11.1)

	2015 \$'000	2014 \$'000
--	----------------	----------------

(a) Reconciliation of earnings used in calculating earnings per share

Basic earnings per share

Profit/ (loss) for the year attributable to owners of the Company	140,848	(183,151)
- Profit/ (loss) for the year from continuing operations	153,723	(174,315)
- Profit/ (loss) for the year from discontinuing operations	(12,875)	(8,836)

Diluted earnings per share

Profit/ (loss) for the year attributable to owners of the Company	140,848	(183,151)
---	---------	-----------

(b) Weighted average number of shares used as the denominator in calculation of Statutory EPS

	2015 No.	2014 No.
Weighted average number of ordinary shares used in calculating basic earnings per share	1,647,003,373	1,647,003,373
Adjustments for calculation of diluted earnings per share:		
- Performance rights	1,575,529	-
Weighted average number of ordinary shares and potential ordinary shares used as denominator in calculating diluted earnings per share	1,648,578,902	1,647,003,373

(c) Information concerning the classification of securities

Performance rights granted to employees under the Group's executive and employee share option plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per share.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 20: BORROWINGS

	2015 \$'000	2014 \$'000
CURRENT		
Secured - at amortised cost		
Finance lease liabilities ⁽ⁱ⁾	4,491	4,311
Hire purchase facilities	4,101	5,565
Bank loans ⁽ⁱⁱ⁾	-	1,162,401
Capitalised borrowing costs	-	(5,711)
Debt securities - Healthscope Notes I and II ⁽ⁱⁱⁱ⁾	-	505,000
Shareholder loans ^(iv)	-	546,207
	<u>8,592</u>	<u>2,217,773</u>
NON-CURRENT		
Unsecured - at amortised cost		
Bank loans ^(v)	995,000	-
Capitalised borrowing costs	(3,558)	-
	<u>991,442</u>	<u>-</u>
Secured - at amortised cost		
Finance lease liabilities ⁽ⁱ⁾	9,238	11,131
Project Finance ^(vi)	179,977	-
Capitalised borrowing costs	(12,734)	-
	<u>1,167,923</u>	<u>11,131</u>

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 5 years.
- (ii) Comparative period bank loans were 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 wholly owned subsidiaries of Healthscope Limited including the subsidiaries who own the key operating assets of the consolidated entity).
Bank Loans in the comparative period were settled in conjunction with the IPO of Healthscope Limited on 28 July 2014.
- (iii) Debt securities relate to Healthscope Notes I and II that at the time of the IPO were settled by either being converted to Healthscope shares or paid in cash. The value of the Notes that were converted to shares was \$154.6 million, while the value of Notes that were paid in cash was \$350.4 million.
- (iv) Shareholder loans as presented were settled on IPO. The cash flow in relation to this settlement is reflected in the financing activities in the statement of cash flows.
- (v) A new unsecured senior syndicated facility of \$1,295 million was put in place on 1 July 2014. The facility is made up of two facilities, facilities A & B. Both are three year facilities which mature on 31 July 2017. Facility A is currently utilised to \$995 million.
- (vi) Project finance relates to a 5-year limited recourse syndicated senior debt facility and senior construction facility totalling \$156.0 million and \$690.0 million which were put in place on 19 September 2013 and 28 January 2015. These debt facilities are in place to fund the development of the Gold Coast Private Hospital and Northern Beaches Private Hospital. These facilities are secured against entities of the Group which are not obligors of the senior syndicated facility.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 21: OTHER FINANCIAL LIABILITIES

	2015 \$'000	2014 \$'000
CURRENT		
Interest rate swaps ⁽ⁱ⁾	3,320	28,317
Accrued interest ⁽ⁱⁱ⁾	6,813	526,269
Deferred purchase consideration ⁽ⁱⁱⁱ⁾	405	400
	<u>10,538</u>	<u>554,986</u>
NON CURRENT		
Deferred purchase consideration ⁽ⁱⁱⁱ⁾	425	-
Interest rate swaps ⁽ⁱ⁾	3,827	-
	<u>4,252</u>	<u>-</u>

⁽ⁱ⁾ The interest rate swaps related to the hedging of the current borrowings under the project finance facilities.

⁽ⁱⁱ⁾ Balance as at 30 June 2015 represents interest accrued on bank loans. Prior year balance represents interest accrued on shareholder loans, debt securities and bank loans.

⁽ⁱⁱⁱ⁾ Relates to the consideration payable on business acquisitions outlined in Note 30.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 22: PROVISIONS

	2015 \$'000	2014 \$'000
CURRENT		
Employee benefits ⁽ⁱ⁾	93,714	103,464
Medical malpractice insurance ⁽ⁱⁱ⁾	7,093	6,262
Onerous lease contracts and related costs ⁽ⁱⁱⁱ⁾	7,787	4,840
Other	4,136	598
	112,730	115,164
NON-CURRENT		
Employee benefits	19,835	20,461
Onerous lease contracts ⁽ⁱⁱⁱ⁾	23,648	28,804
	43,483	49,265
Medical malpractice insurance		
Balance at the beginning of the year	6,262	4,875
Additional provisions recognised	1,972	2,709
Reductions arising from payments of settlements	(1,535)	(1,285)
Additions / (Reductions) resulting from re-measurement or settlement without cost	394	(37)
Balance at the end of the year	7,093	6,262
Current	7,093	6,262
Non-current	-	-
	7,093	6,262
Onerous lease contracts		
Balance at the beginning of the year	33,644	41,768
Additional provisions raised / (released during the year)	4,346	(2,533)
Reductions arising from payments / other sacrifices of future economic benefits	(8,549)	(8,158)
Unwinding of discount on provision	2,017	2,567
Transferred to liabilities associated to assets classified as held for sale	(23)	-
Balance at the end of the year	31,435	33,644
Current	7,787	4,840
Non-current	23,648	28,804
	31,435	33,644

(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 10 years.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 23: ISSUED CAPITAL

	2015		2014	
	Number	\$'000	Number	\$'000
Fully paid ordinary shares - Healthscope Limited	1,732,094,838	3,043,560	883,561,760	1,261,841
Equity raising costs related to the IPO of Healthscope Limited net of tax	-	(41,931)	-	(42,036)
Reduction in share capital ⁽ⁱ⁾	-	(304,392)	-	-
	1,732,094,838	2,697,237	883,561,760	1,219,805
Fully paid ordinary shares				
At the start of the financial year	883,561,760	1,261,841	883,561,760	1,261,841
New shares issued	848,533,078	1,781,719	-	-
At the end of the financial year	1,732,094,838	3,043,560	883,561,760	1,261,841

⁽ⁱ⁾ On 24 February 2015, the Board resolved to reduce Healthscope's share capital by \$304 million in accordance with Section 258F of the Corporations Act. The capital reduction had the effect of reducing the share capital account and reducing Healthscope's accumulated accounting losses. The number of shares on issue will not change as a result of the capital reduction. There are no fractional entitlements arising from the capital reduction.

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

NOTE 24: ACCUMULATED LOSSES

	2015 \$'000	2014 \$'000
Balance at the start of the financial year	(519,939)	(336,788)
Profit/(Loss) for the year	140,848	(183,151)
Reduction in accumulated losses	304,392	-
Dividends recognised during the financial year	(57,183)	-
Balance at the end of the financial year	(131,882)	(519,939)

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 25: RESERVES

(a) Foreign exchange 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) Group reorganisation reserve

The Group reorganisation reserve initially arose through a series of "common control" transactions related to a Group reorganisation following the acquisition of the Healthscope business by funds advised and managed by TPG (TPG FOF VI SPV, LP.) and Carlyle (Carlyle HSP Partners, LP.) on 12 October 2010.

In preparation for the IPO of Healthscope Limited, two group reorganisation transactions were undertaken which resulted in Healthscope Limited acquiring 100% of the shares in:

- Healthscope Pathology Holdings Pty Ltd and its controlled entities ("Pathology Australia") on 29 June 2014; and
- CT HSP (Dutch) Cooperatief U.A. and its controlled entities ("Pathology International") on 28 July 2014

These transactions occurred whilst Healthscope Limited, Pathology Australia and Pathology International were under the common control of CT Healthscope Holdings L.P. CT Healthscope Holdings L.P. was the legal parent entity of the Healthscope business for the period from 12 October 2010 (the date the Healthscope business was acquired by a consortium of funds advised and managed by TPG and The Carlyle Group) until its IPO on 28 July 2014.

The restructure transactions were accounted for as "common control" transactions and as a result no fair value adjustments or goodwill were recognised. Assets and liabilities were consolidated at their existing carrying value with the difference between the consideration paid and the carrying value of net assets recognised within equity as part of the group reorganisation reserve.

The Group reorganisation reserve represents the capital contribution received from / capital distribution made to the common parent entity of the transacting entities.

(d) Employee benefits reserve

The above equity-settled employee benefits reserve relates to performance rights granted by the Company to its executives under its executive performance rights plan. Further information about share based payments to employees is set out in Note 39.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 26: DIVIDENDS PAID OR PROPOSED

	2015		2014	
	Cents per share	\$'000	Cents per share	\$'000
Fully paid ordinary shares				
Interim dividend (recognised)	3.3	57,183	-	-
Final dividend (unrecognised)	3.7	64,088	-	-

On 25 August 2015, the Directors resolved to pay an unfranked dividend of 3.7 cents per share to the holders of fully paid or ordinary share in respect of the financial year ended 30 June 2015, to be paid to shareholders 14 September 2015. This dividend has not been included as a liability in these consolidated financial statements. The total estimated dividend to be paid is \$64.0 million.

NOTE 27: COMMITMENTS FOR EXPENDITURE

	2015 \$'000	2014 \$'000
Capital expenditure commitments:		
Property, plant and equipment		
- Not longer than 1 year	574,773	173,958
- Longer than 1 year but no longer than 5 years	536,888	71,974
- Longer than 5 years	3,305	-
	<u>1,114,966</u>	<u>245,932</u>

The capital commitments relate to the development of the Gold Coast Private Hospital and Northern Beaches Hospital and various Brownfield developments.

NOTE 28: CONTINGENT LIABILITIES

	2015 \$'000	2014 \$'000
Estimates of material amounts of contingent liabilities, not provided for in the financial report:		
Bank guarantees to various Workcover authorities	<u>4,614</u>	<u>4,783</u>
Bank guarantee in respect of Northern Beaches development	<u>161,809</u>	<u>-</u>
Bank guarantees in respect of property leases	<u>13,146</u>	<u>12,017</u>

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 29: LEASES

	2015 \$'000	2014 \$'000
(a) Finance lease commitments:		
Minimum future lease payments		
Payable		
- Not later than 1 year	5,257	5,305
- Later than 1 year but no later than 5 years	9,711	11,543
- Later than 5 years	622	1,143
Minimum lease payments	15,590	17,991
Less future finance charges	(1,861)	(2,549)
Present value of minimum lease payments	13,729	15,442

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 5 years (2014: 5 years) and all leases expire within the next 3 years (2014: 4 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.

Present value of minimum lease payments

Payable:

- Not later than 1 year	4,438	4,311
- Later than 1 year but no later than 5 years	8,698	10,064
- Later than 5 years	593	1,067
Present value of minimum lease payments	13,729	15,442

Included in the financial statements:

- Current borrowings (Note 20)	4,491	4,311
- Non-current borrowings (Note 20)	9,238	11,131
Total	13,729	15,442

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

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial report

Payable:

- Not later than 1 year	39,526	71,805
- Later than 1 year but no later than 5 years	106,808	149,460
- Later than 5 years	125,425	114,764
	271,759	336,029

Liabilities recognised in respect of non-cancellable operating leases

Onerous lease contracts (Note 22)

- Current	7,787	4,840
- Non-current	23,648	28,804
	31,435	33,644

Operating leases relate to properties leased by the Group with lease terms between 1 and 30 years. (2014: 1 and 30 years). All operating leases contain market review clauses in the event that the lessee exercises its option to renew.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 30: CHANGES IN THE COMPOSITION OF THE HEALTHSCOPE GROUP

During the year, the following changes to the consolidated group were completed:

Acquisitions	Date of acquisition	Proportion of ownership acquired %	Cost of acquisition \$'000
2015			
Frankston Private Day Surgery	01-Jul-14	100%	
Peninsula Oncology Centre	01-Jul-14	100%	
Croydon Health Clinic	01-Aug-14	100%	
Bed Brokers	14-Apr-15	100%	
Aotea Pathology Limited	01-May-15	100%	
Cash Consideration			4,696
Deferred purchase consideration - current			405
Deferred purchase consideration - non-current			425
Total deferred purchase consideration			830
Total			5,526
2014			
Sydney Breast Clinic	20-Dec-13	100%	
Cash consideration			3,600
Deferred purchase consideration			400
Total			4,000

Disposals	Date of disposal	Proportion of ownership disposed%	Consideration received \$'000
2015			
Brisbane Waters Private Hospital	22-Jul-14	100%	20,606

In July 2014, the Group disposed of its interest in the Brisbane Waters Private Hospital. Proceeds from disposal were \$20.6 million. No gain or loss was recorded on sale as net assets were written down to their recoverable amount in prior year based on the expected proceeds from sale.

2014 – No material disposals

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 30: CHANGES IN THE COMPOSITION OF THE HEALTHSCOPE GROUP (cont'd)

Assets acquired and liabilities assumed at the date of acquisition

2015	2015 \$'000
Current assets	
Trade and other receivables	2,879
Inventories	418
Cash & cash equivalents	141
Prepayments	85
Current liabilities	
Trade and other payables	(1,878)
Borrowings	(4)
Provisions	(4,509)
Non-current assets	
Intangible assets	1,360
Other assets	686
Property, plant and equipment	4,730
Net assets	3,908
Goodwill arising on acquisition	
Cash consideration	4,696
Deferred purchase consideration	830
Less: fair value of identifiable net assets acquired	(3,908)
	1,618
Net cash outflow on acquisition of businesses	
Consideration paid in cash	4,696
Less: cash and cash equivalent balances acquired	(141)
	4,555

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 31: 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:

	2015 \$'000	2014 \$'000
Cash and cash equivalents	154,594	50,835
Restricted cash ⁽ⁱ⁾	71,235	87,354
	225,829	138,189
Transferred to Assets held for sale	(8,124)	-
Total Cash and Cash Equivalents	217,705	138,189
(b) Finance facilities		
Unsecured bank overdraft credit facility		
Amount utilised	-	-
Unused credit facility	5,000	5,000
	5,000	5,000
Unsecured credit facility ⁽ⁱⁱ⁾		
Amount utilised	995,000	-
Unused credit facility	300,000	-
	1,295,000	-
Secured credit facility ⁽ⁱⁱⁱ⁾		
Amount utilised	-	1,162,401
Unused credit facility	-	122,200
	-	1,284,601
Secured project finance ^(iv)		
Amount utilised	179,977	-
Unused credit facility	666,023	156,000
	846,000	156,000
Receivables securitisation facility ^(v)		
Amount utilised	113,427	113,439
Unused credit facility	26,573	26,561
	140,000	140,000

⁽ⁱ⁾ Restricted cash can only be applied towards expenditure on the Gold Coast Private Hospital and the Northern Beaches Hospital development which are subject to separate funding arrangements.

⁽ⁱⁱ⁾ A new unsecured senior syndicated facility of \$1,295 million was put in place on 1 July 2014. The facility is made up of two facilities, facilities A & B. Both are three year facilities which mature on 31 July 2017. Facility A is currently utilised to \$995 million.

⁽ⁱⁱⁱ⁾ The comparative period loan facility advances were 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 interest held in certain Group members) from certain entities of the Group including the entities who own the key operating assets of the Group.

Loan facilities in the comparative period were settled in conjunction with the IPO of Healthscope Limited on 28 July 2014.

^(iv) Project finance relates to a 5-year limited recourse syndicated senior debt facility and senior construction facility totalling \$156.0 million and \$690.0 million which were put in place on 19 September 2013 and 28 January 2015. These debt facilities are in place to fund the development of the Gold Coast Private Hospital and Northern Beaches Private Hospital. These facilities are secured against entities of the Group which are not obligors of the senior syndicated facility.

^(v) The Group has in place a receivables securitisation facility with its financier. Under the terms of the facility, the Group has de-recognised \$113,427 thousand (2014: \$113,439 thousand) of eligible receivables and use the proceeds for working capital purposes. The facility has a scheduled commitment termination date of 25th October 2017.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 31: NOTES TO THE STATEMENT OF CASH FLOWS (cont'd)

	2015 \$'000	2014 \$'000
(c) Reconciliation of net profit for the year to net cash flows from operating activities		
Continuing and Discontinued Operations		
Profit/(Loss) for the year	140,848	(183,146)
Non-cash flows in operating profit		
- Depreciation and amortisation	101,447	95,009
- Income tax expense recognised in profit or loss	62,187	(29,131)
- Finance costs recognised in profit or loss	70,555	407,829
- Share of profit of associates and joint ventures	(2,032)	(1,946)
- Equity settled share based payments	901	-
- Other income and expense items	13,267	66,710
- Profit / (loss) on sale of assets	(92)	23
	387,081	355,348
Changes in assets and liabilities		
- (Increase) / decrease in receivables and other assets	(13,393)	(2,031)
- (Increase) / decrease in prepayments	(1,135)	(387)
- (Increase) / decrease in inventories	(6,433)	(5,380)
- Increase / (decrease) to trade payables	(7,890)	20,419
- Increase / (decrease) to provisions	19,411	(2,359)
	377,641	365,610
Cash generated from operations		
Interest received	3,678	2,578
Interest paid	(58,328)	(177,660)
Other income and expense items	(10,446)	(8,720)
Income taxes paid	(10,731)	(23,899)
Net cash generated by operating activities	301,814	157,909

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 32: PARENT ENTITY INFORMATION

	2015 \$'000	2014 \$'000
Assets		
Current assets	84,999	512,712
Non-current assets	2,677,801	1,400,876
Total assets	2,762,800	1,913,588
Liabilities		
Current liabilities	-	998,175
Non-current liabilities	1,700	-
Total liabilities	1,700	998,175
Net assets	2,761,100	915,413
Equity		
Issued capital ⁽ⁱ⁾	2,697,237	1,219,805
Hedging Reserve	-	-
Dividends	(57,183)	-
Accumulated profit / (losses)	121,046	(304,392)
Total equity	2,761,100	915,413
Financial performance		
Profit / (loss) for the year	121,046	(149,797)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	121,046	(149,797)

⁽ⁱ⁾ Healthscope Limited has entered into a deed of cross guarantee with fifty-one of its wholly owned subsidiaries. Details of which are included in Note 38. No liabilities have been assumed by Healthscope Limited in relation to this guarantee as it is expected the parties to the deed of cross guarantee will continue to generate positive cash flows

The accounting policies of the parent are the same as the Group's policies.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern 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 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in Notes 23, 24 and 25 respectively.

The Group operates within Australia, New Zealand & South East Asia, 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 Directors of the Group review the capital structure on an annual basis. As a part of this review, the Directors consider the cost of capital and the risks associated with each class of capital.

The gearing ratio at year-end was as follows:

	2015 \$'000	2014 \$'000
Borrowings - Current	8,592	2,217,773
Borrowings - Non Current	1,167,923	11,131
Debt ⁽ⁱ⁾	1,176,515	2,228,904
Cash and cash equivalents	(217,705)	(138,189)
Net debt	958,810	2,090,715
Equity ⁽ⁱⁱ⁾	2,305,746	450,630
Net debt to equity ratio	42%	464%

⁽ⁱ⁾ Debt is defined as long and short-term borrowings (excluding derivatives and financial guarantee contracts), as detailed in Note 20.

⁽ⁱⁱ⁾ Equity includes all capital and reserves of the Group that are managed as capital.

The significant movement in net debt to equity ratio is principally due to the IPO of Healthscope Limited on 28 July 2014 as loan facilities in the comparative period were settled in conjunction with the IPO.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS (cont'd)

(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 Directors, 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.

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.

	2015 \$'000	2014 \$'000
Financial assets		
Cash and cash equivalents	217,705	138,189
Trade and other receivables - at amortised cost	96,361	106,608
Receivable from State Government	43,842	-
Loans and lease facilities - at amortised cost	-	2,000
Available-for-sale financial assets	5	5
Financial liabilities		
Trade and other payables - at amortised cost	229,886	215,183
Loans and lease facilities - at amortised cost	1,176,515	2,228,904
Derivative instruments in designated hedge accounting relationships	7,147	28,316
Financial guarantee contracts	179,567	16,800
Other financial liabilities	7,643	526,669

(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 gross 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS (cont'd)

(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.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Directors, 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 31 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The Healthscope Group's finance facilities are subject to certain covenants as outlined in the Syndicated Facility Agreement dated 1 July 2014.

The financial covenants comprise:

- Interest cover ratio;
- Senior gearing ratio;

At the date of this financial report the Directors of the Healthscope Group are satisfied that the minimum requirements of the covenants have been met and are 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 \$'000	1-5 years \$'000	5+ years \$'000	Total \$'000
2015					
Non-interest bearing		229,886	-	-	229,886
Finance lease liability	6.10%	4,438	8,698	593	13,729
Financial guarantees		665	172,818	6,084	179,567
Variable interest rate instruments	4.98%	46,943	1,349,321	-	1,396,264
Fixed interest rate instruments		-	-	-	-
		281,932	1,530,837	6,677	1,819,446
2014					
Non-interest bearing		215,183	-	-	215,183
Finance lease liability	6.50%	4,311	11,139	-	15,450
Financial guarantees		572	7,320	8,908	16,800
Variable interest rate instruments	8.21%	1,283,458	-	-	1,283,458
Fixed interest rate instruments	10.65%	1,450,007	-	-	1,450,007
		2,953,531	18,459	8,908	2,980,898

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS (cont'd)

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
2015						
Net settled:						
Interest rate swaps	183	423	2,588	4,159	-	7,353
	183	423	2,588	4,159	-	7,353
2014						
Net settled:						
Interest rate swaps	33,909	-	-	-	-	33,909
	33,909	-	-	-	-	33,909

(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 \$7.07 million (2014: \$2.44 million) and decrease by \$7.07 million (2014: \$2.44 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 is 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.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS (cont'd)

Cash Flow hedges

	Average contracted fixed rate %	Notional principal amount \$'000	Fair Values \$'000
2015			
Less than 1 year	-	-	-
1 to 2 years	-	-	-
2 to 3 years	-	-	-
3 to 4 years	2.99%	787,960	(7,146)
5 years +	-	-	-
		787,960	(7,146)
2014			
Less than 1 year	4.73%	1,085,425	(28,316)
1 to 2 years	-	-	-
2 to 3 years	-	-	-
3 to 4 years	-	-	-
5 years +	-	-	-
		1,085,425	(28,316)

The interest rate swaps settle on a monthly 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 or loss.

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

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

	2015		2014	
	Carrying amount \$'000	Fair Value \$'000	Carrying amount \$'000	Fair Value \$'000
Financial assets				
Trade receivables	92,113	92,113	106,457	106,457
Other financial assets	2,570	2,570	2,505	2,505
Financial Liabilities				
Trade and other payables	229,886	229,886	215,183	215,183
Loans and lease facilities	1,176,515	1,176,515	2,228,904	2,228,904
Other financial liabilities	14,790	14,790	554,986	554,986

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 33: FINANCIAL INSTRUMENTS (cont'd)

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

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).

2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Available for sale financial assets	5	-	-	5
Derivative financial assets	-	-	-	-
	5	-	-	5
Financial liabilities				
Derivative financial liabilities	-	(7,146)	-	(7,146)
	-	(7,146)	-	(7,146)

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

2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Available for sale financial assets	5	-	-	5
Derivative financial assets	-	-	-	-
	5	-	-	5
Financial liabilities				
Derivative financial liabilities	-	(28,316)	-	(28,316)
	-	(28,316)	-	(28,316)

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

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 34: 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 Directors' 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.

In the past, the Group established an ownership-based compensation plan for certain executives and senior employees. Details of the plan are included within the Directors' report.

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.

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 38 to the financial statements.

Equity interests in joint ventures

Details of interests in joint ventures are disclosed in Note 15 to the financial statements.

NOTE 35: KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2015 \$'000	2014 \$'000
Short term employment benefits	5,522	8,743
Long term employment benefits	172	3,439
Post-employment benefits	746	93
Termination payments	-	-
Balance at the end of the year	6,440	12,275

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 36: AUDITORS' REMUNERATION

	2015 (\$)	2014 (\$)
Auditor of the parent entity		
Audit or review of the financial report	614,500	581,100
Other assurance services		
Due diligence assurance services	-	690,000
Equity raising assurance services	-	760,000
Agreed upon procedures	84,500	24,000
	699,000	2,055,100
Network firm of the parent entity auditor		
Audit or review of the financial statements	210,450	200,500
Other assurance services		
Due diligence assurance services	119,300	-
	1,028,750	2,255,600

All amounts were paid to Deloitte or Deloitte affiliated firms.

The auditor of the Healthscope Group is Deloitte Touche Tohmatsu

NOTE 37: SUBSEQUENT EVENTS

On 6 July 2015, Healthscope completed the sale of its Australian Pathology operations to Crescent Capital Partners for A\$105 million. As part of the sale Healthscope have also agreed to transfer six skin clinics from its Medical Centre operations to Crescent. The consideration of A\$105 million comprised cash proceeds of A\$92.5 million and a promissory note of A\$12.5 million. The resulting profit or loss on sale was not material.

As set out in the prospectus dated 30 June 2014, shares held in Healthscope by CT Healthscope Holdings L.P (TPG/Carlyle) are subject to voluntary escrow arrangements. The number of shares subject to voluntary escrow was 658,195,966. The voluntary escrow arrangements expired, and the 658,195,966 shares were released from escrow, after the release of this financial report.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 38: ENTITES WITHIN THE CONSOLIDATED GROUP

Name of Entity	County of Incorporation	% Owned		Name of Entity	County of Incorporation	% Owned	
		2015 %	2014 %			2015 %	2014 %
Parent Entity: Healthscope Limited	Australia						
Healthscope Operations Pty Ltd	Australia	100	100	Tweed Surgicentre Pty. Ltd.	Australia	100	100
Healthscope Finance Pty. Ltd.	Australia	100	100	Histoderm Pty. Ltd.	Australia	-	100
Asia Pacific Healthcare Group Pty. Ltd.	Australia	100	100	Holmesglen Private Hospital Pty Ltd	Australia	100	100
Healthscope South Australia Pty. Ltd.	Australia	100	100	Gold Coast Private Property Pty. Ltd.	Australia	100	100
Healthscope (Tasmania) Pty. Ltd.	Australia	100	100	Gold Coast Private Hospital Pty. Ltd.	Australia	100	100
Healthscope (Tasmania Finance) Pty. Ltd.	Australia	100	100	GCPH HoldCo Pty. Ltd.	Australia	100	100
La Trobe Private Hospital Healthscope Pty. Ltd.	Australia	100	100	Allamanda Surgicentre Pty. Ltd.	Australia	100	100
Darwin Private Hospital Pty. Ltd.	Australia	100	100	A.C.N 009 076 555 Pty. Ltd.	Australia	100	100
Australian Hospital Care (Como) Pty. Ltd.	Australia	100	100	HCOA Pty. Ltd.	Australia	-	100
Australian Hospital Care (Dorset) Pty. Ltd.	Australia	100	100	FHIC Pty. Ltd.	Australia	100	100
Australian Hospital Care (Knox) Pty. Ltd.	Australia	100	100	A.C.N. 092 626 956 Pty. Ltd.	Australia	-	100
Australian Hospital Care (Lady Davidson) Pty. Ltd.	Australia	100	100	Gribbles Molecular Science Pty. Ltd.	Australia	-	100
Australian Hospital Care (Ringwood) Pty. Ltd.	Australia	100	100	Gribbles Administrative Services Pty. Ltd.	Australia	-	100
The Victorian Rehabilitation Centre Pty. Ltd.	Australia	100	100	Gribbles Pathology Pty. Ltd.	Australia	-	100
Healthscope Diagnostic Imaging Pty. Ltd.	Australia	100	100	Mazlin Investments Pty. Ltd.	Australia	100	100
Melbourne Hospital Pty. Limited	Australia	100	100	The Gribbles Group Pty. Ltd.	Australia	100	100
P.O.W Hospital Pty. Ltd.	Australia	100	100	28-050-049-780 Pty. Ltd.	Australia	-	100
Brisbane Private Hospital Pty. Ltd.	Australia	-	100	43 065 317 106 Pty. Ltd.	Australia	-	100
QPH Wickham Pty. Ltd.	Australia	100	100	96 002 869 632 Pty. Ltd.	Australia	-	100
Newcastle Private Hospital Pty. Ltd.	Australia	100	100	Davies, Campbell & de Lambert Pty. Ltd.	Australia	-	100
Nova Health Pty. Limited	Australia	100	100	Medibill Pty. Ltd.	Australia	-	100
Brisbane Waters Administration Pty. Ltd.	Australia	-	100	Grahame Hookway & James Carroll Medical Practice Company Pty. Ltd.	Australia	-	100
Brisbane Waters Equities Pty. Ltd.	Australia	-	100	Nextpath Pty. Ltd.	Australia	-	100
HCA Holdings (Southport) Pty. Ltd.	Australia	100	100	Analytical References Laboratories Pty. Ltd.	Australia	100	100
HCA Management Company Pty. Ltd.	Australia	100	100	Yarra Ranges Pathology Pty. Ltd.	Australia	-	100
Pacific Private Hospital Pty. Ltd.	Australia	100	100	Australian Dermatopathology Laboratory Pty. Ltd.	Australia	-	100
FPH Operations Pty Ltd.	Australia	100	100	Bayside Pathology Pty. Ltd.	Australia	-	100
Allamanda Private Hospital Pty. Ltd.	Australia	100	100	Advanced Medical Technology Pty. Ltd.	Australia	100	100
Sydney Breast Clinic Pty. Ltd.	Australia	100	100	Healthscope Hospitals Holdings No.2 Pty.Ltd.	Australia	100	100
NBH Operator Co Pty Ltd	Australia	99.99	99	Aotea Pathology Limited	New Zealand	100	-
Maybury Craft Pty. Ltd.	Australia	100	100	Wellington SCL Limited	New Zealand	100	-

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 38: ENTITIES WITHIN THE CONSOLIDATED GROUP (cont'd)

Name of Entity	County of Incorporation	% Owned		Name of Entity	County of Incorporation	% Owned	
		2015 %	2014 %			2015 %	2014 %
Solaris Pathology Pty. Ltd.	Australia	-	100	SCL Hawkes Bay Ltd	New Zealand	100	100
E-clinic Pty. Ltd.	Australia	100	100	Canterbury SCL Ltd	New Zealand	100	100
D F G Clinics Pty. Ltd.	Australia	100	100	SCL Otago Southland Ltd	New Zealand	100	100
Skin Alert Pty. Ltd.	Australia	100	100	SCL Otago Southland Services Ltd	New Zealand	100	100
Healthscope Medical Centres Pty. Ltd.	Australia	100	100	SCL Otago Southland Code Services Ltd	New Zealand	100	100
Hopkins Services Pty. Ltd.	Australia	100	100	Northland Pathology Laboratory Ltd	New Zealand	100	100
Molescan Australia Pty. Ltd.	Australia	100	100	Labtests Limited	New Zealand	100	100
Clinical Laboratories Pty. Ltd ⁵	Australia	100	100	Lab Tests Auckland Ltd	New Zealand	100	100
Healthcare of Australia Pty. Ltd.	Australia	100	100	Gribbles Veterinary Pathology Ltd	New Zealand	100	100
Healthcare of Australia Holdings Pty. Ltd.	Australia	100	100	APHG NZ Investments Limited	New Zealand	100	100
Healthbridge Diagnostics Holdings Pty. Limited	Australia	100	100	Medlab South Limited	New Zealand	100	100
Diagnostic Finance Pty. Limited	Australia	100	100	Healthscope New Zealand Ltd	New Zealand	100	100
Australian Diagnostics Group Pty. Limited	Australia	100	100	New Zealand Diagnostic Group Ltd	New Zealand	100	100
Pathology Victoria Pty. Limited	Australia	100	100	Southern Community Laboratories Ltd	New Zealand	100	100
Pathology Specialists Pty. Limited	Australia	100	100	Gribbles Pathology (Malaysia) SDN BHD	Malaysia	100	100
Pathology Diagnostics Pty. Limited	Australia	100	100	Gribbles Cytology Services SDN BHD	Malaysia	100	100
Pathology NSW Pty. Limited	Australia	100	100	Gribbles Information Technology SDN BHD ¹	Malaysia	100	100
Pathology First Pty. Limited	Australia	100	100	Quest Laboratories Pte. Ltd.	Singapore	100	100
Pathology Vision Pty. Limited	Australia	100	100	Quest Laboratories Vietnam Co. Ltd	Vietnam	100	100
APHG No. 2 Holdings 3 Pty. Ltd.	Australia	100	100	Pathology South Coast Pty. Limited	Australia	100	100
APHG No. 2 Pty. Ltd.	Australia	100	100	CT HSP Holdings (Dutch) B.V	Netherlands	100	100
Healthscope Pathology Holdings Pty. Ltd.	Australia	100	100	CT HSP Holdings (Dutch) Cooperatif U.A	Netherlands	100	-
Healthscope Pathology Holdings No.2 Pty. Ltd.	Australia	100	100	NBH HoldCo 1 Pty Ltd	Australia	99.99	-
NBH Borrower Pty Ltd	Australia	99.99	-	NBH HoldCo 2 Pty Ltd	Australia	100	-
NBH Carpark Operator Pty Ltd	Australia	99.99	-	NBH Operator B Pty Ltd	Australia	99.99	-
Healthscope Hospitals International Pty Ltd	Australia	100	100				

The Australian entities listed above⁶ formed part of the tax consolidation group and Deed of Cross Guarantee⁷.

⁵ On 23 June 2015, the Directors signed a sale agreement to sell the Australian Pathology operations to Crescent Capital Partners, expecting to complete the transaction by the end of July 2015. As part of the sale, these entities will be disposed in the next financial year.

⁶ Except for NBH Borrower Pty Ltd, NBH Carpark Operator Pty Ltd, NBH Holdco 1 Pty Ltd, NBH Operator B Pty Ltd and NBH Operator Co Pty Ltd.

⁷ Except for GCPH HoldCo Pty. Ltd, Gold Coast Private Property Pty. Ltd, Gold Coast Private Hospital Pty. Ltd, Histoderm Pty. Ltd, Australian Dermatopathology Laboratory Pty. Ltd., Bayside Pathology Pty. Ltd., Analytical Reference Laboratories Pty. Ltd., Solaris Pathology Pty. Ltd., Yarra Ranges Pathology Pty. Ltd., HCOA Pty. Ltd., Medibill Pty. Ltd., 96 002 869 632 Pty. Ltd., 28-050-049-780 Pty. Ltd., 43 065 317 106 Pty. Ltd., Davies, Campbell & de Lambert Pty. Ltd., A.C.N 009 076 555 Pty. Ltd., A.C.N. 092 626 956 Pty. Ltd., Gribbles Pathology Pty. Ltd., Grahame Hookway & James Carroll Medical Practice Company Pty. Ltd., Nextpath Pty. Ltd., Gribbles Administrative Services Pty. Ltd., Gribbles Molecular Science Pty. Ltd., NBH Borrower Pty Ltd, NBH Carpark Operator Pty Ltd, NBH Holdco 1 Pty Ltd, NBH Holdco 2 Pty Ltd, NBH Operator B Pty Ltd and NBH Operator Co Pty Ltd.

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 38: ENTITIES WITHIN THE CONSOLIDATED GROUP (cont'd)

Deed of Cross Guarantee

The consolidated statement of financial position and income statements of the entities part to the deed of cross guarantee are:

	2015 \$'000	2014 \$'000
Statement of financial position		
Current assets		
Cash and cash equivalents	127,023	59,049
Trade and other receivables	65,929	82,517
Inventories	47,861	46,645
Other financial assets	-	28,761
Assets classified as held for sale	140,363	-
Prepayments	13,505	15,249
Total Current Assets	394,681	232,221
Non-current assets		
Other financial assets	517,892	102,114
Investments in joint ventures	1,001	911
Property, plant and equipment	1,201,553	1,167,534
Intangible assets	1,539,937	1,591,019
Deferred tax assets	186,826	241,971
Total non-current assets	3,447,209	3,103,549
Total assets	3,841,890	3,335,770
Current liabilities		
Trade and other payables	196,108	196,392
Deferred revenue	949	1,168
Borrowings	-	2,213,944
Liabilities associated to assets classified as held for sale	40,387	-
Other financial liabilities	26,749	584,408
Provisions	102,638	109,785
Total current liabilities	366,831	3,105,697
Non-current liabilities		
Borrowings	991,583	1,025
Other financial liabilities	425	2,524
Deferred tax liabilities	43,726	44,451
Provisions	42,235	48,030
Total non-current liabilities	1,077,969	96,030
Total liabilities	1,444,800	3,201,727
Net Assets	2,397,090	134,043
Equity		
Issued capital	2,697,237	580,831
Reserves	(239,556)	21,806
Accumulated losses	(60,591)	(468,594)
Total Equity	2,397,090	134,043

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 38: ENTITIES WITHIN THE CONSOLIDATED GROUP (cont'd)

Deed of Cross Guarantee (cont'd)

	2015 \$'000	2014 \$'000
Income Statement		
Revenue	2,178,402	1,735,280
Share of profits of joint ventures	2,032	1,946
Employee benefits expense	(1,090,161)	(790,171)
Medical and consumable supplies	(221,347)	(216,424)
Prosthetics expenses	(269,021)	(254,653)
Occupancy costs	(115,861)	(50,787)
Service costs	(156,175)	(148,273)
Other income and expense items	231	(47,545)
Profit before finance costs, income tax, depreciation and amortisation	328,100	229,373
Depreciation and amortisation	(87,014)	(63,353)
Profit before finance costs and income tax	241,086	166,020
Net finance costs	(70,349)	(392,496)
Profit / (loss) before income tax	170,737	(226,476)
Income tax benefit / (expense)	(52,209)	38,068
Net Profit / (loss) for the year	118,528	(188,408)
Other comprehensive income, net of income tax		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Reclassification of hedge reserve through profit or loss	-	28,316
Gain on cash flow hedges taken directly to equity	-	17,193
Income tax expense relating to other comprehensive income	-	(13,654)
Other comprehensive income for the year, net of tax	-	31,855
Total comprehensive income / (loss) for the year	118,528	(156,553)

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 39: SHARE BASED PAYMENTS

The LTI Plan is designed to align the interests of Senior Executives with the interests of shareholders by providing the opportunity for participants to receive an equity interest in Healthscope through the granting of Performance Rights.

Growth remains a key plank of Healthscope's strategic plan and it is appropriate that Senior Executives be incentivised around measures which demonstrate sustainable growth. The LTI Plan also acts to retain key executives who have the capacity to influence company strategy and direction and therefore supports company performance and the interests of shareholders over the longer term. Grants pursuant to the LTI Plan are made at face value.

Healthscope introduced the LTI Plan at the time of IPO and the FY2015 LTI grant delivered awards in the form of Performance Rights. Each Performance Right entitles the holder to acquire one ordinary share in Healthscope on satisfaction of performance conditions.

Performance Rights were granted at no cost to the participants as they form part of remuneration. The Performance Rights are subject to two separate performance measures – 75% of the LTI grant is measured against Absolute Earnings Per Share (EPS as defined in section 7.3.3) and 25% of the LTI grant is measured against Relative Total Shareholder Return (RTSR). Performance is tested against these measures at the end of the performance period, being 30 June 2017. Performance Rights do not carry any voting or dividend entitlements.

Detail of Performance Hurdles

The dual performance hurdles – EPS and RTSR (with an absolute TSR gate or threshold of 7.5% to be achieved before RTSR can be assessed) have been selected to ensure that the mix of measures means that both lead indicators (indicative of Healthscope business operations) and lag indicators (reflecting the market's reaction to the company's past performance) are utilised.

The EPS measure was selected because of its correlation with long term shareholder return and its lower susceptibility to short term share price volatility. This measure also provides a greater 'line of sight' between Senior Executives' actions and the way in which their performance is measured. Consequently, this component was more heavily weighted in order to drive performance and provide an appropriate retention incentive.

RTSR measures the performance of an ordinary Healthscope share (including the value of any cash dividend and any other shareholder benefits paid during the period) against total shareholder return performance of a comparator group of companies, comprising a segment of the S&P ASX100 Index, over the same period. The Board believes that RTSR is an appropriate hurdle, as it links Senior Executive reward to Healthscope's relative share performance which is consistent with creating shareholder value relative to Healthscope's peer group. No reward is achieved unless Healthscope's TSR is higher than the median of this comparator group.

These hurdles and vesting schedules are set out below:

Absolute EPS Performance (75% Weighting)	Relative TSR Performance (25% Weighting)	Portion of PRs that will vest against relevant target
Less than the threshold target	Less than the 50th percentile	Nil
Equal to the threshold target	At 50th percentile	50%
Greater than the threshold target, up to maximum target	Between 50th and 75th percentile	Straight line vesting between 50% and 100%
At or above maximum target	At or above the 75th percentile	100%

HEALTHSCOPE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 39: SHARE BASED PAYMENTS (cont'd)

Information with respect to the number of rights:

	2015 Number	2014 Number
Balance at the beginning of the year	-	-
- Number issued on 28 July 2015	1,706,433	-
- Rights cancelled due to termination of employment	-	-
- Rights forfeited during the year	-	-
- Rights exercised during the year	-	-
- Rights expired during the year	-	-
- Rights lapsed during the year	-	-
Balance at the end of the year	1,706,433	-
Exercisable at 30 June 2015	-	-

Rights held at the end of the reporting period:

Performance right series	Number of rights	Grant date	Vesting date	Expiry date	Exercise Price	Fair value at grant date
2014	1,706,433	28/07/2014	30/06/2017	30/06/2017	0	\$1.67

Fair value of performance rights

The average fair value of the performance rights granted during the financial year is \$1.67. Performance rights granted during the financial year were priced using a Monte Carlo simulation for the TSR Performance Rights and a Black Scholes valuation model for the EPS Performance Rights. The expected life used in the model has been adjusted based on management's best estimate for the effects of exercise restrictions (including the probability of meeting market conditions attached to the option).

Inputs into the 2015 performance right pricing model

Grant date share price	\$2.10
Exercise price	\$0.00
Estimated Volatility	20%
Option life	3 years
Risk free interest rate	2.60%
Dividend yield	3.0%

The equity volatility estimate is based on the historical enterprise volatility of comparable companies regearred with Healthscope's expected debt to equity ratio. The equity volatility adopted is broadly in line with the equity volatility of health sector peers within the ASX 100.

HEALTHSCOPE LIMITED

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

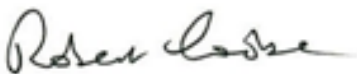
In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 31 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Paula J Dwyer
Chairman



Robert J. Cooke
Managing Director and Chief Executive Officer

Melbourne: 25 August 2015