Healthscope

Prospectus

Healthscope Limited

Initial Public Offering of Ordinary Shares

Joint Global Co-ordinators

MACQUARIE

UBS

Joint Lead Managers

CIMB

CREDIT SUISSE

Goldman Sachs

Merrill Lynch

Important Notes

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Healthscope Hospitals Holdings Pty Ltd to be renamed Healthscope Limited. All references to Healthscope Limited in this Prospectus are to this entity (ABN 65 144 840 639) ("Healthscope") ("Shares"). This Prospectus is issued by Healthscope and Healthscope SaleCo Limited ACN 169 924 396 ("SaleCo").

Lodgement and listing

This Prospectus is dated 30 June 2014 and was lodged with the Australian Securities and Investments Commission ("ASIC") on that date. None of ASIC, the Australian Securities Exchange ("ASX") or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. Healthscope will apply within seven days after the date of this Prospectus to ASX for Listing and quotation of the Shares on ASX.

No securities will be issued or sold on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Healthscope is currently a proprietary company

As at the date of this Prospectus, Healthscope, one of the issuers of this Prospectus, is a proprietary company. Under the Corporations Act, Healthscope must be a public company at the time the Offer is made. Healthscope has made an application to ASIC to be converted to a public company. No applications will be accepted under this Prospectus until the conversion of Healthscope to a public company has been completed. This conversion to a public company is expected to take place on 3 July 2014. Following conversion to a public company, Healthscope will be renamed Healthscope Limited.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in Healthscope. In considering the prospects of Healthscope, you should consider the risk factors that could affect the financial performance of Healthscope. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest. Some of the risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of Healthscope, the repayment of capital by Healthscope or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by Healthscope, SaleCo or their Directors. You should rely only on information in this Prospectus.

Important Information for New Zealand Investors

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.

This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

Exposure Period

The *Corporations Act 2001* (Cth) ("the Corporations Act") prohibits Healthscope from processing applications to subscribe for Shares under this Prospectus ("Applications") in the seven day period after the date of lodgement of this Prospectus ("Exposure Period"). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period. No offer is being made to New Zealand investors during the Exposure Period.

Obtaining a copy of this Prospectus

This Prospectus is available to Australian and New Zealand investors in electronic form at www.healthscopeoffer.com.au. The Offer constituted by this Prospectus in electronic form at www.healthscopeoffer.com.au is available only to persons within Australia and New Zealand. It is not available to persons in other jurisdictions (including the United States). Persons having received a copy of this Prospectus in its electronic form may, before the Closing Date, obtain a paper copy of this Prospectus (free of charge) by telephoning the Healthscope Offer Information Line on 1300 705 291. If you are eligible to participate in the Offer and are calling from outside Australia and New Zealand, you should call +61 3 9415 4833. Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or in its paper copy form which may be downloaded in its entirety from www.healthscopeoffer.com.au. Refer to Section 7 for further information.

Statements of past performance

This Prospectus includes information regarding the past performance of Healthscope. Investors should be aware that past performance is not indicative of future performance.

Financial performance

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of the financial information is set out in Section 4.2.

All references to FY2011, FY2012, FY2013, FY2014 and FY2015 appearing in this Prospectus are to the financial years ended or ending 30 June (as relevant), unless otherwise indicated. All references to H1FY2013 and H1FY2014 appearing in this Prospectus are to the half financial years ended 31 December 2012 and 31 December 2013, respectively, unless otherwise indicated.

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB").

The Financial Information is presented in an abbreviated form. It does not include all of the presentation and disclosures required by the Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

Forward looking statements

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors and on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus are expected to take place (including the key assumptions set out in Section 4.9.1, Section 4.9.2 and Section 4.9.3). The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Pro Forma Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus contains forward looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward looking statements.

Any forward looking statements are subject to various risk factors that could cause Healthscope's actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Healthscope, the Directors of Healthscope, SaleCo, the directors of SaleCo and the management of Healthscope. Forward looking statements should be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 5, general assumptions as set out in Section 4.9.1, specific assumptions as set out in Section 4.9.12, the sensitivity analysis as set out in Section 4.10, and other information in this Prospectus.

Healthscope cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Healthscope has no intention of updating or revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this Prospectus, except where required by law.

This Prospectus, including the overview of Healthscope in Section 3, uses market data, industry forecasts and projections. Healthscope has based some of this information on market research prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and any research of third parties which are referred to in this Prospectus, will be achieved. Healthscope has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

Selling restrictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia and New Zealand. The distribution of this Prospectus (including in electronic form) outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus outside Australia and New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus may not be distributed to, or relied upon by, any person in the United States unless accompanied by the Institutional Offering Memorandum as part of the Institutional Offer.

In particular, the Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "US Securities Act") or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares are registered under the US Securities Act or are offered and sold in transactions exempt from, or not subject to the registration requirements of the US Securities Act and any other applicable US securities laws.

See Section 7.7 for more detail on selling restrictions that apply to the offer and sale of Shares in jurisdictions outside of Australia and New Zealand.

No cooling off rights

Cooling off rights do not apply to an investment in Shares offered under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by Healthscope. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Company website

Any references to documents included on Healthscope's website at www.healthscope.com.au or the Offer website www.healthscopeoffer.com.au are for convenience only, and none of the documents or other information available on Healthscope's website is incorporated herein by reference.

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings given in the glossary of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to Melbourne time (GMT +10).

Disclaimer

As set out in Section 7.9.3, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis. Healthscope, Healthscope's service provider Computershare Investor Services Pty Limited (ABN 48 078 279 277) ("the Share Registry"), the Joint Lead Managers and CT HSP GP (Dutch) B.V. disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

This disclaimer does not purport to disclaim any warranties or liability which cannot be disclaimed.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to Healthscope through the Share Registry, which is contracted by Healthscope to manage Applications. Healthscope, and the Share Registry on its behalf, may collect, hold, use and

disclose that personal information for the purpose of processing your Application, service your needs as a Shareholder, provide facilities and services that you need or request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, Healthscope and the Share Registry may not be able to process or accept your Application. Your personal information may also be used from time to time to inform you about other products and services offered by Healthscope, which it considers may be of interest to you.

Your personal information may also be provided to Healthscope's agents and service providers on the basis that they deal with such information in accordance with Healthscope's privacy policy. The agents and service providers of Healthscope may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires Healthscope to include information about the Shareholder (including name, address and details of the Shares held) in its Share Registry. The information contained in Healthscope's Share Registry must remain there even if that person ceases to be a Shareholder. Information contained in Healthscope's Share Registry is also used to facilitate dividend payments and corporate communications (including Healthscope's financial results, annual reports and other information that Healthscope may wish to communicate to its Shareholders) and compliance by Healthscope with legal and regulatory requirements. An Applicant has a right to gain access to his or her personal information that Healthscope and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to Healthscope's registered office or the Share Registry's office, details of which are disclosed in the corporate directory on the final page of this Prospectus. Applicants can obtain a copy of Healthscope's privacy policy by visiting the Healthscope website (www.healthscope.com.au). By submitting an Application, you agree that Healthscope and the Share Registry may communicate with you in electronic form or to contact you by telephone in relation to the Offer.

Report on Directors' forecasts and financial services guide

The provider of the independent review on the Forecast Financial Information is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act.

The financial services guide is provided in Section 8.

Questions

If you have any questions about how to apply for Shares, please call your Broker. Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

If you have any questions in relation to the Offer, please call the Healthscope Offer Information Line on 1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia) from 9.00am until 5.00pm (Melbourne time) Monday to Friday. If you have any questions about whether to invest in Healthscope you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Healthscope.

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Chairman's Letter

30 June 2014

Dear Investor,

On behalf of the Board of Directors, I am pleased to offer you the opportunity to become a Shareholder in Healthscope Limited ("Healthscope").

Healthscope is Australia's second largest private hospital operator and a leading provider of pathology services in Australia, New Zealand, Malaysia and Singapore. The Healthscope Group has a long history of operations in healthcare, being originally formed in 1985 with the business 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 was subsequently de-listed from the ASX.

Healthscope operates 41 private hospitals[1] in Australia and manages three private hospitals on behalf of the Adelaide Community Healthcare Alliance ("ACHA"), providing a range of acute, psychiatric, rehabilitation and extended care facilities. Healthscope's International Pathology division is a market leader in community pathology in New Zealand and has businesses in Malaysia and Singapore and a small presence in Vietnam. Healthscope's Australian Pathology business comprises a network of 578 collection centres, 69 accredited laboratories, 46 medical centres, 11 specialist skin cancer clinics and one specialist breast diagnostic clinic around Australia (as at 19 May 2014).

Since becoming privately owned in October 2010, Healthscope has delivered strong earnings growth driven by attractive industry dynamics, ongoing margin improvement through a range of operational initiatives, and successful completion of growth projects. These include 21 hospital brownfield expansion projects completed adding 318 beds and 18 operating theatres.

Led by a highly regarded and experienced management team, Healthscope operates in the high growth Australian healthcare market which is supported by strong macroeconomic drivers, a growing and ageing population and a supportive funding environment and low reimbursement risk. All of these factors support Healthscope's future financial performance.

Like any business, Healthscope also faces a number of risks such as changes in government policy and regulation, deterioration of Healthscope's relationships with private health insurance funds, deterioration of Healthscope's relationships with Accredited Medical Practitioners and reliance on nursing labour.

Healthscope's strong operating cash flows are expected to fund in part its planned future growth, including hospital expansion projects, and support a forecast dividend yield for FY2015 at the Indicative Price Range of 3.0% to 3.5%, with a planned future payout ratio of 70% of net profit after tax.

CT Healthscope Holdings, L.P., the existing shareholder, will hold at least 25% of Shares on issue at Completion but reserves the right to hold up to 40%, and will enter into a voluntary escrow agreement in relation to all the Shares it holds at Listing until the release of the FY2015 results. The existing shareholder remains a strong supporter of Healthscope. Management's ownership interests in Healthscope acquired in connection with Listing will be subject to disposal restrictions for two years following Completion of the Offer.

This Prospectus contains detailed information about the Offer, as well as the key risks associated with an investment in Healthscope. I encourage you to read this document carefully and in its entirety before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a Shareholder of Healthscope.

Yours sincerely,

Paula Dwyer
Chairman, Healthscope Limited

[1] Healthscope has entered into a conditional agreement to sell Brisbane Waters Private Hospital and is also scheduled to acquire Frankston Private Day Surgery and Peninsula Oncology Centre on 1 July 2014.

Key Offer Statistics and Important Dates

Key dates:

Prospectus Date	30 June 2014
Noteholder Exchange Offer open	8 July 2014
Noteholder Exchange Offer close	17 July 2014
Broker Firm Offer and Personnel and Priority Offer open	8 July 2014
Broker Firm Offer and Personnel and Priority Offer close and Applications due	22 July 2014
Bookbuild to determine Final Price	23 – 24 July 2014
Final Price announcement to the market	25 July 2014
Expected commencement of trading on ASX on a conditional and deferred settlement basis	28 July 2014
Settlement of the Offer	30 July 2014
Completion of the Offer	31 July 2014
Trading commences on an unconditional and deferred settlement basis on ASX	31 July 2014
Expected despatch of holding statements	1 August 2014
Trading on normal settlement basis commences on ASX	4 August 2014

Key Offer statistics[2]:

Indicative Price Range[3]	$1.76 – $2.29
Total proceeds under the Offer	$2,246.8 – $2,573.5 million
Total number of Shares available under the Offer	1,123.9 – 1,276.7 million
Number of Shares to be held by CT Healthscope Holdings, L.P. after Completion of the Offer[4]	541.1 – 614.7 million
Total number of Shares on issue at Completion of the Offer	1,665.0 – 1,891.4 million
Indicative market capitalisation	$3,328.8 – $3,812.8 million
Pro forma net debt[5] (as at 31 December 2013)	$865.6 million
Enterprise value[6]	$4,194.4 – $4,678.4 million
Enterprise value/pro forma FY2015 forecast EBITDA[7]	10.8× – 12.1×
Enterprise value/pro forma FY2015 forecast EBIT[8]	14.7× – 16.4×
Indicative Price Range/pro forma FY2015 forecast NPAT per Share[9]	20.0× – 23.0×
Forecast dividend yield for final FY2015 dividend[10]	3.0% – 3.5%

Dates may change

The dates above are indicative only and may change without notice.

CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to vary the times and dates of the Offer including to close the Offer early, extend the Offer or to accept late Applications, either generally or in particular cases, without notice. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

Investors are encouraged to submit their Application Forms as early as possible after the Offer opens. All times stated throughout this Prospectus are Melbourne time.

[2] The Forecast Financial Information set out in Section 4 has been prepared on the basis of the best estimate assumptions set out in Sections 4.9.1, 4.9.2 and 4.9.3 and should be read in conjunction with the discussion of the Pro Forma Historical Financial Information and the Forecast Financial Information in Section 4, including the sensitivities set out in Section 4.10, and the risk factors set out in Section 5. All key Offer statistics that are expressed as a range are based on the Indicative Price Range and assume that 50% of Notes are Exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.

[3] The Indicative Price Range is the indicative price range for the Final Price. The Final Price may be set below, within or above the Indicative Price Range. Shares may trade below the lower end of the Indicative Price Range (refer to Section 7.2 for further details).

[4] These Shares will be subject to voluntary escrow arrangements. See Section 7.6 for further details of these voluntary escrow arrangements.

[5] Pro forma net debt is calculated as the sum of finance lease obligations and senior debt less upfront fees paid and cash and cash equivalents (refer to Section 4.6.1 for further details).

[6] Enterprise value is calculated as the indicative market capitalisation of $3,328.8 to $3,812.8 million (based on the Indicative Price Range), plus pro forma net debt of $865.6 million as at 31 December 2013 as set out in Section 4.6.1.

[7] This ratio is commonly referred to as an EV/EBITDA ratio. The EV/EBITDA ratio is calculated as the enterprise value (based on the Indicative Price Range) divided by FY2015 pro forma EBITDA of $387.3 million (refer to Section 4.4 for more details).

[8] This ratio is commonly referred to as an EV/EBIT ratio. The EV/EBIT ratio is calculated as the enterprise value (based on the Indicative Price Range) divided by FY2015 pro forma EBIT of $284.7 million (refer to Section 4.4 for more details).

[9] This ratio is commonly referred to as a price earnings or PE ratio. The PE ratio is calculated as the price per Share (based on the Indicative Price Range) divided by FY2015 pro forma NPAT per share (being FY2015 pro forma NPAT of $166.1 million (refer to Section 4.4 for more details) divided by total Shares on issue immediately after Completion of the Offer as implied by the Indicative Price Range).

[10] Calculated as the implied dividends per Share (based on the Indicative Price Range) divided by the Indicative Price Range. For more information on Healthscope's dividend policy, see Section 4.13.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form. Applicants under the Noteholder Exchange Offer must also complete a valid Exchange Notice.

Instructions on how to apply for Shares are set out in Section 7 and on the back of the Application Form.

Questions

Please call the Healthscope Offer Information Line on 1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia) from 9.00am until 5.00pm (Melbourne time) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Healthscope is a suitable investment for you, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Healthscope.

1. Investment Overview

1. Investment Overview

1.1 Introduction

Topic	Summary	For more information
What is Healthscope?	Healthscope is one of Australia's leading private healthcare services providers. Healthscope provides healthcare services through three divisions: • the operation of private hospitals in Australia ("Hospitals") representing 81% of FY2013 Operating EBITDA; • the provision of pathology testing services internationally ("International Pathology") representing 13% of FY2013 Operating EBITDA; and • the provision of pathology testing services and the operation of medical centres in Australia ("Australian Pathology") representing 6% of FY2013 Operating EBITDA. Healthscope has revenues of $2,211 million and pro forma EBITDA of $325 million for the twelve months ended 30 June 2013.	Section 3
What does the Hospitals division do?	Healthscope is Australia's second largest private hospital operator. Healthscope's private hospital portfolio comprises 31 acute hospitals, seven psychiatric hospitals and six rehabilitation and extended care facilities. The Hospitals division is Healthscope's largest operating division and represented 81% of FY2013 Operating EBITDA. The Hospitals division provides services to Accredited Medical Practitioners and their patients including access to operating theatres, patient accommodation, nursing and other clinical care and consumables. Accredited Medical Practitioners are the main source of patient admissions into Healthscope hospitals. Accredited Medical Practitioners are not generally employed or remunerated by Healthscope – they operate independently, but are accredited by a Healthscope hospital to provide medical services to their patients at that Healthscope hospital.	Sections 3.1 and 3.3
What does the International Pathology division do?	The International Pathology division operates 43 laboratories across New Zealand, Malaysia and Singapore, with a small presence in Vietnam. The International Pathology division represented 13% of FY2013 Operating EBITDA. The International Pathology division provides pathology testing services, focused on the examination of blood, tissue and other biological samples to diagnose disease.	Sections 3.1 and 3.4

Topic	Summary	For more information
What does the Australian Pathology division do?	The Australian Pathology division comprises Healthscope's Australian pathology business and medical centres business. Healthscope's Australian Pathology business comprises a network of 578 collection centres and 69 accredited laboratories and Healthscope's medical centres business comprises 46 medical centres, 11 specialist skin cancer clinics and one specialist breast diagnostic clinic as at 19 May 2014. The Australian Pathology division represented 6% of FY2013 Operating EBITDA. Healthscope's Australian pathology business provides pathology testing services, focused on the examination of blood, tissue and other biological samples to diagnose disease. Healthscope's medical centres business provides services to General Practitioners to facilitate patient consultations. General Practitioners are not employed by Healthscope, but instead have a service agreement with the Healthscope medical centre.	Sections 3.1 and 3.5
Why is the Offer being conducted?	The Offer is being conducted to: • provide Healthscope with access to capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities; • raise capital to reduce Healthscope's existing liabilities; and • provide a liquid market for its Shares and an opportunity for others to invest in Healthscope. The Offer also provides CT Healthscope Holdings, L.P. with an opportunity to realise part of its investment in Healthscope.	Section 7.1.2

1.2 Key features of Healthscope's business model

Topic	Summary	For more information
How does Healthscope generate its revenue?	Healthscope generates revenue by operating private hospitals in Australia, providing pathology testing services in Australia and overseas and operating medical centres in Australia. Approximately 90% of Healthscope's Hospitals division revenue comes from private health insurance funds and Government-related bodies (such as the Department of Veterans' Affairs ("DVA") and the Victorian Transport Accident Commission ("TAC")) which have agreements in place with Healthscope. They typically pay Healthscope an amount to cover the services Healthscope provides in relation to an admission. Payments to the hospital are generally based on a pricing schedule set out in the agreements and payments are either on a case payment or per diem basis, depending on the type of service provided. Healthscope's International Pathology division in New Zealand is primarily funded through District Health Boards based on agreed contractual rates. In Malaysia and Singapore, fees for pathology testing services are billed to medical practitioners who in turn charge their patients for pathology tests. Healthscope's Australian pathology business receives more than 85% of its revenue from Medicare. The price paid by Medicare is determined by the Federal Government's Medicare Benefits Schedule. Pathology operators also have the right to charge more than the amount reimbursable under Medicare, and in these instances the patient is required to pay the difference. In its medical centres business, General Practitioners pay Healthscope a service fee which is expressed as a percentage of the General Practitioner's patient billings.	**Sections 3.1, 3.3, 3.4 and 3.5**
Which geographical markets does Healthscope operate in?	Approximately 87% of Healthscope's pro forma EBITDA in FY2013 was generated in Australia. The majority of Healthscope's pro forma EBITDA generated internationally is derived from New Zealand, Malaysia and Singapore. Healthscope has a small presence in Vietnam.	

Topic	Summary	For more information
What is Healthscope's growth strategy?	Healthscope's Hospitals division is well positioned to benefit from the expected continued increase in demand for private hospital services, underpinned by favourable Australian healthcare sector fundamentals. The key growth strategies of Healthscope's Hospitals division are: • operational improvements – case mix[11] management and labour and procurement initiatives; • brownfields and "relocate and grow" projects – nine brownfield developments are under construction or planned, with further opportunities under consideration, and there are two current "relocate and grow" projects whereby Healthscope constructs a new hospital close to an existing hospital and moves services to the new facility, which typically has increased capacity and higher quality amenities; • Government partnerships and outsourcing – Healthscope is well positioned to participate in increasing opportunities for private sector involvement in public healthcare delivery; and • Asian growth – Healthscope has investigated a range of potential partnerships which would allow Healthscope to enter the high growth South East Asian private hospital market. In the International Pathology division, Healthscope will seek to secure additional contracts in New Zealand as they become contestable. In South East Asia, Healthscope is focused on further strengthening its market positions through an enhanced service offering and greater segmental market penetration. In the Australian pathology business, Healthscope continues to focus on improving the efficiency of its laboratory and collection centre network and organic growth in patient episodes. In the medical centres business, additional efficiencies are expected to be gained by increasing patient consultations at existing medical centres and transforming more medical centres into large, multidisciplinary centres either through expansion or the merger of existing medical centres.	Sections 3.4.3 and 3.5.3
How does Healthscope expect to fund its operations?	Healthscope's principal source of funds is cash flows from operations. After Listing, Healthscope will have total undrawn debt facilities of over $300 million. Healthscope expects to continue to generate strong cash flows from operations with pro forma net cash flow before capital expenditure financing and taxation expected to be $354 million in FY2014 and $376 million in FY2015.	Sections 4.6 and 9.8

[11] Case mix refers to the mix of types of patients (by specialty, sub-specialty and specific procedure/treatment required and/or diagnosis) in a hospital at any point in time based on their clinical classification.

1.3 Key strengths

Topic	Summary	For more information
Exposure to attractive Australian healthcare sector dynamics	Healthscope's Hospitals and Australian Pathology divisions operate in the Australian healthcare market which is supported by strong macroeconomic drivers, including a growing and ageing population, increasing wealth per capita and increasing medical treatment capabilities. Australia's population is forecast to grow at 1.7% p.a. from 2012 to 2022. The number of Australians aged over 65 years is expected to increase by 3.3% p.a. during the same period. The over 65 age group typically has much higher rates of chronic illness and disability which in turn result in a significantly higher rate of hospitalisation and associated healthcare costs. Australia's median wealth per capita is now the highest globally. People aged over 65, who are significantly higher users of healthcare services, hold a disproportionately high share of household wealth in Australia. In addition to these drivers, Healthscope's Hospitals division is exposed to the attractive dynamics of the Australian private hospital market, which include high levels of private health insurance fund membership and supportive Federal and State/Territory Government policies designed to increase utilisation of private healthcare services. Private hospital funding in Australia is relatively stable given 68% of payments are from private health insurance funds and a further 21% is funded by Federal and State/Territory Governments or government related bodies (DVA, TAC and WorkCover). Growth in Private Health Insurance membership is supported by Federal Government policies that incentivise Private Health Insurance membership such as the Medicare Levy Surcharge, the Federal Government Rebate and Lifetime Health Cover. Private Health Insurance participation rates have remained above 40% of the population since the Introduction of Lifetime Health Cover in July 2000. As at 31 March 2014 the participation rate was 47.0% of the population.	Section 2.1

Topic	Summary	For more information
Defensive business representing critical social infrastructure in Australia	Private hospitals play an increasingly important role in the delivery of healthcare services in Australia. The private hospital market has grown strongly, with private hospital Separations[12] growing at an average of 4.2% p.a. over the past 10 years compared with the public system at 3.1% p.a. Private hospitals account for approximately one third of total hospital beds, approximately 41% of total Separations and approximately 67% of elective surgery Separations. Following increasing fiscal constraints and long public patient waiting lists, the Federal Government has supported the increased use of the private healthcare system over many years through key policy measures, including the Medicare Levy Surcharge, the Federal Government Rebate and Lifetime Health Cover, that seek to increase the proportion of Australians holding Private Health Insurance. Healthscope and the ASX listed Ramsay Health Care Limited ("Ramsay Health Care") are the two largest private hospital operators in Australia, operating or managing 44 and 68 hospitals, respectively. The balance of private overnight hospitals are largely operated by religious or charitable groups on a not-for-profit basis. Because Healthscope is a national operator, it is important for private health insurance funds to maintain arrangements with Healthscope to provide good access to hospitals for their members. There are a number of key success factors for private hospital operators, including the location of hospitals, ability to attract Accredited Medical Practitioners, relationships with private health insurance funds, operational expertise, quality and clinical reputation and ability to develop existing and new facilities.	Section 2.2
Market leading reputation for quality and clinical outcomes in Hospitals division	Healthscope's performance on all major key performance indicators for quality and clinical outcomes compares favourably to industry[13]. Quality of service has been a key factor in driving stronger collaborative relationships with private health insurance funds and helps attract and retain high quality Accredited Medical Practitioners and nursing staff. Healthscope was the first Australian private hospital group to publicly disclose quality indicators at a hospital level via its MyHealthscope website.	Section 3.3.2

[12] A Separation is an episode of care for an admitted patient, which can be a total hospital stay (from admission to discharge, transfer or death) or a portion of a hospital stay beginning or ending in a change of type of care (for example, from acute to rehabilitation).

[13] Based on MyHealthscope/ACHS indicators for January – June 2013. Industry refers to General Aggregate Rate.

Topic	Summary	For more information
Track record of strong earnings growth and stable, high cash flow generation	Healthscope has delivered strong earnings growth, primarily driven by attractive industry dynamics, margin improvement and successful completion of hospital brownfield projects. • Average revenue growth of 5.1% p.a. from FY2011 to FY2013. • Average pro forma EBITDA growth of 8.1% p.a. from FY2011 to FY2013. • Pro forma EBITDA Margin growth of 120 basis points from FY2011 to H1FY2014. • Completed 21 hospital brownfield projects adding 318 beds and 18 operating theatres since October 2010. Healthscope also has a well-established track record of high cash flow generation, with a consistent operating cash flow conversion ratio[14] of approximately 100% on average over the period FY2011 to FY2013.	Section 4
Attractive growth strategy with platform for expansion	Healthscope expects strong organic revenue growth and continued margin expansion throughout the forecast period, primarily driven by favourable healthcare sector fundamentals and further operational improvements, particularly in the areas of case mix management and labour and procurement initiatives. • Forecast revenue growth of 5.2% p.a. on average from FY2013 to FY2015. • Forecast pro forma EBITDA growth of 9.1% p.a. on average from FY2013 to FY2015. • Forecast pro forma EBITDA Margin growth of 110 basis points from FY2013 to FY2015. Healthscope is planning to invest approximately $274 million to deliver nine hospital brownfield expansion projects from FY2015 to FY2017 to meet growing demand for private hospital services with additional projects under consideration. Healthscope has a strong track record of successfully executing brownfield projects. In addition, Healthscope has two projects underway which are expected to result in relocation of existing hospitals to new facilities ("relocate and grow") – Gold Coast Private Hospital and Holmesglen Private Hospital. Together, approximately $295 million is forecast to be invested by Healthscope to deliver a net increase of 208 beds and 11 operating theatres in these two facilities.	Sections 3.4.3, 3.5.3 and 5

[14] Cash conversion is calculated as cash flow from operations divided by pro forma EBITDA.

Topic	Summary	For more information
Portfolio of hospital real estate	Healthscope has a unique property portfolio, comprising 30 freehold hospitals located across Australia. Ownership of this portfolio provides strategic and financial benefits to Healthscope. Healthscope's hospital portfolio is concentrated in large metropolitan centres with a presence in every state and territory. Healthscope is well positioned to expand its hospital facilities to meet additional patient demand through brownfield developments.	Section 3.3
Highly regarded and experienced management team	Healthscope's Senior Management team comprises 12 senior managers who are highly experienced and respected with an average of approximately 24 years of experience in the healthcare industry. Senior Management is led by Robert Cooke, Healthscope's Chief Executive Officer and Managing Director, who has over 37 years of experience in the healthcare industry both in Australia and overseas. Robert has held senior leadership roles in a number of leading Australian healthcare services providers including as Managing Director and Chief Executive Officer of Symbion Health and Managing Director of Affinity Health. Robert was also Chairman of Spire Health in the United Kingdom from 2008–2011. In addition to his role as Chief Executive Officer and Managing Director of Healthscope, Robert was also Executive Chairman during its time under private ownership. Healthscope's Chief Financial Officer, Michael Sammells, also has significant experience in the healthcare industry, including in his former role as Chief Financial Officer of Medibank Private, Australia's largest private health insurer.	Section 6.2

1.4 Key risks

Topic	Summary	For more information
Government policy and regulation may change	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. The risks relating to these policies and regulations in relation to Healthscope's Hospitals business in Australia include: • changes to Federal Government initiatives in relation to Private Health Insurance (refer Section 2.2.3.4); • changes to regulations relating to private health insurance funds; • changes to private hospital licensing policy; • changes to medical negligence legislation; and • changes to public hospital policy which may encourage an increase in admissions of private patients into public hospitals. The risks relating to these policies and regulations to Healthscope's pathology and medical centres businesses include: • changes to the nature and extent of the accreditation, government policy, regulation or licensing systems; and • in Australia, changes to the Medicare regime, including any reduction of Medicare rebates for pathology and general practice services.	Section 5.1.1
Healthscope's relationships with private health insurance funds may deteriorate	The profitability of Healthscope's business significantly depends on the 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.	Section 5.1.2
Private health insurance fund membership may decrease and members may downgrade their 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. Where a member decreases their level of Private Health Insurance coverage, they will typically be required to make higher excess payments[15] and/or their private health insurance policy will have more exclusions[16]. This, in turn, has the potential to reduce demand for Healthscope's services, resulting in decreased revenues.	Section 5.1.3
Relationships with Accredited Medical Practitioners may deteriorate	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 due to ageing of facilities, obsolescence of equipment, reductions in the number and quality of nursing staff and the deterioration in clinical safety outcomes, amongst other factors, 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.	Section 5.1.4

[15] An excess payment is an amount of money a private health insurance fund member agrees to pay towards the cost of hospital treatment under their policy before any private health insurance fund benefits are payable.

[16] Exclusions are conditions or services not covered under a Private Health Insurance policy. A private health insurer will not pay benefits towards hospital or medical costs for exclusions. If an insured person receives treatment as a private patient for excluded services, they will incur large out-of-pocket expenses.

Topic	Summary	For more information
Healthscope may not successfully retain existing, and/or attract new, key management personnel	The successful operation of Healthscope's businesses relies on Healthscope's ability to retain experienced and high-performing key management and operating personnel. The unexpected loss of any key members of management or operating personnel, or the inability on the part of Healthscope to attract experienced personnel, may adversely affect Healthscope's ability to develop and implement its business strategies.	Section 5.1.5
Healthscope may be unable to secure or retain relevant 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.	Section 5.1.6
Healthscope's competitive position may deteriorate	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; • secure attractive locations for collection centres in its Australian Pathology business; • attract and retain General Practitioners to practice in Healthscope's medical centres; and • successfully tender for District Health Board contracts in New Zealand.	Section 5.1.7
Healthscope is reliant on nursing labour in its provision of healthcare services to patients	The most significant cost in Healthscope's hospital operations is nursing labour, which represents 41% of Healthscope's total workforce and 59% of Healthscope's Hospitals workforce. Increases in the cost of nursing labour could have a material impact on the financial and operational performance of Healthscope.	Section 5.1.8
Industrial relations disputes may lead to business disruptions and increased labour costs	Approximately 88% of Healthscope's employees, including nurses, are covered by enterprise bargaining agreements and other workplace agreements, which periodically require negotiation and renewal. Disputes may arise in the course of such negotiations which may lead to strikes or other forms of industrial action that could disrupt Healthscope's business operations. Further, any such negotiation could result in increased direct and indirect labour costs for Healthscope.	Section 5.1.9
Medical indemnity claims and associated costs may increase	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, against Healthscope could have an adverse impact on the financial performance and position and future prospects of Healthscope.	Section 5.1.10
Healthscope's insurance may be inadequate or unavailable in the future	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.	Section 5.1.11

Topic	Summary	For more information
Development projects may suffer cost overruns and delays in revenues flowing from proposed developments	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.	Section 5.1.12
New Zealand pathology contracts may not be renewed	Healthscope currently has contracts with 10 District Health Boards for the provision of pathology services in New Zealand. These contracts account for approximately 84% of Healthscope's New Zealand pathology revenue. There is a risk that each time a contract comes up 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.	Section 5.1.13
The restructure of Healthscope's Australian Pathology business may not continue to be effective	Healthscope's Australian Pathology business restructure has resulted in an improvement in the performance of this business YTD in FY2014; however, there is no guarantee that such improved performance will continue. For the performance to be sustainable, the business is required to maintain market share and continue to effectively control costs, and there is a risk that the initiatives implemented by Healthscope will not continue to achieve these outcomes. Should Healthscope not maintain its market share and/or not effectively control costs it may result in reduced future earnings which may also result in further impairment of goodwill and other non-current assets.	Section 5.1.14
The Federal Government Pathology Funding Agreement may change	At least 85% of pathology revenue to private providers is covered under a five-year Pathology Funding Agreement between the Federal Government and the pathology sector. If pathology outlays continue to grow at a higher level than as agreed with the Federal Government, there is a risk that further fee cuts could be implemented during the remaining term of the agreement.	Section 5.1.15
The existing shareholder will retain a significant stake in Healthscope post Listing	Following Completion of the Offer, CT Healthscope Holdings, L.P. will hold at least 25% of the issued capital of Healthscope, however reserves the right to hold up to 40% of the issued capital, which will make CT Healthscope Holdings, L.P. the largest Shareholder. In addition, following Listing, the Board will continue to contain one Director who was nominated by TPG and one Director who was nominated by The Carlyle Group. Consequently, depending on the final size of the Shareholding retained by CT Healthscope Holdings, L.P., it may be in a position to exercise influence in relation to matters requiring approval of Healthscope Shareholders, including the election of directors of Healthscope, and to influence the outcome of any takeover offer for the Shares or similar transaction involving the acquisition of the Shares. The limited partners in CT Healthscope Holdings, L.P., being entities controlled by funds advised and managed by TPG and The Carlyle Group, are in discussions regarding the arrangements that will apply in respect of CT Healthscope Holdings, L.P. and its Shareholding in Healthscope following Completion of the Offer, including co-ordination between the limited partners in relation to any sale of the Healthscope Shares held by CT Healthscope Holdings, L.P. following expiry of the escrow arrangements described in Section 7.6. A significant sale of Shares by CT Healthscope Holdings, L.P., or the perception that such a sale has occurred or might occur, could adversely affect the price of Shares. Alternatively, the absence of any sale of Shares by CT Healthscope Holdings, L.P. may cause or contribute to a diminution in the liquidity of the market for the Shares.	Sections 5.1.16 and 9.5
Other key risks	A number of other key risks are included in Section 5, including other commercial and operational risks and general risks.	Section 5

1.5 Key Offer statistics

Topic	Summary		For more information
What are the key Offer statistics[17]?	Indicative Price Range[18]	$1.76 – $2.29	Sections 4 and 7
	Total proceeds under the Offer	$2,246.8 – $2,573.5 million	
	Total New Shares to be issued under the Offer	781.4 – 1,007.8 million	
	Total Existing Shares to be sold under the Offer	268.9 – 342.4 million	
	Number of Shares to be held by CT Healthscope Holdings, L.P. at Completion of the Offer[19]	541.1 – 614.7 million	
	Total number of Shares on issue at Completion of the Offer	1,665.0 – 1,891.4 million	
	Indicative market capitalisation	$3,328.8 – $3,812.8 million	
	Pro forma net debt[20] (as at 31 December 2013)	$865.6 million	
	Enterprise value[21]	$4,194.4 – $4,678.4 million	
What are the key investment metrics?	Enterprise value/pro forma FY2015 forecast EBITDA[22]	10.8× – 12.1×	Section 4
	Enterprise value/pro forma FY2015 forecast EBIT[23]	14.7× – 16.4×	
	Indicative Price Range/pro forma FY2015 forecast NPAT per Share[24]	20.0× – 23.0×	
	Forecast dividend yield for final FY2015 dividend at the Indicative Price Range[25]	3.0% – 3.5%	
	Pro forma net debt (as at 31 December 2013)/ pro forma FY2014 forecast EBITDA[26]	2.4×	
	Pro forma FY2014 forecast EBITDA/pro forma FY2014 net cash interest expense[27]	7.3×	

[17] All key Offer statistics that are expressed as a range are based on the Indicative Price Range and assume that 50% of Notes are Exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.

[18] The Indicative Price Range is the indicative range for the Final Price. The Final Price may be set below, within or above the Indicative Price Range (refer to Section 7.2 for more details). Shares may trade below the lower end of the Indicative Price Range.

[19] These Shares will be subject to voluntary escrow arrangements. See Section 7.6 for further details of these voluntary escrow arrangements.

[20] Pro forma net debt is calculated as the sum of finance lease obligations and senior debt less upfront fees paid and cash and cash equivalents (refer to Section 4.6.1 for further details).

[21] Enterprise value is calculated as the indicative market capitalisation of $3,328.8 million to $3,812.8 million (based on the Indicative Price Range), plus pro forma net debt of $865.6 million as at 31 December 2013 as set out in Section 4.6.1.

[22] This ratio is commonly referred to as an EV/EBITDA ratio. The EV/EBITDA ratio is calculated as the enterprise value (based on the Indicative Price Range) divided by FY2015 pro forma EBITDA of $387.3 million (refer to Section 4.4 for more details).

[23] This ratio is commonly referred to as an EV/EBIT ratio. The EV/EBIT ratio is calculated as the enterprise value (based on the Indicative Price Range divided by FY2015 pro forma EBIT of $284.7 million (refer to Section 4.4 for more details).

[24] This ratio is commonly referred to as a price earnings or PE ratio. The PE ratio is calculated as the price per Share (based on the Indicative Price Range) divided by FY2015 pro forma NPAT per share (being FY2015 pro forma NPAT of $166.1 million (refer to Section 4.4 for more details) divided by total Shares on issue immediately after Completion of the Offer as implied by the Indicative Price Range).

[25] Calculated as the implied dividends per Share (based on the Indicative Price Range) divided by the Indicative Price Range. For more information on Healthscope's dividend policy, see Section 4.13.

[26] This ratio is commonly referred to as a net debt/EBITDA ratio. The net debt/EBITDA ratio is calculated as the pro forma net debt of $865.6 million as at 31 December 2013 divided by pro forma FY2014 forecast EBITDA of $354.2 million (refer to Section 4.6 for more details).

[27] This ratio is commonly referred to as an interest coverage ratio. The interest coverage ratio is calculated as pro forma FY2014 forecast EBITDA of $354.2 million divided by pro forma FY2014 forecast net cash interest expense of $48.4 million (refer to Section 4.6 for more details). Pro forma FY2014 forecast net cash interest expense is based on net finance costs (as set out in the pro forma forecast in Table 4.3), adjusted to exclude the impact of the write-off of unamortised borrowing costs related to the historical debt structure as reflected in the statutory forecast for FY2015 (see Table 4.5).

1.6 Healthscope Directors and Senior Management

Topic	Summary	For more information
Who are the Directors of Healthscope?	• Paula Dwyer, Independent Non-Executive Chairman • Robert Cooke, CEO and Managing Director • Tony Cipa, Independent Non-Executive Director • Aik Meng Eng, Non-Executive Director • Simon Moore, Non-Executive Director • Rupert Myer, Independent Non-Executive Director	**Section 6.1**
Who are the Senior Management of Healthscope?	• Robert Cooke, Chief Executive Officer and Managing Director • Michael Sammells, Chief Financial Officer • Mark Briscoe, General Manager, Corporate Services • Michael Coglin, Chief Medical Officer • Andrew Currie, Victoria/Tasmania/Western Australia State Manager, Hospitals • Stephen Gameren, New South Wales/ACT State Manager, Hospitals • Alan Lane, South Australia State Manager, Hospitals • Richard Lizzio, Queensland/Northern Territory State Manager, Hospitals • Ingrid Player, General Counsel and Company Secretary • Peter Shepheard, General Manager, Property and Infrastructure • Anoop Singh, Chief Operating Officer, Pathology • Jenny Williams, General Manager, Human Resources	**Section 6.2**

1.7 Significant interests of key people

Topic	Summary						For more information
Who are the key people and what will be their interests at completion[28]	**Shareholder**	**Share-holding pre-Offer (m)**	**Share-holding pre-Offer (%)**	**Shares sold under the Offer (m)**	**Shareholding at Completion of the Offer (m)**	**Shareholding at Completion of the Offer (%)**	Section 7.1.3
	CT Healthscope Holdings, L.P.	883.6	100.0%	311.5	572.1	32.5%	
	Directors and Management	–	–	–	7.4	0.4%	
	Total	**883.6**	**100.0%**	**311.5**	**579.5**	**32.9%**	
	CT Healthscope Holdings, L.P. is the sole shareholder of Healthscope and will sell some of its Shares through SaleCo. CT Healthscope Holdings, L.P.'s limited partners are entities controlled by funds advised and managed by TPG and The Carlyle Group.						

[28] Assumes the Final Price is at the mid-point of the Indicative Price Range, that 50% of Notes are Exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on Completion of the Offer.

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>What significant benefits are payable to Directors and other persons connected with Healthscope or the Offer and what significant interests do they hold?</td><td>
<table>
<tr><th>Directors</th><th>Shares held prior to the Offer</th><th>Shares acquired in the Offer</th><th>Offer bonus Shares</th><th>Shares held on Completion</th></tr>
<tr><td>Paula Dwyer</td><td>–</td><td>49,261</td><td>49,261</td><td>98,522</td></tr>
<tr><td>Robert Cooke</td><td>–</td><td>1,473,825</td><td>–</td><td>1,473,825</td></tr>
<tr><td>Tony Cipa</td><td>–</td><td>24,631</td><td>24,631</td><td>49,262</td></tr>
<tr><td>Aik Meng Eng</td><td>–</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Simon Moore</td><td>–</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Rupert Myer</td><td>–</td><td>24,631</td><td>24,631</td><td>49,262</td></tr>
</table>
Assumes the Final Price is the mid-point of the Indicative Price Range.

Robert Cooke will also be eligible to participate in Healthscope's new long-term incentive plan ("LTIP"). On or around Listing, Healthscope intends to grant Robert Cooke performance rights with a face value of $1,750,000. Further details on the LTIP are set out in Section 9.6.

Directors are entitled to remuneration and fees on commercial terms as disclosed in Section 6.3.2.

Advisers and other service providers are entitled to fees for services as disclosed in Section 6.3.1.</td><td>Sections 6.3.2.4 and 9.5</td></tr>
<tr><td>Will any Shares be subject to restrictions on disposal following Completion of the Offer?</td><td>Shares held by the Escrowed Shareholders (other than any Shares purchased by them under the Offer except for any Shares purchased by Management under employment arrangements described in Section 6.3.2.5) following Completion of the Offer will be subject to disposal restrictions as follows:
• Shares held by CT Healthscope Holdings, L.P. will be subject to voluntary escrow restrictions until the date on which Healthscope's full year results for the period ending 30 June 2015 are released to the ASX; and
• Shares held by Management will be subject to disposal restrictions for two years following the date of issue of the relevant Shares.

After these dates, all of the relevant Existing Shares will be released from the voluntary escrow or other disposal restrictions.

Subject to certain exceptions, the Escrowed Shareholders may not dispose of their escrowed Shares whilst those escrowed Shares are subject to voluntary escrow arrangements or other disposal restrictions.</td><td>Section 7.6</td></tr>
</table>

1.8 Proposed use of funds and key terms and conditions of the Offer

Topic	Summary	For more information
What is the Offer?	Healthscope is offering to issue 876.7 million New Shares and SaleCo is offering to sell 311.5 million Existing Shares.[29] A summary of the rights attaching to the Shares is set out in Section 7.10.	Section 7
Who are the issuers of the Prospectus?	Healthscope Limited ACN 144 840 639 and Healthscope SaleCo Limited ACN 169 924 396.	Section 7.1
How will the proceeds of the Offer and drawdown of New Banking Facilities be used?	The proceeds received by Healthscope from the issue of New Shares under the Offer and drawdown of New Banking Facilities will be used as follows: • $2,424.1 million to repay existing liabilities; • $259.0 million to Exchange Healthscope Notes; and • $86.6 million to fund the costs of the Offer. $632.3 million of proceeds received by SaleCo for the sale of Existing Shares will be paid to CT Healthscope Holdings, L.P. This assumes the Final Price is at the mid-point of the Indicative Price Range, that 50% of Healthscope Notes are Exchanged and CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.	Section 7.1.2
Will the Shares be quoted on the ASX?	Healthscope will apply to the ASX for admission to the official list of the ASX and quotation of Shares on the ASX (which is expected to be under the code HSO). It is anticipated that quotations will initially be on a conditional and deferred settlement basis. Completion of the Offer is conditional upon the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.2
How is the Offer structured?	The Offer comprises of: • The Retail Offer consisting of: – Broker Firm Offer; and – Personnel and Priority Offer; • The Institutional Offer; and • The Noteholder Exchange Offer. To the extent permitted by law, all Applications under the Offer are irrevocable. The Final Price will be determined after the conclusion of the Institutional Offer bookbuild process and it may be above, below or within the Indicative Price Range. Applicants under the Retail Offer will apply for a set dollar value of Shares. Accordingly, Applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price. Except as required by law, Applicants cannot withdraw their Applications once the Final Price and allocations of Shares have been determined.	Section 7.1.1

[29] Assumes the Final Price is the mid-point of the Indicative Price Range, that 50% of Notes are Exchanged, and that CT Healthscope Holdings L.P., holds 32.5% of Shares on issue at Completion.

1. Investment Overview *continued*

Topic	Summary	For more information
Is the Offer underwritten?	No. The Offer is not underwritten.	Section 7.2
What is SaleCo and what role does it play in the Offer?	SaleCo is a special purpose vehicle, established to enable CT Healthscope Holdings, L.P. to sell some of its Existing Shares. CT Healthscope Holdings, L.P. has executed a deed poll in favour of SaleCo under which it irrevocably offers to sell Existing Shares free from encumbrances and third party rights and conditional upon the commencement of conditional and deferred trading of Shares on ASX. CT Healthscope Holdings, L.P. has irrevocably agreed to sell up to 466 million Existing Shares. Existing Shares will be transferred to successful Applicants under the Offer at the Final Price.	Section 9.4
What is the allocation policy?	The allocation of Shares between the Retail Offer (comprising the Broker Firm Offer and Personnel and Priority Offer), the Institutional Offer and the Noteholder Exchange Offer will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers, having regard to the allocation policies. For Broker Firm Offer participants, the relevant Broker will decide as to how they allocate Shares among their retail clients. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers have absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate fewer Shares than applied for, in their absolute discretion.	Section 7.2
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Shares under the Offer.	Section 7.2
What are the tax implications of investing in the Shares?	Shareholders may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 9.10
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post around or on 1 August 2014. Refunds to Applicants under the Personnel and Priority Offer, who make an Application and are scaled back, will be made as soon as possible post Settlement of the IPO, which is expected to occur on or about 30 July 2014. No refunds will be made where the overpayments relate solely to rounding at the Final Price.	Section 7.2

Topic	Summary	For more information
What is Healthscope's dividend policy?	The Directors intend to pay out 70% of Healthscope's NPAT as a dividend commencing in FY2015. In assessing the dividend payment in future periods the Directors may consider a number of factors, including the general business environment, the operating results and financial condition of Healthscope, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Healthscope, and any other factors the Directors may consider relevant.	Section 4.13
What is the minimum Application size under the Offer?	The minimum Application under the Broker Firm Offer is as directed by the Applicant's Broker. Applicants under the Personnel and Priority Offer must apply for a minimum value of $1,000 worth of Shares and in multiples of $500 worth of Shares thereafter.	Section 7.2
How can I apply?	Eligible investors may apply for Shares by completing a valid Application Form attached to or accompanying this Prospectus. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	Sections 7.3.1.2, 7.3.2.1, 7.3.2.2, 7.4.2 and 7.5.1
Can the Offer be withdrawn?	Healthscope and SaleCo reserve the right not to proceed with the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.8
Where can I find out more information about this Prospectus or the Offer?	If you are an Australian or New Zealand resident, call the Healthscope Offer Information Line on 1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia) from 9.00am until 5.00pm (Melbourne time), Monday to Friday. If you are unclear in relation to any matter or are in any doubt as to whether to invest in Healthscope, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Healthscope.	

2. Industry Overview

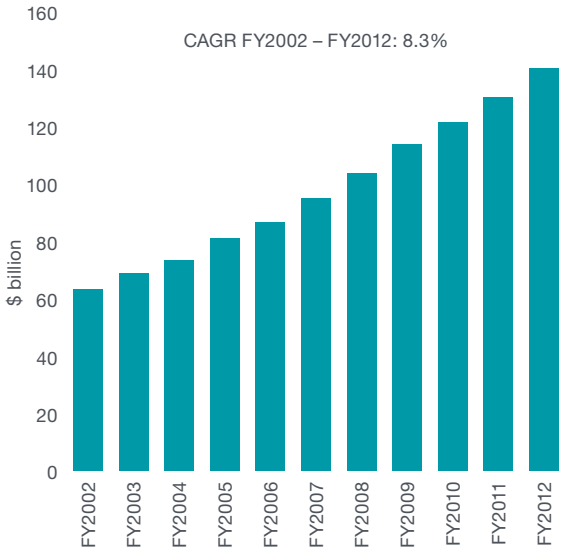
2. Industry Overview

Healthscope operates in the healthcare industry in Australia, New Zealand, Malaysia, Singapore and Vietnam, with more than 90%[30] of its revenue generated in Australia. Within the Australian healthcare industry, Healthscope operates in the private hospital market, the pathology market and the medical centres market. In New Zealand, Malaysia, Singapore and Vietnam Healthscope operates in the pathology market.

2.1 Overview of the Australian healthcare industry

The Australian healthcare industry is a major part of the Australian economy. Between FY2002 and FY2012, total healthcare expenditure[31] in Australia grew at a CAGR of 8.3% from $63 billion to in excess of $140 billion. Despite this, Australia's healthcare expenditure as a percentage of gross domestic product ("GDP") remains below a number of other OECD countries, comprising approximately 9.5% of Australia's GDP in FY2012.

Figure 2.1
Total expenditure on health goods and service



Source: AIHW, Health Expenditure Australia (2009–10, 2011–12).

Figure 2.2
Health expenditure/GDP

Source: OECD Health Statistics (November 2013); AIHW Health expenditure Australia (2011–12).

Notes: 1. Health expenditure/GDP for 2011.

2. Health expenditure/GDP for 2012.

Australian hospitals, both public and private, accounted for approximately 38% of total healthcare expenditure in Australia in FY2012 and medical services (which include those provided by pathology and medical centres) accounted for approximately 17% of total healthcare expenditure[32].

Australia provides a universal access healthcare system. Australia's healthcare expenditure is predominantly government funded, with Federal and State/Territory Governments accounting for approximately 71% of total Australian healthcare expenditure[33]. The Federal and State/Territory Governments fund healthcare expenditure through Medicare and the Pharmaceutical Benefits Scheme, direct expenditure on operating public hospitals, Special Purpose Payments associated with the National Healthcare Agreement and National Partnership, the Department of Veterans' Affairs and a medical expenses tax rebate.

[30] Revenue in FY2013.

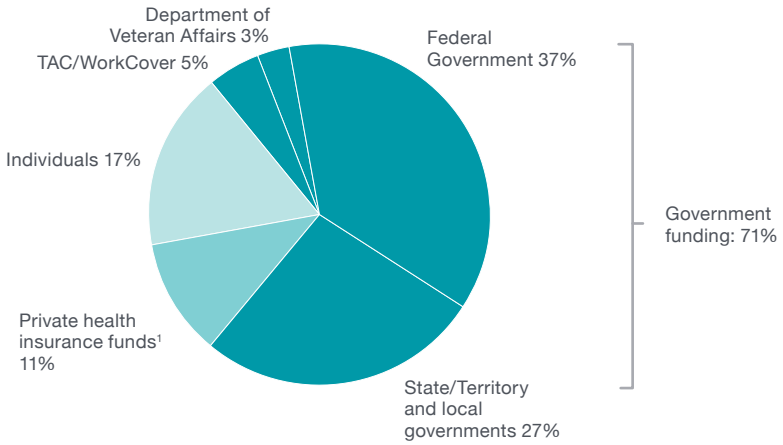
[31] Healthcare expenditure primarily covers private and public hospitals, medical services (including pathology and medical centres), dental services, medications, and public and community health.

[32] AIHW, Health Expenditure Australia (2011–12).

[33] AIHW, Health Expenditure Australia (2011–12). Government funding excludes private health insurance rebates paid by the Federal Government to reduce premiums.

Medicare is Australia's national medical insurance scheme which provides Australians with access to free medical treatment as a public patient in a public hospital, free or subsidised treatment by practitioners such as General Practitioners and specialists and free or subsidised access to services such as pathology and radiology.

Figure 2.3
Sources of healthcare industry funding (FY2012)



Source: AIHW, Health Expenditure Australia (2011–12).

Note: 1. Includes Private Health Insurance rebates paid by the Federal Government to reduce premiums.

The majority of non-government expenditure is contributed by private health insurance funds and individuals, cumulatively responsible for approximately 29% of total Australian health expenditure in the 2012 financial year[34].

2.1.1 Key drivers of growth

The key drivers of demand for healthcare services in Australia include a growing and ageing population, increasing wealth per capita and increasing medical treatment capabilities.

Australia's population has grown at 1.5% p.a. over the period 2000–2012, outpacing OECD population growth[35], and is forecast to grow at 1.7% p.a. from 22.7 million in 2012 to 26.9 million in 2022[36]. In 2012, Australia's population growth ranked among the highest in the developed world and was more than double the growth rates of the United States, the United Kingdom and France[37].

From 2012 to 2022, the number of Australians aged 65 years or older is expected to increase by 3.3% p.a., and the proportion of the population represented by Australians aged 65 years or older is expected to increase from 14.2% to 16.6% (an additional 1.2 million people in this age group)[38]. This growth primarily reflects the ageing of what is known as the 'baby boomer' generation[39].

[34] AIHW, Health Expenditure Australia (2011–12).

[35] IMF, World Economic Outlook (April 2014).

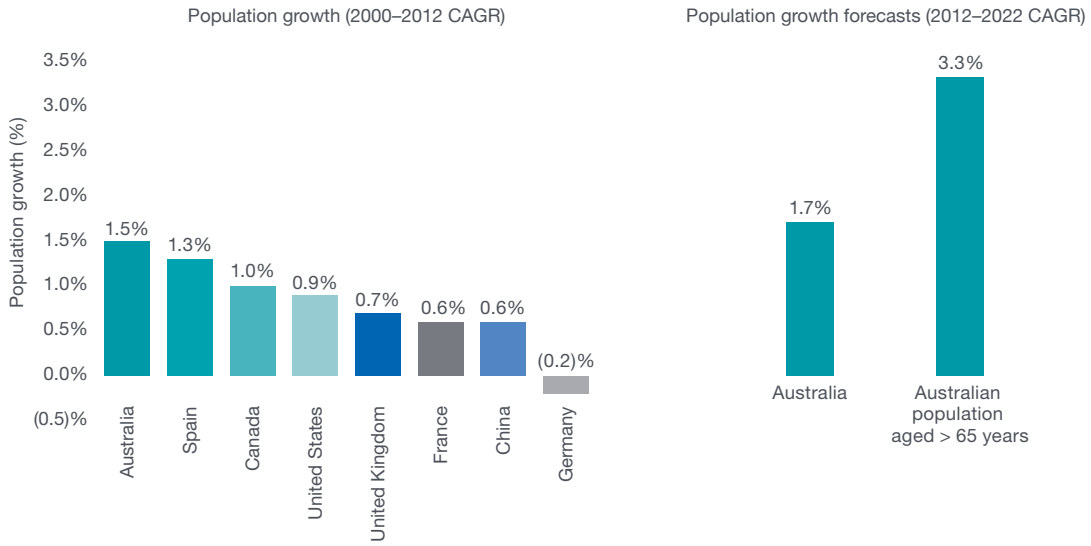
[36] Australian Bureau of Statistics, Population Projections, Australia (2012 (Base) to 2101) (ABS Ref #3222.0).

[37] IMF, World Economic Outlook (April 2014).

[38] Australian Bureau of Statistics, Population Projections, Australia (2012 (Base) to 2101) (ABS Ref #3222.0).

[39] The Baby Boomers are typically defined as the generation born between 1946 and 1961, following the end of the Second World War.

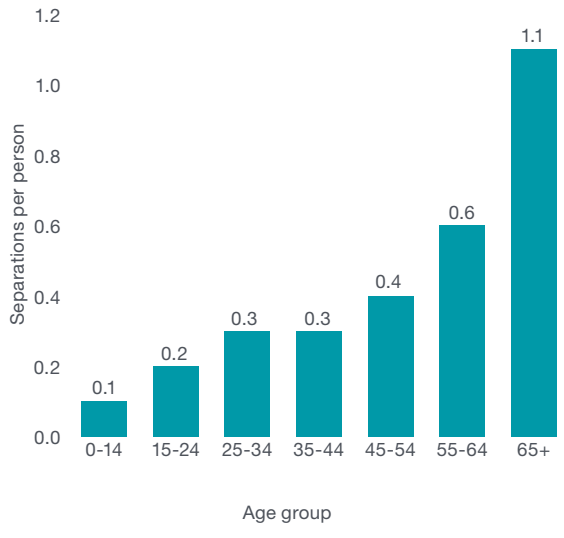
Figure 2.4
Population growth (2000–2012 CAGR)



Source: IMF, World Economic Outlook (April 2014); Australian Bureau of Statistics, Population Projections, Australia (2012 (Base) to 2101) (ABS Ref #3222.0).

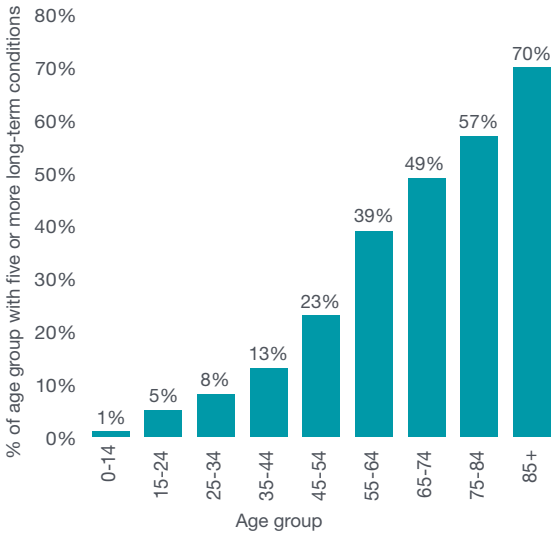
The increase in the number of Australians aged 65 years and over is expected to continue to drive higher healthcare spending. On average, this age group tends to suffer from greater incidences of chronic illness and disabilities[40] which in turn result in a significantly higher average rate of hospitalisations and associated healthcare costs. Chronic disease contributed over 70% of Australia's disease burden in 2008, and is forecast to increase to 80% by 2020[41].

Figure 2.5
Separations[42] by age group (in FY2013)



Source: AIHW, Australian Hospital Statistics (2012–13); Australian Bureau of Statistics, Australian Demographic Statistics (September 2013) (ABS Ref #3101.0).

Figure 2.6
Prevalence of five or more long-term conditions (in FY2008)



Source: AIHW, Australia's Health 2010; Australian Bureau of Statistics, Australian Demographic Statistics (September 2008) (ABS Ref #3101.0).

[40] Chronic diseases are illnesses that are prolonged in duration, do not often resolve spontaneously and are rarely cured completely (e.g. cancer, heart disease, obesity, diabetes, mental illness and asthma).

[41] NSW Department of Health, Clinical Services Redesign Program Report (May 2008).

[42] A Separation is an episode of care for an admitted patient, which can be a total hospital stay (from admission to discharge, transfer or death) or a portion of a hospital stay beginning or ending in a change of type of care (for example, from acute to rehabilitation).

The Australian economy is in its 23rd consecutive year of positive GDP growth with Australia's wealth per adult having approximately quadrupled in US dollar terms since 2000[43]. Australia's median wealth per capita is the highest globally (US$219,500 per capita)[44]. Additionally, this wealth is increasingly concentrated amongst an older demographic, with Australians aged over 65 expected to hold a large proportion (47.3%[45]) of Australian household wealth by 2030, whilst also being significantly higher users of healthcare services.

Increases in medical treatment capabilities, including advances in surgical techniques, medical devices, pharmaceuticals and biotechnology mean that the outcome for certain medical conditions is improving. Average life expectancy at birth has increased from 77.8 to 79.9 (males) years and from 82.8 to 84.3 years (females) from 2003 to 2012[46]. This means that a patient's life may be prolonged, and some patients that were previously not treated are now being treated and being treated for longer, which in turn leads to an increase in demand for healthcare services.

2.2 Overview of the Australian hospital market

2.2.1 Types of hospitals

There are approximately 1,338 hospitals with approximately 86,300 beds in Australia[47]. These hospitals are either public (operated by State/Territory Governments) or private (operated by "for-profit" and "not-for-profit" providers). As at 30 June 2013, private hospitals comprised approximately one third of the market by beds, approximately 41% of total Separations and approximately two thirds of elective surgeries[48] were conducted in private hospitals.

Figure 2.7
Bed numbers[1]

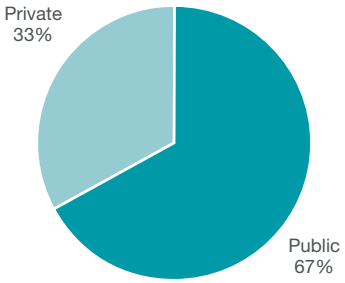


Figure 2.8
Total Separations (in FY2013)

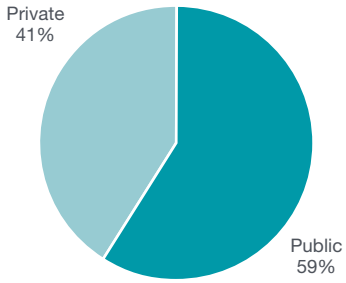
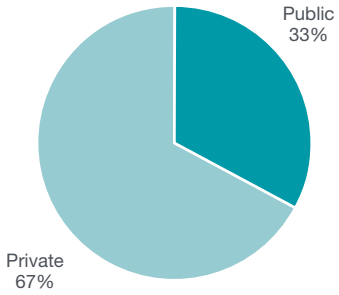


Figure 2.9
Elective surgeries (in FY2013)



Source: AIHW, Australian Hospital Statistics (2012–13).

Note: 1. Private hospital bed numbers as at 30 June 2012, public hospital bed numbers as at 30 June 2013.

[43] Credit Suisse Research Institute – Global Wealth Report (2013).

[44] Credit Suisse Research Institute – Global Wealth Report (2013).

[45] National Centre for Social and Economic Modelling, Forecasting wealth in an ageing Australia (2003).

[46] Australian Bureau of Statistics, Gender Indicators, Australia (February 2014) (ABS Ref #4125.0). Life expectancy estimated using three years data ending 2003 and 2012.

[47] AIHW, Australian Hospital Statistics (2012–13). Private hospital statistics are as at 30 June 2012, public hospital statistics are as at 30 June 2013.

[48] Healthcare that is included in the surgical operations section of the Medicare Benefits Schedule (such as orthopaedic surgery, gynaecology and plastic surgery) with the exclusion of specific procedures frequently done by non-surgical clinicians which, in the opinion of the treating Accredited Medical Practitioner, is necessary and for which admission can be delayed for at least 24 hours.

There are three main types of hospitals in Australia, which can be differentiated by ownership, operator and the nature of treatment provided.

Table 2.1 Hospital types in Australia

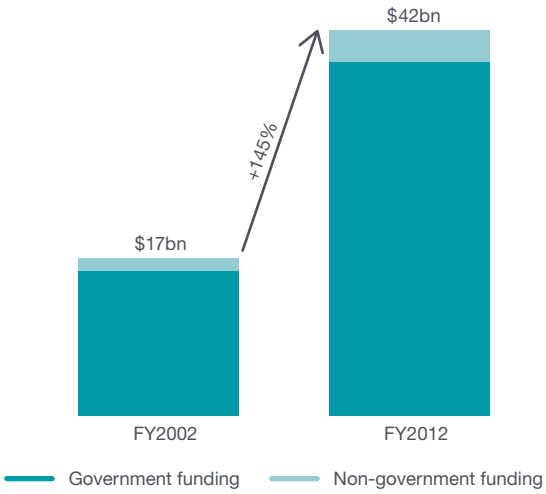
Hospital type	Description
Public hospitals (at 30 June 2013) 746 hospitals 58,311 beds	• Publicly owned and operated facilities • State/Territory Governments are responsible for the provision of health services through public hospitals • Public hospitals are funded through a combination of Federal and State/Territory Government funding • Provide treatment to all Australians as well as visitors to Australia who are residents of countries with reciprocal healthcare agreements, free of charge • Speed of admission depends on severity of a patient's ailment and availability of hospital resources
Private overnight hospitals (at 30 June 2012) 281 hospitals 26,031 beds	• Privately owned and operated facilities • Owners may be either "not-for-profit" or "for-profit" organisations • Deliver overnight and day only services • Allow patients to be treated by an Accredited Medical Practitioner of their choice, provided the Accredited Medical Practitioner is appropriately credentialed with the hospital • Waiting times for elective surgeries are shorter on average in private hospitals • Some private hospitals are co-located with public hospitals
Day only hospitals (as at 30 June 2012) 311 hospitals 2,973 beds	• Typically privately owned, often by groups of medical practitioners • Do not provide 24 hour care – procedures limited to those that are expected to result in the patient being admitted and discharged on the same day

Source: AIHW, Australian Hospital Statistics (2012–13); Australian Bureau of Statistics, Private Hospitals, Australia (2011–12) (ABS Ref #4390.0).

2.2.2 Public hospitals

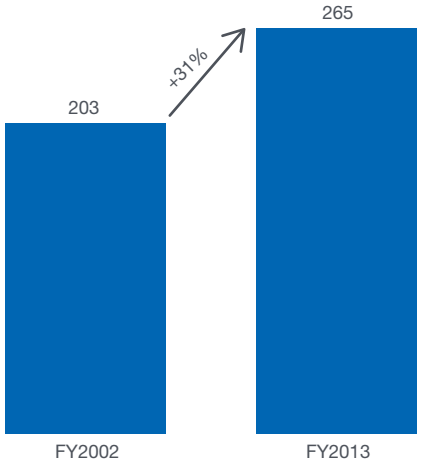
As at 30 June 2013, there were 746 public hospitals in Australia[49]. Government funded public hospitals provide free treatment to Australians, as well as visitors to Australia who are residents of countries with reciprocal healthcare agreements. However, patients in a public hospital do not have their choice of medical practitioner and there is typically a lengthy waiting time for elective or non-urgent procedures. Despite Australian public hospital funding increasing by 145% from FY2002 to FY2012, public hospital waiting times for elective surgery have increased by 31% from FY2002 to FY2013 for the last 10% of patients on waiting lists[50].

Figure 2.10
Australian public hospital funding



Source: AIHW, Health Expenditure Australia (2003–04, 2011–12).

Figure 2.11
Public hospital elective surgery waiting times (days) – 90th percentile



Source: AIHW, Elective surgery waiting times (2012–13); AIHW, Australian Hospital Statistics (2005–06).

As a result of increasing healthcare costs and growing waiting lists in public hospitals, Federal and State/Territory Governments have put in place a number of policy measures to incentivise patients to obtain healthcare services in the private healthcare system, which include:

- a comprehensive funding framework to encourage Australians to take out Private Health Insurance;
- collaborating with private hospital operators to build and operate new public hospitals to ease capacity constraints; and
- outsourcing the treatment of public patients to the private system.

In the 2014–15 Federal Budget the Federal Government announced that public hospital funding would be indexed to a combination of growth in the consumer price index and population from 2017–18. The Federal Government expects this to reduce Federal Government funding of public hospitals by approximately $15 billion over the eight years from 2017 to 2025, which will likely put further pressure on public hospital waiting lists.

[49] AIHW, Australian Hospital Statistics (2012–13).

[50] AIHW, Health Expenditure Australia (2003–04, 2011–12); AIHW, Elective surgery waiting times (2012–13); AIHW, Australian Hospital Statistics (2005–06).

2.2.3 Private hospitals

As at 30 June 2012, there were 592 private hospitals in Australia (281 with overnight facilities)[51], which account for approximately one third of total hospital beds in Australia and approximately 41% of total Separations performed nationally in FY2013[52].

Private hospitals give the patient their choice of doctor and generally avoid the lengthy waiting times of public hospitals. Approximately two-thirds of private hospital funding is related, directly or indirectly, to Private Health Insurance with a further 21% funded by the Federal and State/Territory Governments or government related bodies (DVA, TAC and WorkCover) in FY2013[53].

The key success factors for private hospital operators include hospital location, ability to attract Accredited Medical Practitioners, relationships with private health insurance funds, operational expertise, quality and clinical reputation and ability to develop existing and new facilities.

Table 2.2 Key success factors of private hospital operators

Location	Hospital location is an important factor in attracting Accredited Medical Practitioners and patients to a hospital. Key factors that influence the attractiveness of the hospital location include the ease of access for Accredited Medical Practitioners, population growth, an ageing population and a high level of health insurance penetration. When a hospital is operating at close to capacity, the ability to expand the existing facility becomes important. Sites suitable for brownfield development include those that have excess land (either owned or available for purchase/lease) or where existing buildings can be reconfigured or additional levels added.
Ability to attract Accredited Medical Practitioners	Accredited Medical Practitioners are the main source of private hospital admissions. Accredited Medical Practitioners are not generally employed or remunerated by private hospital operators, but are accredited by hospitals to provide services to their patients – often at more than one hospital. Private hospital operators compete to attract Accredited Medical Practitioners to their hospitals. Key factors that are important to this competition include: • location – Accredited Medical Practitioners tend to prefer to work at hospitals that are within easy access (either due to proximity or are well serviced by transport infrastructure) of where they live, other hospitals where they work, and often large public teaching hospitals (as the majority of Accredited Medical Practitioners undertake a mix of public and private work); • quality of facilities and equipment; • quality of nursing staff; • quality and clinical outcomes; • relationship with hospital management; • availability of operating theatre sessions; • on-site consulting rooms; and • support services such as business development.
Relationships with private health insurance funds	Private hospital operators source the majority of their revenue from private health insurance funds. Established operators are well positioned to negotiate with private health insurance funds, and have developed significant expertise around those negotiations. Private health insurance funds want to be able to offer their members access to a range of high quality hospitals across a broad range of geographies.

[51] Australian Bureau of Statistics, Private Hospitals, Australia (2011–12) (ABS Ref #4390.0).

[52] AIHW, Australian Hospital Statistics (2012–13).

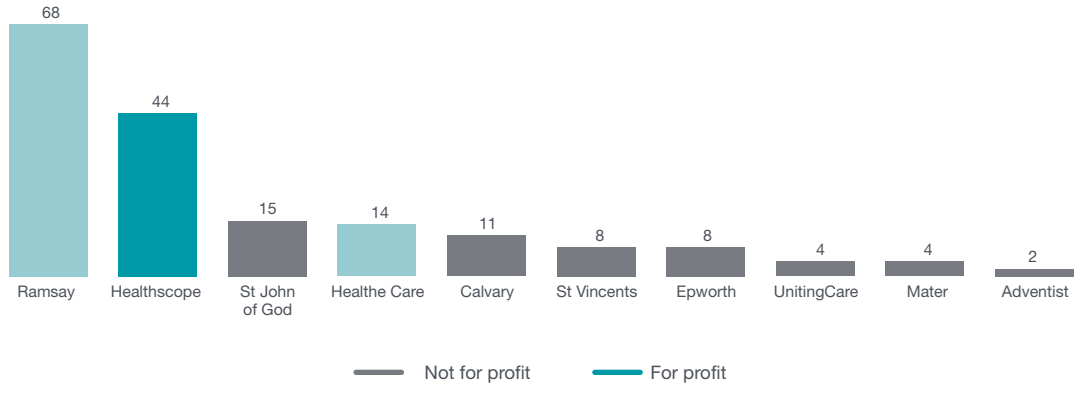
[53] AIHW, Australian Hospital Statistics (2012–13).

Operational expertise	The operation of a private hospital requires operational expertise across a range of functions, including: • day-to-day management of the hospital facility; • management of the case mix (case mix refers to the mix of types of patients (by specialty, sub-specialty and specific procedure/treatment required and/or diagnosis) in a hospital at any point in time based on their clinical classification; • management and training of skilled nursing labour; • procurement initiatives including sourcing of the latest technology and consumables; and • effective information technology systems whereby operational and administrative functions are optimised.
Quality and clinical reputation	Quality and clinical outcomes underpin a successful healthcare business. An established and leading reputation for quality and clinical outcomes assists in attracting Accredited Medical Practitioners, patients and nursing staff to hospitals. Quality and clinical reputation is also a lever in private health insurance fund negotiations, and is an important consideration for Federal and State/Territory Governments when selecting private healthcare partners.
Ability to develop existing and new facilities	Private hospital operators with access to capital and development expertise are well positioned to invest in their existing hospital portfolios via brownfield projects which expand and upgrade facilities, as well as ensuring Accredited Medical Practitioners have the latest medical equipment and technology. Access to capital and development expertise also facilitates new hospital facilities, including "relocate and grow" projects, and provides the ability to partner with State/Territory Governments in major hospital development projects.

2.2.3.1 Private hospital industry structure

As noted, private hospitals are principally divided between overnight and day only hospitals. There are 281 private overnight hospitals and 311 day only private hospitals in Australia[54]. Healthscope and Ramsay Health Care ("Ramsay Healthcare") are the two largest private hospital operators in Australia, with their operations focused on the private overnight hospital market. It is estimated that for profit private overnight hospital operators (largely comprising Ramsay Healthcare, Healthscope and Healthe Care) accounted for 54% of beds in FY2012[55]. The balance of the private overnight hospital market is fragmented and largely operated by religious or charitable groups on a not-for-profit basis.

Figure 2.12
Number of private overnight hospitals owned or operated by key market participants (at the Prospectus Date)



Source: Company websites.

Day-only hospitals are typically smaller facilities which compete with overnight hospitals for only a limited range of low acuity surgical procedures where the patient is admitted and discharged on the same day.

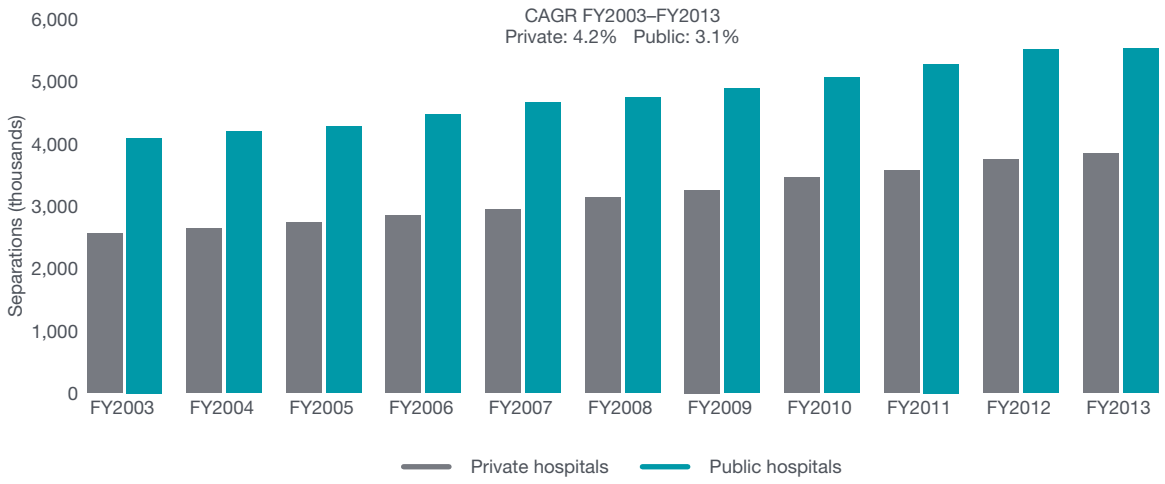
[54] AIHW, Australian Hospital Statistics (2012–13).

[55] Australian Bureau of Statistics, Private Hospitals, Australia, (2011–12) (ABS Ref #4390.0).

2.2.3.2 Growth in the private hospital market

Underlying growth in the private hospital market is driven by factors discussed in Section 2.1.1 such as a growing and ageing population, increasing Australian wealth per capita, and increasing medical treatment capabilities. In addition to these factors, growth in the private hospital market is also impacted by issues associated with the growing budgetary and capacity constraints in the public system, as evidenced by longer public hospital waiting lists, as well as the level of Private Health Insurance. As such, private hospitals in Australia play an important role in the delivery of healthcare services and Separations in private hospitals have grown at a faster rate than in public hospitals (4.2% versus 3.1%) over the last 10 years.

Figure 2.13
Total hospital Separations



Source: AIHW, Australian Hospital Statistics (2006–07, 2011–12, 2012–13).

Brownfield hospital expansions

Given the growing demand for private hospital services over the last ten years, private hospital operators have expanded their existing facilities through brownfield projects. Since 2000, more than $3.18 billion has been invested in brownfield private hospital expansions[56]. Capacity additions include additional beds and/or operating theatres or re-configurations to meet current and future needs of Accredited Medical Practitioners and patients. Target sites are typically capacity constrained and in geographic areas with favourable demographics and a strong demand outlook.

Private overnight hospital operators continue to commission brownfield expansion projects, increasing capacity at existing hospital sites to meet demand. As at 1 January 2014, there were at least 21 projects underway or due to commence during 2014, which have a collective estimated development cost of more than $1 billion and a development horizon until 2020[57].

Role of private healthcare providers in provision of public healthcare delivery

In response to growing demand for healthcare services and State/Territory Government financial constraints, opportunities for private sector involvement in public healthcare delivery are increasing. These opportunities include various forms of government partnerships, public hospital management contracts and outsourcing of the provision of discrete healthcare services to public patients.

[56] m3 Property Strategists, Property Update "Private hospital brownfield developments throughout Australia" (February 2014).

[57] m3 Property Strategists, Property Update "Private hospital brownfield developments throughout Australia" (February 2014).

Government partnerships

State/Territory Governments are increasingly seeking to partner with private hospital operators for the construction and operation of new hospitals to relieve public hospital capacity constraints. A number of projects are at various stages of planning/development, as set out in Table 2.3 below:

Table 2.3 Examples of government partnerships

Hospital	Location	Beds	Scheduled opening	Operator
Midland Public and Private Hospital	WA	367	Late 2015	St John of God
Northern Beaches Hospital	NSW	423 (minimum)	2018	Healthscope is one of two in tender process
Palmerston	NT	80 (estimated)	2018 (estimated)	Market sounding underway
Royal Brisbane Hospital	QLD	Not released	Not released	Market sounding underway

Source: Government of Western Australia, Department of Treasury, Midland Public Hospital Project Summary; Northern Beaches Health Service Redevelopment, Request for proposals; management estimates.

State/Territory Government outsourcing

There is also an increasing focus by State/Territory Governments on broader outsourcing of service delivery to the private hospital sector. This can include management contracts for a private hospital operator to operate a public hospital, or through specific initiatives to reduce waiting lists at public hospitals. For example, the Victorian State Government announced in its 2013–14 budget a waiting list reduction scheme which is expected to result in $420 million of contestable public patient elective healthcare services being let for tender over four years[58]. The Victorian State Government announced a further $190 million in funding over four years for elective surgery in the 2014–15 budget[59].

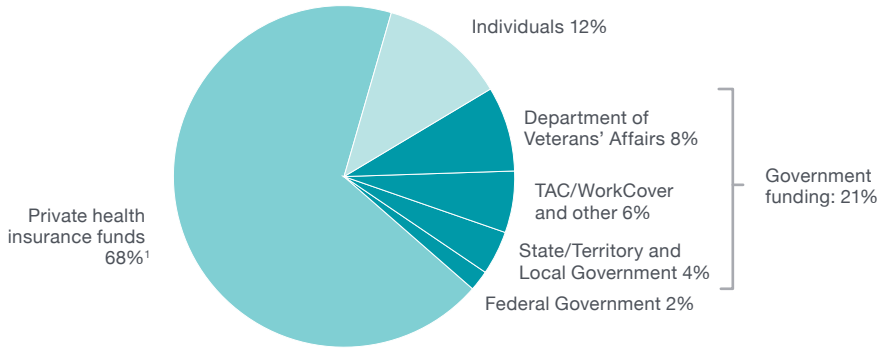
[58] Victorian Health Policy and Funding Guidelines (2013–14).

[59] Victorian Budget (2014–15), Treasurer's Speech.

2.2.3.3 Private hospital funding

The majority of private hospital revenue is received from private health insurance funds. Private health insurance funds account for approximately 68% of private hospital funding, which results in low reimbursement risk for private hospitals given the financial position of these funds and the agreements that are generally in place between private hospital operators and private health insurance funds. Private health insurance funds are discussed in detail below in Section 2.2.3.4.

Figure 2.14
Private hospital funding sources (in FY2012)



Source: AIHW, Australian Health Expenditure (2011–12).

Note: 1. Includes Private Health Insurance rebates paid by the Federal Government to reduce premiums.

The balance of private hospital funding is derived from Federal and State/Territory Government and related institutions, and individuals, as set out below:

- The Federal Government Department of Veterans' Affairs ("DVA") – provides a range of services to eligible Australian Defence Force veterans and their dependants. Private hospital operators tend to have funding agreements in place with DVA, similar to agreements private hospital operators have with private health insurance funds;
- The Victorian Transport Accident Commission ("TAC") – payments from compulsory third party motor vehicle insurers in the State of Victoria. Private hospital operators tend to have agreements with the TAC similar to agreements private hospital operators have with private health insurance funds;
- WorkCover – compulsory workers compensation insurance for workplace related injury and disease. Private hospital operators generally do not have agreements with WorkCover but accept eligible patients and bill per each State/Territory Government's published gazetted rates;
- State/Territory and Local Governments – contract hospital services to private hospital operators and some community health, district nursing and social services from time to time; and
- Individuals – payments from privately insured patients that have excesses or co-payments on their Private Health Insurance policies, or payments from individuals who have no Private Health Insurance and self-fund their private hospital admission. These payments are predominantly taken upfront on admission.

Given 68% of payments are from private health insurance funds which are typically on less than 30 day payment terms, a further 21% from Federal, State/Territory Governments and related bodies (such as TAC and WorkCover) and the remaining 12% is from individual co-payments or cash payments which are predominantly taken upfront, the industry is characterised by a very low incidence of bad debts.

Given the universal public healthcare system, there is no requirement for private hospital operators in Australia to accept any patient without the capacity to pay. If a patient is in a critical condition, the private hospital has an obligation to stabilise the patient before transferring the patient to a public hospital.

2.2.3.4 Private Health Insurance

Private hospital insurance ("Private Health Insurance") has been an important component of the Australian healthcare system under both Liberal and Labor Federal Governments. Private Health Insurance is taken out by individuals and families (rarely by companies on behalf of employees), and typically covers the majority of costs associated with a private hospital treatment.

In addition to this, private health insurance funds also provide "general" or "extras" cover which provides insurance for various ancillary health services provided outside of hospitals such as dentistry, physiotherapy and optometry ("Extras Cover").

Members of private health insurance funds are the largest users of private hospitals in Australia, and, accordingly, the number of privately insured people influences the demand for private hospital services. Over the last decade, the percentage of the population insured for hospital treatment in Australia has risen from 43.8% at 31 December 2003 to 47.0% at 31 March 2014[60].

There are a number of Federal Government policy initiatives that are designed to encourage Private Health Insurance membership. These include an additional tax for high income earners if they do not have Private Health Insurance, a rebate to make Private Health Insurance more affordable, and a financial incentive to take out Private Health Insurance prior to turning 30 years of age.

Figure 2.15
Federal Government policy initiatives designed to encourage Private Health Insurance participation

Medicare Levy Surcharge	Surcharge levied on taxpayers who do not have Private Health Insurance and who earn above $88,000 p.a. for singles, and $176,000 p.a. for families[61]. The surcharge is calculated at a rate of 1.0–1.5% depending on the level of an individual's or family's income. The surcharge aims to encourage individuals to take out Private Health Insurance and to use the private system to reduce the demand on public hospitals.
Federal Government Rebate	Families and individuals who have Private Health Insurance and/or Extras Cover receive a rebate from the Federal Government to help cover the cost of the premium. The rebate is subject to income or means testing and ranges from 0–30% for individuals and families aged under 65.
Lifetime Health Cover	An incentive that encourages younger individuals to take out Private Health Insurance earlier in life and to maintain their insurance. If an individual does not have Private Health Insurance on the 1st of July following their 31st birthday and subsequently chooses to take out Private Health Insurance, the individual will pay a 2% loading on top of their premium for every year over the age of 30 in which they did not have Private Health Insurance with a maximum loading of 70%.

Source: Australian Taxation Office, Medicare levy variation declaration (July 2013); KPMG Review of the impact of the new Medicare Levy Surcharge thresholds on public hospitals; Australian Private Health Insurance Ombudsman website.

[60] PHIAC, Statistical Trends (March 2014).

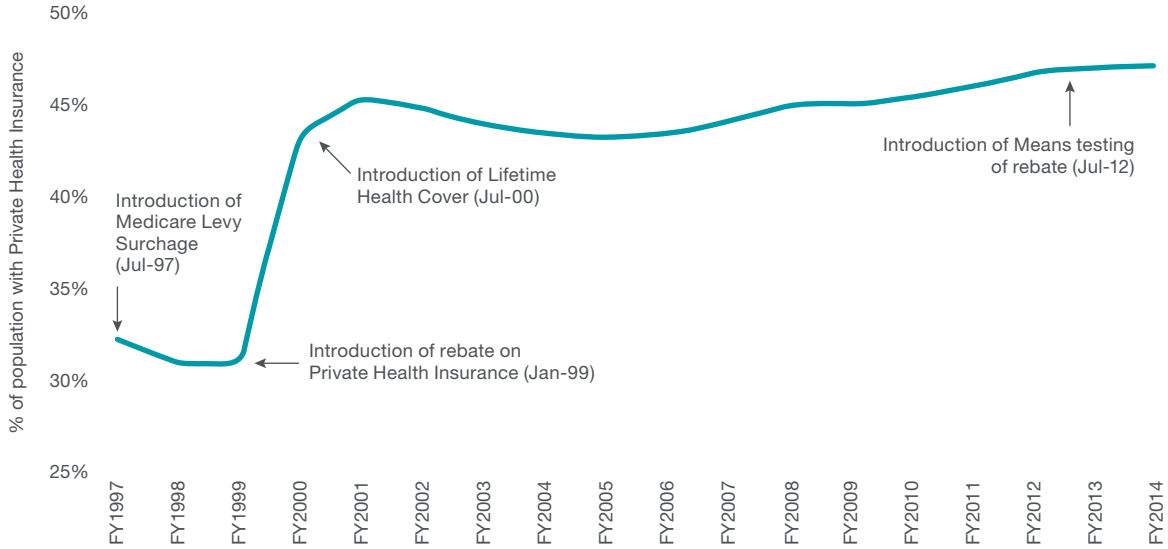
[61] Private Health Insurance Ombudsman.

In July 2012, the Federal Government introduced means testing of the Private Health Insurance rebate (i.e. a reduction of the total available rebate) based on an individual's level of income, resulting in a reduction of the rebate for individuals earning more than $88,000 p.a. and for families earning more than $176,000 p.a. An elimination of the rebate applies to individuals earning more than $136,001 p.a. and for families earning more than $272,001 p.a. For families with children, the thresholds are increased by $1,500 for each child after the first.

As at March 2014, there had been little observable impact on the level of Private Health Insurance membership following the introduction of means testing, with Private Health Insurance membership increasing by 40 basis points to 47.0% of the population between 30 June 2012 and 31 March 2014.

In the 2014–15 Federal Budget the Federal Government announced that income thresholds for the Medicare Levy Surcharge and the Federal Government Rebate will not be indexed. If enacted, this measure would apply from 1 July 2015 to 30 June 2018.

Figure 2.16
Proportion of population with Private Health Insurance



Source: PHIAC, Statistical Trends (March 2014).

Private health insurance market structure and premium increases

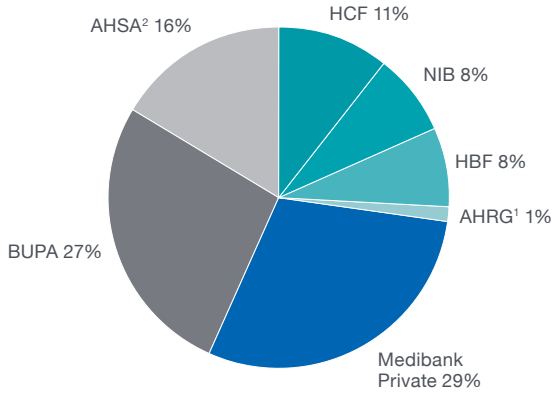
The Private Health Insurance market is relatively concentrated with the five largest private health insurance funds accounting for approximately 82% of policyholders[62].

Private health insurance funds are regulated by the *Private Health Insurance Act 2007* (Cth) ("the PHI Act"). Under the PHI Act, private health insurance funds must justify any Private Health Insurance premium increases to the Federal Minister for Health, the Department of Health and PHIAC before these can be passed on to their policy holders. Under this regulatory framework, the average annual allowable weighted average premium increase has been 6%, with gross margins across the industry averaging approximately 14%[63] since the PHI Act was introduced in 2007, providing scope for private health insurance funds to pass through meaningful annual rate increases to health service providers.

[62] PHIAC, The Operations of Private Health Insurers, Annual Report (2012–13).

[63] PHIAC, The Operations of Private Health Insurers Annual Reports. Represents the underlying profitability of underwriting activities before management fees.

Figure 2.17
Private health insurance fund market share at June 2013

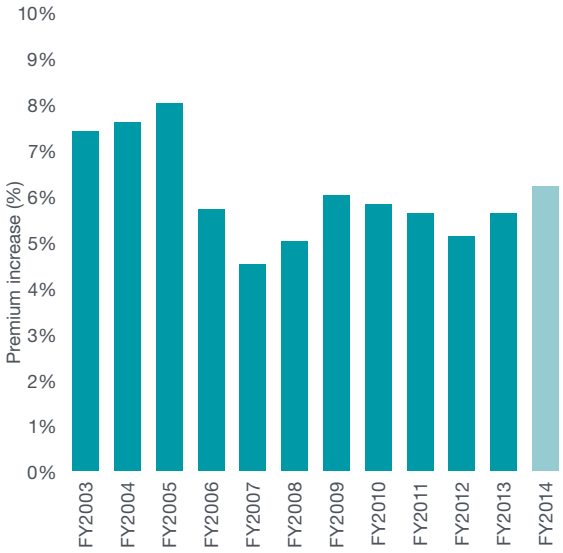


Source: PHIAC, The Operations of Private Health Insurers, Annual Report (2012–13).

Notes: 1. ARHG is the Australian Regional Health Group with four member funds.

2. AHSA is the Australian Health Service Alliance with 25 member funds.

Figure 2.18
Allowable weighted average premium increase



Source: PHIAC, The Operations of Private Health Insurers Annual Reports.

2.2.3.5 Private Health Insurance funding arrangements with hospitals

Benefits paid by private health insurance funds to private hospitals on behalf of patients are generally based on agreed rates for services. These rates are typically negotiated and agreed between the private health insurance funds and each private hospital operator on a periodic basis.

Private hospital admissions are generally either funded by case payments or on a per diem basis. A case payment is where a hospital receives pre-determined payment for an admission based on a patient's clinical classification.

Patients are classified according to a Diagnosis Related Group ("DRG"). Only one DRG is allocated per episode of care. The cost of a particular DRG can be inclusive of all inputs or can have some services billed separately (e.g. intensive care units ("ICUs") and private rooms) depending on the particular Private Health Insurance agreement.

Where case payment funding is not in place, funding is provided on a per diem basis. Under these arrangements, payment is based on a daily accommodation charge for the period of the patient's hospital admission, an operating theatre charge for time spent in theatre and separate charges for all other costs and services.

If a private hospital does not have an agreement with a private health insurance fund, there is legislation in place to ensure the private hospital is still paid by the private health insurance fund, albeit at lower rates. The private hospital also has the ability to charge an additional out of pocket fee (see Section 3.11.4).

2.3 Overview of the Australian pathology market

Pathology is a specialty of medicine that focuses on the study and diagnosis of disease and infection. Pathology services provide doctors with information to assist in the diagnosis and management of diseases through the examination and testing of blood, tissue and other biological samples.

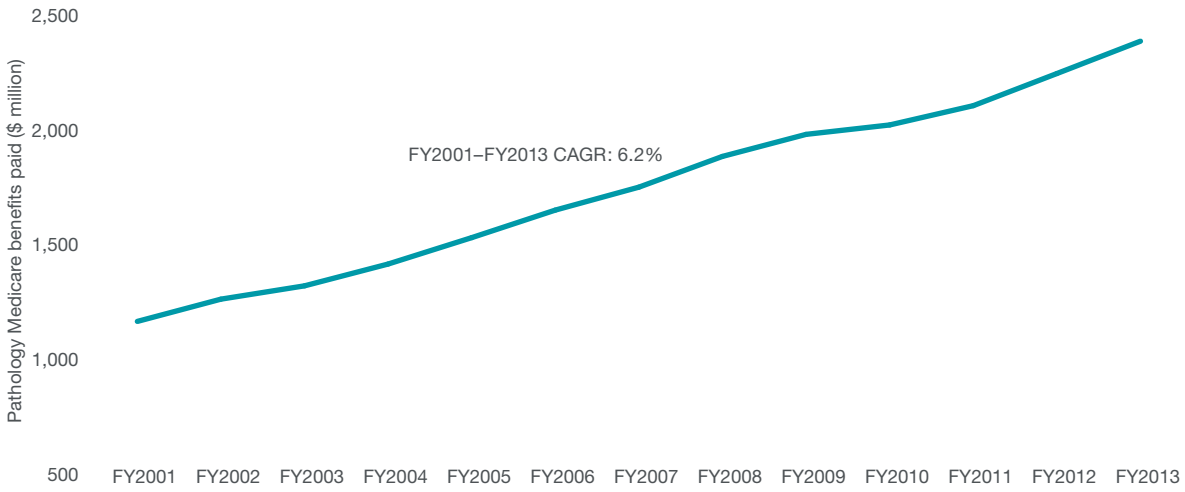
Pathology referrals originate from General Practitioners, Accredited Medical Practitioners and commercial customers. When a medical practitioner refers a patient for pathology testing, in many cases, the patient will visit a pathology collection centre to have their sample taken. A pathology collection centre can be a stand-alone centre but is often a room within a medical centre or hospital staffed by a phlebotomist who collects the sample. When collection centres are co-located with a medical centre or hospital, the pathology provider will pay rent to the landlord (who is often the medical centre or hospital operator) for use of the space. Couriers transport collected samples to pathology laboratories for analysis. A pathology laboratory can be a stand-alone facility, or located within a hospital, staffed with pathologists and appropriately qualified staff who analyse collected samples.

The majority of funding for pathology services in Australia is provided by the Federal Government through Medicare. The fee paid by Medicare for each type of pathology test is set out in the Medicare Benefits Schedule. The majority of pathology services are bulk billed, where the service is fully funded by Medicare. To the extent that the pathology provider charges a fee higher than that covered by Medicare, the patient must make an out-of-pocket payment.

In the 2014–15 Budget the Federal Government announced a $7 co-payment payable by the patient towards the cost of each pathology test taken outside of a hospital. This measure, if enacted, would apply from 1 July 2015.

Total Medicare benefits paid by the Federal Government for pathology services are estimated to have grown at a CAGR of 6.2%, from $1.2 billion in FY2001 to $2.4 billion in FY2013.

Figure 2.19
Medicare benefits paid for pathology services



Source: Department of Health – Annual Medicare Statistics.

There are a number of specific factors that influence demand for pathology services in Australia, including:

- an ageing population and increasing prevalence of chronic disease is driving increased General Practitioner visits (over 70%[64] of pathology referrals originate from General Practitioners);
- Australians are increasingly focused on early detection and prevention with doctors using pathology testing to anticipate and prevent disease;
- advances in medical technology allow for a greater range of tests to be performed; and
- Federal and State/Territory Governments have led a range of health initiatives, such as those promoting awareness of conditions such as bowel cancer, prostate cancer, breast cancer and skin cancer, which have led to an increase in testing in these areas.

[64] Australian Association of Pathology Practices – An analysis of pathology test use in Australia (September 2008).

2.3.1 Market structure

Pathology services are provided by both private and public operators. The pathology industry in Australia has three large private operators, being Primary Healthcare, Sonic Healthcare and Healthscope, and it is estimated these three operators together comprised over 80% of total private pathology market revenue for the year ended 30 June 2013[65].

Table 2.4 Australian pathology market share – private operators (by collection centres)

	Healthscope	Sonic Healthcare	Primary Health Care
New South Wales	7%	38%	39%
Victoria	21%	26%	34%
Queensland	10%	35%	51%
South Australia	33%	20%	12%
Northern Territory	38%	7%	52%
Other (Tasmania, ACT, Western Australia)	–	44%	29%
Total Australia	12%	33%	37%

Source: Based on number of collection centres as at 19 May 2014 as per Medicare Australia Approved Collection Centre search database.

Prior to 30 June 2010, the total number of pathology collection centre licences in Australia was capped by Federal Government regulations. However, in 2010, the total number of collection centres was deregulated which enabled pathology providers to expand their collection centre networks. This resulted in the number of collection centres in Australia increasing by over 80% from approximately 2,500 in June 2010 to over 4,600 as at May 2014[66].

Following the industry deregulation of collection centres, there was a significant increase in the number of collection centres located within medical centres, which reduced the proportion of pathology samples taken directly by the referring medical practitioners.

The increase in collection centres led to a reduction in the profitability of some pathology operators due to increasing costs (primarily rent as competition for collection centre sites increased significantly, and additional labour was required to staff the additional collection centres). Ultimately, this resulted in a subsequent rationalisation and slowing of collection centres growth by some operators during 2012 and 2013.

2.3.2 Federal Government funding

The Federal Government funds over 85% of pathology revenue to private providers through Medicare[67]. A five-year Pathology Funding Agreement between the Federal Government and the pathology sector came into effect on 1 July 2011, which manages the Medicare pathology outlays. The Pathology Funding Agreement provides for growth in pathology expenditure of approximately 5% per year over the life of the agreement[68].

Strong volume growth resulted in expenditure growth beyond the 5% growth provided for in 2011–12. As a result, the Federal Government introduced a fee reduction on 1 January 2013 comprising an across the board 0.67% reduction to all pathology item rebates and a $3.50 reduction in the fee for the Vitamin D test to moderate total expenditure growth. A further overrun in expenditure was experienced in 2012/13 over and above the 5% growth limit, however no further fee adjustments have been made by the Federal Government. A review of the base year (2010–11) is currently under consideration, which would lift the ceiling on outlays by approximately $145 million over the remainder of the five-year agreement and may reduce or eliminate the need for further fee adjustments.

[65] IBISWorld Industry Report, Pathology Services in Australia (January 2014) (IBISWorld Ref Q8521).

[66] Medicare Australia Approved Collection Centre search database.

[67] Department of Health – Annual Medicare Statistics.

[68] Federal Government Pathology Funding Agreement.

Under the Pathology Funding Agreement, in addition to the annual outlay reviews, reconsideration of outlays by the Federal Government may occur where Federal Government changes to other health policies are demonstrated to have an effect on the pathology industry. Furthermore, there is a provision for additional Federal Government outlays for pathology if there is growth of at least 3.5% in MBS-eligible consultations that are demonstrated to have an effect on the pathology industry.

2.4 Overview of the Australian medical centres market

In Australia, medical centres are principally operated by General Practitioners who typically operate from stand-alone medical centres. General Practitioners provide diagnosis and treatment advice, prescribe medications, provide referrals for pathology and diagnostic imaging and provide referrals to specialists, which may in turn lead to a hospital admission. It is estimated there are over 30,000 General Practitioners in Australia[69]. The medical centre industry in Australia is fragmented and it is estimated that the three largest providers being IPN (Sonic Healthcare), Primary Health Care and Healthscope account for less than 8% of industry revenue.

General practice is principally funded through Medicare, and services are either bulk billed (where there is no patient out-of-pocket payment and all of the payment comes from Medicare) or funded through a combination of Medicare and a patient out-of-pocket payment. There are scheduled fees for a number of General Practitioner services including general attendances, after-hours attendances, health assessments, chronic disease management and mental health care.

In the 2014–15 Budget the Federal Government announced a $7 co-payment payable by the patient towards the cost of General Practitioner consultations. This measure, if enacted, would apply from 1 July 2015.

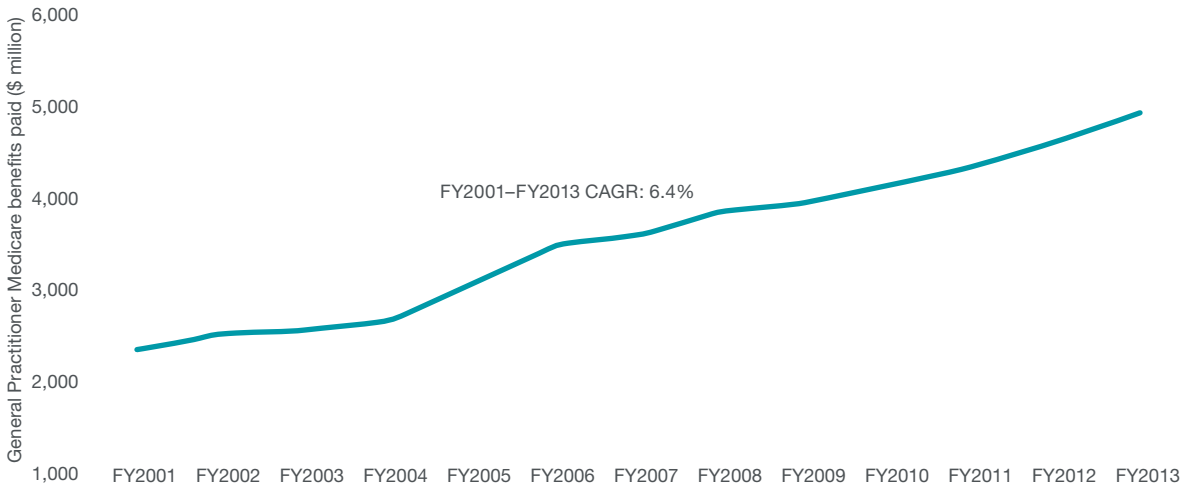
In medical centres operated by a corporate organisation such as Healthscope, General Practitioners receive payment for their services from Medicare and patient out-of-pocket payments and, in turn, pay a service fee to the medical centre operator for use of the consulting rooms and provision of administration and other services. Some medical centres operate as specialist skin care clinics, providing skin cancer risk assessments, testing and treatments.

Stand-alone medical centres are often owned, managed and operated by the General Practitioners themselves, with various different operating models.

There has been a growing trend towards larger medical centres with a greater number of General Practitioners and a range of ancillary services on site. The move to larger centres is driven by consumers demanding more convenience, with larger medical centres generally providing a wider range of services, seven day operation and longer opening hours. Some of the larger medical centres offer additional specialised services such pharmacy, physiotherapy, pathology, radiology, dental, optometry, and other allied health services.

Total Medicare benefits paid by the Federal Government for General Practitioner services are estimated to have grown at a CAGR of 6.4%, from $2.3 billion in FY2001 to $4.9 billion in FY2013.

Figure 2.20
Medicare benefits paid for General Practitioner services



Source: Department of Health – Annual Medicare Statistics.

[69] Federal Government – Department of Health.

2.5 Overview of Healthscope's international pathology markets

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

2.5.1 New Zealand

Pathology funding in New Zealand is distributed through 20 District Health Boards ("DHBs") which were formed in 2001. DHBs are New Zealand government entities which receive public funding from the New Zealand Ministry of Health. DHBs are then responsible for providing, or funding the provision of, various health services in their district.

The DHBs have established exclusive arrangements for community (non-hospital) pathology with private providers typically via competitive tendering processes. Hospital pathology services are largely provided by public hospital laboratories although some DHBs have chosen to outsource both hospital and community pathology to private providers.

DHB contracts are awarded to one party typically after a tender process. The contracts are based on a fixed fee for providing the service over the contract period which is a different model to the other international markets in which Healthscope operates. The fixed fee is negotiated based on forecast volumes and level of price indexation which means that revenues are largely certain for the length of the contract period.

2.5.2 Malaysia

The private pathology market in Malaysia is fragmented with a large number of service providers ranging from small independent laboratories and hospital in-house laboratories to large consolidated laboratories. The vast majority of pathology referrals are sourced from General Practitioners and specialists. However, there is a growing trend for walk-in patients through direct advertising to the consumer without a referral from a medical practitioner. There is also an increasing trend for corporate health screening programmes which involve pathology testing as a key component.

Samples are collected in medical centres by doctors or medical centre staff. Accordingly, pathology providers do not operate collection centres, nor do they come into contract with patients directly. Pathology providers invoice the referring doctor who on-charges the pathology fee directly to the patient.

Key providers include Healthscope (operating as Gribbles Pathology), Pathlab, BP Laboratories, KPJ Healthcare and Parkway Pantai (IHH Healthcare).

2.5.3 Singapore

The private pathology market in Singapore is serviced by independent laboratories, private hospital laboratories and government hospital laboratories. Customer segments include General Practitioners, specialists, private hospitals and corporate clients. Regulations are set by the Singaporean Ministry of Health and the private pathology sector is funded through a user-pays model. The market has grown consistently, driven by population increases, an ageing population, growing health awareness and demand for health screening programs.

In Singapore, collection centres do not play a major role as medical practitioners predominantly collect samples from patients. Pathology service providers undertake tests on the sample provided and charge medical practitioners a fee for their service. These medical practitioners then subsequently charge their patient.

Key providers include Healthscope (operating as Quest Laboratories), Parkway (IHH Healthcare), Raffles, Pathlab and Innovative Diagnostics.

2.5.4 Vietnam

Similar to Malaysia, the private pathology market in Vietnam is fragmented comprising a large number of service providers from small independent laboratories, hospital in-house laboratories and larger consolidated laboratories. The majority of pathology referrals are sourced from General Practitioners and specialists.

3. Business Overview

3. Business Overview

3.1 Overview of Healthscope

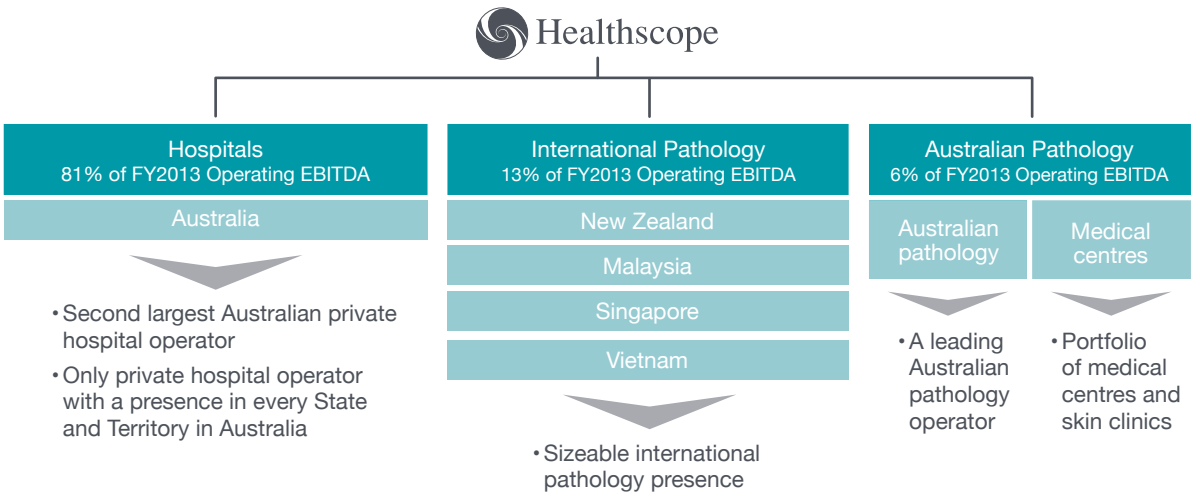
Healthscope is Australia's second largest private hospital operator, a leading provider of pathology services in Australia, New Zealand, Malaysia and Singapore and has a long history of operations in healthcare. Healthscope is headquartered in Melbourne, Australia, and has operations in all Australian states and territories as well as in New Zealand, Malaysia and Singapore with a small presence in Vietnam. As at 31 December 2013, Healthscope employed over 19,800 people.

Healthscope's portfolio of 44 hospitals[70] includes large high acuity hospitals, with 11 co-located with large public teaching hospitals, psychiatric hospitals and rehabilitation and extended care facilities. Three of these acute hospitals are managed on behalf of the Adelaide Community Healthcare Alliance ("ACHA"). Healthscope's hospital portfolio is concentrated in the major population areas of Australia's Eastern Seaboard and has a presence in all Australian State and Territory capital cities.

Healthscope is also one of the largest pathology and medical service providers in Australia with 578 collection centres, 69 pathology laboratories and 58[71] medical centres as at 19 May 2014. The Group has pathology businesses in New Zealand, Malaysia and Singapore with a small presence in Vietnam.

Healthscope operates three divisions as set out in Figure 3.1 with its Hospitals division contributing 81% of EBITDA in the year ending 30 June 2013.

Figure 3.1
Healthscope divisions



Healthscope's business model

Healthscope's Hospitals business operates or manages a network of acute, psychiatric and rehabilitation and extended care facilities in Australia. The Hospitals business model revolves around the provision of services to Accredited Medical Practitioners and their patients, as explained below.

- Accredited Medical Practitioners are the main source of patient admissions into Healthscope hospitals. Accredited Medical Practitioners are not generally employed or remunerated by Healthscope – they operate independently but are accredited by a Healthscope hospital to provide medical services to their patients at that Healthscope hospital. Accredited Medical Practitioners often practice at more than one hospital (including at public hospitals).
- Healthscope provides Accredited Medical Practitioners with a range of services in relation to their patients, including access to operating theatres, patient accommodation, nursing and other clinical care and consumables. Healthscope may also provide Accredited Medical Practitioners with access to conveniently located consulting suites.
- Approximately 90% of Healthscope's Hospitals revenue comes from private health insurance funds and Government-related bodies (DVA and TAC) which have agreements in place with Healthscope. They typically pay Healthscope an amount to cover the services Healthscope provides in relation to an admission. Payments to the hospital are generally based on a pricing schedule set out in the agreements and payments are either on a case payment or per diem basis depending on the type of service provided.

[70] Healthscope has entered into a conditional agreement to sell Brisbane Waters Private Hospital and is scheduled to acquire Frankston Private Day Surgery and Peninsula Oncology Centre on 1 July 2014.

[71] Includes 11 specialist skin cancer clinics and one specialist breast diagnosis clinic.

The majority of Healthscope's admissions to acute hospitals (70–75%) are funded via case payments, whilst the majority of psychiatric and rehabilitation admissions are funded on a per diem basis.

- Accredited Medical Practitioners are typically remunerated through payments from Medicare, with a small component of fees paid directly by private health insurance funds and patient co-payments.

Healthscope's pathology businesses are focused on the examination of blood, tissue and other biological samples to diagnose disease.

Healthscope's International Pathology division comprises pathology businesses in New Zealand, Malaysia and Singapore and a small presence in Vietnam, as explained below.

- In New Zealand, District Health Boards ("DHBs") have established exclusive arrangements for pathology providers through competitive tender processes. Healthscope has contracts with 10 of the 20 DHBs. Patients are referred to Healthscope's pathology business via a medical practitioner. The vast majority of samples are collected in collection centres operated by Healthscope and transported to a Healthscope laboratory via couriers. Healthscope is paid for pathology testing services provided to patients by the District Health Boards based on agreed rates under each contract.
- In Malaysia and Singapore, medical practitioners collect samples from patients and Healthscope couriers collect the samples and transport them to a Healthscope laboratory. Healthscope is paid for pathology testing services provided to patients by the referring medical practitioner who subsequently charges the patient. Healthscope also has some service contracts under which it provides pathology testing services to hospitals and corporate customers. In Malaysia, patients do not require a referral from a medical practitioner so there are some walk-in patients.

The pathology business model in Australia revolves around collection and processing of samples from patients referred by medical practitioners, as explained below.

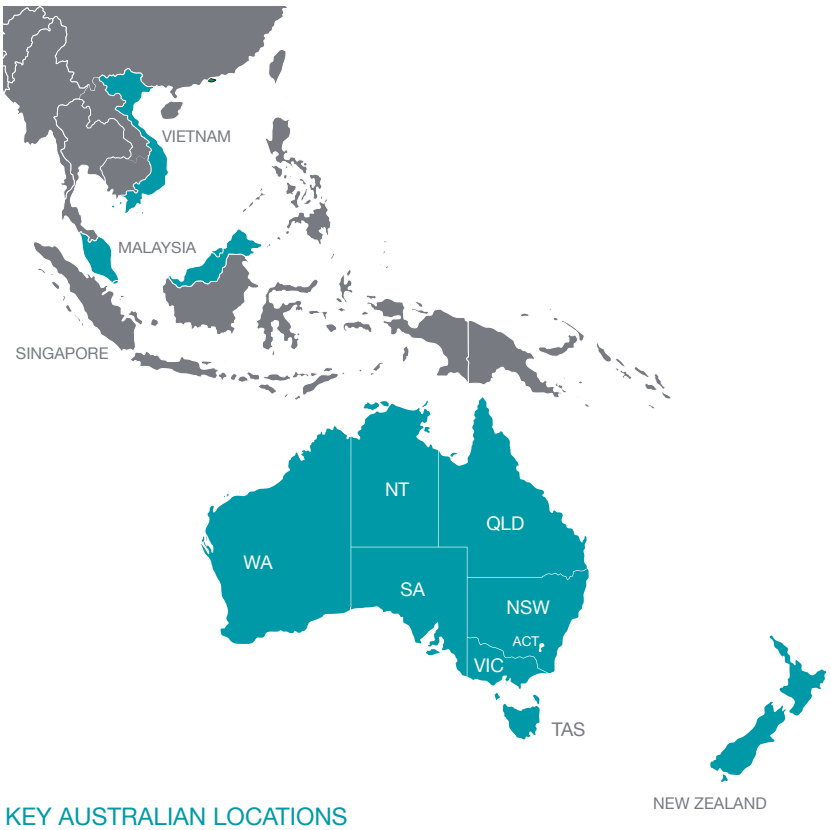
- Patients are referred to Healthscope's Australian pathology business via a medical practitioner. The medical practitioner can collect the sample directly, but in most cases a patient will visit a collection centre to have the sample taken. Collection centres can either be located within a medical centre or be stand-alone. A Healthscope courier collects samples from the collection centre, which are taken to a Healthscope laboratory for testing. Pathologists or appropriately qualified staff review and interpret the results which are then communicated to the referring medical practitioner.
- Healthscope's Australian pathology business receives more than 85% of its revenue from Medicare. The price paid by Medicare is determined by the Federal Government's Medicare Benefits Schedule. Pathology operators also have the right to charge more than the amount reimbursable under Medicare, and in these instances the patient is required to pay the difference.

The medical centres business operates 46 medical centres and 11 specialist skin cancer clinics in Australia. The medical centres business model revolves around providing services to General Practitioners to facilitate patient consultations, as explained below.

- Approximately 420 General Practitioners practice at Healthscope's medical centres. Medicare pays General Practitioners for each patient consultation, based on a predetermined pricing schedule which is reviewed annually. A General Practitioner has the right to charge more than the amount reimbursable under Medicare and in these instances the patient is required to pay the difference.
- General Practitioners 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 this agreement, General Practitioners pay Healthscope a service fee which is expressed as a percentage of the General Practitioner's patient billings.
- In addition to generating revenues from service fees, the medical centres business also provides a potential source of referrals for Healthscope's Australian pathology business and Hospitals division.
- Healthscope also operates one specialist breast diagnosis clinic which is included as part of the medical centres business.

With its hospitals, pathology and medical centres operations, Healthscope provides patient services at multiple points in the healthcare value chain.

Figure 3.2
Healthscope's key assets



KEY AUSTRALIAN LOCATIONS
44 private hospitals
578 pathology collection centres[1]
69 pathology laboratories
58 medical centres[2]

KEY INTERNATIONAL LOCATIONS
43 pathology laboratories

VICTORIA
15 private hospitals
265 pathology collection centres[1]
24 pathology laboratories
13 medical centres

NEW SOUTH WALES
11 private hospitals
110 pathology collection centres[1]
8 pathology laboratories
10 medical centres

QUEENSLAND
8 private hospitals
91 pathology collection centres[1]
6 pathology laboratories
15 medical centres

SOUTH AUSTRALIA
5 private hospitals
101 pathology collection centres[1]
30 pathology laboratories
2 medical centres

TASMANIA
2 private hospitals

WESTERN AUSTRALIA
1 private hospital
15 medical centres

NORTHERN TERRITORY
1 private hospital
11 pathology collection centres[1]
1 pathology laboratory

AUSTRALIAN CAPITAL TERRITORY
1 private hospital
3 medical centres

NEW ZEALAND
13 pathology laboratories

MALAYSIA
26 pathology laboratories

SINGAPORE
3 pathology laboratories

VIETNAM
1 pathology laboratory

Notes:

1 Pathology collection centre numbers as at 19 May 2014.

2 Medical centres include 11 specialist skin cancer clinics and one specialist breast diagnostic clinic.

3.2 Healthscope history

The Healthscope business 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 ("the 2010 Acquisition") and subsequently de-listed from the ASX.

Since 1994, Healthscope has significantly expanded the scale and scope of its operations both organically and by acquisition. Over this period, Healthscope has increased its hospital portfolio from five hospitals in 1994 to 44 hospitals, as well as entering the pathology and medical centres markets.

Table 3.1 Key event history – expansion of scale and scope of operations[72]

Year	Key event
FY2002	• Acquired seven hospitals from various vendors
FY2003	• Acquired six hospitals from the Mayne Group • Entered into ACHA management agreement
FY2005	• Acquired Gribbles Pathology • Acquired the Nova Health Group (six hospitals) • Acquired Quest Pathology (Singapore)
FY2006	• Acquired 14 ex-Affinity hospitals
FY2007	• Acquired three hospitals from various vendors • Commissioned Campbelltown Private Hospital (greenfield hospital) • Awarded DHB contract to provide community pathology testing services to Auckland district commencing in 2009 (NZ pathology)
FY2009	• Commissioned Campbelltown Private Hospital expansion (Hospitals brownfield project)
FY2010	• Commissioned Norwest Private Hospital ("relocate and grow" hospital) • Commissioned the Melbourne Clinic Stage 2 expansion (Hospitals brownfield project)
FY2012	• Commissioned Knox Private Hospital Stages 1–3 expansion (Hospitals brownfield project) • Commissioned Norwest Private Hospital Stage 2 expansion (Hospitals brownfield project) • Awarded DHB contract to provide pathology testing services to Canterbury region (NZ Pathology)
FY2013	• Commissioned Northpark Private expansion (Hospitals brownfield project) • Extended ACHA management agreement for a further 10 years
FY2014	• DHB contract for Auckland district extended to 2020 (NZ Pathology)

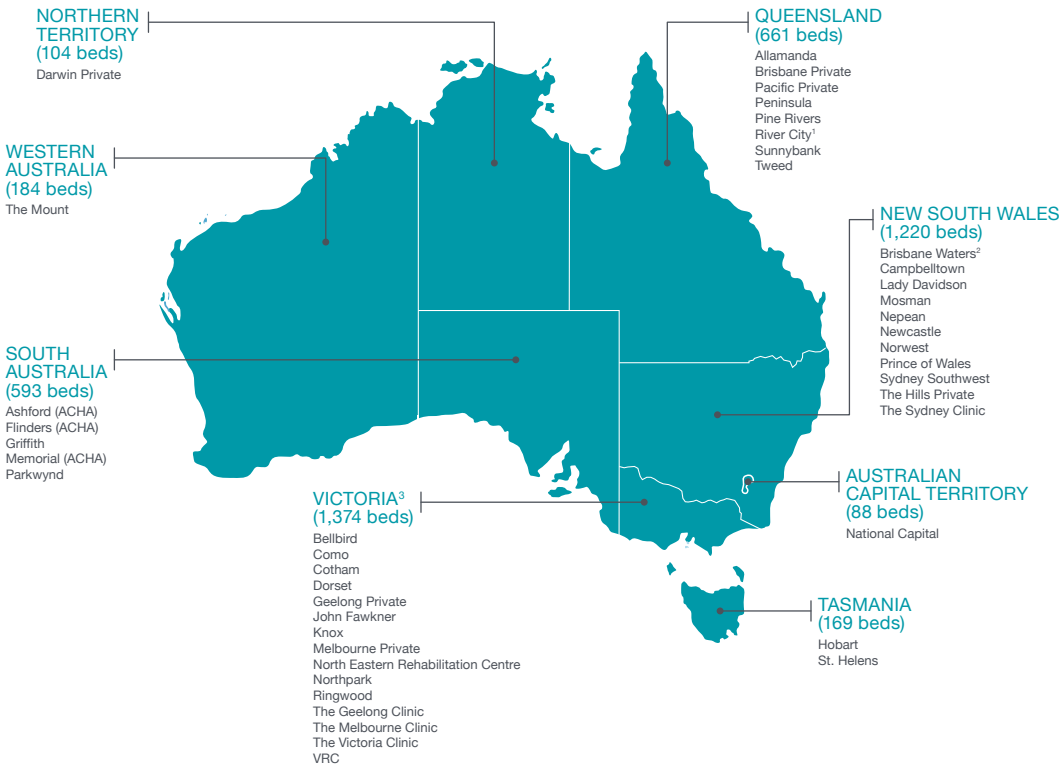
[72] Includes brownfield hospital expansions with a total project value greater than approximately $20 million.

3.3 Hospitals division

Healthscope is Australia's second largest private hospital operator, with a portfolio of 44 private hospitals nationwide with approximately 4,400 beds. Of Healthscope's 44 hospitals, 30 facilities are owned by Healthscope, 11 are leased by Healthscope and three are managed on behalf of ACHA. The Hospitals division is Healthscope's largest operating division, generating revenues of approximately $1.7 billion and Operating EBITDA of approximately $276 million for the year ended 30 June 2013 – representing approximately 75% of Healthscope's total revenues and 81% of Healthscope's Operating EBITDA for FY2013. Healthscope hospitals provide a range of acute, psychiatric, rehabilitation and extended care facilities, with acute care facilities representing approximately 84% of the Hospitals division's FY2013 EBITDA.

Healthscope's private hospital portfolio comprises 31 acute hospitals, seven psychiatric hospitals and six rehabilitation and extended care facilities. An overview of the network is set out in Figure 3.3 below.

Figure 3.3
Hospitals division network[4]



Notes:

1 River City will cease to be a Healthscope hospital on 31 August 2014.

2 Healthscope has entered into a conditional agreement to sell Brisbane Waters Private Hospital.

3 Healthscope is scheduled to acquire Frankston Private Day Surgery and Peninsula Oncology Centre on 1 July 2014.

4 Bed numbers refer to overnight beds available for use by patients at a point in time. This may vary from the number of licensed beds.

As at 31 December 2013, the Hospitals division employed approximately 13,900 employees.

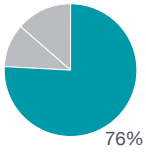
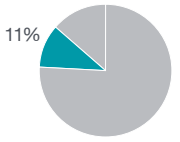
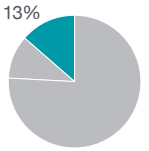
Healthscope's hospitals are concentrated in Australia's large metropolitan centres with a presence in every State and Territory. Approximately 74% of Healthscope's beds are located in Victoria, New South Wales and Queensland. Those States account for 77% of the Australian population with the population of their respective capital cities Melbourne, Sydney and Brisbane forecast to grow at 1.9% p.a. on average until 2020, faster than the national average of 1.7% p.a.[73] Healthscope's hospitals are concentrated within three major population centres (Sydney, Melbourne and Brisbane) and the majority of Healthscope's hospitals are in areas where Private Health Insurance uptake and/or household income are above the national average.

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.

[73] Australian Bureau of Statistics, Australian Demographic Statistics (September 2013) (ABS Ref #3101.0).

An overview of the types of services provided in each type of hospital operated by Healthscope is set out in Table 3.2.

Table 3.2 Overview of typical services provided

Hospital type	Beds	Hospitals	Overview of services
Acute hospitals		31	• Offer a range of medical and surgical services. • Includes intensive care, maternity, cardiac surgery, orthopaedics, general surgery, urology, ear, nose and throat surgery, oral surgery, gynaecology, plastic surgery, endoscopy, vascular surgery, other specialist surgery and day surgery. • 11 co-located with public hospitals. • Six hospitals have accident and emergency departments.
Psychiatric hospitals		7	• Offer a range of services for patients with various mental health disorders. • Services include treatment for anxiety, depression, schizophrenia, post-traumatic stress, eating disorders, alcohol and drug addiction and obsessive compulsive disorders.
Rehabilitation and extended care facilities		6	• Rehabilitation hospitals provide services for rehabilitation of patients with acquired brain injury, musculoskeletal injuries, cardiac and stroke, and those requiring pain management. • As an adjunct, Healthscope also operates a number of independent living housing facilities to provide for the longer-term residential needs of clients with acquired brain injury.
Total		**44**	

3.3.1 Relationships with Accredited Medical Practitioners

Given that Accredited Medical Practitioners' patients are the main source of admissions into Healthscope hospitals, the retention and recruitment of Accredited Medical Practitioners is a key area of focus for Healthscope. Hospital general managers are responsible for day to day management of their hospital and an important aspect of this is managing the relationships with Accredited Medical Practitioners.

Healthscope hospitals have a range of attributes that are potentially attractive to Accredited Medical Practitioners which set are set out below.

Table 3.3 Hospital attributes

Attributes	Healthscope attributes
Location	• Hospitals concentrated in large, metropolitan areas with a high level of privately insured patients, close to where Accredited Medical Practitioners tend to live and work. • 11 hospitals co-located with public hospitals, providing convenience to Accredited Medical Practitioners with public hospital appointments.
Allocation of operating theatre sessions	• Operating theatre session time allocation system. • Flexible operating theatre operating hours. • Strong development pipeline and history of operating theatre additions and upgrade projects.
Quality and stability of hospital management team	• Stability of hospital management teams has significantly increased over the last three years. • More than 25% of hospital general managers have over five years of service in their role compared to less than 5% in November 2010.
Quality nursing staff	• Significant resources committed to nurse recruitment and training. • 12% reduction in nursing staff turnover between 2012 and 2013 and a reduction in agency utilisation.
Quality and clinical outcomes	• Healthscope is a market leader for quality and clinical outcomes (see Section 3.3.2).
Equipment and consumables	• Replacement capital expenditure program to ensure up-to-date equipment. • Accredited Medical Practitioners are involved in procurement process to ensure clinically appropriate initiatives.
Brownfield projects	• Strong history and pipeline of brownfield projects, providing new beds and operating theatres, and supporting infrastructure such as car parking and consulting suites.
Clinical autonomy of Accredited Medical Practitioners	• Clinical independence of Accredited Medical Practitioners is encouraged and supported, leading to greater accountability. • Healthscope's relationships with Accredited Medical Practitioners are based on mutual recognition, respect and support for each other's clinical and commercial objectives.
Clinical Governance	• The Chair and members of each hospital's medical advisory committee are the cornerstone of the hospital's clinical governance and source of advice to and support for hospital management.
On-site consulting suites	• Brownfield programs can increase availability of on-site consulting suites for Accredited Medical Practitioners.

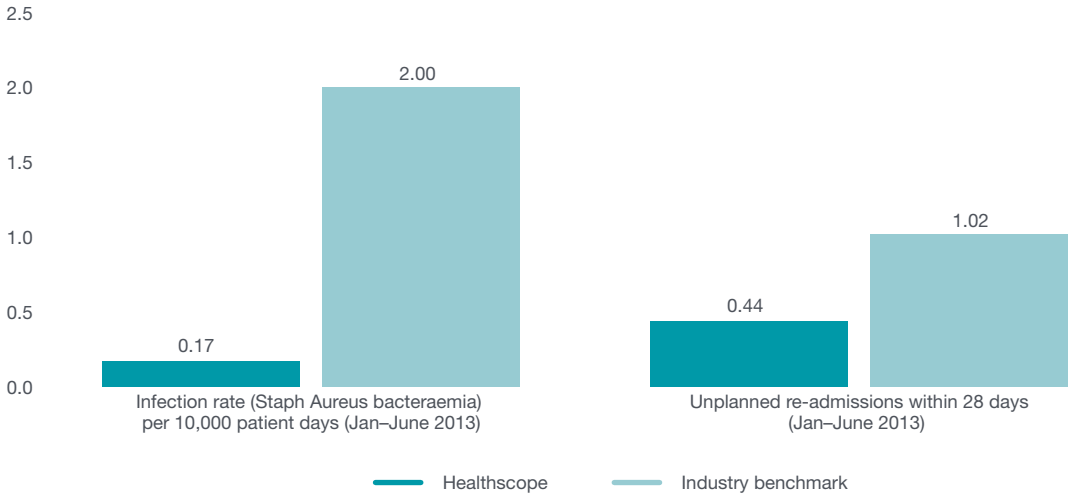
3.3.2 Quality and clinical outcomes

Quality and clinical outcomes are of utmost importance to Healthscope's hospital operations and are necessary to:

- ensure the wellbeing of patients;
- attract and retain high quality Accredited Medical Practitioners and nurses;
- shift traditional negotiations with private health insurance funds from being price focused to quality focused; and
- enhance Healthscope's reputation which improves its position to secure State/Territory Government outsourcing opportunities.

Healthscope's quality and clinical outcome performance compares favourably to the industry on all major key performance indicators[74]. Healthscope maintains an experienced and dedicated quality and clinical team that provides leadership, training, facilitation and monitoring throughout the organisation. Healthscope also has a well-established quality and risk framework, which extends beyond that required by the National Safety and Quality in Health Service Standards (the "NSQHS Standards").

Figure 3.4
Selected quality and clinical key performance indicators



Source: Management; AIHW, Australian Hospital Statistics (2012–2013) (Staphylococcus aureus bacteraemia in Australian public hospital); Australian Council on Healthcare Standards – Clinical Indicator Program.

Healthscope's focus on quality and clinical outcomes is reflected in its commitment to the transparent reporting of quality and clinical outcomes through the MyHealthscope website. The MyHealthscope website was launched in November 2011 and publicly reports 21 key performance indicators where relevant for each of Healthscope's 44 hospitals, as well as the Healthscope national rate. Performance trends over time are shown as well as performance compared to industry benchmarks. Healthscope was the first private hospital operator in Australia to report these metrics publicly.

3.3.3 Healthscope's relationships with private health insurance funds

Private health insurance fund negotiations

Healthscope takes a collaborative approach to private health insurance fund relationships. Recognising the importance of private health insurance funds to Healthscope's business, current management assembled a new and experienced private health insurance fund team, which, together with Robert Cooke and Michael Sammells, is actively involved in major private health insurance fund negotiations. All members of the private health insurance fund team have significant experience in both the health insurance industry and hospital operations. In addition, Healthscope's Chief Financial Officer, Michael Sammells, was Chief Financial Officer of Medibank Private (Australia's largest private health insurance fund) for six years prior to joining Healthscope. Michael also spent two years as National Hospital Manager for Medibank Private, with responsibility for all hospital contract negotiations.

[74] Based on MyHealthscope/ACHS indicators for January–June 2013. Industry refers to General Aggregate Rate.

Healthscope's focus on Private Health Insurance negotiations has resulted in;

- successful negotiation of Private Health Insurance agreements; approximately 80% of Healthscope's Hospitals revenue comes from Private Health Insurance[75]; of revenue coming from Private Health Insurance, approximately 96% is covered by Private Health Insurance agreements which have rates secured until at least September 2015; and
- establishment of links between quality and clinical outcomes and funding, recognising improved quality and clinical outcomes, such as reduced infection rates and lower unplanned re-admissions, are beneficial to private health insurance funds.

The link between quality and clinical outcomes and funding introduced by Healthscope has been very well received by private health insurance funds, with some arrangements now including annual quality "top ups" payable to Healthscope, provided quality and clinical outcome targets are met.

Collaborative approach to private health insurance fund relationships

Healthscope's collaborative approach to private health insurance fund relationships is demonstrated by its partnership with Bupa. From May 2012, Bupa Private Health Insurance members using Healthscope's network of hospitals, medical centres, skin clinics and pathology services in Australia became eligible for a range of benefits including no co-payment obligations for certain Healthscope-provided pathology services, discounted health checks and skin checks in Healthscope medical centres and skin clinics and free pay TV and wireless internet (where available) during hospital stays.

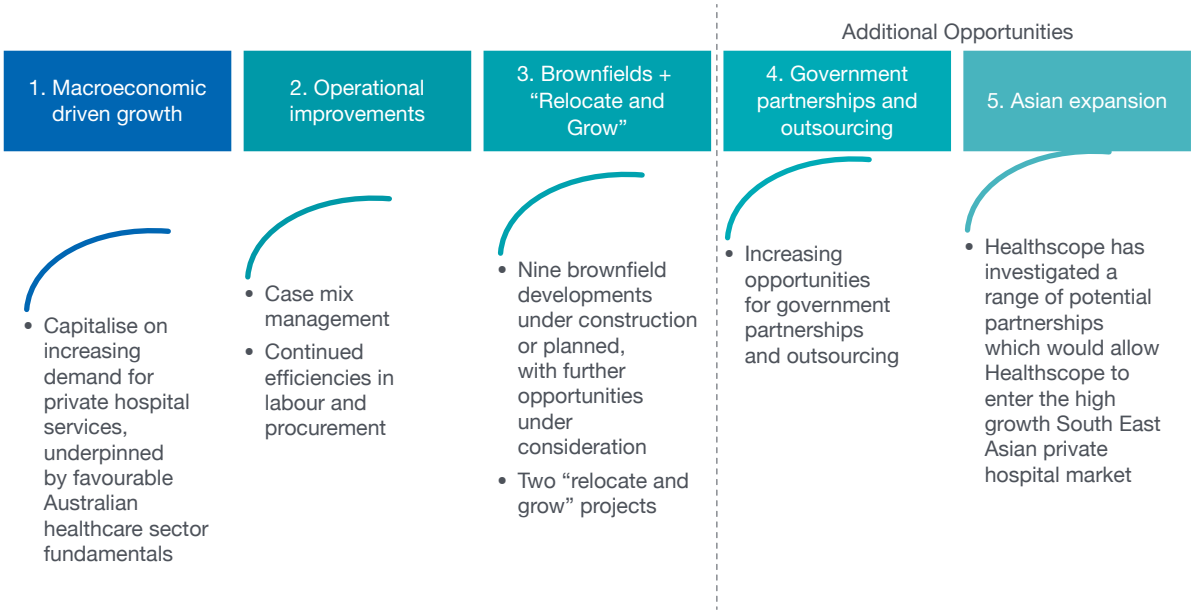
Healthscope further strengthened its relationship with Bupa through the launch of the "Never Events" initiative in October 2013 which is focused on eliminating 14 defined "Never Events" such as a patient being given the wrong blood for a transfusion or a medication error resulting in serious disability.

Healthscope has also taken a collaborative approach to its relationship with Medibank Private, including linking a portion of price indexation to the achievement of clinical outcomes, implementing a "Never Events" initiative, and assisting Medibank Private with providing certain services under its contract with the Australian Defence Force.

3.3.4 Hospitals division growth strategy

Healthscope management is forecasting average annual growth in Hospitals division revenue of 5.5% p.a. and EBITDA of 8.7% p.a. over the period FY2013–FY2015 largely driven by the division's strong organic growth outlook and operational improvements. Healthscope also has an extensive pipeline of brownfield and "relocate and grow" growth projects that are expected to largely supplement organic earnings growth beyond the forecast period, with only a small impact on earnings over the forecast period.

Figure 3.5
Growth drivers



[75] Based on March YTD 2014.

3.3.4.1 Macroeconomic driven growth

Healthscope is well positioned to benefit from the expected continued increase in demand for private hospital services. The Hospitals division has historically demonstrated strong growth rates underpinned by favourable Australian healthcare sector fundamentals, achieving an EBITDA CAGR of 10.9% from FY2011–2013.

3.3.4.2 Operational improvements

Since the 2010 Acquisition, the new management team has introduced a stronger focus on utilisation and efficiency across the portfolio, including case mix management, labour and procurement initiatives. Operational key performance indicator data is collected at the department, hospital, State and divisional levels to track the progress of these initiatives. This information enables benchmarking within and between hospital peer groups, and facilitates identification and implementation of best practices.

Case mix management

Accredited Medical Practitioners provide a broad range of medical services at Healthscope hospitals, which have different requirements in terms of operating theatre time, nursing requirements and patient length of stay. Healthscope works with Accredited Medical Practitioners and hospital staff to maximise operating theatre utilisation and ensure that occupancy is managed such that patient care and the length of stay for each patient is matched to their clinical needs.

A number of initiatives are in place to manage the case mix within Healthscope's hospitals. Case mix refers to the mix of types of patients (by specialty, sub-specialty and specific procedure/treatment required and/or diagnosis) in a hospital at any point in time based on their clinical classification.

Labour

Given labour costs represent the most significant cost in Healthscope's Hospitals business, labour efficiencies can have a material impact on Healthscope's profit margins. Over the last three years, Healthscope management has focused on four key areas in managing labour costs.

Management of labour hours

A major operational focus has included improving the quality of forecasting hospital patient admissions prior to rostering labour (clinical and non-clinical) to meet expected volumes. New rostering models to assist in organising required labour to meet volumes have been developed and management reporting has been improved and been made available to a broader group of staff to enable targets to be set at departmental levels. Better management of part-time and casual nursing pools has also increased flexibility and reduced the need for agency staff.

Skill mix

Management has placed greater emphasis on implementing a team nursing model to ensure that the clinical experience of its qualified nurses is matched to the required patient care at any point in time. By having a large workforce including enrolled and registered nurses with a range of qualifications in each team, Healthscope is able to manage the skill mix according to the complexity of the nursing requirement. A team nursing approach takes advantage of each team member's skills and level of experience for the effective and efficient delivery of care.

Agency

Given fluctuating demand for nurses driven by hospital occupancy, Healthscope, like most hospital operators, relies on agency staff at certain times of the week and year. With greater focus on managing agency utilisation and increasing the casual nursing pool, Healthscope's agency utilisation is decreasing. A lower level of agency is preferred by Accredited Medical Practitioners as it facilitates consistency and familiarity with nursing staff. Utilisation of agency nurses is typically at a higher cost than internal nursing staff.

Nursing recruitment and retention

A number of initiatives are in place to recruit and manage the nursing workforce more effectively which are expected to benefit all aspects of labour management. Labour market pressures for nurses have eased considerably over the last few years due to a greater number of graduates and nurses delaying retirement.

Healthscope has committed significant resources to training of student and graduate nurses, which assists with nurse recruitment. There has been a major focus on introducing student nurses into hospitals which means that Healthscope is then well positioned to recruit the high quality graduate nurses. Fellowship Programs with some universities and teaching colleges have strengthened ties with these training facilities, with students obtaining their clinical placements within a Healthscope facility with the potential for ongoing employment.

Procurement

Management has restructured the procurement function to facilitate centralised procurement and more efficient product choice. A 14 FTE procurement team has established strong working relationships with the sites and has worked closely with the hospital management teams and Accredited Medical Practitioners to communicate rationale and process for procurement initiatives and involve stakeholders in key decisions. A centralised procurement function benefits the sites through more efficient ordering of products, improved reporting of procurement outcomes, and expert advice and assistance in relation to procurement activities.

This team has focused on developing relationships with key suppliers, negotiated new agreements, rationalised both product and vendor numbers and developed an integrated product database and reporting system to enable data to be analysed and used to make more informed decisions. This in turn has led to strong compliance with preferred supplier agreements.

Clinical staff, including Accredited Medical Practitioners, are involved in major procurement discussions, to ensure their support and commitment to major initiatives. This includes the engagement of clinical product specialists when making product selection.

Other procurement initiatives currently being considered or in the process of being implemented include:

- rationalisation projects for areas of significant spend;
- vendor categorisation and strategy approach;
- partnering with innovative vendors; and
- business process improvement.

3.3.4.3 Brownfields and "relocate and grow" projects

Overview of brownfield projects

Healthscope is well positioned to expand its hospital facilities to meet additional patient demand. As Accredited Medical Practitioners ultimately drive volume to hospitals, and have existing links with Healthscope's hospitals, they can be consulted on their likely utilisation of any increased capacity, meaning that demand risk for these projects is generally low. Private health insurance fund rates are generally agreed prior to project commencement. Brownfield expansions typically increase EBITDA Margins at the hospital due to the ability to leverage the existing fixed costs of the hospital, including hospital infrastructure costs and hospital management costs.

Brownfield expansions have demonstrated a history of strong returns across the industry. Healthscope targets a Return on Invested Capital ("ROIC") in excess of 15% by year three for all projects. While this is the target, in some circumstances Healthscope will undertake certain projects with a ROIC below the threshold if the project includes capital expenditure that is required to upgrade existing infrastructure as part of the expansion, or if it is the initial stage of a multiple stage development program.

Healthscope's brownfields track record

Since the 2010 Acquisition, Healthscope has completed 21 brownfield projects at a cost of approximately $196 million, delivering 318 beds and 18 operating theatres. The lead time from project conception to project completion is between one to three years for a major brownfield project (and can be shorter for smaller projects).

Table 3.4 Capacity added through brownfields completed since October 2010

$ million	FY2011	FY2012	FY2013	YTD FY2014	Total
Acute:					
New beds	–	123	41	3	**167**
New operating theatres	5	8	3	2	**18**
Rehabilitation:					
New beds	–	10	40	14	**64**
New operating theatres	–	–	–	–	**–**
Psychiatric:					
New beds	5	58	24	–	**87**
New operating theatres	–	–	–	–	**–**
Total:					
New beds	**5**	**191**	**105**	**17**	**318**
New operating theatres	**5**	**8**	**3**	**2**	**18**

An example of a significant brownfield expansion Healthscope recently completed is the Knox Private Hospital expansion, which was completed in September 2011.

Figure 3.6 Case study: Knox Private Hospital

Knox Private Hospital

- Large, acute facility in Melbourne's south-eastern suburbs
  - 253 beds, 11 operating theatres, one cardiac catheterisation lab, emergency department, intensive care unit, coronary care unit (as at 19 May 2014).
- Major brownfield completed in September 2011
  - 66 beds and four operating theatres;
  - capital cost: $50 million; and
  - delivered on time and on budget.
- FY2014 YTD occupancy 92% – further major expansion is currently planned to commence in H1FY2015.

Healthscope's brownfield development portfolio

Soon after the current management team commenced in November 2010, management identified that Healthscope's hospital portfolio was underdeveloped, with significant growth potential. An opportunity to shift the growth pipeline to higher returning projects based on whole-of-site medium and long-term plans was identified and approved.

Over the past three years, the project pipeline has been reshaped to focus on larger whole-of-site projects at major facilities which generally deliver the highest returns. Acute facilities are the primary targets for brownfield development, as these projects typically have higher ROIC due to greater operating leverage for incremental capital investment. Revisiting the brownfield project pipeline over the last three years resulted in some projects being discontinued as they did not meet investment criteria and return profiles. Given the change in management strategy and the time from project conception to completion of one to three years, the number of brownfield projects completed during FY2013 and YTD FY2014 has been lower than it would otherwise have been.

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.

Table 3.5 Brownfield project pipeline

Site	New beds	New operating theatres	Operational date
Brownfields under construction – approximately $86 million project capital expenditure[1]			
Brisbane Private		1	*H2FY2014*
Campbelltown		2	*H1FY2015*
The Mount		2	*H2FY2015*
National Capital	41	3	*H2FY2016*
Total	**41**	**8**	
Brownfields planned – approximately $188 million project capital expenditure[2]			
Newcastle Private	1	1	*H1FY2015*
Pine Rivers	3		*H1FY2015*
Knox	60		*H1FY2016*
Norwest	61	3	*H2FY2016*
John Fawkner	33	2	*H1FY2017*
Total	**158**	**6**	
Brownfields under consideration – approximately $162 million project capital expenditure[3]			
FY16		2	
FY17	83	4	
FY18	60	3	
Total	**143**	**9**	
	342	**23**	

Notes:

1. The project capital expenditure of approximately $86 million reflects management's best estimate of the capital expenditure requirements for brownfields under construction, most of which is subject to existing building contracts.
2. "Brownfields planned" refers to projects which are Board approved, and at various stages of the Development Application (DA) approval process. Projects will commence as soon as DAs are received. The project capital expenditure of approximately $188 million reflects management's best estimate of the capital expenditure requirements for planned brownfields, based upon past experience and the specific details of each project.
3. "Brownfields under consideration" are future planned projects which remain subject to final Board approval and are at various stages of the DA approval process. The project capital expenditure of approximately $162 million reflects management's best estimate of the capital expenditure requirements for brownfields under consideration, based upon past experience and the specific details of each project.

"Relocate and grow" projects

"Relocate and grow" projects involve the construction of a new hospital close to an existing hospital and moving services to the new facility which typically has increased capacity and higher quality amenities. The new hospital replaces or supplements an existing hospital which may in some cases continue to operate as a different facility type. Accredited Medical Practitioners and patients are typically very receptive to the new hospital development as it is newer and offers better facilities and amenities. Given the existing Accredited Medical Practitioner base, the risk profile of a "relocate and grow" facility is lower than the risk of a new greenfield hospital development.

An example of a significant "relocate and grow" project Healthscope has recently completed is the project at Healthscope's Norwest Private Hospital, which was completed in September 2009.

Figure 3.7 Case study: Norwest Private Hospital

Norwest Private Hospital

- State-of-the-art, acute hospital opened in September 2009, located in high population growth north-western suburbs of Sydney
  - 216 beds, 11 operating theatres, two theatre endoscopy units, one angiography suite, emergency department, intensive care unit, coronary care unit (as at 19 May 2014);
  - Healthscope's existing operations at The Hills Private Hospital seamlessly transferred to Norwest; and
  - The Hills Private Hospital was reconfigured as a psychiatric and rehabilitation hospital.
- Major follow-on brownfield project completed in July 2011
  - 43 beds, one operating theatre;
  - capital cost: $21 million; and
  - delivered on time and on budget.
- FY2014 YTD occupancy 80% – further major expansion is currently planned to commence in H1FY2015.

Healthscope has two current "relocate and grow" projects in its pipeline which are outlined below.

Gold Coast Private Hospital

Healthscope is currently in the construction phase of a new 284-bed hospital on the Gold Coast, Gold Coast Private Hospital ("GCPH"), scheduled to open in early 2016. The new private hospital is co-located with the 750-bed public Gold Coast University Hospital, which opened in September 2013, forming part of the Gold Coast Health and Knowledge Precinct.

The GCPH will initially open with 284 beds and 13 operating theatres, with the ability to expand to 400 beds and 20 operating theatres. Services will include a 24 hour emergency department, cardiac catheterisation laboratory, hybrid theatre, intensive care, maternity ward and a special care nursery. The site will be supported by clinical support services providers including imaging, pharmacy and pathology services.

The operations of Healthscope's existing hospital on the Gold Coast, Allamanda Private Hospital (220 beds, 10 operating theatres), which is approximately three kilometres away, will be transferred to the new Gold Coast Private Hospital, providing a strong base of business on opening. The existing Allamanda facility will be closed with the lease expiring shortly thereafter. Accredited Medical Practitioners at Allamanda Private Hospital have been consulted throughout the design and construction phase. They have been strongly supportive of the project and have been in favour of moving to the new facility. Co-location with the public hospital is also proving to be very attractive to Accredited Medical Practitioners.

Holmesglen Private Hospital

Healthscope has reached an in principle agreement with Holmesglen Institute for a new 144-bed hospital in Melbourne's bayside suburb of Moorabbin. The project will convert the existing Holmesglen Institute hotel and conference facility into a hospital with eight operating theatres, an intensive care unit and an emergency department. The proposed hospital will enhance the health science focus of the Holmesglen Institute at Moorabbin. Subject to finalising the terms of a long-term lease and obtaining the necessary development approvals, construction is expected to commence in early 2015, with the new hospital expected to open in mid-2016.

The operations of Healthscope's existing hospital in the area, Como Private Hospital (53 beds, two operating theatres), which is located approximately 7km from the Holmesglen site, will be largely transferred to the new facility. Moving to the state-of-the-art Holmesglen Private Hospital is expected to be an attractive proposition for Accredited Medical Practitioners. Following the opening of Holmesglen Private Hospital, services offered at Como Private Hospital will change to support the new hospital.

3.3.4.4 Government partnerships and outsourcing

As outlined in Section 2.2.3.2, State/Territory Governments are increasingly seeking to partner with private hospital operators for the construction and operation of public hospitals, and outsourcing some aspects of service delivery to the private hospital sector.

As Australia's second largest private hospital operator and as a significant provider of pathology and general practice management services, Healthscope is well positioned to capitalise on these opportunities. Senior management have put considerable effort into developing strong relationships with all levels of government, which should further enhance Healthscope's positioning. Whilst Healthscope is well placed to secure new public work in the coming years, no additional revenue of this nature has been included in the forecast.

The Northern Beaches Hospital

Healthscope is one of two shortlisted parties to progress to the request for proposals phase for The Northern Beaches Hospital.

The NSW State Government is seeking to partner with a private hospital operator to build and operate The Northern Beaches Hospital (minimum 423 beds) due to open in 2018, located at Frenchs Forest on Sydney's Northern Beaches. As well as operating the private hospital services, the private operator will also be contracted to provide public hospital services, under a long-term contract with the NSW State Government.

Whilst this is a greenfield project, it has a number of positive features that mitigate potential operating risks. Importantly, acute services from two existing public hospitals (Manly and Mona Vale with a total of approximately 300 beds) will be transferred to The Northern Beaches Hospital. This public work provides a base volume of business and revenue stream from the outset. Co-location of the public and private hospital as a single facility will be important in attracting Accredited Medical Practitioners to the facility. The Private Health Insurance participation rate of approximately 60% for the surrounding local government areas and the absence of significant competition in adjacent suburbs make it an attractive location to develop a new hospital.

The operating model the NSW State Government has asked proponents to bid against is attractive to private operators as it allows the private operator maximum opportunity to add value through innovation and integrated service delivery.

If successful, Healthscope proposes to procure funding for the Northern Beaches development through a 5.75 year limited recourse syndicated debt facility, which is in addition to the New Banking Facilities and which will be borrowed by, and secured against, entities that are not obligors under the New Banking Facilities. Healthscope has obtained a commitment to this funding which is conditional upon Healthscope being the preferred party and reaching financial close for the development. If Healthscope is awarded the project, it will fund its equity commitment to the project through drawings on a further additional debt facility, prior to reaching financial close on any contract with the NSW State Government.

Proposals were submitted on 5 May 2014, with the preferred party due to be announced by the end of CY2014.

Outsourcing of work to the private hospital sector

Growing waiting lists at public hospitals are leading to increased outsourcing of public patient services to private hospitals. State and Territory Governments are looking to reduce waiting lists by contracting with the private sector to provide certain hospital and medical services to public patients on a fee for service basis. Examples of this include the Victorian State Government's waiting list reduction scheme which is expected to result in $420 million of contestable public patient elective healthcare services being let for tender over four years, and a further $190 million in Victorian State Government funding over four years for elective surgery in the 2014–15 budget.

Healthscope will be selective in the public work for which it tenders to ensure it is profitable and complementary to its private patient demand. Importantly, Healthscope would likely direct this work to smaller acute facilities that have spare capacity and to younger Accredited Medical Practitioners, helping to build their practices.

3.3.4.5 Asian growth

Healthscope has investigated a range of potential partnerships which would allow Healthscope to enter the high growth South East Asian private hospital market. In particular, Healthscope has been approached on a number of occasions by potential hospital developers, seeking to appoint Healthscope as the hospital operator under a management contract, which would not require a significant upfront investment of capital. Healthscope is currently exploring one such potential partnership. Such a model is likely to be attractive to Healthscope as it is a low capital option that provides exposure to the fast growing Asian private hospital sector.

3.4 International Pathology division

Healthscope's International Pathology division operates in New Zealand, Malaysia and Singapore with a small presence in Vietnam. Healthscope's initial International Pathology operations were acquired as part of the Gribbles Pathology Group acquisition in 2004, and these operations have since developed through a combination of organic growth and acquisitions.

The International Pathology division generated revenue of approximately $190 million and Operating EBITDA of approximately $45 million for the year ended 30 June 2013 – representing approximately 9% of Healthscope's total revenues and 13% of Healthscope's Operating EBITDA for the period. Revenue and EBITDA have grown at an average of 11% and 14% respectively from 2011 to 2013 as a result of underlying market growth in the respective markets, as well as new contract wins and acquisitions in New Zealand. The International Pathology division managed 8.1 million patient episodes in 2013. As at 31 December 2013, this division employed over 2,500 people.

3.4.1 New Zealand

The New Zealand community pathology market is primarily based on exclusive contracts between pathology providers and 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 is a market leader in community pathology in New Zealand servicing approximately 65% of the population[76] and has 10 DHB contracts, including long-term community pathology contracts for the major cities of Auckland and Christchurch. Healthscope is the sole pathology provider on the South Island in the contestable private market. Healthscope's largest contract covers the greater Auckland region through Labtests Auckland which accounts for 33% of the total annual volume of DHB pathology work in New Zealand. This DHB contract commenced in September 2009 and expires in September 2020. Healthscope also has a number of other key DHB contracts across New Zealand on both the North and South Islands.

In December 2011, Healthscope was awarded a new pathology contract in the Canterbury region and in April 2012 the acquisition of Medlab South was completed. In March 2013, Healthscope was awarded the contract for clinical pathology for Auckland specialists (previously held by Diagnostic Medlabs) to commence in October 2014. However, in October 2013, Healthscope acquired Diagnostic Medlabs, bringing forward the provision of this service by 12 months. In July 2013, Healthscope was granted an extension to the Auckland community pathology contract from 2017 to 2020. As at 19 May 2014, Healthscope operated 13 laboratories across New Zealand.

Healthscope provided testing services on over five million patient episodes in the 12 months ended 31 December 2013.

The New Zealand pathology business has made several operational improvements in recent years, including:

- optimising the collection centre network and laboratory footprint;
- leveraging group buying power to extract better reagent prices from suppliers; and
- improving laboratory workflow design and process.

[76] Management estimate.

3.4.2 Malaysia, Singapore and Vietnam

Healthscope, operating as Gribbles Pathology, is one of the largest community pathology providers in Malaysia, with 26 laboratories across the country. These laboratories serviced approximately 1.5 million patient episodes for the 12 months ended 31 December 2013. Revenue is sourced from General Practitioners, hospitals and government/corporate programs.

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 over 1.4 million patient episodes for the 12 months ended 31 December 2013. The Singaporean operations service General Practitioners, specialists and corporate screening. Healthscope has a significant share of the General Practitioner, specialist, hospital and corporate screening segments. Healthscope is the second largest provider of pathology services in a market where the top four private independent laboratories account for greater than 70% of the market[77].

In Vietnam, Healthscope manages one laboratory in a large 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.

3.4.3 International Pathology business division growth strategy

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 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.

[77] Market share statistics based on management estimates of revenue.

3.5 Australian Pathology division

Healthscope's Australian Pathology division generated revenue of approximately $360 million and Operating EBITDA of approximately $20 million for the year ended 30 June 2013 – representing approximately 16% of Healthscope's total revenues and 6% of Healthscope's Operating EBITDA for the period. This division consists of the Australian pathology business and medical centres business. As at 31 December 2013, the division employed approximately 3,400 people.

3.5.1 Australian pathology business description

Healthscope's Australian pathology business comprises a network of 578 collection centres and 69 accredited laboratories as at 19 May 2014. Healthscope performs pathology tests annually on approximately five million patient episodes from over 20,000 referring medical practitioners. Healthscope typically has a central laboratory in each State or Territory where it operates, with smaller satellite laboratories in some metro and regional areas and in hospitals where Healthscope provides the pathology services. Healthscope provides a comprehensive range of pathology services across all disciplines including anatomical pathology, biochemistry, haematology, microbiology and molecular pathology.

The Australian pathology business receives the majority of its revenue from Medicare. The fee paid by Medicare for pathology testing services is determined by the Federal Government's Medicare Benefits Schedule. Pathology operators also have the right to charge more than the amount reimbursable under Medicare, and in these instances the patient is required to pay the difference.

Healthscope entered the pathology industry in December 2004 following the acquisition of The Gribbles Group Ltd. Following the Federal Government's deregulation of collection centres in July 2010, Healthscope rapidly expanded its network of collection centres from approximately 320 centres prior to industry deregulation to over 600 in September 2011. This expansion caused a significant increase in the cost base of the Australian pathology business (primarily rent and labour costs), and together with structural changes in the industry, resulted in a decline in profitability.

The rapid roll out of collection centres was ceased shortly after the current management team commenced in November 2010 and the focus of this business shifted to improving profitability through a combination of:

- sale/closure of underperforming parts of the business;
- cost out initiatives; and
- focus on tracking site by site profitability of collection centres and exiting unprofitable sites.

The restructuring program over the last three years has included the divestment of certain operations. The Tasmanian pathology business was divested in 2011, the Western Australian pathology business in 2012 and ACT pathology business in 2013. In New South Wales, regional businesses have been sold or closed to focus on activity in the Sydney metropolitan, Central Coast and Newcastle areas, to allow efficient collection of samples and utilisation of infrastructure.

Following the restructure and divestments, Healthscope's Australian pathology business now comprises human pathology operations in Victoria, New South Wales, South Australia, Queensland and the Northern Territory, and veterinary pathology operations in Victoria and South Australia.

The business is now stabilised and has returned to profit growth in FY2014 YTD.

3.5.2 Medical centres business description

As at 19 May 2014, Healthscope owned and operated 46 medical centres and 11 specialist skin cancer clinics around Australia, providing serviced medical centres to approximately 420 General Practitioners. In the 12 months ended 31 December 2013, General Practitioners at Healthscope's medical centres performed over 2.1 million patient consultations.

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.

Healthscope also operates one specialist breast diagnostic clinic in Sydney.

In addition to generating revenues from service fees, the medical centres business also provides a potential source of referrals for Healthscope's Australian pathology business and Accredited Medical Practitioners that provide services at Healthscope's hospitals.

3.5.3 Australian Pathology division growth strategy

Healthscope continues to focus on improving the efficiency of its laboratory and collection centre network and organic growth in patient episodes. This includes:

- continuing to realise operating efficiencies by reconfiguring the existing staff mix in laboratories as a result of increased testing automation. Currently, only the core laboratory testing (in particular, chemistry and haematology) is highly automated. Recent advancements in equipment technology in traditionally manual disciplines such as microbiology and cytology are expected to enable improved cost efficiencies through improved labour management; and
- continuing to deliver and improve the high quality service offering to underpin episode growth.

Healthscope's medical centres business expects to gain additional efficiencies by increasing patient attendance at existing medical centres and transforming more medical centres into large, multidisciplinary medical centres either through expansion or merger of existing medical centres.

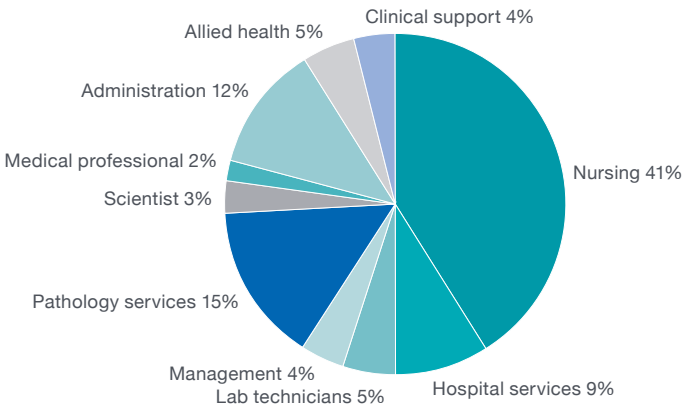
The medical centres business is also focused on continuing to strengthen links to the Hospitals division and Australian pathology business and exploring partnership opportunities with private health insurance funds.

3.6 Employees

3.6.1 Overview

As at 31 December 2013, Healthscope employed 19,894 employees (11,443 FTEs), 87% of whom are based in Australia. 6,794 are employed on a full-time basis, 7,736 on a part-time basis and 5,364 on a casual basis.

Figure 3.8
Employees by function



Source: Management, 31 December 2013.

3.6.2 Medical practitioners

Healthscope does not employ or remunerate the majority of its Accredited Medical Practitioners – rather they are accredited to provide services in Healthscope hospitals. Healthscope has over 17,000 Accredited Medical Practitioners.

Independent General Practitioners practicing at Healthscope's medical centres are also not employed or remunerated by Healthscope.

3.6.3 Nurses

Nurses are the largest segment of Healthscope's workforce. Healthscope employs 8,188 nurses in its hospitals as at 31 December 2013, representing 41% of Healthscope's total workforce and 59% of Healthscope's hospital workforce. Part-time and casual nurses account for 73% of the nursing workforce, which allows Healthscope to flex labour in response to volume and acuity fluctuations. The nursing workforce is relatively stable with a 7.7 year average length of service.

The nursing workforce is well trained with many options available to improve clinical skill levels through on-the-job and formal training. Healthscope also offers graduate nursing programs each year, assisting Healthscope by providing a stable supply of new nurses.

While the majority of nurses are locally employed, Healthscope supplements domestic recruitment in certain specialty areas with the recruitment of nurses from outside Australia. In recent years, Healthscope has provided visa sponsorship for approximately 300 overseas nurses annually.

3.6.4 Industrial relations

The majority of Healthscope's Australian employees have terms and conditions of employment governed by an Enterprise Agreement or Modern Award.

Modern Awards set the minimum employee entitlements for employees across an industry and apply to employers who are not bound by an Enterprise Agreement. Modern Awards cover approximately 9% of Healthscope's workforce, primarily employees in the New South Wales and Queensland pathology businesses and non-nursing employees nationally in Healthscope's medical centres business. Modern Awards prescribe base pay rates, allowances and conditions for employees in the national workplace relations system.

Enterprise Agreements are agreements between a company and its employees that set out the conditions of employment. Where an Enterprise Agreement is in place, it applies instead of a Modern Award and the pay rate in an Enterprise Agreement must not be less than the pay rate in the relevant Modern Award. Healthscope is a party to 29 Enterprise Agreements which collectively cover approximately 88% of its Australian workforce, including nurses, allied health professionals, pathology scientists, technicians, collectors and couriers in Victoria and South Australia. Apart from a national Medical Centre Nurses Agreement, agreements are typically specific to States, divisions and employment groups. Healthscope has a good history of effectively dealing with employees governed by Enterprise Agreements or Modern Awards and has constructive relationships with unions.

In New Zealand, Healthscope's employees are employed under either Collective Employment Agreements or Individual Employment Agreements. Similar to Australia, Healthscope has a good working relationship with the relevant unions in New Zealand.

The workforce in Malaysia and Singapore is not unionised and is employed under individual service agreements.

3.6.5 Employee turnover

Healthscope has a stable workforce. Voluntary employee turnover within Healthscope is low at 8% p.a. and has reduced across all divisions over the last three years. Hospitals employee turnover has reduced to 8% p.a. while Healthscope's Australian pathology and medical centres business' turnover has been reduced by 44% and 42% since December 2010 to 9% and 14% respectively in December 2013.

A key focus over the last three years has been on ensuring high quality and stable management teams at all of Healthscope's hospitals, as general managers play an important role in labour management and maintaining strong relationships with Accredited Medical Practitioners. As a result, stability in hospital management teams has increased significantly since November 2010 with only one hospital general manager leaving Healthscope in 2013.

3.7 Workplace health and safety

Healthscope places the highest priority on a workplace free of incidents and injury. Workplace health and safety ("WHS") for Healthscope's Australian operations is overseen centrally by the National WHS team, which reports regularly to the Executive Team. The National WHS Team works with health and safety staff in each Healthscope facility to achieve the set objectives. Healthscope has an extensive program of internal and external audits, and Healthscope's safety record compares favourably with industry benchmarks.

The primary measures for safety performance used by the WHS team include:

- lost time injury frequency rate ("LTIFR");
- claims for compensation (cost and frequency); and
- results of a range of internal auditing and practical inspections.

The LTIFR for the rolling 12 months ended 31 January 2014 is 3.34 injuries and has been trending down over recent years.

Healthscope's International Pathology businesses in New Zealand, Malaysia and Singapore are responsible for managing their own workplace health and safety locally.

3.8 Workers compensation

In Australia, Healthscope operates under the relevant State or Territory workers compensation schemes in all States and Territories, other than in the State of South Australia where it has been successfully self-insured.

A range of initiatives have been introduced to improve performance on workers compensation claims. These initiatives include:

- implementation of a focused return to work and injury management program;
- strategic partnering with key external stakeholders to achieve significant savings in premiums; and
- positioning the business for retro paid loss and future self-insurance across the business.

Following the implementation of these initiatives, average claims costs have been reducing, with premium savings of approximately $1.6 million on annual coverage renewals achieved in FY2013.

Healthscope's International Pathology businesses in New Zealand, Malaysia and Singapore are responsible for managing their own workers compensation in line with local requirements.

3.9 Risk and insurance

Healthscope seeks to minimise its exposure to operational, financial and reputational risk by managing risk through a coordinated, integrated and proactive approach to risk management consistent with ISO Standard 31000:2009 Risk Management – Principles and Guidelines.

Healthscope is insured against a range of events across its operations both by function and geography. Its comprehensive insurance program covers risks including workers compensation, business interruption, property damage, public liability and medical malpractice. Medical malpractice insurance provides protection for Healthscope's businesses and their clinical staff against liability for claims arising from medical malpractice which result in injury or loss to patients.

3.10 Information technology

Healthscope relies on a range of information technology ("IT") solutions to effectively carry out its operational and administrative functions. The IT systems play a critical role in enabling management to optimise the operation of its network of hospitals and clinics by centralising a large number of processes.

Healthscope's IT systems and IT strategy and planning are managed centrally with the group-wide function led by the Chief Information Officer and supported by 24.8 FTEs. Dedicated IT staff are also employed by each of the Hospitals, Australian Pathology and International Pathology divisions, who are responsible for managing IT functions specific to the divisions.

Healthscope has invested significant resources in its front line application software which is standardised across Healthscope's divisions to support operational requirements.

A portion of IT applications are developed in-house with the remaining provided by third parties. These applications are developed in order to specifically address various processes within Healthscope's supply chain, internal management and accounting networks. Healthscope has three separate business systems that interface with common corporate systems.

3.11 Hospitals regulatory information

3.11.1 Licensing and registration

The operation of private hospitals in Australia is highly regulated. Private hospitals are subject to State and Territory Government licensing legislation which requires private hospitals to be licensed or registered in their respective jurisdictions. While legislation varies across each jurisdiction, it requires private hospitals to comply with a minimum set of operational and quality conditions in order to operate as a healthcare facility. Common conditions include:

- restrictions on the types of services that may be provided;
- limits on the number of beds allowed;
- compliance with prescribed minimum standards in respect of staffing and safety;
- notification requirements in relation to proposed structural alterations;
- a requirement that the facility comply with certain operational standards including in relation to premises, equipment and insurance; and
- a requirement for an accreditation agency to be engaged to certify the facility.

Where a hospital provides mental health services, it must be specifically authorised to provide those services and comply with the relevant mental health legislation.

Licences and registration in Australia remain in force for a specified period until requiring renewal or are cancelled.

Healthscope has all necessary State and Territory health authority licences required to operate its hospitals.

3.11.2 Accreditation

Accreditation is an objective externally administered system for checking the quality of health services in Australia and facilitating continuous improvement in the health services industry.

The requirement that a facility be accredited is not uniform in each State and Territory, but some jurisdictions, such as New South Wales, have started to require accreditation in accordance with the NSQHS Standards (detailed below) as a licence condition. Furthermore, most private health insurance funds do not contract with private hospitals which are not accredited.

To achieve accreditation, a health services facility must satisfy the 10 NSQHS Standards developed by the Australian Commission on Safety and Quality in Health Care ("ACSQHC"). The application of the NSQHS Standards commenced on a national basis on 1 January 2013.

The NSQHS Standards provide a nationally consistent statement of the level of care that patients should be able to expect from health services. Each Standard comprises core and developmental actions. Core actions are critical for quality and clinical outcomes and must be met in order to achieve accreditation. Developmental actions provide goals for health services organisations in areas where quality and clinical outcomes might be improved, but do not need to be fully met in order to achieve accreditation.

The process of awarding accreditations and monitoring compliance with the NSQHS Standards is carried out by accrediting agencies approved by ACSQHC. Health services organisations are free to select their approved accrediting agency. The accreditation cycle ranges from three to four years, and the frequency and style of the mid cycle assessment, periodic review or surveillance audit may vary between agencies.

All of Healthscope's hospitals are accredited.

3.11.3 Development approval

In many States and Territories the governing legislation requires the proprietor of a hospital, depending on the scope of the proposed development, to apply to the relevant government planning department for approval to alter or extend hospital premises.

Once granted, approvals typically last for a period of two to four years (depending on the project) and can be extended for another two to four years.

Any alteration or extension which increases the number of beds provided by a facility or amends the nature of the treatment it provides generally requires approval and notification and in some cases a new hospital licence is required.

3.11.4 Private Health Insurance

Declared hospitals

Under the PHI Act, private health insurance funds may only offer Private Health Insurance for "hospital treatment" at a facility for which a Ministerial declaration is in force. Each declared hospital is given a provider number, which is used to bill private health insurance funds for services provided to their members.

All of Healthscope's hospitals are declared hospitals.

Hospital Provider Purchase Agreements

As described in Section 3.3.3 Healthscope enters into agreements with private health insurance funds under which the private health insurance fund agrees that, if and when a member of that insurer presents for treatment, Healthscope will provide services to the member to a specified standard, for a specified fee and the operator can bill the private health insurer for the service rather than billing the member.

If an agreement is not in place between a hospital and a private health insurer then "default benefits" set under the PHI Act are payable. The PHI Act provides two "tiers" of default benefits which private health insurers are required to pay if a member is treated in a private hospital with which the insurer does not have an agreement:

- basic default benefits, which are set on a per day basis under the *Private Health Insurance (Benefit Requirements) Rules 2010* (Cth), and are usually considerably less than the per day rates of most private hospitals, resulting in large patient co-payments; and
- second-tier default benefits, which are calculated at 85% of the average fee the insurer pays for an equivalent episode in private hospitals with which it has a contract, but which are only available to private hospitals approved to receive second-tier default benefits.

Under default benefits, the private hospital at its discretion is able to charge an additional out-of-pocket fee.

The basic default benefits apply unless the private hospital has been approved to receive second-tier default benefits. All of Healthscope's hospitals are eligible for second-tier benefits. Basic default benefits do not apply to any of Healthscope's hospitals as at Listing as the services provided in Healthscope's hospitals are either covered by an agreement with a private health insurance fund or other payor or are covered by the second-tier benefit regime.

3.11.5 Other

Healthscope is required to comply with other State and Territory legislation including in relation to distribution of pharmaceuticals, handling of drugs, poisons and other controlled substances and food safety.

3.12 Pathology regulatory information

3.12.1 Australia

Regulation of the pathology industry is governed by the *Health Insurance Act 1973* (Cth) ("HIA"). The HIA regulates (amongst other things) relationships between pathology referrers and pathology providers where pathology testing is funded by Medicare. Regulations govern:

- eligibility for licences to operate pathology laboratories and collection centres;
- standards of operation, equipment and personnel; and
- the requirement for independence of the pathology provider from the requesting doctor.

Under the HIA, pathology providers are not permitted to offer inducements "whether by way of money, property or other benefit or advantage in order to encourage a practitioner to request the rendering of a pathology service".

Healthscope is required to maintain National Association of Testing Authorities, Australia accreditation to operate its laboratories. Healthscope's collection centres operate under National Pathology Accreditation Advisory Council guidelines.

Medical centres in Australia are less regulated than private hospitals. Each discipline within a multi-disciplinary medical centre must comply with its respective regulations in relation to registration and conduct. There are also accreditation requirements for medical centres.

3.12.2 New Zealand

In New Zealand, all laboratories are required to be accredited by IANZ which is New Zealand's premier accreditation body. IANZ is part of the Testing Laboratory Registration Council, an autonomous Crown entity established in 1972. Healthscope has the necessary accreditation required to operate its pathology business in New Zealand.

3.12.3 Malaysia and Singapore

Healthscope's Malaysian pathology business has attained ISO15189 accreditation. Gribbles was the first major private laboratory to achieve a comprehensive scope of accreditation in the fields of chemical pathology, histopathology, cytopathology, haematology, microbiology and virology. Pathology businesses in Malaysia are not required to have any additional form of licence in order to operate.

All laboratories in Singapore require a licence to operate. The Singaporean Ministry of Health is the governing body that issues licences under the Private Hospitals and Medical Clinics Act 1980. In addition, it has attained ISO15189 accreditation and participates in a range of external quality control programs to maintain high service standards. All of Healthscope's pathology laboratories have been issued the required licenses to operate in Singapore.

4. Financial Information

4. Financial Information

4.1. Introduction

Background

On 12 October 2010, a consortium of funds advised and managed by TPG and The Carlyle Group acquired the Healthscope business.

Following the acquisition, an internal restructure was undertaken which reorganised the operations and entities of the Healthscope business into three separate divisions and legal entity structures:

- the Australian Hospitals division;
- the Australian Pathology division; and
- the International Pathology division.

The parent entity for each of these divisions following the acquisition is listed below in Table 4.1.

Table 4.1 Healthscope Divisions

	Australian Hospitals	Australian Pathology	International Pathology
Divisional Parent Entities	Healthscope Limited (formerly Healthscope Hospitals Holdings Pty. Ltd, ACN 144 840 639)	Healthscope Pathology Holdings Pty. Ltd (ACN 145 250 157)	CT HSP (Dutch) Coöperatief U.A. (registration no. 50839675)

Historical Reporting Structure

In 2010 and 2013, Healthscope issued publicly listed debt instruments on the ASX in the form of Healthscope Notes I and Healthscope Notes II. The issue of these debt instruments led to Healthscope being required to lodge annual and half yearly financial reports for Healthscope Notes Limited (the Healthscope Notes issuer) in accordance with ASX Listing Rules and the Corporations Act.

In addition, the ASX required Healthscope to prepare and lodge annual and half yearly financial reports for the "Healthscope Aggregated Group", which aggregates the financial performance, financial position and cash flows of Healthscope's three divisions, with the express exclusion of the Divisional Parent Entities (set out in Table 4.1) which are non-operating holding companies.

Table 4.2 below summarises the entities that form the Healthscope Aggregated Group. Each of these entities will remain part of the Healthscope Consolidated Group that will exist following the completion of the Offer.

Table 4.2 Healthscope Aggregated Group

	Australian Hospitals	Australian Pathology	International Pathology
Entities that form the Healthscope Aggregated Group	Healthscope Hospitals Holdings No. 2 Pty. Ltd. (ACN 145 126 094) and its controlled entities	Healthscope Pathology Holdings No. 2 Pty. Ltd. (ACN 146 342 832) and its controlled entities	CT HSP Holdings (Dutch) B.V. (registration no. 34308383) and its controlled entities

The difference between an "aggregation" and "consolidation"

The concept of "aggregation" differs to the concept of "consolidation" in that:

- an aggregation represents a combination of legal entities without a common parent entity but with common ownership; and
- a consolidation represents a combination of legal entities with a common parent entity.

In both circumstances, consistent accounting policies under Australian Accounting Standards are applied and all intercompany balances and transactions between entities and divisions, including unrealised profits and losses, are eliminated.

The Healthscope Aggregated Group reflects how the financial performance of the Healthscope business would be presented if Healthscope's three operating divisions had a single parent entity in Australia with financial reporting obligations under the Corporations Act.

Reporting Structure following Completion of the Offer

Prior to Completion of the Offer, Healthscope Limited will acquire all of the shares in each of Healthscope Pathology Holdings Pty Ltd and CT HSP (Dutch) Coöperatief U.A. (the "IPO Acquisitions").

As a result, following Completion of the Offer and the IPO Acquisitions, Healthscope will comprise:

- An ASX listed parent entity, Healthscope Limited (formerly Healthscope Hospitals Holdings Pty. Ltd); and:
  - Healthscope Pathology Holdings Pty. Ltd.;
  - CT HSP (Dutch) Coöperatief U.A.; and
  - the entities currently comprising the Healthscope Aggregated Group,

(together, the "Healthscope Consolidated Group").

A diagram of the Healthscope corporate structure following Completion of the Offer is in Section 9.3.

The impact of the IPO Acquisitions has been reflected in the presentation of the Pro Forma Financial Information (as defined below) as though the structure had been in place since 1 July 2010. The IPO Acquisitions have been treated as an internal restructure and as a result no fair value adjustments or goodwill have been recognised as part of the restructure. Assets and liabilities are consolidated at their existing carrying value with the difference between the consideration paid and carrying value of net assets recognised within equity as a "common control" reserve. Further details regarding the basis of preparation for the Pro Forma Financial Information are set out in Section 4.2.

While there is no requirement under Australian Accounting Standards to do so, if Healthscope were to adopt a fair value approach in accounting for the internal restructure and presenting the Statement of Financial Position at 31 December 2013 it would require an assessment of the fair values of assets and liabilities at that date. This assessment will likely result in different values being ascribed to tangible assets such as Property Plant and Equipment and to intangible assets (including Goodwill) with the likely effect of increasing these values. The assessment may also result in the recognition of other assets and liabilities. The increase in values and recognition of other assets and liabilities may impact earnings in future years, particularly through higher depreciation and amortisation charges. The amounts currently recognised within the "common control" reserve of $311.2 million would also be reversed as part of the adjustment to goodwill. This alternative approach is not reflected within the Pro forma Financial Information as it would not be consistent with the accounting policy of Healthscope that has been previously adopted in accounting for internal restructures.

The Directors note that the accounting for transactions such as the internal restructure referred to above and contemplated in connection with the Offer is currently being reviewed by the international accounting standard setters and may be subject to change.

Overview of financial information

The financial information for Healthscope contained in this Section 4 includes:

- Historical reported financial information for the Healthscope Aggregated Group, being the:
  - historical statement of profit or loss for FY2011, which reflects the financial performance of the Healthscope business for the 8.5 month period from 12 October 2010 (the date of the 2010 Acquisition) to 30 June 2011, and for FY2012, FY2013, H1FY2013 and H1FY2014 (together, the "Historical Results");
  - historical statement of cash flows for FY2011, which reflects the cash flows of the Healthscope business for the 8.5 month period from 12 October 2010 (the date of the 2010 Acquisition) to 30 June 2011, and for FY2012, FY2013, H1FY2013 and H1FY2014 (together, the "Historical Cash Flows"); and
  - historical statement of financial position as at 31 December 2013, (the "Historical Financial Position");

(together, the "Historical Financial Information");

- Pro forma historical financial information for the Healthscope Consolidated Group, being the:
  - pro forma historical statements of profit or loss for FY2011, FY2012, FY2013, H1FY2013 and H1FY2014 (the "Pro Forma Historical Results");
  - pro forma historical statements of cash flows for FY2011, FY2012, FY2013, H1FY2013 and H1FY2014 (the "Pro Forma Historical Cash Flows"); and
  - pro forma historical statement of financial position as at 31 December 2013 (the "Pro Forma Historical Financial Position");

(together, the "Pro Forma Historical Financial Information"); and

- Pro forma forecast financial information for the Healthscope Consolidated Group being the:
  - pro forma forecast statements of profit or loss for FY2014 and FY2015 (the "Pro Forma Forecast Results"); and
  - pro forma forecast statements of cash flows for FY2014 and FY2015 (the "Pro Forma Forecast Cash Flows");

(together the "Pro Forma Forecast Financial Information").

- Statutory forecast financial information, assuming an Offer completion date of 1 August 2014, being the:
  - statutory forecast statement of profit or loss and statement of cash flows for FY2014 for the Healthscope Aggregated Group; and
  - statutory forecast statement of profit or loss and statement of cash flows for FY2015 for the Healthscope Consolidated Group;

(together the "Statutory Forecast Financial Information").

The statutory forecast statement of profit or loss for the Healthscope Aggregated Group for FY2014 and the statutory forecast statement of profit or loss for the Healthscope Consolidated Group for FY2015 together form the "Statutory Forecast Results".

The statutory forecast statement of cash flows for the Healthscope Aggregated Group for FY2014 and the statutory forecast statement of cash flows for the Healthscope Consolidated Group for FY2015 together form the "Statutory Forecast Cash Flows".

The Statutory Forecast Financial Information and Pro forma Forecast Financial Information together form the "Forecast Financial Information".

In this Section 4, "Healthscope" refers to:

- the "Healthscope Aggregated Group" for the Historical Financial Information related to FY2011, FY2012, FY2013, H1FY2013 and H1FY2014 and the Statutory Forecast Financial Information for FY2014; and
- the "Healthscope Consolidated Group" for the Pro Forma Historical Financial Information and for the Pro Forma Forecast Financial Information for FY2014 and FY2015 and the Statutory Forecast Financial Information for FY2015.

The Historical Financial Information, the Pro Forma Historical Financial Information and the Forecast Financial Information together form the "Financial Information". The information in this Section 4 should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

All amounts disclosed in the tables in this Section 4 are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest hundred thousand.

4.2. Basis of preparation and presentation of the Financial Information

Overview

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards (including the Australian Accounting Interpretations) ("AAS"), issued by the Australian Accounting Standards Board ("AASB"), which are consistent with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB"). The Financial Information is presented in an abbreviated form and does not include all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to general purpose financial reports prepared in accordance with the Corporations Act.

Accounting policies have been consistently applied for Healthscope throughout the periods presented and are set out in the Significant Accounting Policies section.

Healthscope has three reporting segments under AASB 8 Operating Segments, which are Hospitals, International Pathology and Australian Pathology.

Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been prepared solely for inclusion in this Prospectus.

The Pro Forma Historical Financial Information has been derived from:

- the audited general purpose financial statements of the Healthscope Aggregated Group for FY2011, which incorporate the operating results of the Healthscope business for the 8.5 month period from 12 October 2010 (the date of the 2010 Acquisition) to 30 June 2011;

- the audited general purpose financial statements of the Healthscope Aggregated Group for FY2012 and FY2013; and
- the reviewed condensed financial statements of the Healthscope Aggregated Group for H1FY2013 and H1FY2014;

in each case adjusted for certain pro forma transactions and other adjustments.

The audited general purpose historical financial statements of Healthscope for FY2011, FY2012 and FY2013 have been audited by Deloitte Touche Tohmatsu ("Deloitte"). Deloitte issued an unqualified opinion in respect to each period.

The reviewed historical condensed financial statements of Healthscope for H1FY2013 and H1FY2014 have been reviewed by Deloitte, who issued an unqualified review conclusion in respect to each period.

Pro forma adjustments have been made to the Historical Financial Information to:

- incorporate the financial information of the Divisional Parent Entitles (set out in Table 4.1), to align the Historical Financial Information with the legal entity structure that will exist following completion of the offer being:
  - Healthscope Limited (formerly Healthscope Hospitals Holdings Pty. Ltd);
  - Healthscope Pathology Holdings Pty. Ltd; and
  - CT HSP (Dutch) Coöperatief U.A.

  As explained in Section 4.1, these entities did not form part of the Healthscope Aggregated Group, which was the historic reporting structure of the Healthscope business for FY2011, FY2012, FY2013, H1FY2013 and H1FY2014;
- incorporate the operating results of the Healthscope business for the 3.5 month period from 1 July 2010 to 11 October 2010 (the date immediately prior to the 2010 Acquisition), as derived from unaudited management accounts of the Healthscope Aggregated Group, to reflect a full 12 month operating result for FY2011;
- eliminate certain significant items (including impairment losses, profit on sale of operations, transaction costs related to the 2010 Acquisition and the costs of the subsequent restructuring of the business into three divisions as specified in Section 4.1);
- reflect public company costs expected to arise following completion of the Offer (including changes to executive remuneration);
- give effect to the new capital and debt structure being put in place in connection with the Offer; and
- give effect to an effective tax rate of 29.8% which is reflective of the anticipated tax rate following Completion of the Offer.

A detailed description of the pro forma adjustments that have been made to the Historical Financial Information is provided as follows:

- Table 4.8 to Table 4.11 in Section 4.4 provide a reconciliation of the historical statements of profit or loss of the Healthscope Aggregated Group for FY2011, FY2012 and FY2013 to the pro forma historical statements of profit or loss of the Healthscope Consolidated Group for FY2011, FY2012 and FY2013;
- Table 4.22 to Table 4.25 in Section 4.8.5 provide a reconciliation of the half year historical statements of profit or loss of the Healthscope Aggregated Group for H1FY2013 and H1FY2014 to the half year pro forma historical statements of profit or loss of the Healthscope Consolidated Group for H1FY2013 and H1FY2014;
- Table 4.17 in Section 4.7.1 provides a reconciliation of the historical statements of cash flows of the Healthscope Aggregated Group for FY2011, FY2012 and FY2013 to the pro forma historical statements of cash flows of the Healthscope Consolidated Group for FY2011, FY2012 and for FY2013;
- Table 4.30 in Section 4.8.9.1 provides a reconciliation of the historical statements of cash flows of the Healthscope Aggregated Group for H1FY2013 and H1FY2014 to the pro forma historical statements of cash flows of the Healthscope Consolidated Group for H1FY2013 and H1FY2014; and
- Table 4.14 in Section 4.6.1 provides a reconciliation of the historical statement of financial position of the Healthscope Aggregated Group as at 31 December 2013 to the pro forma historical statement of financial position of the Healthscope Consolidated Group as at 31 December 2013.

The Pro Forma Historical Financial Information presented in this Prospectus has been reviewed by Deloitte Corporate Finance but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report on the Pro Forma Historical Financial Information set out in Section 8.

Investors should note that past results are not a guarantee of future performance.

Preparation of Forecast Financial Information

The Forecast Financial Information has been prepared solely for inclusion in this Prospectus. The Directors have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus.

The Forecast Financial Information has been prepared on the basis of numerous assumptions, including the general assumptions, specific assumptions and the Directors' best estimate assumptions set out in Sections 4.9.1, 4.9.2 and 4.9.3. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on Healthscope's actual financial performance or financial position.

Investors are advised to review the general assumptions, specific assumptions and the Directors' best estimate assumptions set out in Sections 4.9.1, 4.9.2 and 4.9.3, in conjunction with the significant accounting policies set out in the Significant Accounting Policies section, the sensitivity analysis set out in Section 4.10, the risk factors set out in Section 5 and other information set out in this Prospectus.

The forecast statements of profit or loss for FY2014 and FY2015 have been presented on both a statutory and a pro forma basis.

- The statutory forecast statement of profit or loss for FY2014 reflects the financial performance that the Directors expect to report in the Healthscope Aggregated Group's financial statements for FY2014, based on actual results of the Healthscope business for the 10 month period to 30 April 2014 and forecast results for the remaining two months to 30 June 2014.

  The statutory forecast for FY2014 assumes Completion of the Offer will occur on 1 August 2014, hence the forecasts reflect the historical capital structure of Healthscope prior to Completion of the Offer. As a result the statutory forecast net finance costs for FY2014 are significantly higher compared to the statutory forecast net finance costs for FY2015.

- The statutory forecast statement of profit or loss for FY2015 reflects the financial performance that the Directors expect to report in the Healthscope Consolidated Group's financial statements for FY2015.

  The statutory forecast for FY2015 assumes Completion of the Offer will occur on 1 August 2014, hence it reflects only a part year effect of the capital structure that will be in place following Completion of the Offer.

- The pro forma forecast statements of profit or loss for FY2014 and FY2015 reflect the Healthscope Consolidated Group and are derived from the statutory forecast statements of profit or loss adjusted to reflect:
  - the full year effect of the capital structure that will be in place following Completion of the Offer;
  - the impact of incremental corporate costs; and
  - the exclusion of the one-off costs of the Offer and certain significant items.

Tables 4.8 to Table 4.11 in Section 4.4 provide a reconciliation between the statutory forecast statements of profit or loss for FY2014 and FY2015 and the pro forma forecast statements of profit or loss for FY2014 and FY2015. Similarly, Table 4.17 in Section 4.7.1, provides a reconciliation between the statutory forecast statement of cash flows for FY2014 and FY2015 and the pro forma statement of cash flows for FY2014 and FY2015.

The basis of preparation and presentation of the Pro Forma Forecast Financial Information is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information.

The Forecast Financial Information presented in this Prospectus has been reviewed by Deloitte Corporate Finance but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report on the Forecast Financial Information (refer to Section 8).

The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

4.3. Explanation of certain non-IFRS and other financial measures

Healthscope uses certain measures to manage and report on its business that are not recognised under AAS. These measures are referred to as "non-IFRS financial measures". Non-IFRS financial measures are intended to supplement the measures calculated in accordance with AAS and not as a substitute for those measures. Because non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that Healthscope calculates them may be different to the way that other companies calculate similarly-titled measures.

The principal non-IFRS financial measures used in this Prospectus are described below, together with certain other measures that management uses to assess the business and to communicate with investors regarding its performance and financial condition.

EBITDA, EBITDA Margin, EBIT, and EBIT Margin

- *EBITDA* – this represents earnings before interest, taxation, depreciation and amortisation for the Healthscope Consolidated Group (and is consistent with the description of EBITDA for the Healthscope Aggregated Group).

  Because it eliminates the non-cash charges for depreciation and amortisation, EBITDA is useful to help understand the cash generation potential of the business. However, it should not be considered as an alternative to cash flow from operations because it does not reflect actual cash movements or movements in Healthscope's Working Capital (as defined below).

  Management uses EBITDA to evaluate the operating performance of the business without the non-cash impact of depreciation and amortisation and before interest and tax charges, which are significantly affected by the capital structure and historical tax position of Healthscope, respectively.

- *EBITDA Margin* – this represents EBITDA divided by Revenue for the Healthscope Consolidated Group and expressed as a percentage. EBITDA Margin is a key measure that management uses to evaluate the profitability of the overall business, its business segments and individual contracts.

- *EBIT* – this represents earnings before interest and taxation for the Healthscope Consolidated Group.

  EBIT eliminates the influence of Healthscope's capital structure and historical tax position when assessing profitability, thus making it easier to perform cross-company comparisons with respect to profitability.

- *EBIT Margin* – this represents EBIT divided by Revenue for the Healthscope Consolidated Group. EBIT Margin is a key measure that management uses to evaluate the profitability of the overall business.

Operating EBITDA and Operating EBIT

In the segment disclosures in this Prospectus, along with the IFRS measure of Segment Contribution, Healthscope uses two non-IFRS measures of segment performance in order to assist readers to understand the relative profitability of its business segments. The following measures enable readers to analyse segment results with and without corporate overheads. Corporate overheads include costs associated with executives, legal, finance, information services, risk management, human resources, occupational health and safety, board fees and other public company costs incurred by Healthscope that are not directly attributable to the businesses within the reporting segments.

- *Operating EBITDA* – this represents the pro forma profit earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense, depreciation, amortisation and significant items.

- *Operating EBIT* – this represents the pro forma profit earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense and significant items.

Working Capital

Healthscope defines Working Capital as the total of current trade and other receivables, inventory and prepayments less the total of trade and other payables, current provisions and other current creditors.

Capital Expenditure

Capital Expenditure relates to technology, new equipment, brownfield developments and maintenance to keep all facilities and equipment at the required standard to maintain the existing operations and earnings of Healthscope.

Operating Cash Flow Conversion

Operating Cash Flow Conversion represents net cash flow from operations divided by EBITDA, expressed as a percentage. Net cash flow from operations represents net cash provided by operating activities before interest received, interest and finance costs paid, income tax and significant items. As a result, it is a measure of the operating cash flow generated by the business before Capital Expenditure. It is important to note that Operating Cash Flows do not take into account the requirements of the business for cash to fund financing costs such as interest expenses, bank fees, debt repayment and tax payments.

Management uses Operating Cash Flow Conversion to measure the efficiency of the Healthscope business in converting EBITDA into operating cash flows. It also allows management to monitor positive and negative trends in Working Capital assets and liabilities.

4.4. Pro forma historical and forecast statements of profit or loss

Table 4.3 below sets out the Pro Forma Historical Results for FY2011, FY2012 and FY2013, and the Pro Forma Forecast Results for FY2014 and FY2015.

Table 4.3 Pro forma historical statements of profit or loss for FY2011 to FY2013 and pro forma forecast statements of profit or loss for FY2014 and FY2015

		Pro forma historical			Pro forma forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015[8]**
Revenue		**2,000.2**	**2,115.8**	**2,211.3**	**2,314.6**	**2,448.4**
Share of profits of associates and joint ventures		3.0	2.6	2.0	2.4	2.4
Employee benefits expense	1	(934.8)	(981.6)	(1,031.5)	(1,067.4)	(1,126.4)
Medical and consumable supplies	2	(284.7)	(300.5)	(304.7)	(310.5)	(322.0)
Prosthetics expenses	3	(214.2)	(223.8)	(236.6)	(250.8)	(261.8)
Occupancy costs	4	(93.8)	(105.7)	(114.2)	(116.4)	(126.0)
Service costs	5	(197.2)	(206.7)	(201.1)	(217.7)	(227.3)
EBITDA		**278.5**	**300.1**	**325.2**	**354.2**	**387.3**
Depreciation and amortisation		(77.9)	(84.7)	(92.0)	(97.3)	(102.6)
EBIT		**200.6**	**215.4**	**233.2**	**256.9**	**284.7**
Net finance costs	6	(49.7)	(48.5)	(48.7)	(48.0)	(48.1)
Profit Before Tax		**150.9**	**166.9**	**184.5**	**208.9**	**236.6**
Tax expense	7	(45.0)	(49.7)	(55.0)	(62.3)	(70.5)
NPAT		**105.9**	**117.2**	**129.5**	**146.6**	**166.1**

Notes:

1. Employee benefits expense represents all remuneration benefits paid and payable to employees of Healthscope and includes the pro forma adjustment for executive remuneration and director fees that will arise following completion of the offer. Such remuneration costs include but are not limited to wages and salaries, allowances, leave benefits, post-employment costs and employee equity option plans.
2. Medical and consumable supplies represents the cost of surgical and non-surgical products consumed in the provision of operative and post-operative healthcare as well as diagnostic services, but excludes prosthetic expenses.
3. Prosthetics expenses represents the cost of acquiring prosthetic devices that are consumed in surgical procedures.
4. Occupancy expenses represents those costs incurred in residing in freehold and leasehold premises. Such costs include but are not limited to property taxes and levies, council rates, rents, utility costs and insurances.
5. Service costs represents all other costs incurred in the delivery of healthcare services not identified above. Such costs include but are not limited to agency nursing, consultants and contractors, insurances, travel, pathology courier costs, maintenance and administrative costs. Service costs also includes the pro forma adjustment for all incremental corporate costs other than those classified as employee benefit expenses.
6. The interest expense has been adjusted to reflect the anticipated debt profile, interest rates and borrowing costs applicable under the New Banking Facilities following the Offer. The adjustment reflects a draw-down of $995 million and an effective interest rate of 4.1%. In addition, an adjustment has been made to remove the impact of the write-off of unamortised borrowing costs relating to the historical debt structure as reflected in the statutory forecast for FY2015 (see Table 4.5).
7. The income tax expense has been adjusted to an effective tax rate of 29.8%, which is reflective of the anticipated tax rate following Completion of the Offer.
8. Healthscope has entered into a conditional agreement to sell Brisbane Waters Private Hospital. This hospital is not material to the Healthscope group and has forecast FY2015 turnover of $16.3 million including in the FY2015 pro forma forecast and FY2015 Statutory Forecast financial information. Healthscope is scheduled to acquire Frankston Private Day Surgery and Peninsula Oncology Centre on 1 July 2014. Frankston Private Day Surgery and Peninsula Oncology Centre are not material to the Healthscope Group. The businesses together have forecast FY2015 turnover of $4.9 million.

Set out in Table 4.4 is a summary of Healthscope's key historical operating metrics for FY2011, FY2012 and FY2013 derived from the Pro Forma Historical Results, and the forecast key operating metrics for FY2014 and FY2015 derived from the Pro Forma Forecast Results. Refer to Section 4.3 for more detail on the metrics shown.

Table 4.4 Key pro forma historical financial metrics for FY2011 to FY2013 and pro forma forecast financial metrics for FY2014 and FY2015

		Pro forma historical			Pro forma forecast	
June year end	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Group						
Revenue growth			5.8%	4.5%	4.7%	5.8%
EBITDA growth			7.8%	8.4%	8.9%	9.3%
EBITDA Margin		13.9%	14.2%	14.7%	15.3%	15.8%
EBIT growth			7.4%	8.3%	10.2%	10.8%
EBIT Margin		10.0%	10.2%	10.5%	11.1%	11.6%
Operating Cash Flow Conversion	1	101.0%	99.7%	95.0%	100.0%	97.1%
Segments						
Operating EBITDA Margin						
Hospitals		15.0%	15.9%	16.6%	17.0%	17.6%
International Pathology		22.2%	23.2%	23.3%	23.6%	24.0%
Australian Pathology		9.6%	6.4%	5.5%	7.3%	7.2%
Operating EBIT Margin						
Hospitals		11.8%	13.0%	13.4%	13.6%	14.0%
International Pathology		14.4%	14.7%	16.0%	17.9%	18.4%
Australian Pathology		4.5%	1.2%	0.2%	1.9%	2.4%

Note:

1. Operating Cash Flow Conversion represents net cash flow from operations (net cash provided by operating activities before interest received, interest and finance costs paid, income tax and significant items) divided by pro forma EBITDA, as set out in Table 4.16. Refer to Section 4.7.

Table 4.5 below sets out the Historical Results for FY2011, FY2012 and FY2013. As the acquisition of the Healthscope business was completed on 12 October 2010, the audited Historical Results for FY2011 reflect an 8.5 month period. For comparability, an unaudited 12 month period is also presented for FY2011.

Table 4.5 Summary historical statements of profit or loss for FY2011 to FY2013 and statutory forecast statements of profit or loss for FY2014 and FY2015

				Historical		Statutory forecast	
June year end, $ million	**FY2011 (3.5 months) Unaudited**	**FY2011 (8.5 months) Audited**	**FY2011 (12 months) Unaudited**	**FY2012 Audited**	**FY2013 Audited**	**FY2014 Unaudited**	**FY2015 Unaudited**
Revenue	**570.9**	**1,429.3**	**2,000.2**	**2,115.8**	**2,211.3**	**2,314.6**	**2,448.4**
Share of profits of associates and joint ventures	0.7	2.3	3.0	2.6	2.0	2.4	2.4
Employee benefits expense	(266.3)	(666.0)	(932.3)	(979.1)	(1,029.0)	(1,064.9)	(1,126.4)
Medical and consumable supplies	(82.8)	(201.9)	(284.7)	(300.5)	(304.7)	(310.5)	(322.0)
Prosthetics expenses	(61.4)	(152.8)	(214.2)	(223.8)	(236.6)	(250.8)	(261.8)
Occupancy costs	(25.4)	(68.4)	(93.8)	(105.7)	(114.2)	(116.4)	(126.0)
Service costs	(56.2)	(140.6)	(196.8)	(206.3)	(200.7)	(217.3)	(227.3)
Significant items (Table 4.7)	(34.8)	(116.3)	(151.1)	(10.6)	(165.6)	(61.5)	–
EBITDA	**44.7**	**85.6**	**130.3**	**292.4**	**162.5**	**295.6**	**387.3**
Depreciation and amortisation	(23.8)	(54.1)	(77.9)	(84.7)	(92.0)	(97.3)	(102.6)
EBIT	**20.9**	**31.5**	**52.4**	**207.7**	**70.5**	**198.3**	**284.7**
Net finance costs	(18.8)	(130.6)	(149.4)	(185.6)	(185.2)	(404.9)	(75.0)
Profit Before Tax	**2.1**	**(99.1)**	**(97.0)**	**22.1**	**(114.7)**	**(206.6)**	**209.7**
Tax benefit/ (expense)	(0.4)	35.3	34.9	(6.6)	(2.4)	61.5	(62.5)
NPAT	**1.7**	**(63.8)**	**(62.1)**	**15.5**	**(117.1)**	**(145.1)**	**147.2**

Set out in Table 4.6 is a summary of Healthscope's historical key operating metrics for FY2011, FY2012 and FY2013 as well as forecast key operating metrics for FY2014 and FY2015 derived from the Statutory Forecast Results.

Table 4.6 Key historical financial metrics statutory forecast financial metrics for FY2014 to FY2015

		Historical			Statutory forecast	
June year end	**Note**	**FY2011[2]**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Group						
Revenue growth			5.8%	4.5%	4.7%	5.8%
EBITDA growth	1		124.4%	(44.4%)	81.9%	31.0%
EBITDA Margin	1	6.5%	13.8%	7.3%	12.8%	15.8%
EBIT growth	1		296.4%	(66.1%)	181.3%	43.6%
EBIT Margin	1	2.6%	9.8%	3.2%	8.6%	11.6%
Operating Cash Flow Conversion	3	100.8%	99.4%	94.8%	98.9%	97.1%
Segments						
Operating EBITDA Margin						
Hospitals		15.0%	15.9%	16.6%	17.0%	17.6%
International Pathology		22.2%	23.2%	23.3%	23.6%	24.0%
Australian Pathology		9.6%	6.4%	5.5%	7.3%	7.2%
Operating EBIT Margin						
Hospitals		11.8%	13.0%	13.4%	13.6%	14.0%
International Pathology		14.4%	14.7%	16.0%	17.9%	18.4%
Australian Pathology		4.5%	1.2%	0.2%	1.9%	2.4%

Notes:

1. These historical ratios are based on the historical results for the Healthscope Aggregated Group for the respective financial years. The variability in the ratios is principally driven by the Significant items (as set out in Table 4.7) being included within the historical results. These Significant items relate to non-operational income and expense items.
2. FY2011 results include the 3.5 months operating results of the Healthscope business from 1 July 2010 to 11 October 2010, as derived from unaudited management accounts, and the operating results of the Healthscope Aggregated Group for the 8.5 months period from 12 October 2010 to 30 June 2011, as derived from the audited general purpose financial statements.
3. Operating Cash Flow Conversion represents net cash flows from operations (net cash provided by operating activities before interest received, interest and finance costs paid, income tax and significant items) divided by EBITDA (before Significant items).

Significant items

Significant items have been removed from pro forma EBITDA as a pro forma adjustment. Significant Items relate to non-operational income and expense items including impairment losses, profit on sale of operations, transaction costs related to the acquisition of the Healthscope business and subsequent costs of restructuring the business.

Significant items were presented as "other income and expense items" in the financial statements of the Healthscope Aggregated Group for FY2011, FY2012 and FY2013.

Table 4.7 provides a detailed summary of the Significant items presented within the Historical Results for FY2011, FY2012 and FY2013 and within the Statutory Forecast Results for FY2014 and FY2015.

Table 4.7 Significant items

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011 (12 months) Unaudited**	**FY2012 (12 months) Audited**	**FY2013 (12 months) Audited**	**FY2014 (12 months) Forecast**	**FY2015 (12 months) Forecast**
Restructure and other costs	1	(36.1)	(8.8)	(12.4)	(33.0)	–
Acquisition costs	2	(115.0)	(1.8)	–	(1.2)	–
Profit on sale of operations	3	–	–	4.6	–	–
Impairment of goodwill	4	–	–	(120.0)	–	–
Onerous lease and related costs	5	–	–	(37.8)	2.5	–
Tender costs	6	–	–	–	(6.0)	–
Impairment of assets	7	–	–	–	(3.9)	–
Costs of the Offer	8	-	–	–	(19.9)	–
Significant items (before tax)		**(151.1)**	**(10.6)**	**(165.6)**	**(61.5)**	**–**

Notes:

1. In respect of the historical years for FY2011, FY2012 and FY2013 and the Statutory Forecast for FY2014, restructure and other costs relate primarily to the restructure of Healthscope following the 2010 Acquisition, management fees paid to the funds managed and advised by TPG and The Carlyle Group (these fees are not considered an operating expense of the business) and other one-off litigation costs that were outside the ordinary course of business.

   For FY2014, restructure and other costs also relates to the settlement of the existing management and executive incentive plan on Completion of the Offer. Additional amounts may become payable depending on the final Offer size.
2. The acquisition costs in FY2011 mostly relate to the acquisition of the Healthscope business, and largely comprise adviser and other associated costs. The acquisition costs in FY2012 relate to business combinations undertaken during this period, and largely comprise adviser and other associated costs.
3. Profit on disposal relates to the disposal of certain pathology and imaging businesses.
4. Impairment of goodwill relates to the Australian pathology operations.
5. Due to the pending re-location to the Gold Coast Private Hospital, Healthscope recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The restructuring of the pathology division also gave rise to additional onerous contracts resulting from excess capacity.
6. Tender costs relates to the costs incurred and forecast to be incurred in respect of a significant development opportunity.
7. Impairment of assets relates to an adjustment to the carrying value of the Brisbane Waters Private Hospital.
8. Costs expensed by Healthscope, relating to the initial public offering process.

Pro forma adjustments to the Historical Results and Statutory Forecasts

Table 4.8 to Table 4.11 sets out a reconciliation of EBITDA, EBIT, Profit before tax and NPAT from the Historical Results for FY2011, FY2012 and FY2013 and the Statutory Forecast Results for FY2014 and FY2015 to the Pro Forma Historical Results and Pro Forma Forecast Results for these periods.

Table 4.8 Pro forma adjustments to historical EBITDA for FY2011 to FY2013 and pro forma adjustments to the statutory forecast EBITDA for FY2014 and FY2015

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
EBITDA		**85.6**	**292.4**	**162.5**	**295.6**	**387.3**
Pro forma adjustments						
EBITDA for the 3.5 month period prior to the 2010 Acquisition	1	44.7	–	–	–	–
		130.3	**292.4**	**162.5**	**295.6**	**387.3**
Consolidate Divisional Parent Entities	2	–	–	–	–	–
Add back: Significant items	3	151.1	10.6	165.6	61.5	–
Less: Incremental corporate costs	4	(2.9)	(2.9)	(2.9)	(2.9)	–
Pro forma EBITDA		**278.5**	**300.1**	**325.2**	**354.2**	**387.3**

Notes:

1. EBITDA of the Healthscope business for the 3.5 month period prior to the 2010 Acquisition. Refer to Table 4.5.
2. EBITDA of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer. There was no EBITDA recorded for the Divisional Parent Entities.
3. Significant items are presented in Table 4.7.
4. Incremental corporate costs includes costs associated with Directors' fees, ASX listing costs, other compliance costs and impact of new share based payments scheme to be implemented following Completion of the Offer.

Table 4.9 Pro forma adjustments to historical EBIT for FY2011 to FY2013 and pro forma adjustments to the statutory forecast EBIT for FY2014 and FY2015

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
EBIT		**31.5**	**207.7**	**70.5**	**198.3**	**284.7**
Pro forma adjustments						
EBIT for the 3.5 month period prior to the 2010 Acquisition	1	20.9	–	–	–	–
		52.4	**207.7**	**70.5**	**198.3**	**284.7**
Consolidate Divisional Parent Entities	2	–	–	–	–	–
Add back: Significant items		151.1	10.6	165.6	61.5	–
Less: Incremental corporate costs		(2.9)	(2.9)	(2.9)	(2.9)	–
Depreciation and amortisation	3	–	–	–	–	–
Pro forma EBIT		**200.6**	**215.4**	**233.2**	**256.9**	**284.7**

Notes:

1. EBIT of the Healthscope business for the 3.5 month period prior to the 2010 Acquisition. Refer to Table 4.5.
2. EBIT of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer. There was no EBIT recorded for the Divisional Parent Entities.
3. Completion of the Offer is not expected to impact depreciation and amortisation.

Table 4.10 Pro forma adjustments to historical profit before tax for FY2011 to FY2013 and pro forma adjustments to the statutory forecast profit before tax for FY2014 and FY2015

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Profit before tax		**(99.1)**	**22.1**	**(114.7)**	**(206.6)**	**209.7**
Pro forma adjustments						
Profit before tax for the 3.5 month period prior to the 2010 Acquisition	1	2.1	–	–	–	–
		(97.0)	**22.1**	**(114.7)**	**(206.6)**	**209.7**
Consolidate Divisional Parent Entities	2	(58.5)	(90.4)	(102.3)	(115.5)	(10.0)
Add back: Significant items		151.1	10.6	165.6	61.5	–
Less: Incremental corporate costs		(2.9)	(2.9)	(2.9)	(2.9)	–
Depreciation and amortisation		–	–	–	–	–
Net interest expense adjustment	3	158.2	227.5	238.8	472.4	36.9
Pro forma profit before tax		**150.9**	**166.9**	**184.5**	**208.9**	**236.6**

Notes:

1. Profit before tax of the Healthscope business for the 3.5 month period prior to the 2010 Acquisition. Refer to Table 4.5.
2. Profit before tax of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer (inclusive of interest expense). The Divisional Parent Entities' loss before tax relates to interest costs associated with shareholder and related party loans. The shareholder and related party loans will be repaid following Completion of the Offer.
3. The interest expense of the Healthscope Aggregated Group, combined with the Divisional Parent Entities, has been adjusted to reflect the anticipated debt profile, interest rates and borrowing costs applicable under the New Banking Facilities following the Offer. This includes the removal of the existing amortisation and write-off of borrowing costs associated with the historical debt facilities. Lower debt levels under the New Banking Facilities following Completion of the Offer are the primary driver of the adjustment, with FY2015 statutory information including a one month impact of the historical debt facilities.

   The FY2014 statutory net finance costs include one off items arising as a resut of the initial public offering process, including costs associated with settlement of the shareholder loans, Healthscope Notes and interest rate swaps.

Table 4.11 Pro forma adjustments to historical NPAT for FY2011 to FY2013 and pro forma adjustments to the statutory forecast NPAT for FY2014 and FY2015

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
NPAT		**(63.8)**	**15.5**	**(117.1)**	**(145.1)**	**147.2**
Pro forma adjustments						
NPAT for the 3.5 month period prior to the 2010 Acquisition	1	1.7	–	–	–	–
		(62.1)	**15.5**	**(117.1)**	**(145.1)**	**147.2**
Consolidate Divisional Parent Entities	2	(40.9)	(48.5)	(84.7)	(80.9)	(7.0)
Add back: Significant items		151.1	10.6	165.6	61.5	–
Less: Incremental corporate costs		(2.9)	(2.9)	(2.9)	(2.9)	–
Depreciation and amortisation		–	–	–	–	–
Net interest expense adjustment	3	158.2	227.5	238.8	472.4	36.9
Income tax expense adjustments	4	(97.5)	(85.0)	(70.2)	(158.4)	(11.0)
Pro Forma NPAT		**105.9**	**117.2**	**129.5**	**146.6**	**166.1**

Notes:

1. NPAT of the Healthscope business for the 3.5 month period prior to the 2010 Acquisition. Refer to Table 4.5.
2. NPAT of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer. The Divisional Parent Entities net loss after tax relates to interest costs associated with shareholder and related party loans. The shareholder and related party loans will be repaid following Completion of the Offer.
3. The interest expense of the Healthscope Aggregated Group, combined with the Divisional Parent Entities, has been adjusted to reflect the anticipated debt profile, interest rates and borrowing costs applicable under the New Banking Facilities following the Offer.

   This includes the removal of the existing amortisation and write-off of borrowing costs associated with the historical debt facilities. Lower debt levels under the New Banking Facilities following Completion of the Offer are the primary driver of the adjustment, with FY2015 statutory information including a one month impact of the historical debt facilities.

   The FY2014 statutory net finance costs include one off items arising as a result of the initial public offering process, including costs associated with settlement of the shareholder loans, Healthscope Notes and interest rate swaps.
4. The income tax expense has been adjusted to an effective tax rate of 29.8%, which is reflective of the anticipated tax rate following Completion of the Offer.

4.4. Segment information

Healthscope has three reporting segments: Hospitals, International Pathology and Australian Pathology (refer to Section 3 for further detail on each segment). Table 4.12 sets out the Pro Forma Revenue, Operating EBITDA and Operating EBIT broken down by reporting segment for FY2011 to FY2015.

Table 4.12 Pro forma Revenue, Operating EBITDA and Operating EBIT summary by reporting segment for FY2011 to FY2015

		Pro forma historical			Pro forma forecast		Change		
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2011–FY2013 CAGR**	**FY2013–FY2014**	**FY2014–FY2015**
Revenue									
Hospitals		1,492.2	1,584.2	1,660.3	1,743.6	1,848.6	5.5%	5.0%	6.0%
International Pathology		153.6	167.0	190.6	223.1	234.6	11.4%	17.1%	5.2%
Australian Pathology		354.4	364.6	360.4	347.9	365.2	0.8%	(3.5%)	5.0%
Total revenue		**2,000.2**	**2,115.8**	**2,211.3**	**2,314.6**	**2,448.4**	**5.1%**	**4.7%**	**5.8%**
Operating EBITDA									
Hospitals	1	224.1	252.5	275.8	297.2	325.9	10.9%	7.8%	9.7%
International Pathology		34.1	38.7	44.5	52.6	56.4	14.2%	18.2%	7.2%
Australian Pathology		34.0	23.2	20.0	25.3	26.3	(23.3%)	26.5%	4.0%
Total all segments		**292.2**	**314.4**	**340.3**	**375.1**	**408.6**	**7.9%**	**10.2%**	**8.9%**
Corporate expenses	2	(13.7)	(14.3)	(15.1)	(20.9)	(21.3)	5.0%	38.4%	1.9%
Total all segments after corporate expenses		**278.5**	**300.1**	**325.2**	**354.2**	**387.3**	**8.1%**	**8.9%**	**9.3%**
Operating EBIT									
Hospitals	1	176.5	205.4	222.3	236.3	259.7	12.2%	6.3%	9.9%
International Pathology		22.2	24.6	30.5	40.0	43.1	17.2%	31.1%	7.8%
Australian Pathology		15.9	4.3	0.7	6.7	8.7	(79.0%)	857.1%	29.9%
Total all segments		**214.6**	**234.3**	**253.5**	**283.0**	**311.5**	**8.7%**	**11.6%**	**10.1%**
Corporate expenses	2	(14.0)	(18.9)	(20.3)	(26.1)	(26.8)	20.4%	28.6%	2.7%
Total all segments after corporate expenses		**200.6**	**215.4**	**233.2**	**256.9**	**284.7**	**7.8%**	**10.2%**	**10.8%**

Notes:

1. Includes share of profits of associates and joint ventures. Refer to Table 4.5.
2. Healthscope has unallocated corporate expenses which include costs associated with executives, legal, finance, information services, risk management, human resources, occupational health and safety, board fees and other public company costs incurred by Healthscope that are not directly attributable to the businesses within the reporting segments.

4.6 Pro forma historical statement of financial position

Table 4.13 sets out the adjustments that have been made to the reviewed historical statement of financial position of Healthscope as at 31 December 2013 to present a pro forma historical statement of financial position for Healthscope as though the Offer had been completed on 31 December 2013.

The reviewed historical statement of financial position as at 31 December 2013 has been adjusted to reflect the estimated impact of the change in reporting structure (as discussed in Section 4.1) along with the impact of the Offer and New Banking Facilities.

Impact of the Offer and New Banking Facilities

On Completion of the Offer, Healthscope will issue new equity and draw down on its New Banking Facilities, with proceeds used to pay:

- amounts owing by Healthscope under its Existing Banking Facilities (including debt break fees and associated derivatives) in place immediately prior to Completion of the Offer;
- amounts owing by Healthscope with respect to Healthscope Notes I, Healthscope Notes II and shareholder loans immediately prior to Completion of the Offer;
- establishment costs in respect of the New Banking Facilities applicable at Completion of the Offer; and
- other transaction advisory fees, costs and expenses arising in connection with the Offer (see Section 9.8).

The adjustments include assumptions relating to the Offer which includes matters not known at the Prospectus Date such as the Final Price, the extent of sell down by CT Healthscope Holdings, L.P. and the number of Shares to be issued. The pro forma statement of financial position is therefore provided for illustrative purposes only and is not necessarily representative of Healthscope's view on its future financial position.

In particular, cash and cash equivalents in the pro forma historical statement of financial position has been adjusted to reflect the impact of the Offer and the refinancing arrangements as if they took place at that date, as required by ASIC Regulatory Guide 228 paragraph 92, and as such does not adjust for various anticipated cash requirements of the business between 31 December 2013 and Completion of the Offer. Refer to Table 4.14 for target financial indebtedness at Completion of the Offer.

Further information on the sources and uses of funds of the Offer is contained in Section 7.1.2 and further information on the New Banking Facilities is contained in this Section 4 and Section 9.7.

Table 4.13 Pro forma historical statement of financial position

As at 31 December 2013, $ million	Note	31 Dec. 2013 (Reported)	Impact of change in reporting structure[6]	31 Dec. 2013 (Adjusted)	Impact of the Offer and New Banking Facilities	Pro forma (Completion of the Offer)
Assets						
Current assets						
Cash and cash equivalents	1	131.7	16.9	148.6	–	148.6
Trade and other receivables		77.3	–	77.3	–	77.3
Prepayments		15.6	–	15.6	–	15.6
Current tax assets		–	–	–	–	–
Inventories		47.7	–	47.7	–	47.7
Other financial assets		40.0	(38.2)	1.8	–	1.8
Assets classified as held for sale		21.3	–	21.3	–	21.3
Total current assets		**333.6**	**(21.3)**	**312.3**	**–**	**312.3**
Non-current assets						
Trade and other receivables		1.0	–	1.0	–	1.0
Other financial assets		2.5	–	2.5	–	2.5
Investments in associates and joint ventures		0.3	–	0.3	–	0.3
Property, plant and equipment		1,200.7	–	1,200.7	–	1,200.7
Intangible assets		1,850.4	–	1,850.4	–	1,850.4
Deferred tax assets	2	80.4	125.9	206.3	54.4	260.7
Total non-current assets		**3,135.3**	**125.9**	**3,261.2**	**54.4**	**3,315.6**
Total assets		**3,468.9**	**104.6**	**3,573.5**	**54.4**	**3,627.9**
Liabilities						
Current liabilities						
Trade and other payables		208.2	–	208.2	–	208.2
Current tax liabilities		3.4	–	3.4	–	3.4
Deferred purchase consideration		0.4	–	0.4	–	0.4
Deferred revenue		1.2	–	1.2	–	1.2
Borrowings	3	46.2	(0.2)	46.0	(36.5)	9.5
Other financial liabilities	4	21.8	–	21.8	(21.8)	–
Provisions		118.9	–	118.9	–	118.9
Liabilities directly associated with assets classified as held for sale		1.7	–	1.7	–	1.7
Total current liabilities		**401.8**	**(0.2)**	**401.6**	**(58.3)**	**343.3**

As at 31 December 2013, $ million	Note	31 Dec. 2013 (Reported)	Impact of change in reporting structure[6]	31 Dec. 2013 (Adjusted)	Impact of the Offer and New Banking Facilities	Pro forma (Comple-tion of the Offer)
Non-current liabilities						
Borrowings	3	1,585.7	854.8	2,440.5	(1,435.8)	1,004.7
Other financial liabilities	4	561.1	(546.2)	14.9	(14.9)	–
Deferred tax liabilities		52.0	–	52.0	–	52.0
Provisions		44.5	–	44.5	–	44.5
Total non-current liabilities		**2,243.3**	**308.6**	**2,551.9**	**(1,450.7)**	**1,101.2**
Total liabilities		**2,645.1**	**308.4**	**2,953.5**	**(1,509.0)**	**1,444.5**
Net assets		**823.8**	**(203.8)**	**620.0**	**1,563.4**	**2,183.4**
Equity						
Issued capital	5	962.2	299.7	1,261.9	1,651.9	2,913.8
Reserves	6	4.6	(341.6)	(337.0)	25.8	(311.2)
Accumulated losses	7	(143.0)	(161.9)	(304.9)	(114.3)	(419.2)
Total equity		**823.8**	**(203.8)**	**620.0**	**1,563.4**	**2,183.4**

Notes:

1. Cash raised as a result of the Offer and drawings under the New Banking Facilities have been used to:
   - pay transaction costs related to the Offer;
   - make repayments with respect to the Existing Banking Facilities, shareholder loans and the cash settled portion of Healthscope Notes I and II;
   - settle the interest rate swap liabilities, as a result of the refinancing; and
   - settle the existing management and executive incentive plan on Completion of the Offer.

   The Gold Coast Private Hospital development will be partly funded using cash and cash equivalents on hand as at 31 December 2013.
2. The adjustment to Deferred Tax Assets arises from the impact of the Offer and represents the tax effect of the costs associated with the Offer, the tax deduction associated with the write off of existing borrowing costs and the settlement of the existing management and executive incentive plan.

   Recoupment of tax losses recognised in the statement of financial position of $145.8 million is based on satisfying loss recoupment rules (including the Same Business Test) in the year the losses are recouped.
3. Healthscope has executed a binding term sheet for the provision of the New Banking Facilities. On Completion of the Offer, funding provided under the facility agreement for the New Banking Facilities will be drawn down to $995 million, with associated refinancing costs of $4.9 million which will be capitalised and amortised over the term of the loans. All proceeds from the New Banking Facility are non-current.

   Assuming an Offer completion date of 31 December 2013, Healthscope would have made repayments of $1,142.6 million on its Existing Banking Facilities and written off capitalised borrowing costs of $40.0 million. In addition Healthscope would have settled shareholder loans of $854.8 million. Refer to Sections 4.6.1 and 9.7 for further details on Heathscope's indebtedness and the New Banking Facilities.
4. The refinancing will result in the settlement of swap liabilities recorded at $36.7 million at 31 December 2013.
5. Issued capital is impacted by the primary equity Offer offset by the costs (after income tax) related to the issue of new Shares of approximately $38.7 million and the issue of $259.0 million to settle Healthscope Notes I and II converted into Shares.
6. As per Section 4.1, the IPO Acquisitions have been treated as an internal restructure and as a result no fair value adjustments or goodwill are recognised as part of the restructure. Assets and liabilities are consolidated at their existing carrying value with the difference between the consideration paid and carrying value of net assets recognised within equity as a "common control" reserve.
7. Accumulated losses are impacted by:
   - IPO transaction costs that are required to be expensed;
   - write off of borrowing costs associated with the Existing Banking Facilities;
   - financing costs on the redemption of Healthscope Notes I and II;
   - reclassification of the hedging reserve, net of tax, as a result of settling the swap liability; and
   - settlement of the existing management and executive incentive plan on Completion of the Offer.

Liquidity and capital resources

Healthscope's principal sources of cash will be cash generated from operations, cash on hand and borrowings under the New Banking Facilities. As at 31 December 2013, on a pro forma basis (adjusted for the repayment of the Existing Banking Facilities, Healthscope Notes I & II and shareholder loans, anticipated drawings under the New Banking Facilities and receipt of the net proceeds of the Offer) Healthscope had cash and cash equivalents of $148.6 million, borrowings of $1,014.2 million and undrawn availability of $300.0 million under the New Banking Facilities.

Healthscope's main uses of cash are to fund Working Capital, Capital Expenditure, including expenditure required to maintain its current assets and to expand its business as it pursues brownfield hospital developments, government partnerships, "relocate and grow" hospital expansions, interest payments and payment of dividends amongst other activities. Healthscope believes that its cash on hand, cash from operations and undrawn borrowing capacity under the New Banking Facilities will be sufficient to meet its cash requirements for the foreseeable future.

Working Capital position

The Working Capital position as at 31 December 2013 for the Healthscope Aggregated Group reflected a net current liability position of $68.2 million. The Healthscope Aggregated Group has consistently reflected a net current liability position in prior periods.

The contributing factors to this net current liability position are:

- Healthscope continued to utilise the accounts receivable securitisation facility of $140 million. As at 31 December 2013, $124.3 million of receivables were sold to the Bank under this facility resulting in reduced current assets and reduced non-current debt which reduced the overall cost of debt servicing.
- Certain liabilities are classified as "current liabilities" according to the requirements of accounting standards; however Healthscope does not anticipate that all of these amounts will be settled in cash within the next 12 months from the date of this financial report. Such liabilities include current employee entitlements of $103.4 million and current other financial liabilities relating to the fair value of interest rate swaps of $21.8 million.
- The Healthscope Aggregated Group has continued to generate cash flows from operating activities, after servicing debt costs, and consistently recorded an Operating Cash Flow Conversion ratio of greater than 90%.

Management continually monitors the Working Capital position including forecast Working Capital requirements in light of the existing debt facilities and available cash reserves to ensure debts are paid as and when they fall due.

4.6.1 Indebtedness

Table 4.14 below sets out:

- the indebtedness of Healthscope as at 31 December 2013, before Completion of the Offer;
- the expected indebtedness of Healthscope immediately prior to Completion of the Offer; and
- the pro forma indebtedness of Healthscope (adjusted for the repayment of the Existing Banking Facilities, anticipated drawings under the New Banking Facilities and receipt of the net proceeds of the Offer) reflecting Completion of the Offer, as if they took place as at 31 December 2013.

Table 4.14 Pro forma indebtedness as at 31 December 2013

As at 31 December 2013, $ million	Note	31 December 2013 (prior to Completion of the Offer)	Expected net indebtedness immediately prior to Completion of the Offer	31 December 2013 (pro forma following Completion of the Offer)
Loans and borrowings				
Finance lease obligations		24.1	24.1	24.1
Shareholder loans	2	854.8	924.0	–
Senior debt	5	1,142.6	1,171.4	995.0
Healthscope Notes I	3	200.0	200.0	–
Healthscope Notes II	3	305.0	305.0	–
Less: upfront fees paid	4	(40.0)	–	(4.9)
Total loans and borrowings	1, 6	**2,486.5**	**2,624.5**	**1,014.2**
Cash and cash equivalents		(148.6)	(148.6)	(148.6)
Net total indebtedness	6	**2,337.9**	**2,475.9**	**865.6**
Pro forma net debt (as at 31 December 2013)/Pro forma FY2014 forecast EBITDA	7, 8			2.4
Pro forma FY2014 forecast EBITDA/ Pro forma FY2014 forecast net cash interest expense	7, 9			7.3

Notes:

1. At 31 December 2013, borrowings of the Healthscope Group and Divisional Parent Entities, excluding existing borrowing costs of $40 million, comprised of $2,526.5 million of current and non-current borrowings.
2. The increase in shareholder loans reflects interest expected to arise between 1 January 2014 and the expected Completion date of 1 August 2014.
3. Healthscope Notes I and Healthscope Notes II are subordinated debt instruments that trade on the ASX and were issued by Healthscope Notes Limited on 17 December 2010 and 27 March 2013 respectively. As at 31 December 2013 the principal amount of Healthscope Notes I was $200.0 million and the principal amount of Healthscope Notes II was $305.0 million. Upon Completion of the Offer the Notes will be redeemed (50%) and converted to equity (50%) and this will result in early redemption penalties of $16.6 million which are expensed as a finance cost.
4. Upfront fees on the existing banking facilities will be fully amortised immediately prior to Completion of the Offer. Upfront fees on the New Banking Facilities will be capitalised and amortised over the three-year term of the New Banking Facilities.
5. Pro forma loans and borrowings reflect $995 million drawn under the New Banking Facilities as detailed below in this Section and Section 9.7.
6. The pro forma historical statement of financial position as at 31 December 2013 (Table 4.13) has been adjusted to reflect the impact of the Offer and the refinancing arrangements as if they took place at that date, as required by ASIC Regulatory Guide 228 paragraph 92, and as such does not adjust for various anticipated cash requirements of the business between 31 December 2013 and Completion of the Offer.
7. Calculations under the covenants in the New Banking Facilities for net debt, EBITDA and net cash interest expense include a number of specific adjustments. These adjustments are not reflected in net debt, EBITDA and net cash interest expense shown in this Prospectus and therefore these measures will be different to the values used for covenant calculations under the New Banking Facilities. Refer to the description below in this Section and Section 9.7 for further details.
8. This ratio is commonly referred to as a net debt/EBITDA ratio. The net debt/EBITDA ratio is calculated as the pro forma net debt (as at 31 December 2013) of $865.6 million divided by pro forma FY2014 forecast EBITDA of $354.2 million (refer to Section 4.6 for more details).
9. This ratio is commonly referred to as an interest coverage ratio. The interest coverage ratio is calculated as pro forma FY2014 forecast EBITDA of $354.2 million divided by pro forma FY2014 forecast net cash interest expense of $48.4 million (refer to Section 4.6 for more details). Pro forma FY2014 forecast net cash interest expense is based on net finance costs (as set out in the pro forma forecast in Table 4.3), adjusted to exclude amortisation of upfront establishment fees and capitalised interest.

Description of the New Banking Facilities

Healthscope Finance has entered into a detailed commitment letter for a syndicated facilities agreement for the provision of a term loan facility and revolving working capital facilities, together representing the Syndicated Facility Agreement (the "New Banking Facilities").

On Completion of the Offer, funding provided under the facility agreements for the New Banking Facilities (together with proceeds from the issue of New Shares by Healthscope under the Offer) will be utilised to repay the Existing Banking Facilities, comprising senior debt facilities and associated derivatives, as well as certain other obligations of Healthscope and its subsidiaries, including Shareholder Loans and settlement of Healthscope Notes I and II (being the subordinated debt instruments that trade on the ASX). Upon repayment of the Existing Banking Facilities, the associated guarantees and security granted by Healthscope will be discharged.

The availability of funding under the New Banking Facilities is conditional upon execution of facility agreements and confirmation that Healthscope will be quoted on the ASX as contemplated by the Offer and other conditions precedent which are within the control of Healthscope and customary for facilities of the nature of the New Banking Facilities.

Accordingly, at Completion of the Offer, Healthscope will have debt funding available to assist with the repayment of the Existing Banking Facilities of Healthscope and its subsidiaries and to provide for funding needs after Listing.

The Syndicated Facility Agreement has an aggregate commitment of $1,295 million and comprises:

- $995.0 million three-year term loan facility A ("Facility A"), which will be fully drawn at Completion of the Offer; and
- $300.0 million three-year multi-option working capital facility B ("Facility B"), with a sub-tranche available for cash advances in US dollars, Sterling, Singapore dollars, New Zealand dollars and other currencies up to $50.0 million, of which no amounts will be drawn at Completion of the Offer.

Facility B may be drawn or utilised as revolving cash advances, letters of credit, performance bonds or bank guarantees and by way of bilateral ancillary facilities.

Refer to Section 9.7 for more information on the New Banking Facilities.

Pro forma interest

Facility A and Facility B have variable interest rates, based on the bank bill swap bid rate (BBSY, BKBM or LIBOR as applicable) plus a margin.

Facility B will attract commitment fees equal to 45% of the applicable margin on the committed but undrawn funds under each facility.

The pro forma forecast consolidated interest expense for Facility A and Facility B is $41.2 million in FY2014 and $44.6 million in FY2015, on the assumption that Facility A is drawn during the entire FY2014 and FY2015 periods and Facility B will be drawn progressively throughout FY2014 and FY2015.

There are other existing interest costs and interest income that will be combined with the above New Banking Facilities interest costs to arrive at the pro forma net finance costs as shown in Table 4.3.

The pro forma forecast consolidated net finance cost includes the full year effect of the amortisation of upfront fees for raising the New Banking Facilities, that have been capitalised and amortised over the terms of the loans.

Financial covenants

The New Banking Facilities contain financial covenants and other undertakings which are customary for facilities of their nature and which are consistent across the Syndicated Facility Agreement.

The financial covenants, which will be tested at financial year end and financial half year end based on the preceding 12 month period, will commence in the period ending 31 December 2014. These financial covenants include:

- an interest cover ratio that is not less than 3.00 to 1, being EBITDA to net interest expense (as defined under the New Banking Facilities); and
- a gearing ratio that is not greater than 3.50 to 1, being net debt to EBITDA (as defined under the New Banking Facilities).

Refer to Section 9.7 for more information in respect of the financial covenants.

Calculations under the covenants in the New Banking Facilities for net debt, EBITDA and net cash interest expense include a number of specific adjustments. These adjustments are not reflected in net debt, EBITDA and net cash interest expense shown in this Prospectus and therefore these measures will be different to the values used for covenant calculations under the New Banking Facilities.

Healthscope expects to remain in compliance with these financial covenants and other undertakings during the forecast period based on the FY2014 and FY2015 forecast.

4.6.2 Capital and contractual commitments

Table 4.15 sets out Healthscope's Capital Expenditure and other commitments as at 31 December 2013.

Table 4.15 Capital Expenditure and other commitments as at 31 December 2013

As at 31 December 2013, $ million	Note	Less than 1 year	1–5 years	More than 5 years	Total
Capital Expenditure commitments	1	85.5	79.7	–	165.2
Non-cancellable operating leases		68.1	152.3	121.7	342.1
Finance leases		4.5	12.5	1.1	18.1
Total		158.1	244.5	122.8	525.4

Note:

1. Capital Expenditure commitments includes only where a legal commitment is in place as at 31 December 2013. This does not reflect the forecast Capital Expenditure beyond this point.

Contingent liabilities

There are a number of legal claims and exposures, which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time: however in the opinion of the Directors the amount is not expected to be material. In the opinion of the Directors, any further information about these matters would be prejudicial to the interests of Healthscope.

4.7 Summary pro forma historical and forecast statements of cash flows and statutory forecast statements of cash flows

Table 4.16 sets out a summary of Healthscope's pro forma historical statements of cash flows for FY2011, FY2012 and FY2013, statutory forecast statement of cash flows for FY2014 and FY2015 and pro forma forecast statements of cash flows for FY2014 and FY2015.

Table 4.16 Summary pro forma historical statements of cash flows for FY2011 to FY2013, statutory forecast statement of cash flows for FY2014 and FY2015 and pro forma forecast statements of cash flows for FY2014 and FY2015

		Pro forma historical			Pro forma forecast		Statutory forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2014**	**FY2015**
EBITDA		278.5	300.1	325.2	354.2	387.3	295.6	387.3
Exclude: Non-cash items in EBITDA	1	0.7	0.7	0.7	0.7	0.7	1.4	0.7
Changes in Working Capital	2	2.2	(1.7)	(17.1)	(0.8)	(12.0)	(4.7)	(12.0)
Net cash flow from operations		**281.4**	**299.1**	**308.8**	**354.1**	**376.0**	**292.3**	**376.0**
Operating Cash Flow Conversion		*101.0%*	*99.7%*	*95.0%*	*100.0%*	*97.1%*	*98.9%*	*97.1%*
Expansion Capital Expenditure	3	(134.2)	(48.2)	(44.3)	(71.8)	(222.0)	(71.8)	(222.0)
Gold Coast Private Hospital Capital Expenditure	3	–	–	–	(26.1)	(124.0)	(26.1)	(124.0)
Other Capital Expenditure	4	(101.6)	(87.7)	(71.6)	(65.1)	(83.9)	(65.1)	(83.9)
Total capital expenditure		**(235.8)**	**(135.9)**	**(115.9)**	**(163.0)**	**(429.9)**	**(162.9)**	**(429.9)**
Net cash flow from operations (after capital expenditure)		**45.6**	**163.2**	**192.9**	**191.1**	**(53.9)**	**129.3**	**(53.9)**
Tax	5				(10.5)	(11.2)	(10.5)	(11.2)
Interest and other costs paid on financial debt	6				(48.4)	(50.3)	(167.6)	(62.8)
Net repayment of Existing Banking Facilities					–	–	59.8	(1,200.8)
Settlement of Healthscope Notes I & II	7						–	(262.6)
Settlement of shareholder loans					–	–	–	(962.4)
Proceeds from New Banking Facilities	8				66.1	222.0	–	1,217.0
Gold Coast Private Hospital construction funding	9				–	55.0	–	55.0
Upfront senior debt fees					–	–	–	(4.9)
Proceeds from issue of new Shares	10				–	–	–	1,520.5
Dividends	11				–	(58.1)	–	(58.1)
Transaction costs capitalised	12				–	–	–	(55.2)
Other	13				2.0	2.0	2.0	2.0
Net cash flows					**200.3**	**105.5**	**13.1**	**122.6**

Notes:

1. The pro forma financial information is comprised solely of non-cash share based payments. The FY2014 statutory information includes the net impact of a movement in the onerous lease provision and adjustment to the carrying value of Brisbane Waters Private Hospital.
2. Healthscope defines Working Capital as the total of current trade and other receivables, inventory, prepayments, trade and other payables, current provisions and other current creditors. Changes in Working Capital reflects the timing of Private Health Insurance billing and Healthscope's receipts and supplier payment cycle.
3. Expansion Capital Expenditure primarily consists of investment by Healthscope in hospital development projects to meet unmet demand at its existing hospital facilities. In addition $150.1 million in Capital Expenditure is forecast to be spent at the Gold Coast Private Hospital site in FY2014 and FY2015. Funding for both projects will be sourced from New Banking Facilities and financing discussed in notes 8 and 9 respectively.
4. Other Capital Expenditure includes maintenance Capital Expenditure in property, plant and equipment and investment in General Practitioner recruitment for medical centres in the form of upfront capital payments.
5. The forecast pro forma and statutory tax payments are less than the forecast tax expense in the pro forma and statutory statements of profit or loss primarily due to the availability of carried forward tax losses in Australia.
6. The pro forma net interest and other costs on financial debt are based on the New Banking Facilities, as if the arrangements were in place since 1 July 2013. Refer to Section 4.6.1 for further discussion. The FY2015 statutory information includes one month of net interest and other costs based on finance facilities in place prior to Completion of the Offer.
7. Reflects the settlement associated with the redeemed portion (assumed to be 50%) of Healthscope Notes I & II (inclusive of costs of redemption).
8. Pro forma proceeds from New Banking Facilities reflect drawings against the $300 million facility to fund brownfield hospital developments. The FY2015 statutory information also reflects the assumed drawdown of $995 million under the New Banking Facilities following Completion of the Offer.
9. Construction funding for the Gold Coast Private Hospital reflects the project financing sourced by Healthscope. The equity portion held in cash is utilised first before drawdowns against the available facility.
10. Represents proceeds from the sale of new Shares net of the proportion of Healthscope Notes I & II not redeemed.
11. Represents the impact of an assumed payout of 70% of pro forma NPAT for H1FY2015, which will be payable in March 2015.
12. Transaction costs capitalised in FY2015 associated with the Offer.
13. Other cash flows consist of the periodic repayment of Working Capital funding advanced to ACHA as part of its agreement with Healthscope.

4.7.1 Pro forma adjustments to the historical statements of cash flows

Table 4.17 sets out the pro forma adjustments to the Historical Cash Flows for FY2011, FY2012 and FY2013 as well as the Statutory Forecast Cash Flows to eliminate certain significant items related to non-operational items.

Table 4.17 Pro forma adjustments to the historical statements of cash flows for FY2011 to FY2013 and statutory forecast cash flows for FY2014 and FY2015

		Historical			Forecast	
June year end, $ million	**Note**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Net cash flows from operations (reported, FY2011 for the 8.5 month period following the 2010 Acquisition)		**(2.0)**	**111.7**	**110.2**	**114.2**	**302.0**
Add: Cash generated from operations for the 3.5 months prior to the 2010 Acquisition	1	31.2	–	–	–	–
Add: Consolidate operating cash flows for the Divisional Parent Entities	2	–	–	–	–	–
Add back: Net interest paid	3	117.9	172.0	175.4	167.6	62.8
Add back: Income tax paid	4	13.5	5.0	5.4	10.5	11.2
Subtract: Capital Expenditure	5	(235.8)	(135.9)	(115.9)	(162.9)	(429.9)
Net cash flows from operations (adjusted)		**(75.2)**	**152.8**	**175.1**	**129.3**	**(53.9)**
Add back: Significant items	6	123.0	12.6	20.0	60.1	–
Subtract: Incremental corporate costs	7	(2.2)	(2.2)	(2.2)	(2.2)	–
Other	8	–	–	–	3.8	–
Net cash flows from operations (after Capital Expenditure)		**45.6**	**163.2**	**192.9**	**191.1**	**(53.9)**

Notes:

1. Cash flows generated by the Healthscope business for the 3.5 month period prior to the 2010 Acquisition.
2. Cash flows generated by the Divisional Parent Entities (Refer to Table 4.1) which will form part of Healthscope upon Completion of the Offer. The Divisional Parent Entities include shareholder and related party loans. The interest costs associated with these shareholder and related party loans are capitalised and non-cash.
3. Reflects the add back of net interest paid by the Healthscope business for each financial year.
4. Reflects the add back of the income tax paid by the Healthscope business for each financial year.
5. Capital Expenditure has been included to reflect a free cash flow for Healthscope.
6. Significant items relates to the add back of cash impacting, non-operational income and expense items including proceeds on sale of operations, transaction costs related to the acquisition of the Healthscope business, subsequent costs of restructuring the business and costs associated with the initial public offering.
7. Additional cash flows in respect of incremental corporate costs of $2.2 million have been added in FY2011, FY2012, FY2013 and FY2014 to reflect the cash cost of operating as a listed public company.
8. Reflects the difference in the movement of Working Capital between the FY2014 pro forma and statutory information.

4.8 Management Discussion and Analysis of the Pro Forma Historical Financial Information

4.8.1 General factors affecting the operating and financial performance, including key measures and their drivers

Set out below is a discussion of the general factors which affected the Healthscope Aggregated Group's operations and relative financial performance in FY2011, FY2012, FY2013 and H1FY2014 and which the Directors expect may continue to affect Healthscope in the future.

The discussion of those general factors is intended to provide a brief summary only and does not detail all the factors that affected the Healthscope Aggregated Group's historical operating and financial performance, nor everything which may affect Healthscope's operations and financial performance in the future.

Volume of services

Healthscope operates across three areas of private healthcare in Australia – private hospitals, pathology and medical centres. Volume growth in each of these businesses is driven by the demand for healthcare services. Demand for healthcare services in Australia has been driven by a growing and ageing population, an increasing prevalence of chronic disease, increasing wealth per capita and advances in medical capabilities and technologies.

In addition to this, demand for private hospital services is driven by the level of Private Health Insurance and capacity constraints in public hospitals as evidenced by longer waiting lists at public hospitals.

See Section 2.1.1 for further discussion on key drivers of the Australian healthcare industry.

Volume growth in Healthscope's international pathology operations in New Zealand, Malaysia, Singapore and Vietnam is also driven by the factors influencing demand for healthcare services in each of these countries.

Private Health Insurance rates

Approximately 80% of Healthscope's Hospitals revenue is received from private health insurance funds. Healthscope generally negotiates and enters into agreements with private health insurance funds, with the term of the agreements generally ranging from one to three years. The agreements set out the rates that Healthscope is paid by private health insurance funds when members of the private health insurance funds are treated in a Healthscope hospital. Admissions can either be funded via case payment (where a hospital receives a pre-determined payment for an admission based on a patient's clinical classification) or on a per diem basis, with the majority of acute admissions being funded via case payments. The rates that Healthscope agrees with private health insurance funds are an important driver of revenue and profitability of Healthscope's Hospitals business.

Case mix

Case mix refers to the mix of type of patients (by specialty, sub-specialty and specific procedure/treatment required and/or diagnosis) in a hospital at any particular point in time based on their clinical classification. The primary driver of case mix is the range of specialist services provided by Accredited Medical Practitioners who admit patients to Healthscope's hospitals. Accredited Medical Practitioners provide a broad range of services at Healthscope's hospitals, which have different requirements in terms of operating theatre time, nursing requirements, consumables and patient length of stay. As such, case mix influences key hospital performance indicators, including revenue per patient day, average length of stay, labour hours per patient day, and labour and consumables costs as a percentage of revenue, which in turn impact Healthscope's financial performance.

Brownfield hospital development projects

Healthscope has completed 21 brownfield hospital development projects since the 2010 Acquisition. The number of new beds and operating theatres is an important driver of volume growth in Healthscope's Hospitals business. When a hospital is operating at or near capacity, volume growth is constrained until new beds or operating theatres can be developed. The addition of new beds and/or operating theatres through Healthscope's brownfield development projects provides the capacity to increase patient admissions to Healthscope's hospitals in response to demand.

For more information on Healthscope's brownfield hospital development projects, see Section 3.3.4.3.

Labour costs

Labour is the most significant cost to Healthscope. Labour is managed from both a rate and volume perspective.

In relation to labour rates, the majority of Healthscope's Australian employees have terms and conditions governed by an Enterprise Agreement or Modern Award. Nurses are the largest segment of Healthscope's workforce, and appropriate management of skill mix and agency utilisation can influence average labour rates across the hospitals business.

In relation to labour volumes, since the current management team commenced following the 2010 Acquisition, Healthscope has implemented a range of labour management initiatives, including more sophisticated rostering of nursing staff, greater emphasis on implementing a team nursing model and increasing casual nursing pools to drive labour efficiencies. Please refer to Section 3.3.4.2 for further detail.

Procurement

Consumables costs include surgical and medical supplies, pharmacy, prosthetics, indirect expenditure (for example, linen, laundry, food and general administration) and pathology consumables. With the exception of indirect expenditure, consumables costs are principally driven by the volume and mix of patients in each of Healthscope's businesses, and the economics of the relevant supply contracts. When the current management team commenced following the 2010 Acquisition, it became evident that there were efficiencies to be realised through improved co-ordination of procurement activities across Healthscope's hospitals, and across the three divisions.

Healthscope put in place a new procurement team in FY2011, which has implemented a number of initiatives, including new national agreements with suppliers. The engagement of clinical product specialists when making product selection has ensured support of the sites.

The new agreements and increased participation in purchasing under agreements has delivered efficiences in relation to the procurement of consumables.

4.8.2 Pro forma historical statements of profit or loss: FY2012 compared to FY2011

Table 4.18 sets out the summary pro forma historical statements of profit or loss and selected key performance indicators for FY2011 and FY2012.

Table 4.18 Selected pro forma statements of profit or loss: FY2012 compared to FY2011

June year end, $ million	Pro forma historical FY2011	FY2012	Change	Change %
Revenue				
Hospitals	1,492.2	1,584.2	92.0	6.2%
International Pathology	153.6	167.0	13.4	8.7%
Australian Pathology	354.4	364.6	10.2	2.9%
Revenue	**2,000.2**	**2,115.8**	**115.6**	**5.8%**
Segment Operating EBITDA				
Hospitals	224.1	252.5	28.4	12.7%
International Pathology	34.1	38.7	4.6	13.5%
Australian Pathology	34.0	23.2	(10.8)	(31.8%)
Total all segments	**292.2**	**314.4**	**22.2**	**7.6%**
Corporate costs	(13.7)	(14.3)	(0.6)	4.4%
Total all segments after corporate costs	**278.5**	**300.1**	**21.6**	**7.8%**
Segment Operating EBIT				
Hospitals	176.5	205.4	28.9	16.4%
International Pathology	22.2	24.6	2.4	10.8%
Australian Pathology	15.9	4.3	(11.6)	(73.0 %)
Total all segments	**214.6**	**234.3**	**19.7**	**9.2%**
Corporate costs	(14.0)	(18.9)	(4.9)	35.0%
Total all segments after corporate costs	**200.6**	**215.4**	**14.8**	**7.4%**

Group

Healthscope recorded revenue growth of 5.8% in the year ended 30 June 2012 to $2,115.8 million, compared to $2,000.2 million in the year ended 30 June 2011. The increase in revenue was driven by an increase in revenue across the Hospitals, International Pathology and Australian Pathology divisions.

Healthscope recorded Operating EBITDA growth of 7.6% in the year ended 30 June 2012 to $314.4 million, compared to $292.2 million in the year ended 30 June 2011. The increase in Operating EBITDA was driven by an increase in Operating EBITDA in the Hospitals and International Pathology divisions, partially offset by a deterioration in performance in the Australian Pathology division.

Healthscope recorded Operating EBIT growth of 9.2% in the year ended 30 June 2012 to $234.3 million, compared to $214.6 million in the year ended 30 June 2011. The increase in Operating EBIT was driven by an increase in Operating EBIT in the Hospitals and International Pathology divisions, partially offset by a deterioration in performance in the Australian Pathology division and an increase in depreciation across all divisions.

Hospitals

Revenue

The Hospitals division recorded revenue growth of 6.2% for the year ended 30 June 2012 to $1,584.2 million, compared to $1,492.2 million for the year ended 30 June 2011. Acute, psychiatric and rehabilitation hospitals all contributed to the increase in revenue.

The increase in revenue for the year ended 30 June 2012 was principally driven by increases in patient admissions into Healthscope hospitals and agreed increases in Private Health Insurance rates. The growth in patient admissions was primarily driven by organic growth, additional admissions from brownfield hospital projects completed in prior periods, including Prince of Wales, and from part period contributions from brownfield projects completed in the year ended 30 June 2012. In the year ended 30 June 2012, major projects were completed at Knox, Norwest, Pine Rivers, and The Melbourne Clinic, with smaller projects completed at Brisbane Waters, Brisbane Private, Hobart, Sunnybank and Griffith. A total of 191 new beds and eight new operating theatres were added in FY2012.

Operating EBITDA and Operating EBITDA Margin

The Hospitals division recorded Operating EBITDA growth of 12.7% for the year ended 30 June 2012 to $252.5 million, compared to $224.1 million for the year ended 30 June 2011, and an increase in Operating EBITDA Margin of 90 basis points to 15.9% in the year ended 30 June 2012. The increases in Operating EBITDA and Operating EBITDA Margin were principally driven by the revenue growth described above, the benefits of economies of scale from recently completed brownfield projects, and cost efficiencies in relation to labour and consumables.

Labour costs increased in the year ended 30 June 2012 principally due to increased admissions; however labour as a percentage of revenue decreased by 110 basis points as a result of labour efficiencies. During the year ended 30 June 2012, Healthscope implemented a range of initiatives in relation to labour which included improved rostering, greater use of part-time and casual nurses, reduced reliance on agency utilisation and the introduction of a team nursing approach.

Consumables costs also increased in the year ended 30 June 2012, principally due to increased admissions; however consumables costs as a percentage of revenue decreased by 20 basis points due to procurement efficiencies. The procurement initiatives consisted principally of the negotiations of new, centralised purchasing agreements with certain suppliers.

Operating EBIT

The Hospitals division recorded Operating EBIT growth of 16.4% in the year ended 30 June 2012 to $205.4 million, compared to $176.5 million in the year ended 30 June 2011. The increase in Operating EBIT was principally driven by the revenue and Operating EBITDA increases outlined above, partially offset by an increase in depreciation of $3.8 million to $51.4 million, driven by significant maintenance Capital Expenditure and hospital brownfield development expansion Capital Expenditure incurred during the year ended 30 June 2012. A majority of the Capital Expenditure was incurred by acute hospitals in relation to essential maintenance and equipment purchases.

International Pathology

Revenue

The International Pathology division recorded revenue growth of 8.7% for the year ended 30 June 2012 to $167.0 million, compared to $153.6 million for the year ended 30 June 2011. The increase in revenue from the International Pathology division was principally driven by increases in revenue in New Zealand, Malaysia and Singapore. Favourable exchange rate movements for New Zealand offset unfavourable foreign exchange rate movements for Malaysia and Singapore which resulted in a further net increase to divisional revenue.

In New Zealand, revenue for the year ended 30 June 2012 increased by 7.6%[78], which was primarily driven by organic revenue growth from existing contracts, as well as part period contributions from a new DHB contract, commencing in April 2012, to provide pathology services to the Canterbury region on the South Island through a newly commissioned Christchurch laboratory, and the acquisition of Medlab South Limited, which was completed in April 2012.

In Malaysia, a revenue increase of 8.0%[78] in the year ended 30 June 2012 was primarily driven by new private hospital and corporate contracts and an increase in volume from the foreign worker screening program. In the year ended 30 June 2012, the Malaysian Government announced an amnesty program for illegal foreign workers, allowing them to become registered foreign workers, provided they comply with certain requirements, including undergoing pathology testing. During the amnesty program, there was a significant increase in pathology volumes for foreign workers, which contributed to the 6.0% growth in episodes in the year ended 30 June 2012.

In Singapore, revenue increased by 12.7%[78] in the year ended 30 June 2012, principally driven by organic volume growth and a strategic focus on the private specialist market.

Operating EBITDA and Operating EBITDA Margin

The International Pathology division recorded Operating EBITDA growth of 13.5% for the year ended 30 June 2012 to $38.7 million, compared to $34.1 million for the year ended 30 June 2011, with a corresponding increase in Operating EBITDA Margin of 100 basis points to 23.2% for the year ended 30 June 2012.

The increases in Operating EBITDA and Operating EBITDA Margin were principally driven by the revenue growth outlined above, and a strong focus on cost control in all countries which resulted in operating efficiencies, which was partly offset by increases in labour and consumables costs principally as a result of an increase in patient episodes across all businesses. Favourable foreign exchange rate movements for New Zealand offset unfavourable foreign exchange rate movements for Malaysia and Singapore, which resulted in a net increase in Operating EBITDA.

In New Zealand, Operating EBITDA growth of 11.5%[79] was principally driven by the revenue growth outlined above, cost efficiencies from the rationalisation of collection centres in the greater Auckland region and improved workflow and operational efficiencies in the Auckland laboratory. Total costs as a percentage of revenue decreased by 75 basis points in the year ended 30 June 2012.

In Malaysia, Operating EBITDA growth of 17.3%[79] was principally driven by the revenue growth outlined above and cost efficiencies from increased volumes in the central laboratory through greater centralisation of testing from regional laboratories. Total costs as a percentage of revenue decreased by 190 basis points in the year ended 30 June 2012.

In Singapore, Operating EBITDA growth of 13.9%[79] was principally driven by the revenue growth outlined above and improved workflow and operating efficiencies from the new central laboratory that was commissioned in May 2011. Total costs as a percentage of revenue decreased by 30 basis points in the year ended 30 June 2012.

[78] Revenue growth in local currency.

[79] Operating EBITDA growth in local currency.

Operating EBIT

The International Pathology division recorded Operating EBIT growth of 10.8% in the year ended 30 June 2012 to $24.6 million, compared to $22.2 million in the year ended 30 June 2011. The increase in Operating EBIT was driven by the revenue and Operating EBITDA increases outlined above, partially offset by an increase in depreciation of $2.2 million to $14.1 million. The increase in depreciation was driven by the significant Capital Expenditure incurred in the year ended 30 June 2012 which included additional Capital Expenditure in New Zealand to rebuild the Christchurch laboratory and collection centres following the loss of property, plant and equipment in the Christchurch earthquake in February 2011. In cash terms, the replacement cost of the reconstruction and replacement equipment was offset by the receipt of insurance proceeds in the following year.

Australian Pathology

Revenue

The Australian Pathology division recorded a revenue increase of 2.9% for the year ended 30 June 2012 to $364.6 million, compared to $354.4 million for the year ended 30 June 2011. The increase in revenue from the Australian Pathology division was driven by revenue increases in both the Australian pathology business and the medical centres business.

The increase in revenue from the Australian pathology business in the year ended 30 June 2012 was driven by organic growth, partially offset by the loss of referrals from the Allied Medical Group. The Allied Medical Group was a privately owned medical centre operator which referred approximately $10 million per annum of pathology revenue to Healthscope's Australian pathology business. Allied Health Group was acquired by IPN (a subsidiary of Sonic Healthcare) in July 2011, and the pathology work was subsequently redirected to laboratories in the Sonic Healthcare network.

The increase in revenue from the medical centres business in the year ended 30 June 2012 was principally driven by organic growth from increased patient consultations.

Operating EBITDA and Operating EBITDA Margin

The Australian Pathology division recorded an Operating EBITDA decline of 31.8% in the year ended 30 June 2012 to $23.2 million, compared to $34.0 million for the year ended 30 June 2011, with a corresponding decrease in Operating EBITDA Margin of 320 basis points to 6.4% for the year ended 30 June 2012. The decreases in Operating EBITDA and Operating EBITDA Margin were principally due to an increase in labour and rent in the Australian pathology business as a result of the increased number of collection centres and higher collection centre rents, partially offset by an increase in Operating EBITDA from the medical centres business. The Operating EBITDA from Healthscope's medical centres business increased primarily as a result of revenue growth and cost management.

Following the Federal Government's deregulation of pathology collection centres in July 2010, Healthscope rapidly expanded its network of collection centres from approximately 320 collection centres prior to deregulation to over 600 in September 2011. This rapid expansion caused a significant increase in rent and labour costs which more than offset the incremental revenue from the expanded collection centre network. In the year ended 30 June 2012, rent as a percentage of revenue increased by 250 basis points, whilst labour costs as a percentage of revenue decreased by 20 basis points, driven by operational efficiencies offset in part by additional labour from the increased number of collection centres.

Operating EBIT

The Australian Pathology division Operating EBIT decreased by 73.0% in the year ended 30 June 2012 to $4.3 million, compared to $15.9 million in the year ended 30 June 2011. The decrease in Operating EBIT was driven by the Operating EBITDA decrease outlined above, and an increase in depreciation of $0.5 million to $18.8 million. The increase in depreciation was driven by re-assessment of the useful life, higher amortisation resulting from the increased number of collection centres and the write-off of some existing assets.

4.8.3 Pro forma historical statements of profit or loss: FY2013 compared to FY2012

Table 4.19 sets out the summary pro forma historical statements of profit or loss and selected key performance indicators for FY2012 and FY2013.

Table 4.19 Selected pro forma statements of profit or loss: FY2013 compared to FY2012

	Pro forma historical			
June year end, $ million	**FY2012**	**FY2013**	**Change**	**Change %**
Revenue				
Hospitals	1,584.2	1,660.3	76.1	4.8%
International Pathology	167.0	190.6	23.6	14.1%
Australian Pathology	364.6	360.4	(4.2)	(1.2)%
Revenue	**2,115.8**	**2,211.3**	**95.5**	**4.5%**
Segment Operating EBITDA				
Hospitals	252.5	275.8	23.3	9.2%
International Pathology	38.7	44.5	5.8	15.0%
Australian Pathology	23.2	20.0	(3.2)	(13.8)%
Total all segments	**314.4**	**340.3**	**25.9**	**8.2%**
Corporate costs	(14.3)	(15.1)	(0.8)	5.6%
Total all segments after corporate costs	**300.1**	**325.2**	**25.1**	**8.4%**
Segment Operating EBIT				
Hospitals	205.4	222.3	16.9	8.2%
International Pathology	24.6	30.5	5.9	24.0%
Australian Pathology	4.3	0.7	(3.6)	(83.7)%
Total all segments	**234.3**	**253.5**	**19.2**	**8.2%**
Corporate costs	(18.9)	(20.3)	(1.4)	7.4%
Total all segments after corporate costs	**215.4**	**233.2**	**17.8**	**8.3%**

Group

Healthscope recorded revenue growth of 4.5% in the year ended 30 June 2013 to $2,211.3 million, compared to $2,115.8 million in the year ended 30 June 2012. The increase in revenue was driven by an increase in revenue in the Hospitals and International Pathology divisions, partially offset by a decrease in revenue in the Australian Pathology division.

Healthscope recorded Operating EBITDA growth of 8.2% in the year ended 30 June 2013 to $340.3 million, compared to $314.4 million in the year ended 30 June 2012. The increase in Operating EBITDA was driven by an increase in Operating EBITDA in the Hospitals and International Pathology divisions, partially offset by a decrease in Operating EBITDA in the Australian Pathology division.

Healthscope recorded Operating EBIT growth of 8.2% in the year ended 30 June 2013 to $253.5 million, compared to $234.3 million in the year ended 30 June 2012. The increase in Operating EBIT was driven by an increase in Operating EBIT in the Hospitals and International Pathology divisions, partially offset by a decrease in Operating EBIT in the Australian Pathology division and an increase in depreciation in the Hospitals and International Pathology divisions.

Hospitals

Revenue

The Hospitals division recorded revenue growth of 4.8% in the year ended 30 June 2013 to $1,660.3 million, compared to $1,584.2 million in the year ended 30 June 2012. Acute, psychiatric and rehabilitation hospitals all contributed to the increase in revenue.

Revenue growth was principally driven by a combination of increases in patient admissions to Healthscope's hospitals and agreed increases in Private Health Insurance rates.

The increase in patient admissions in the year ended 30 June 2013 was driven by organic growth, the impact of hospital brownfield projects completed in FY2012 and part period contributions from brownfield projects completed in FY2013. In the year ended 30 June 2013, 105 new beds and three new operating theatres were opened. This comprised 64 beds at psychiatric and rehabilitation hospitals, with additional beds opened at Victoria Rehabilitation Clinic, The Victoria Clinic and The Geelong Clinic, and 41 acute beds and three operating theatres were opened at Northpark.

Operating EBITDA and Operating EBITDA Margin

The Hospitals division Operating EBITDA increased by 9.2% to $275.8 million in the year ended 30 June 2013, compared to $252.5 million in the year ended 30 June 2012, and the division's Operating EBITDA Margin correspondingly increased by 70 basis points to 16.6% in the year ended 30 June 2013. The increases in Operating EBITDA and Operating EBITDA Margin were principally due to the increase in revenue referred to above and cost efficiencies in relation to labour and procurement.

Labour costs increased as a result of the increase in patient admissions and labour rates, however labour as a percentage of revenue decreased by 17 basis points in the year ended 30 June 2013 due to labour efficiencies. The labour initiatives commenced in the year ended 30 June 2012 continued to deliver cost savings in the year ended 30 June 2013.

Consumables costs decreased in the year ended 30 June 2013 and consumables costs as a percentage of revenue decreased by 70 basis points due to procurement efficiencies. These included further progress on procurement initiatives, including additional new national supply contracts and greater participation on the part of Healthscope's hospitals in purchasing under these national supply contracts.

Operating EBIT

The Hospitals division Operating EBIT increased by 8.2% to $222.3 million in the year ended 30 June 2013, compared to $205.4 million in the year ended 30 June 2012. The increase in Operating EBIT was principally driven by the revenue and Operating EBITDA increases outlined above, partially offset by an increase in depreciation of $6.4 million to $53.5 million. Depreciation increased as a result of increased capital invested in the business through brownfield projects and equipment purchases, with significant investment made in FY2011 and FY2012.

International Pathology

Revenue

The International Pathology division recorded revenue growth of 14.1% in the year ended 30 June 2013, to $190.6 million, compared to $167.0 million in the year ended 30 June 2012. The revenue growth was driven by increases in revenue in New Zealand and Singapore, partly offset by a decrease in revenue in Malaysia. Favourable exchange rate movements resulted in a further net increase in revenue.

In New Zealand, revenue increased by 14.4%[80] in the year ended 30 June 2013. Organic revenue growth under existing contracts was supplemented by the full year impact of the DHB contract for the Canterbury region and the acquisition of Medlab South Limited.

In Malaysia, revenue decreased by 2.5%[80], which was primarily due to a reduction in foreign worker screening following the conclusion of the Malaysian Government's amnesty program for illegal foreign workers in July 2012, which contributed an overall decline of 0.6% in patient episode volume in Malaysia for the year ended 30 June 2013.

In Singapore, revenue increased by 12.8%[80] in the year ended 30 June 2013, principally driven by a combination of an increase in patient episodes, a shift in case mix towards more specialised episodes attracting a higher average fee, and settlement proceeds from a litigation case.

Operating EBITDA and Operating EBITDA Margin

The International Pathology division recorded Operating EBITDA growth of 15.0% to $44.5 million in the year ended 30 June 2013, compared to $38.7 million in the year ended 30 June 2012, with Operating EBITDA Margin increasing by 10 basis points to 23.3% for the year ended 30 June 2012.

The increases in Operating EBITDA and Operating EBITDA Margin were principally driven by the revenue growth outlined above and further operating efficiencies and cost management initiatives across all countries, partially offset by increases in labour and consumables costs, resulting largely from an increase in patient episodes in New Zealand and Singapore. Favourable exchange rate movements across New Zealand, Malaysia and Singapore had a favourable impact on Operating EBITDA.

In New Zealand, Operating EBITDA increased by 12.6%[81] in the year ended 30 June 2013 due to revenue growth, further workflow improvements in the Auckland laboratory and rationalisation of testing services among the South Island laboratories resulting in efficiencies. Total costs as a percentage of revenue, however, increased 30 basis points for the year ended 30 June 2013 due to the impact of the lower margin Medlab South business.

In Malaysia, procurement cost savings were realised through the standardisation of equipment platforms across the laboratory network; however the reduction in volume due to the termination of the amnesty program for illegal foreign workers in July 2012 resulted in a reduction in Operating EBITDA of 1.8%[81] in the year ended 30 June 2013. Cost savings led to total costs being 2.8% lower than that for the year ended 30 June 2013, with total costs as a percentage of revenue declining 20 basis points for the year ended 30 June 2013.

In Singapore, growth in patient episodes, an increase in the average fee due to more specialised testing, further operational efficiencies from the new laboratory and the legal settlement outlined above resulted in Operating EBITDA growth of 26.5%[81] for year ended 30 June 2013, as compared to the year ended 30 June 2012. Total costs as a percentage of revenue increased by 69 basis points for the year ended 30 June 2013.

[80] Revenue growth in local currency.

[81] Operating EBITDA growth in local currency.

Operating EBIT

The International Pathology division Operating EBIT increased by 24.0% to $30.5 million in the year ended 30 June 2013, compared to $24.6 million in the year ended 30 June 2012. The increase in Operating EBIT was principally driven by the revenue and Operating EBITDA increases outlined above. Depreciation was largely stable in the year ended 30 June 2013.

Australian Pathology

Revenue

The Australian Pathology division revenue decreased by 1.2% to $360.4 million in the year ended 30 June 2013, compared to $364.6 million in the year ended 30 June 2012. The decrease in revenue was largely driven by divestments in the Australian pathology business, including the pathology operations in Tasmania (August 2011), Western Australia (October 2012), ACT (February 2013), Wollongong (New South Wales, April 2013) and the veterinary pathology operations in New South Wales and Queensland (February 2013).

This decrease in revenue in the Australian pathology business was partially offset by an increase in revenue in the medical centres business, principally due to organic growth in the number of consultations and an increase in average fee per consultation principally from the Medicare fee increase in November 2012.

Operating EBITDA and Operating EBITDA Margin

The Australian Pathology division Operating EBITDA reduced by 13.8% to $20.0 million in the year ended 30 June 2013, compared to $23.2 million in the year ended 30 June 2012 with a corresponding decrease in Operating EBITDA Margin of 90 basis points to 5.5% in the year ended 30 June 2013. The decreases in Operating EBITDA and Operating EBITDA Margin were driven by a decrease in earnings in the Australian pathology business, partially offset by an increase in Operating EBITDA from the medical centres business.

The performance of the Australian pathology business was impacted by the underperformance of the New South Wales and Queensland operations in the first half of the year ended 30 June 2013. In addition to the completed divestments outlined above, Healthscope also proposed to sell its New South Wales and Queensland pathology businesses to Sonic during the year ended 30 June 2012, but these transactions were discontinued in September 2012 (New South Wales) and October 2012 (Queensland). The uncertainty created by the sale process, and the continued increase in rent and labour costs resulting from the expanded number of collection centres following deregulation, negatively impacted the performance of these States.

Following the discontinuation of the sale process, a major restructure of the New South Wales operations was implemented, including the closure of certain underperforming collection centres and rationalisation of several laboratories, which refocused activity to the Sydney metropolitan, Central Coast and Newcastle areas. An improved performance was delivered in the second half of the year ended 30 June 2013, reflecting the reduction in the cost base of the business as a result of the restructure.

In the year ended 30 June 2013, labour as a percentage of revenue decreased by 20 basis points as a result of the restructure, and rent as a percentage of revenue increased by 110 basis points as rental pressures continued.

Operating EBITDA of the medical centres business increased largely as a result of revenue growth and consumables cost efficiencies.

Operating EBIT

The Australian Pathology division Operating EBIT decreased by 83.7% to $0.7 million in the year ended 30 June 2013, compared to $4.3 million in the year ended 30 June 2012. The decrease in Operating EBIT was principally driven by the revenue and Operating EBITDA decreases outlined above. Depreciation was largely stable in the year ended 30 June 2013.

4.8.4 Historical statements of profit or loss: H1FY2013 and H1FY2014

Table 4.20 below sets out the Historical Results for H1FY2013 and H1FY2014 and the Pro Forma Historical Results for H1FY2013 and H1FY2014.

Table 4.20 Summary historical and pro forma historical statements of profit or loss for H1FY2013 and H1FY2014

December half year end, $ million	Note	Historical		Pro forma historical	
		H1FY2013	H1FY2014	H1FY2013	H1FY2014
Revenue		**1,114.8**	**1,163.6**	**1,114.8**	**1,163.6**
Share of profits of associates and joint ventures		0.8	1.0	0.8	1.0
Employee benefits expense	1	(518.9)	(530.5)	(520.1)	(531.7)
Medical and consumable supplies	2	(157.8)	(162.9)	(157.8)	(162.9)
Prosthetics expenses	3	(118.3)	(130.0)	(118.3)	(130.0)
Occupancy costs	4	(58.7)	(59.2)	(58.7)	(59.2)
Service costs	5	(106.1)	(105.0)	(106.4)	(105.3)
Significant items		(123.3)	(6.8)	–	–
EBITDA		**32.5**	**170.2**	**154.3**	**175.5**
Depreciation and amortisation		(46.7)	(47.2)	(46.7)	(47.2)
EBIT		**(14.2)**	**123.0**	**107.6**	**128.3**
Net finance costs	6	(92.3)	(94.4)	(24.5)	(24.0)
Profit Before Tax		**(106.5)**	**28.6**	**83.1**	**104.3**
Tax expense	7	(2.9)	(7.9)	(24.7)	(31.1)
NPAT		**(109.4)**	**20.7**	**58.4**	**73.2**

Note: Refer to Table 4.3 notes.

Significant items

Table 4.21 provides a detailed summary of the Significant items presented within the Historical Results for H1FY2013 and H1FY2014.

Table 4.21 Significant items

December half year, $ million	Note	Historical	
		H1FY2013	H1FY2014
Restructure and other costs	1	(7.0)	(6.5)
Acquisition costs	2	(0.5)	(0.1)
Profit on sale of operations	3	4.2	(0.1)
Impairment of goodwill	4	(120.0)	–
Impairment of assets	5	–	(3.9)
Onerous lease and related costs	6	–	3.8
Significant items (before tax)		**(123.3)**	**(6.8)**

Notes:

1. Restructure and other costs relates primarily to the restructure of Healthscope following the acquisition of the Healthscope business, management fees paid to funds managed and advised by TPG and The Carlyle Group (these fees are not considered an operating expenses of the business) and other one-off litigation costs that were outside of the ordinary course of business.
2. The acquisition costs relate to business combinations undertaken during the respective half year periods, and largely comprise adviser and other associated costs.
3. Profit on disposal relates to the disposal of certain pathology and imaging businesses.
4. Impairment of goodwill relates to the Australian pathology operations.
5. Impairment of assets relating to the Brisbane Waters hospital proposed divestment.
6. Due to the pending re-location to the Gold Coast Private Hospital, Healthscope recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The restructuring of the pathology division also gave rise to additional onerous contracts resulting from excess capacity.

4.8.5 Pro forma adjustments to the historical statements of profit or loss for H1FY2013 and H1FY2014

Table 4.22 to Table 4.25 set out a reconciliation from the Historical Results for H1FY2013 and H1FY2014 to the Pro Forma Historical Results for H1FY2013 and H1FY2014.

Table 4.22 Pro forma adjustments to the historical EBITDA for H1FY2013 and H1FY2014

December half year, $ million	Note	Historical H1FY2013	Historical H1FY2014
EBITDA (as reported)		**32.5**	**170.2**
Pro forma adjustments			
Consolidated Divisional Parent Entities	1	–	–
Add back: Significant items	2	123.3	6.8
Less: Incremental corporate costs	3	(1.5)	(1.5)
Pro forma EBITDA		**154.3**	**175.5**

Notes:

1. EBITDA of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer. There was no EBITDA recorded for the Divisional Parent Entities.
2. Significant items are presented in Table 4.21.
3. Incremental public company costs presented in Table 4.8.

Table 4.23 Pro forma adjustments to the historical EBIT for H1FY2013 and H1FY2014

December half year, $ million	Note	Historical H1FY2013	Historical H1FY2014
EBIT (as reported)		**(14.2)**	**123.0**
Pro forma adjustments			
Consolidated Divisional Parent Entities	1	–	–
Add back: Significant items		123.3	6.8
Less: Incremental corporate costs		(1.5)	(1.5)
Depreciation and amortisation	2	–	–
Pro forma EBIT		**107.6**	**128.3**

Notes:

1. EBIT of the Divisional Parent Entities which will form part of Healthscope upon Completion of the Offer. There was no EBIT recorded for the Divisional Parent Entities.
2. Completion of the Offer is not expected to impact depreciation and amortisation.

Table 4.24 Pro forma adjustments to the historical profit before tax for H1FY2013 and H1FY2014

December half year, $ million	Note	Historical H1FY2013	Historical H1FY2014
Profit before tax (as reported)		**(106.5)**	**28.6**
Pro forma adjustments			
Consolidated Divisional Parent Entities	1	(49.9)	(56.1)
Add back: Significant items		123.3	6.8
Less: Incremental corporate costs		(1.5)	(1.5)
Depreciation and amortisation		–	–
Interest expense adjustment	2	117.7	126.5
Pro forma profit before tax		**83.1**	**104.3**

Notes:

1. Profit before tax of the Divisional Parent Entities (refer to Table 4.1) which will form part of Healthscope upon Completion of the Offer. The Divisional Parent Entities loss before tax relates to interest costs associated with shareholder and related party loans. These loans will be repaid following Completion of the Offer.
2. The interest expense has been adjusted to reflect the anticipated debt profile, interest rates and borrowing costs applicable under the New Banking Facilities following the Offer. This includes the removal of the existing amortisation and write-off of borrowing costs associated with the historical debt facilities. Lower debt levels under the New Banking Facilities are the primary driver of the adjustment for H1FY2013 and H1FY2014.

Table 4.25 Pro forma adjustments to the historical NPAT for H1FY2013 and H1FY2014

December half year, $ million	Note	Historical H1FY2013	Historical H1FY2014
NPAT (as reported)		**(109.4)**	**20.7**
Pro forma adjustments			
Consolidated Divisional Parent Entities	1	(40.8)	(48.5)
Add back: Significant items		123.3	6.8
Less: Incremental corporate costs		(1.5)	(1.5)
Depreciation and amortisation		–	–
Interest expense adjustment		117.7	126.5
Income tax expense adjustments	2	(30.9)	(30.8)
Pro forma NPAT		**58.4**	**73.2**

Notes:

1. NPAT of the Divisional Parent Entities (refer to Table 4.1) which will form part of Healthscope upon Completion of the Offer.
2. The income tax expense has been adjusted to an effective tax rate of 29.8%, which is reflective of the anticipated tax rate following Completion of the Offer.

4.8.6 Pro forma historical statements of profit or loss: H1FY2014 compared to H1FY2013

Table 4.26 sets out the summary pro forma historical statements of profit or loss and selected key performance indicators for H1FY2013 and H1FY2014.

Table 4.26 Selected pro forma historical statements of profit or loss: H1FY2014 compared to H1FY2013

December half year end, $ million	Notes	Pro forma historical H1FY2013	Pro forma historical H1FY2014	Change	Change %
Revenue					
Hospitals		837.4	883.1	45.7	5.5%
International Pathology		93.7	108.0	14.3	15.3%
Australian Pathology		183.7	172.5	(11.2)	(6.1)%
Revenue		**1,114.8**	**1,163.6**	**48.8**	**4.4%**
Segment Operating EBITDA					
Hospitals		136.2	149.5	13.3	9.8%
International Pathology		21.0	24.4	3.4	16.2%
Australian Pathology		5.0	12.1	7.1	142.0%
Total all segments		**162.2**	**186.0**	**23.8**	**14.7%**
Corporate costs		(7.9)	(10.5)	(2.6)	32.9%
Total all segments after corporate costs		**154.3**	**175.5**	**21.2**	**13.7%**
Segment Operating EBIT					
Hospitals		109.4	120.4	11.0	10.1%
International Pathology		13.9	18.3	4.4	31.7%
Australian Pathology		(5.3)	2.8	8.1	152.8%
Total all segments		**118.0**	**141.5**	**23.5**	**19.9%**
Corporate costs		(10.4)	(13.2)	(2.8)	26.9%
Total all segments after corporate costs		**107.6**	**128.3**	**20.7**	**19.2%**

Group

Healthscope recorded revenue growth of 4.4% in the six months ended 30 December 2013 of $1,163.6 million, compared to $1,114.8 million in the six months ended 31 December 2012. The increase in revenue was driven by an increase in revenue in the Hospitals and International Pathology divisions, partially offset by a decrease in revenue in the Australian Pathology division.

Healthscope recorded Operating EBITDA growth of 14.7% in the six months ended 30 December 2013 to $186.0 million, compared to $162.2 million in the six months ending 31 December 2012. The increase in Operating EBITDA was driven by an increase in Operating EBITDA across the Hospitals, International Pathology and Australian Pathology divisions.

Healthscope recorded Operating EBIT growth of 19.9% in the six months ended 30 December 2013 to $141.5 million, compared to $118.0 million in the six months ending 31 December 2012. The increase in Operating EBIT was driven by an increase in Operating EBIT across the Hospitals, International Pathology and Australian Pathology divisions and a decrease in depreciation in the International Pathology and Australian Pathology divisions, partially offset by an increase in depreciation in the Hospitals division.

Hospitals

Revenue

The Hospitals division recorded revenue growth of 5.5% to $883.1 million in the six months ended 31 December 2013, compared to $837.4 million in the six months ended 31 December 2012. Acute, psychiatric and rehabilitation hospitals all contributed to the increase in revenue.

Revenue growth was principally driven by increases in patient admissions to Healthscope's hospitals and agreed increases in Private Health Insurance rates. Admissions growth in the six months ended 31 December 2013 was driven by organic growth and the full year impact of brownfield projects completed in FY2013, with only two day surgery theatres and three new ICU beds opened at Norwest in H1FY2014.

Operating EBITDA and Operating EBITDA Margin

The Hospitals division Operating EBITDA increased by 9.8% to $149.5 million in the six months ended 31 December 2013, compared to $136.2 million in the six months ended 31 December 2012, with Operating EBITDA Margin increasing by 60 basis points to 16.9% for the six months ended 31 December 2013. Operating EBITDA growth and the increase in Operating EBITDA Margin were principally driven by the revenue growth referred to above, and further cost efficiencies.

Labour costs increased in the six months ended 31 December 2013 principally due to increased admissions and labour rates. However, previously implemented labour initiatives continued to deliver efficiencies, resulting in labour as a percentage of revenue decreasing by 50 basis points for the six months ended 31 December 2013. Consumables costs increased in the six months ended 31 December 2013 principally due to increased admissions. Consumables as a percentage of revenue remained flat due to an increase in surgical admissions offset by procurement efficiencies.

Operating EBIT

The Hospitals division Operating EBIT increased by 10.1% to $120.4 million in the six months ended 31 December 2013, compared to $109.4 million in the six months ended 31 December 2012. The increase in Operating EBIT was principally driven by the revenue and Operating EBITDA increases outlined above, partially offset by an increase in depreciation of $2.3 million to $29.1 million. Depreciation increased as a result of increased capital invested in the business through brownfield projects and equipment purchases during the six months ended 31 December 2013.

International Pathology

Revenue

The International Pathology division recorded revenue growth of 15.3% to $108.0 million in the six months ended 31 December 2013, compared to $93.7 million in the six months ended 31 December 2012. Revenue increased across the New Zealand, Malaysian and Singaporean businesses, partly due to favourable foreign exchange rate movements in all three countries.

The New Zealand business recorded revenue growth of 2.9%[82] in the six months ended 31 December 2013, which was principally attributable to an increase in revenue under existing contracts, and a 2.5 month contribution from the acquisition of the clinical pathology business of Diagnostic Medlab (DML) in Auckland, which was completed in October 2013.

[82] Revenue growth in local currency.

The Malaysian business recorded revenue growth of 2.2%[83], principally driven by organic growth in the number of patient episodes, with market growth returning to the Malaysian market in the six months ended 31 December 2013.

The Singaporean business recorded revenue growth of 6.3%[83] in the six months ended 31 December 2013, which was principally attributable to organic growth in the number of episodes.

Operating EBITDA and Operating EBITDA Margin

The International Pathology division recorded Operating EBITDA growth of 16.2% to $24.4 million in the six months ended 31 December 2013, compared to $21.0 million in the six months ended 31 December 2012, corresponding with an increase in Operating EBITDA Margin of 20 basis points to 22.6% in the year ended 30 June 2012.

The increases in Operating EBITDA and Operating EBITDA Margin were principally driven by the revenue growth outlined above, strong cost control across all countries and favourable movements in foreign exchange rates. Favourable foreign exchange rate movements across New Zealand, Malaysia and Singapore had a positive impact on Operating EBITDA.

In New Zealand, an increase in Operating EBITDA of 5.3%[84] in the six months ended 31 December 2013 was principally driven by revenue growth, cost efficiencies from the integration of the pathology workload acquired from the DML business and a restructure of laboratory operations on the South Island. Total costs as a percentage of revenue declined 50 basis points in the six months ended 31 December 2014.

Operating EBITDA for the Malaysian business decreased by 9.1%[84] for the six months ended 31 December 2013, principally as a result of an increase in the doubtful debts provision of $0.5 million resulting from the adoption of a more conservative approach towards fully provisioning a number of longer-term doubtful debts.

In Singapore, the increase in Operating EBITDA of 12.3%[84] in the six months ended 31 December 2013 was principally the result of revenue growth and cost efficiencies resulting from economies of scale in the central laboratory. Total costs as a percentage of revenue declined 160 basis points in the six months ended 31 December 2014.

Operating EBIT

The International Pathology division Operating EBIT increased by 31.7% to $18.3 million in the six months ended 31 December 2013, compared to $13.9 million in the six months ended 31 December 2012. The increase in Operating EBIT was principally driven by the revenue and Operating EBITDA increases outlined above and a decrease in depreciation. Depreciation expense was lower in H1FY2014 as amortisation of the intangible valuation of the SCL acquisition in New Zealand ended in April 2013.

Australian Pathology

Revenue

The Australian Pathology division revenue decreased by 6.1% to $172.5 million in the six months ended 31 December 2013 compared to $183.7 million in the six months ended 31 December 2012. The decrease principally reflected the impact of the pathology divestments undertaken in the previous year and the restructure and downsizing of the New South Wales pathology business undertaken in the year ended 30 June 2013. The medical centres business revenue was broadly flat in the six months ended 31 December 2013.

Operating EBITDA and Operating EBITDA Margin

The Australian Pathology division recorded Operating EBITDA growth of 142% to $12.1 million in the six months ended 31 December 2013, compared to $5.0 million in the six months ended 31 December 2012, with its Operating EBITDA Margin increasing 4.3% to 7.0% in the six months ended 31 December 2013.

The increases in Operating EBITDA and Operating EBITDA Margin in the Australian Pathology business were principally driven by the restructure of the New South Wales pathology business undertaken in FY2013, further rationalisation of the collection centre network which included the closure of a number of additional unprofitable sites, the opening of some new collection centres, and a strong focus on labour management across laboratories. These cost initiatives resulted in labour as a percentage of revenue decreasing by 302 basis points. Continuing pressure on collection centre rentals resulted in rent as a percentage of revenue increasing by 23 basis points.

Medical centres delivered Operating EBITDA growth in the six months ended 30 June 2013, largely through cost management in relation to labour and consumables.

[83] Revenue growth in local currency.

[84] Operating EBITDA growth in local currency.

Operating EBIT

The Australian Pathology division Operating EBIT increased by 152.8% to $2.8 million in the six months ended 31 December 2013, compared to an Operating EBIT loss of $5.3 million in the six months ended 31 December 2012. The increase in Operating EBIT was principally driven by the Operating EBITDA increase outlined above. Depreciation was relatively stable in the six months ended 31 December 2013.

4.8.7 Pro forma historical statements of cash flows: FY2012 compared to FY2011

Key drivers of cashflow

Cashflow

Healthscope has a history of strong cash flow generation from operations exhibited by the continued high cash conversion of Operational EBITDA over a number of years. This operating cash conversion reflects the billing and collections processes imbedded within the divisions and the contractual collection terms in place.

Capital Expenditure

Healthscope's Capital Expenditure relates to technology, new equipment, brownfield developments and maintenance to ensure that all facilities and equipment are kept at the required standard to maintain the existing operations and earnings of Healthscope. Expansion Capital Expenditure reflects the investment by Healthscope in brownfield development projects to meet unmet demand at its existing hospital facilities.

Working Capital

Changes in Working Capital reflect the timing of the Private Health Insurance billing and receipts cycle and the supplier payment profile. Working Capital can be impacted by seasonal influences.

Table 4.27 sets out the summary pro forma historical statements of cash flows for FY2011 and FY2012.

Table 4.27 Selected pro forma historical statements of cash flows: FY2012 compared to FY2011

		Pro forma historical	
June year end, $ million	**Note**	**FY2011**	**FY2012**
EBITDA		278.5	300.1
Exclude: Non-cash items in EBITDA		0.7	0.7
Changes in Working Capital	1	2.2	(1.7)
Net cash flow from operations		**281.4**	**299.1**
Operating Cash Flow Conversion		**101.0%**	**99.7%**
Expansion Capital Expenditure	2	134.2	48.2
Other Capital Expenditure	3	101.6	87.7
Total Capital Expenditure		**235.8**	**135.9**

Notes:

1. Working Capital includes current trade and other receivables, inventory, prepayments, trade and other payables, current provisions and other current creditors. Refer to Section 4.3.
2. Expansion Capital Expenditure primarily consists of investment by Healthscope in brownfield development projects at its hospital facilities. In FY2011 this also included the purchase of property at Newcastle Private.
3. Other Capital Expenditure includes maintenance Capital Expenditure in property, plant and equipment and investment in General Practitioner recruitment. Other Capital Expenditure in FY2012 includes extension of existing medical centres, pathology laboratory fit-outs and the cyclical replacement of new analyser machines.

Changes in Working Capital

Healthscope recorded a net cash outflow from changes in Working Capital of $1.7 million in the year ended 30 June 2012, compared to a cash inflow of $2.2 million in the year ended 30 June 2011. The modest increase in Healthscope's Working Capital balance of $1.7 million was primarily driven by organic growth across all divisions. A combination of shorter collection terms with key private health insurance funds, receipt of some Private Health Insurance payments in advance and improved billings and collection processes at hospital sites led to a significant reduction in trade receivables for the year ended 30 June 2012. The improved management of accounts receivable allowed Healthscope to improve supplier payments and thus better manage supplier relationships.

Capital Expenditure

Healthscope recorded total Capital Expenditure of $135.9 million in the year ended 30 June 2012, compared to $235.8 million in the year ended 30 June 2011.

Healthscope recorded expansion Capital Expenditure of $48.2 million in the year ended 30 June 2012, compared to $134.2 million in the year ended 30 June 2011. The decrease in expansion capital expenditure in FY2012 was primarily due to a lag in brownfield Capital Expenditure as management focused on reshaping the project pipeline to focus on larger whole-of-site projects at major facilities. Given the time taken from project conception to project completion of one to three years, the number of hospital brownfield projects completed in FY2012, FY2013 and H1FY2014 has been lower than it would otherwise have been.

Healthscope recorded other Capital Expenditure of $87.7 million in the year ended 30 June 2012, compared to $101.6 million in the year ended 30 June 2011. The decrease in other capital expenditure in FY2012 is attributed to a slowing expansion and rationalisation of the collection centre footprint in Australian Pathology and a lower General Practitioner recruitment expenditure for medical centres. Investment in essential equipment purchases at acute hospitals led to the Hospitals division reporting increased Capital Expenditure in the year ended 30 June 2012. International Pathology also reported increased Capital Expenditure as a result of significant investment required in New Zealand to rebuild the laboratory due to the loss of property, plant and equipment in the Christchurch Earthquake in February 2011. This was, however, offset by receipt of Private Health Insurance proceeds in the following year.

4.8.8 Pro forma historical statements of cash flows: FY2013 compared to FY2012

Table 4.28 sets out the summary pro forma historical statements of cash flows for FY2012 and FY2013.

Table 4.28 Selected pro forma historical statements of cash flows: FY2013 compared to FY2012

		Pro forma historical	
June year end, $ million	**Note**	**FY2012**	**FY2013**
EBITDA		300.1	325.2
Exclude: Non-cash items in EBITDA		0.7	0.7
Changes in Working Capital	2	(1.7)	(17.1)
Net cash flow from operations		**299.1**	**308.8**
Operating Cash Flow Conversion		**99.7%**	**95.0%**
Expansion Capital Expenditure	3	48.2	44.3
Other Capital Expenditure	4	87.7	71.6
Total Capital Expenditure		**135.9**	**115.9**

Note: Refer to Table 4.16 notes.

Changes in Working Capital

Healthscope recorded a net cash outflow from changes in Working Capital of $17.1 million in the year ended 30 June 2013, compared to a cash outflow of $1.7 million in the year ended 30 June 2012. The increase in Healthscope's Working Capital balance of $17.1 million was primarily driven by a slowdown in collection in the month of June 2013 leading to increased trade receivables at 30 June 2013 combined with some Private Health Insurance payments received in advance in the year ended 30 June 2012. Good organic growth across all divisions led to strong collections in the year ended 30 June 2013 in comparison to the year ended 30 June 2012.

Capital Expenditure

Healthscope recorded total Capital Expenditure of $115.9 million in the year ended 30 June 2013, compared to $135.9 million in the year ended 30 June 2012.

Healthscope recorded expansion Capital Expenditure of $44.3 million in the year ended 30 June 2013, compared to $48.2 million in the year ended 30 June 2012. Brownfield Capital Expenditure was lower in the year ended 30 June 2013 as no new major projects commenced during this period as Healthscope awaited the results of development applications and other approvals for key projects in the project pipeline.

Healthscope recorded other Capital Expenditure of $71.6 million in the year ended 30 June 2013, compared to $87.7 million in the year ended 30 June 2012. The decrease in other Capital Expenditure in the year ended 30 June 2013 was primarily due to a reduction in Capital Expenditure in Australian Pathology as a result of slowing expansion and rationalisation of the collection centre footprint and lower General Practitioner recruitment expenditure for the medical centres business.

4.8.9 Pro forma historical statements of cash flows: H1FY2014 compared to H1FY2013

Table 4.29 sets out the summary pro forma historical statements of cash flows for H1FY2013 and H1FY2014.

Table 4.29 Selected pro forma historical statements of cash flows: H1FY2014 compared to H1FY2013

		Pro forma historical	
December half year, $ million	**Note**	**H1FY2013**	**H1FY2014**
EBITDA		154.3	175.5
Exclude: Non-cash items in EBITDA		0.4	0.4
Changes in Working Capital	2	20.0	15.2
Net cash flow from operations		**174.7**	**191.1**
Operating Cash Flow Conversion		**113.2%**	**108.9%**
Expansion Capital Expenditure	3	21.0	31.8
Other Capital Expenditure	4	33.1	33.4
Total Capital Expenditure		**54.1**	**65.2**

Note: Refer to Table 4.16 notes.

Changes in Working Capital

Healthscope recorded a net cash inflow from changes in Working Capital of $15.2 million in the six months ended 31 December 2013, compared to a cash inflow of $20.0 million in the half year ended 31 December 2012. The decrease in Healthscope's Working Capital balance of $15.2 million was primarily driven by improvement in payment terms agreed with private health insurance funds. The decreases in Working Capital in the six months ended 31 December 2013 and 31 December 2012 are reflective of a seasonality impact whereby Private Health Insurance billings in the December month are typically lower due to the Christmas and New Year holiday period. Strong cash receipts reported in the six months ended 31 December 2013 coupled with more favourable collection and payment terms with private health insurance funds led to overall improvement in cash collection in the six months ended 31 December 2013 compared to the six months ended 31 December 2012. Increased cash collection allowed improved supplier payments, allowing Healthscope to better manage its supplier relationships.

Capital Expenditure

Healthscope recorded total Capital Expenditure of $65.2 million in the six months ended 31 December 2013, compared to $54.1 million in the six months ended 31 December 2012.

Healthscope recorded expansion Capital Expenditure of $31.8 million in the six months ended 31 December 2013, compared to $21.0 million in the half year ended 31 December 2012. The increase in expansion Capital Expenditure in the six months ended 31 December 2013 was primarily due to the commencement of construction of the new Gold Coast Private Hospital.

Healthscope recorded other Capital Expenditure of $33.4 million in the six months ended 31 December 2013, compared to $33.1 million in the six months ended 31 December 2012. The increase in other Capital Expenditure in the six months ended 31 December 2012 was primarily due to costs incurred in relation to the New Zealand DML acquisition. This increase was mostly offset by a lower expenditure on information technology projects compared to the six months ended 31 December 2012.

4.8.9.1 Pro forma adjustments to the historical statements of cash flows

Table 4.30 sets out the pro forma adjustments to the Historical Cash Flows for H1FY2013 and H1FY2014.

Table 4.30 Pro forma adjustments to the historical statements of cash flows for H1FY2013 and H1FY2014

		Pro forma historical	
December half year, $ million	**Note**	**H1FY2013**	**H1FY2014**
Net cash flows from operations (reported)		**75.0**	**90.0**
Consolidate operating cash flows for the Divisional Parent Entities	2	–	–
Net interest paid	3	86.6	86.9
Income tax paid	4	2.4	6.8
Capital Expenditure	5	(54.1)	(65.2)
Net cash flows from operations (adjusted)		**109.9**	**118.5**
Add back: Significant Items	6	11.8	8.5
Subtract: Incremental corporate costs	7	(1.1)	(1.1)
Other	8	–	–
Pro forma net cash flows from operations (after Capital Expenditure)		**120.6**	**125.9**

Note: Refer to Table 4.17 notes.

4.9 Forecast Financial Information

The basis of preparation of the FY2014 and FY2015 Forecast Financial Information is detailed in Section 4.2. This Section includes the Directors' best estimate assumptions specific to the forecast period. In addition to these specific assumptions, the general assumptions adopted in preparing the Forecast Financial Information are also detailed below.

4.9.1 General assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- there is no material change in the competitive and operating environments in which Healthscope operates;
- there is no change in applicable AAS and International Financial Reporting Standards that would have a material impact on Healthscope's accounting policies, financial reporting or disclosure requirements;
- there is no significant deviation from current market expectations of the broader economic conditions (including exchange rates) relevant to the Australian and international sectors in which Healthscope and its key customers operate;
- there is no material change in the legislative regimes (including taxation) and regulatory environment in which Healthscope and its customers operate;
- there are no material losses of customers or contracts beyond those incorporated in the forecasts;
- there is no material amendment to any material agreement relating to Healthscope's business other than as disclosed in this Prospectus;
- there are no significant disruptions to the continuity of operations of Healthscope and there are no other material changes in Healthscope's business;
- no material acquisitions or divestments are completed;
- there are no material changes to Healthscope's corporate and funding structure other than as set out in, or contemplated by, this Prospectus;
- there is no loss of key management personnel and Healthscope will maintain the ongoing ability to recruit and retain required personnel;
- there is no material litigation that will arise or be settled to the benefit or detriment of Healthscope;
- there are no material contingent liabilities that will arise or be realised to the detriment of Healthscope;
- the Offer proceeds in accordance with the key dates set out in this Prospectus; and
- none of the risks set out in Section 5 occur, or if they do, none of them has a material adverse impact on Healthscope's operations.

4.9.2 Directors' best estimate assumptions

The Forecast Financial Information for FY2014 includes the Healthscope Aggregated Group's reviewed results for H1FY2014, actual results for the four month period to 30 April 2014 and the forecast results for the remaining two months to 30 June 2014.

The Forecast Financial Information is based on various best estimate assumptions, of which the key assumptions are set out below in Section 4.9.3. The assumptions below are a summary only and do not represent all factors that will affect Healthscope's forecast financial performance. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. It should be read in conjunction with the basis of preparation of the Forecast Financial Information set out in Section 4.2, the general assumptions set out in this Section and the risk factors set out in Section 5.

4.9.3 Specific assumptions

Hospitals key assumptions

Healthscope has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated demand for private hospital services, taking into account macroeconomic factors, expected market growth in private hospital admissions, bed and operating theatre capacity at Healthscope's hospitals on a facility-by-facility basis (including the full year impact of recently completed brownfield projects, the impact of brownfield projects forecast to complete and the potential disruption caused by brownfields during construction), the anticipated activity levels, acquisition and retention of key Accredited Medical Practitioners, the expected case mix at Healthscope's hospitals, and other hospital specific factors.
- The rates Healthscope expects to be paid for each admission, principally taking into account the rates agreed in Private Health Insurance and other agreements (DVA and TAC) and the expected case mix at Healthscope's hospitals. Forecast growth in revenue per patient day reflects negotiated rate increases under Private Health Insurance agreements and the expected increase in remaining immaterial contracts and uninsured rates based on recent trends.
- The percentage of Healthscope's Hospitals revenue coming from Private Health Insurance agreements is assumed to remain materially consistent with the current position (approximately 80%) over the Forecast Period, and the percentage of this revenue coming from each private health insurance fund is also expected to remain materially consistent with the current position over the Forecast Period. As such, it is estimated that approximately 96% of revenue coming from private health insurance funds over the Forecast Period is covered by Private Health Insurance agreements which have rates locked in until at least September 2015, providing pricing certainty around Private Health Insurance rates over the Forecast Period.
- Healthscope has specifically assumed that brownfield projects at five facilities will become operational during the Forecast Period, adding capacity of four new beds and six new operating theatres. The forecast contribution from brownfield projects has been based on management's detailed business case submissions approved by the Board.

Healthscope has estimated the expenses component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated labour costs, including taking into account the projected volume of nursing and other labour based on forecast admissions and expected case mix at Healthscope hospitals, wage increases applicable under current or expected renegotiations of Modern Awards or Enterprise Agreements and expected wage increases for salaried employees based on historical trends. Labour efficiencies that are anticipated to be realised from labour initiatives, including management of labour hours, skill mix and agency utilisation, are consistent with Healthscope's demonstrated improvement in labour cost efficiencies since FY2011.
- Anticipated consumables costs, including taking into account the projected volume of consumables usage based on forecast admissions and projected case mix and the consumables unit cost, principally based on prices set out in agreements with suppliers. Medical and consumables supply costs in Hospitals are forecast to decrease as a percentage of revenue due to the full year impact of improved procurement terms secured during FY2014 and expected efficiencies resulting from the implementation of other procurement initiatives, including rationalisation projects for areas of significant spend and business process improvement.
- Anticipated occupancy costs, in particular the rent cost associated with Healthscope's 11 leased hospitals based on existing rent under current agreements and expected changes in rent based on annual escalation clauses. There are no material facility lease agreements due for renewal in the Forecast Period.
- Anticipated levels of other costs, which include utilities, maintenance, cleaning and waste costs, many of which are covered by agreements with various suppliers.

International pathology key assumptions

New Zealand pathology key assumptions

Healthscope has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated revenue under existing DHB contracts based on projected volumes and agreed rates set out in the contracts, including the full year impact of new contracts Healthscope secured in FY2013 and FY2014. Forecast growth in episode testing is in line with historical performance.

- There are no material DHB contracts due for renewal in the Forecast Period, with the expiring immaterial contracts assumed to be renewed based on historical track record of renewal rates. In additional, no revenue has been assumed from securing new DHB contracts under competitive tenders to be conducted over the Forecast Period.

Healthscope has estimated the expenses component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated labour costs, including taking into account the projected volume of laboratory, collection centre, courier and other staff based on forecast episode volumes and episode mix and expected increases in labour rates based on existing agreements and expected increases for salaried employees. The margin benefit assumed from labour efficiencies in the Forecast Period is principally based on the full year impact of delivering recently secured DHB contracts using existing laboratory labour. Healthscope has a demonstrated track record of realising labour efficiencies after securing new DHB contracts since FY2012.
- Anticipated consumables costs, including taking into account the projected volume of consumables usage based on forecast episode volume and episode mix and the consumables unit cost based on prices set out in agreements with suppliers.
- Anticipated occupancy costs, based on existing rental agreements in place for laboratories and collection centres.
- Anticipated levels of other costs, which include utilities, cleaning and waste costs, many of which are covered by agreements with various supplies.

Malaysia and Singapore pathology key assumptions

Healthscope has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated episode and test volume, taking into account macroeconomic factors, expected market growth for pathology services, assumed movements in market share due to competitor activity in particular regions, and projected revenue under existing commercial and other contracts. There are no material commercial contracts due for renewal in the Forecast Period and assumed growth in testing volumes is based on recent performance.
- The expected average fee per episode, based on the projected episode mix and any pricing changes that are expected to be implemented.

Healthscope has estimated the expenses component of the Forecast Financial Information in Malaysia and Singapore based on a detailed analysis of:

- Anticipated labour costs taking into account the projected volume of laboratory, courier and other staff required to deliver forecast episode volumes and episode mix and expected increases in labour rates.
- Anticipated consumables coststaking into account the projected volume of consumables usage and a consumables unit cost based on existing price lists.
- Anticipated rent and other costs based on current laboratory rental agreements and recent track record.

Translation of local currency earnings in the International Pathology division are assumed at the following FX rates:

- NZD/AUD: 1.08
- MYR/AUD: 2.88
- SGD/AUD: 1.10

Australian pathology key assumptions

Healthscope has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated episode and test volume taking into account macroeconomic factors, expected market growth for pathology services and any movements in market share due to competitor activity in particular regions. Assumed testing volumes also take into account the full year impact of any collection centres opened or closed/divested during FY2014 and the part period impact on volumes from assumed collection centre openings and closures in FY2015.
- The expected average fee per episode, based on the projected episode mix and any anticipated changes to fees under the Medicare Benefits Schedule and the Federal Government's funding agreement in place until 30 June 2016. The assumed average fee per episode is in line with current trends in the business.

- The Forecast Financial Information does not reflect any potential impact from the Federal Government's announced $7 co-payment towards out of hospital pathology tests on the basis that, if enacted, this initiative would only apply beyond the Forecast Period. Refer to Section 2 for further discussion.

Healthscope has estimated the expenses component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated labour costs, including taking into account the projected volume of laboratory, collection centre, courier and other staff based on forecast episode volumes and episode mix, plus expected increases in labour rates for both employees covered by Modern Awards or Enterprise Agreements and salaried employees. The FY2015 forecast includes the impact of labour cost saving initiatives that are currently being implemented or which have been planned and are expected to be implemented during the Forecast Period. These initiatives include rostering efficiencies in laboratories and aligning the laboratory skill mix with the complexities of testing volumes.
- Anticipated consumables costs, including taking into account the projected volume of consumables usage based on forecast episode volume and episode mix and the consumables unit cost principally based on prices set out in existing supply agreements.
- Anticipated rent costs, based on projected rent under current rental agreements, expected changes in rents where leases are due for renewal in the forecast period, the impact of competitor activity on rents in specific regions, the full period impact on rent of collection centres opened or closed/divested during FY2014 and the part period impact on rent from anticipated collection centre openings and closures in FY2015.
- Anticipated levels of other costs, which include utilities, cleaning and waste costs, many of which are covered by agreements with various suppliers.

Medical centres key assumptions

Healthscope has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated volume of consultations, principally taking into account macroeconomic factors, expected market growth for general practice services, the full year impact on volumes from the acquisition of Sydney Breast Clinic and the opening of the new Croydon Medical Centre in FY2014, expected activity levels, and number, of key General Practitioners and any anticipated changes to medical centre opening hours. The assumed increase in consultation volumes is in line with historical performance.
- The expected average fee per consultation, based on the anticipated changes to fees under the Medicare Benefits Schedule and additional billings in relation to programs such as chronic disease management.
- The anticipated service fee percentage, expressed as a percentage of General Practitioners; patient billings, including any adjustments in the service fee percentage that are expected when service contracts with the General Practitioners come up for renewal in the Forecast Period.
- The Forecast Financial Information does not reflect any potential impact from the Federal Government's announced $7 co-payment towards General Practitioner consultations on the basis that, if enacted, this initiative would only apply beyond the Forecast Period. Refer to Section 2 for further discussion.

Healthscope has estimated the expenses component of the Forecast Financial Information based on a detailed analysis of:

- Anticipated labour costs, including taking into account the projected volume of medical centre staff based on forecast consultation volumes, expected increases in labour rates for both employees covered by Modern Awards or Enterprise Agreements and salaried employees, and any labour efficiencies that are anticipated to be realised from labour initiatives such as benchmarking.
- Anticipated consumables costs, including taking into account the projected volume of consumables usage based on forecast consultation volume and the consumables unit cost principally based on prices set out in agreements with suppliers.
- Anticipated property costs, based on projected costs under current rental agreements, expected changes in rents where leases are due for renewal in the forecast period.
- Anticipated levels of other costs, which include utilities, maintenance, cleaning and waste costs, many of which are covered by agreements with various suppliers.

Depreciation and amortisation key assumptions

Depreciation and amortisation charges are forecast based on the existing asset base and depreciation and amortisation rates and forecast additional depreciation on Capital Expenditure expected to be incurred in the Forecast Period. The increases are offset by any reductions in depreciation in the Australian pathology business associated with the closure of collection centres, and reductions in depreciation and amortisation in the medical centres business following the full amortisation of capital payments on some General Practitioner service contracts.

Interest expense

The interest expense is based on the term sheet pricing in the New Banking Facilities agreed by the banks discussed in Section 4.6.1 and assumes no interest rate hedge cover during FY2015 following Completion of the Offer. Interest expense includes amortisation of upfront fees over the term of the respective facilities. A base rate of 2.75% per annum has been assumed by reference to current prevailing BBSY rate on the group debt which is denominated in Australian dollars. The assumed all-in rate for the New Banking Facilities is 4.05% for FY2015 following Listing. Sensitivity analysis on the impact of a 25 basis point movement has been provided in Section 4.10.

Taxation

Healthscope, along with its eligible Australian subsidiaries, forms an Australian income tax consolidated group. Australian corporate tax has been assumed to remain at 30%. New Zealand's corporate tax rate has been assumed to remain at 28%. Other relevant tax rates in Healthscope's overseas jurisdictions have been assumed to remain at current statutory levels. Healthscope has assumed an effective tax rate of 29.8% based on historical performance.

4.9.4 Summary pro forma statements of profit or loss: pro forma FY2014 compared to pro forma FY2013

Table 4.31 sets out the summary pro forma historical and forecast statements of profit or loss and selected key performance indicators for FY2013 and FY2014.

Table 4.31 Summary pro forma statements of profit or loss: FY2014 compared to FY2013

June year end, $ million	Pro forma historical FY2013	Pro forma forecast FY2014	Change	Change %
Revenue				
Hospitals	1,660.3	1,743.6	83.3	5.0%
International Pathology	190.6	223.1	32.5	17.1%
Australian Pathology	360.4	347.9	(12.5)	(3.5%)
Revenue	**2,211.3**	**2,314.6**	**103.3**	**4.7%**
Segment Operating EBITDA				
Hospitals	275.8	297.2	21.4	7.8%
International Pathology	44.5	52.6	8.1	18.2%
Australian Pathology	20.0	25.3	5.3	26.5%
Total all segments	**340.3**	**375.1**	**34.8**	**10.2%**
Corporate costs	(15.1)	(20.9)	(5.8)	38.4%
Total all segments after corporate costs	**325.2**	**354.2**	**29.0**	**8.9%**
Segment Operating EBIT				
Hospitals	222.3	236.3	14.0	6.3%
International Pathology	30.5	40.0	9.5	31.1%
Australian Pathology	0.7	6.7	6.0	857.1%
Total all segments	**253.5**	**283.0**	**29.5**	**11.6%**
Corporate costs	(20.3)	(26.1)	(5.8)	28.6%
Total all segments after corporate costs	**233.2**	**256.9**	**23.7**	**10.2%**

Group

Healthscope is forecast to achieve revenue growth of 4.7% in the year ending 30 June 2014 to $2,314.6 million, compared to $2,211.3 million in the year ended 30 June 2013. The forecast increase in revenue is expected to be driven by an increase in revenue in the Hospitals and International Pathology divisions, partially offset by a decrease in revenue in the Australian Pathology division.

Healthscope is forecast to achieve Operating EBITDA growth of 10.2% in the year ending 30 June 2014 to $375.1 million, compared to $340.3 million in the year ended 30 June 2013. The increase in Operating EBITDA is driven by an increase in Operating EBITDA across the Hospitals, International Pathology and Australian Pathology divisions.

Healthscope is forecast to achieve Operating EBIT growth of 11.6% in the year ending 30 June 2014 to $283.0 million, compared to $253.5 million in the year ended 30 June 2013. The increase in Operating EBIT is expected to be driven by an increase in Operating EBIT across the Hospitals, International Pathology and Australian Pathology divisions and a decrease in depreciation in the International Pathology and Australian Pathology divisions, partially offset by an increase in depreciation in the Hospitals division.

Hospitals

Revenue

The Hospitals division is forecast to achieve revenue growth of 5.0% to $1,743.6 million in the year ending 30 June 2014, compared to $1,660.3 million in the year ended 30 June 2013. It is expected that acute, psychiatric and rehabilitation hospitals will contribute to the forecast revenue growth.

Revenue growth is expected to be driven principally by an increase in patient admissions to Healthscope's hospitals and agreed rate increases from private health insurance funds. Admissions growth is expected to be principally driven by organic growth, the full year impact of brownfield development projects completed in FY2013, and part period contributions from brownfield development projects completed in FY2014. A total of 17 new beds and three new operating theatres are expected to be completed in the year ending 30 June 2014. The projects at Norwest and The Hills have already been completed, and Brisbane Private is expected to be completed in June 2014.

Operating EBITDA and Operating EBITDA Margin

The Hospitals division Operating EBITDA is forecast to increase by 7.8% to $297.2 million in the year ending 30 June 2014, compared to $275.8 million in the year ended 30 June 2013, and the Operating EBITDA Margin is forecast to increase by 40 basis points to 17.0%. Operating EBITDA growth and Operating EBITDA Margin growth is expected to be driven principally by the revenue growth referred to above, and further cost efficiencies.

Labour costs are forecast to increase in the year ending 30 June 2014 principally as a result of an increase in patient admissions. However, labour as a percentage of revenue is expected to decrease by 30 basis points. Labour initiatives that were implemented in FY2012 (outlined previously) have continued to deliver efficiencies year to date in FY2014 and this is expected to continue for the remainder of the year.

Consumables costs are expected to increase in the year ending 30 June 2014 due to an increase in admissions, in particular in relation to surgical admissions. The impact of national supply contracts is expected to be offset by increased usage of consumables as a result of an increase in surgical admissions, which is expected to result in consumables cost as a percentage of revenue increasing by 40 basis points in the year ending 30 June 2014.

Operating EBIT

The Hospitals division Operating EBIT is forecast to increase by 6.3% to $236.3 million in the year ending 30 June 2014, compared to $222.3 million in the year ended 30 June 2013. The forecast increase in Operating EBIT is expected to be principally driven by the revenue and Operating EBITDA increases outlined above, partially offset by a forecast increase in depreciation of $7.4 million to $60.9 million. Depreciation is expected to increase as a result of increased Capital Expenditure incurred through brownfield projects and equipment purchases.

International Pathology

Revenue

The International Pathology division is forecast to achieve revenue growth of 17.1% to $223.1 million in the year ending 30 June 2014, compared to $190.6 million in the year ended 30 June 2013. Revenue is expected to increase in New Zealand, Malaysia and Singapore.

The New Zealand business is forecast to achieve revenue growth of 5.8%[85] in the year ended 30 June 2014. The principal drivers of revenue growth are expected to be an increase in revenue under existing contracts and 8.5 months' contribution from the Diagnostic Medlab (DML) acquisition which was completed in October 2013.

[85] Revenue growth in local currency.

Malaysia is forecast to record revenue growth of 3.1%[86] in the year ending 30 June 2014, which is expected to be primarily driven by organic growth, as the market in Malaysia is expected to continue to grow over the remainder of FY2014.

The Singaporean business is forecast to record revenue growth of 5.6%[86] in the year ending 30 June 2014, which is expected to be principally driven by organic volume growth and a favourable revenue yield from an increase in specialised testing, resulting in increased revenue per episode.

Operating EBITDA and Operating EBITDA Margin

International Pathology division is forecast to record Operating EBITDA growth of 18.2% to $52.6 million in the year ended 30 June 2014, compared to $44.5 million in the year ended 30 June 2013. The International Pathology Operating EBITDA Margin is forecast to increase by 30 basis points to 23.6% in the year ending 30 June 2014.

The forecast increases in Operating EBITDA and Operating EBITDA Margin are expected to be driven by New Zealand and Singapore, which is expected to be partially offset by a decrease in Operating EBITDA in Malaysia. The increase in Operating EBITDA is expected to be driven principally by the revenue growth outlined above, and cost control across all countries.

New Zealand is forecast to achieve Operating EBITDA growth of 13.7%[87] in the year ended 30 June 2014. Cost efficiencies are expected to continue from the integration of the pathology workload acquired from the DML business in Auckland and the restructure of laboratory operations in the South Island is expected to continue to deliver cost efficiencies. Total costs as a percentage of revenue are expected to decrease by 150 basis points in the year ending 30 June 2014.

Malaysia is forecast to derive an Operating EBITDA reduction of 9.3%[87] in the year ended 30 June 2014. Operating EBITDA was negatively impacted by an increase in the doubtful debts provision in the six months ended 31 December 2014.

Singapore is forecast to achieve Operating EBITDA growth of 12.1%[87] in the year ended 30 June 2014 largely due to revenue growth outlined above and cost efficiencies. Total costs as a percentage of revenue are expected to decrease by 140 basis points in the year ending 30 June 2014.

Operating EBIT

The International Pathology division Operating EBIT is forecast to increase by 31.1% to $40.0 million in the year ended 30 June 2014, compared to $30.5 million in the year ended 30 June 2013. The increase in Operating EBIT is expected to be driven principally by the revenue and Operating EBITDA increases outlined above and decrease in depreciation of $1.4 million to $12.0 million. The decrease in depreciation was due to an adjustment in the depreciation rate for the Auckland Pathology contract which was extended to 2020 in July 2013.

Australian Pathology

Revenue

The Australian Pathology division revenue is forecast to decrease by 3.5% to $347.9 million in the year ending 30 June 2014 compared to $360.4 million in the year ended 30 June 2013. The expected decrease in revenue reflects the pathology divestments undertaken in the previous year and the restructure and downsizing of the New South Wales pathology business which was also undertaken in the year ended 30 June 2013.

Operating EBITDA and Operating EBITDA Margin

The Australian Pathology division is forecast to record Operating EBITDA growth of 26.5% to $25.3 million in the year ending 30 June 2014, compared to $20.0 million in the year ended 30 June 2013. The Australian Pathology Operating EBITDA Margin is expected to increase by 180 basis points to 7.3% in the year ending 30 June 2014.

The New South Wales pathology business is expected to report a significant increase in Operating EBITDA in FY2014, reflecting the restructure of this business. The cost out initiatives implemented in FY2013, which included the closure of collection centres and several laboratories, are expected to lead to an increase in Operating EBITDA in this State. Rationalisation of underperforming collection centres and an increase in centralisation of tests is expected to continue to deliver labour efficiencies across all States. In FY2014, labour as a percentage of revenue is expected to decrease by 151 basis points and rent as a percentage of revenue is expected to increase by 119 basis points.

The medical centres business is expected to deliver earnings growth in the year ending 30 June 2014, largely through cost management.

[86] Revenue growth in local currency.

[87] Operating EBITDA growth in local currency.

Operating EBIT

The Australian Pathology division Operating EBIT is forecast to increase by 857.1% to $6.7 million in the year ending 30 June 2014, compared to an Operating EBIT profit of $0.7 million in the year ended 30 June 2013. The increase in Operating EBIT is expected to be driven principally by the expected Operating EBITDA increases outlined above, and a decrease in depreciation of $0.7 million. The decrease in depreciation reflects a lower asset base following the closure of collection centres and several laboratories, along with the impact of the divestments completed in the previous year.

4.9.5 Summary pro forma statements of profit or loss: FY2015 compared to FY2014

Table 4.32 sets out the summary pro forma forecast statements of profit or loss and selected key performance indicators for FY2014 and FY2015.

Table 4.32 Summary pro forma statements of profit or loss: FY2015 compared to FY2014

	Pro forma forecast			
June year end, $ million	**FY2014**	**FY2015**	**Change**	**Change %**
Revenue				
Hospitals	1,743.6	1,848.6	105.0	6.0%
International Pathology	223.1	234.6	11.5	5.2%
Australian Pathology	347.9	365.2	17.3	5.0%
Revenue	**2,314.6**	**2,448.4**	**133.8**	**5.8%**
Segment Operating EBITDA				
Hospitals	297.2	325.9	28.7	9.7%
International Pathology	52.6	56.4	3.8	7.2%
Australian Pathology	25.3	26.3	1.0	4.0%
Total all segments	**375.1**	**408.6**	**33.5**	**8.9%**
Corporate costs	(20.9)	(21.3)	(0.4)	1.9%
Total all segments after corporate costs	**354.2**	**387.3**	**33.1**	**9.3%**
Segment Operating EBIT				
Hospitals	236.3	259.7	23.4	9.9%
International Pathology	40.0	43.1	3.1	7.8%
Australian Pathology	6.7	8.7	2.0	29.9%
Total all segments	**283.0**	**311.5**	**28.5**	**10.1%**
Corporate costs	(26.1)	(26.8)	(0.7)	2.7%
Total all segments after corporate costs	**256.9**	**284.7**	**27.8**	**10.8%**

Group

Healthscope is forecast to achieve revenue growth of 5.8% in the year ending 30 June 2015 to $2,448.4 million, compared to $2,314.6 million in the year ended 30 June 2014. The forecast increase in revenue is expected to be driven by an increase in revenue in the Hospitals, International Pathology and Australian Pathology divisions.

Healthscope is forecast to achieve Operating EBITDA growth of 8.9% in the year ending 30 June 2015 to $408.6 million, compared to $375.1 million in the year ended 30 June 2014. The increase in Operating EBITDA is driven by an increase in Operating EBITDA across the Hospitals, International Pathology and Australian Pathology divisions.

Healthscope is forecast to achieve Operating EBIT growth of 10.1% in the year ending 30 June 2015 to $311.5 million, compared to $283.0 million in the year ended 30 June 2014. The increase in Operating EBIT is expected to be driven by an increase in Operating EBITDA across the Hospitals, International Pathology and Australian Pathology divisions and a decrease in depreciation in the Australian Pathology division, partially offset by an increase in depreciation in the Hospitals and International Pathology divisions.

Hospitals

Revenue

The Hospitals division is forecast to achieve revenue growth of 6.0% to $1,848.6 million in the year ending 30 June 2015, compared to $1,743.6 million in the year ended 30 June 2014. It is expected that acute, psychiatric and rehabilitation hospitals will contribute to the forecast revenue growth. Revenue growth is expected to be driven principally by an increase in patient admissions to Healthscope's hospitals and agreed rate increases from private health insurance funds. Admissions growth is expected to be driven by a combination of organic growth, brownfield development projects completed in FY2014 (The Hills and Brisbane Private) and brownfield development projects expected to be completed in FY2015 (Campbelltown, Newcastle, Pine Rivers and The Mount). These projects are expected to add a total of five new operating theatres and four new beds.

Approximately 80% of Healthscope's Hospitals revenue comes from Private Health Insurance; of revenue coming from Private Health Insurance, approximately 96% is covered by Private Health Insurance agreements which have rates secured until at least September 2015, providing certainty around a large proportion of Private Health Insurance rates over the forecast period.

Operating EBITDA and Operating EBITDA Margin

The Hospitals division Operating EBITDA is forecast to increase by 9.7% to $325.9 million in the year ending 30 June 2015, compared to $297.2 million in the year ended 30 June 2014, and the Operating EBITDA Margin is forecast to increase by 60 basis points to 17.6%. Operating EBITDA growth and Operating EBITDA Margin growth is expected to be driven principally by the revenue growth referred to above, and further cost efficiencies.

Labour costs are expected to increase principally as a result of an increase in patient admissions and an increase in labour rates; however labour as a percentage of revenue is expected to decrease by 20 basis points in the year ending 30 June 2015, due to a number of labour initiatives that have been in place since FY2012 that are expected to continue to deliver efficiencies in FY2015. These include management of labour hours, skill mix and agency utilisation.

Consumables costs are expected to increase largely as a result of an increase in patient admissions, however consumables costs as a percentage of revenue is expected to decrease by 50 basis points in the year ending 30 June 2015. A continuation of recent procurement initiatives, including the impact of national supply contracts, increased contract compliance and further rationalisation projects for areas of significant spend are expected to result in efficiencies in FY2015.

Operating EBIT

The Hospitals division Operating EBIT is forecast to increase by 9.9% to $259.7 million in the year ending 30 June 2015, compared to $236.3 million in the year ended 30 June 2014. The forecast increase in Operating EBIT is expected to be principally driven by the revenue and Operating EBITDA increases outlined above, partially offset by a forecast increase in depreciation of $5.3 million to $66.3 million. Depreciation is expected to increase as a result of the increased Capital Expenditure incurred in FY2014 and the significant expansion Capital Expenditure anticipated in FY2015.

International Pathology

Revenue

The International Pathology division is forecast to achieve revenue growth of 5.2% to $234.6 million in the year ending 30 June 2015, compared to $223.1 million in the year ended 30 June 2014. Revenue is expected to increase in New Zealand, Malaysia and Singapore.

The New Zealand business is forecast to achieve revenue growth of 1.9%[88] in the year ended 30 June 2015. The revenue growth principally reflects organic growth under existing DHB contracts, and the full year contribution from the Diagnostic Medlab (DML) acquisition which was completed in October 2013, partially offset by a reduction in some specialist funding and some histology work moving to the public sector.

Malaysia is forecast to record revenue growth of 4.5%[88] in the year ending 30 June 2015, which is expected to be primarily driven by organic growth and an increase in average fees driven by an anticipated increase in specialist and commercial screening work.

The Singaporean business is forecast to record revenue growth of 5.5%[88] in the year ending 30 June 2015, which is expected to be principally driven by organic volume growth and a favourable revenue yield from an increase in specialised testing, resulting in increased revenue per episode.

Operating EBITDA and Operating EBITDA Margin

The International Pathology division is forecast to record Operating EBITDA growth of 7.2% to $56.4 million in the year ended 30 June 2015, compared to $52.6 million in the year ended 30 June 2014. The International Pathology Operating EBITDA Margin is forecast to increase by 40 basis points to 24.0% in the year ending 30 June 2015.

The forecast increases in Operating EBITDA and Operating EBITDA Margin are expected to be driven by New Zealand, Malaysia and Singapore. The increase in Operating EBITDA is expected to be driven principally by the revenue growth outlined above, and cost control across all countries.

In New Zealand, Operating EBITDA is expected to increase by 3.2%[89] in the year ended 30 June 2015. Cost efficiencies are expected to continue from the integration of the pathology workload acquired from the DML business in Auckland and efficiencies from economies of scale in the expanded laboratory network across New Zealand. Total costs as a percentage of revenue in New Zealand are expected to decrease by 30 basis points in the year ending 30 June 2015.

In Malaysia, Operating EBITDA is expected to increase by 10.7%[89] in the year ending 30 June 2015. Laboratory efficiencies including increased automation are expected to deliver cost efficiencies, resulting in total costs as a percentage of revenue decreasing by 150 basis points in the year ending 30 June 2015.

In Singapore, Operating EBITDA is expected to increase by 6.2%[89] in the year ending 30 June 2015. Improved cost efficiencies resulting from economies of scale in the central laboratory are expected to continue, and procurement initiatives are expected to deliver consumables cost efficiencies. These efficiencies are expected to be partially offset by an increase in rent at the central laboratory as a result of a three yearly market review. Total costs as a percentage of revenue in Singapore are expected to decrease by 20 basis points in the year ending 30 June 2015.

Operating EBIT

The International Pathology division Operating EBIT is forecast to increase by 7.8% to $43.1 million in the year ending 30 June 2015, compared to $40.0 million in the year ended 30 June 2014. The increase in Operating EBIT is expected to be driven principally by the revenue and Operating EBITDA increases outlined above, partially offset by an expected increase in depreciation of $0.7 million. The increase in depreciation is due to an increase in maintenance Capital Expenditure in FY2015, principally relating to information technology and laboratory fittings and equipment.

Australian Pathology

Revenue

The Australian Pathology division revenue is forecast to increase by 5.0% to $365.2 million in the year ending 30 June 2015 compared to $347.9 million in the year ended 30 June 2014. The increase in revenue in the Australian Pathology division is expected to be driven by an increase in revenue in the Australian pathology business and medical centres business.

The expected increase in revenue in the Australian pathology business in the year ending 30 June 2015 reflects an increase in episodes which is anticipated to be driven by organic growth, and contributions from new collection centres opened in FY2014 and expected to be opened in FY2015, partially offset by the impact of collection centres closed in FY2014 and expected to be closed in FY2015.

The forecast increase in revenue in the medical centres business is expected to be driven by an increase in consultations and an increase in average fees per consultation.

[88] Revenue growth in local currency.

[89] Operating EBITDA growth in local currency.

Operating EBITDA and Operating EBITDA Margin

The Australian Pathology division is forecast to record Operating EBITDA growth of 4.0% to $26.3 million in the year ending 30 June 2015, compared to $25.3 million in the year ended 30 June 2014. The Australian Pathology Operating EBITDA Margin is expected to decrease by 10 basis points to 7.2% in the year ending 30 June 2015. The increase in Operating EBITDA in the Australian Pathology division is expected to be driven by an increase in Operating EBITDA in the Australian pathology business and medical centres business.

In the Australian pathology business, the Victorian, South Australia and New South Wales businesses are all expected to contribute to the increase in Operating EBITDA in the year ending 30 June 2015. The revenue growth referred to above combined with cost efficiencies is expected to principally drive the increase in Operating EBITDA. A further increase in centralisation of tests is expected to lead to labour efficiencies, with labour as a percentage of revenue expected to decrease by 106 basis points in the year ending 30 June 2015.

Rental pressure in relation to collection centres is expected to continue in some geographic areas, which is forecast to lead to an increase in rent as a percentage of revenue of 137 basis points in the year ending 30 June 2015.

The medical centres business is expected to deliver earnings growth in the year ending 30 June 2015, largely through revenue growth and cost management.

Operating EBIT

The Australian Pathology division Operating EBIT is forecast to increase by 29.9% to $8.7 million in the year ending 30 June 2015, compared to an Operating EBIT of $6.7 million in the year ended 30 June 2014. The increase in Operating EBIT is expected to be driven principally by the expected Operating EBITDA increases outlined above, with depreciation remaining relatively stable in the year ended 30 June 2015.

4.9.6 Summary pro forma statements of cash flows: FY2014 compared to FY2013

Table 4.33 sets out the summary pro forma historical statement of cash flows for FY2013 and forecast statement of cash flows for FY2014.

Table 4.33 Summary pro forma statements of cash flows: FY2014 compared to FY2013

June year end, $ million	Note	Pro forma historical FY2013	Pro forma forecast FY2014
EBITDA		325.2	354.2
Exclude: Non-cash items in EBITDA	1	0.7	0.7
Changes in Working Capital	2	(17.1)	(0.8)
Net cash flow from operations		**308.8**	**354.1**
Operating Cash Flow Conversion		**95.0%**	**100.0%**
Expansion Capital Expenditure	3	44.3	71.8
Gold Coast Private Hospital Capital Expenditure	3	0.0	26.1
Other Capital Expenditure	4	71.6	65.1
Total Capital Expenditure		**115.9**	**163.0**

Note: Refer to Table 4.16 notes.

Changes in Working Capital

Healthscope is forecasting to record a net cash outflow from changes in Working Capital of $0.8 million in the year ending 30 June 2014, based on 10 months of actual cash flows generated to 30 April 2014. The modest increase in Healthscope's Working Capital balance is driven by continued organic growth in its operating divisions. The assumed Operating Cash Flow Conversion of 100% is consistent with performance in FY2011 and FY2012, following the Working Capital build-up at June 2013 due to slower Private Health Insurance collections.

There are no assumed changes in the underlying payment terms with the private health insurance funds and Healthscope's suppliers in the two month forecast period to 30 June 2014.

Capital Expenditure

Healthscope is forecasting to report total Capital Expenditure of $163.0 million in the year ended 30 June 2014, compared to $115.9 million in the year ended 30 June 2013.

Healthscope is forecasting to record expansion Capital Expenditure of $71.8 million for the year ended 30 June 2014, compared to $44.3 million in the year ended 30 June 2013. Expansion Capital Expenditure is forecast to be higher in FY2014 having received approval for key projects such as at The Mount Private and National Capital Private which commenced in H2FY2014. Commencement of the Gold Coast Private Hospital which is due for completion in FY2016 also commenced in FY2014 which also contributed to the increase in Capital Expenditure in FY2014.

Healthscope is forecasting to record other Capital Expenditure of $65.1 million for the year ended 30 June 2014, compared to $71.6 million in the year ended 30 June 2013. The decrease in other Capital Expenditure in FY2014 is primarily due to a reduction in Capital Expenditure in Australian Pathology, International Pathology and other (including information technology) as a result of lower Capital Expenditure requirement following the rationalisation of the collection centre footprint in the Australian pathology business and minimal Capital Expenditure requirement by International Pathology and information technology following completion of major initiatives in FY2012 and FY2013.

4.9.7 Summary pro forma statements of cash flows: FY2015 compared to FY2014

Table 4.34 sets out the summary pro forma forecast statements of cash flows for FY2014 and FY2015.

Table 4.34 Selected pro forma statements of cash flows: FY2015 compared to FY2014

		Pro forma forecast	
June year end, $ million	**Note**	**FY2014**	**FY2015**
EBITDA		**354.2**	**387.3**
Exclude: Non-cash items in EBITDA	1	0.7	0.7
Changes in Working Capital	2	(0.8)	(12.0)
Net cash flow from operations		**354.1**	**376.0**
Operating Cash Flow Conversion		**100.0%**	**97.1%**
Expansion Capital Expenditure	3	71.8	222.0
Gold Coast Private Hospital Capital Expenditure	3	26.1	124.0
Other Capital Expenditure	4	65.1	83.9
Total Capital Expenditure		**163.0**	**429.9**

Note: Refer to Table 4.16 notes.

Changes in Working Capital

Healthscope is forecasting to record a net cash outflow from its investment in Working Capital of $12.0 million in the year ending 30 June 2015, with an assumed Operating Cash Flow Conversion of 97.1%. The forecast increase in Healthscope's Working Capital investment is driven by continued organic growth in its operating divisions and an assumed increase in payment terms to account for potential cash flow timing differences around year end.

Capital Expenditure

Healthscope is forecasting to report total Capital Expenditure of $429.9 million in the year ending 30 June 2015, compared to $163.0 million in the year ended 30 June 2014.

Healthscope is forecasting to record expansion Capital Expenditure of $222.0 million for the year ending 30 June 2015, compared to $71.8 million in the year ended 30 June 2014. Increased expansion Capital Expenditure in FY2015 is driven by projects currently under construction, and planned key projects awaiting approval and/or commencement such as John Fawkner Private, Norwest Private and Knox Private. In addition significant further development of the Gold Coast Private Hospital will take place during FY2015.

Healthscope is forecasting to record other Capital Expenditure of $83.9 million for the year ending 30 June 2015, compared to $65.1 million in the year ended 30 June 2014. The increased Capital Expenditure is expected to be principally driven by Healthscope's investment in equipment, fit-outs and fixtures across all of its divisions.

4.10 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Healthscope, its Directors and management, and depends upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. For the purposes of the analysis below, the effect of the changes in key assumptions on the FY2015 pro forma forecast NPAT of $166.1 million is presented.

The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown.

Table 4.35 Sensitivity analysis on pro forma forecast NPAT for FY2015

Assumption	Notes	Variance	FY2015 NPAT impact ($ million)
Hospitals patient volumes	1	+/– 1%	+1.8 / (1.8)
Hospitals margin	2	+/– 50bps	+5.6 / (5.6)
Australian Pathology margin	3	+/– 50bps	+1.1 / (1.1)
International Pathology – FX translation rates	4	+/– 5 cents	(1.3) / +1.2
Change in interest rates	5	+/– 25bps	(1.7) / +1.7

Notes:

1. Impact of an increase or decrease in patient admission volumes in the Hospitals division. The sensitivity assumes FY2015 EBIT margin to be constant on a change in volume.
2. Benefit of ongoing cost saving and efficiency initiatives assumed in the Hospitals labour and consumables cost base in FY2015, plus or minus 50 basis points in EBIT margin.
3. Benefit from new revenue and labour cost saving initiatives assumed in the Australian Pathology division in FY2015, plus or minus 50 basis points in EBIT margin.
4. Impact of an increase or decrease of 5 cents in the AUD/NZD, AUD/MYR and AUD/SGD exchange rates used to translate local currency earnings for International Pathology operations into AUD for reporting purposes.
5. Interest rate is increased or decreased by 25 basis points. Healthscope has assumed no hedging of its New Banking Facilities in FY2015.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that Healthscope management would respond to any adverse change in one variable by seeking to minimise the net effect on Healthscope's NPAT.

4.11 Financial risk management framework

Healthscope's activities expose it to a number of financial risks including market risk (interest rate and foreign exchange), liquidity risk and credit risk.

Healthscope manages financial risk through Board approved policies and procedures. These specify the responsibility of the Board of Directors and Senior Management with regard to the management of financial risk. Financial risk is managed centrally by Healthscope's finance team under the direction of the Board of Directors. The finance team manages risk exposures primarily through delegated authority limits and defined measures. The finance team regularly monitors Healthscope's exposure to any of these financial risks and reports to the Board of Directors. Policies are reviewed annually.

Healthscope does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

4.11.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial asset or financial liability will change as a result of changes in market interest rates. Healthscope is exposed to interest rate risk as it borrows at floating rates. Interest rate risk is the risk that Healthsope will be adversely affected by movements in floating interest rates that will increase the cost of floating rate debt. Heralthscope's exposure to market interest rates relates primarily to its long-term debt.

4.11.2 Foreign currency risk

Healthscope's exposure to the risk of changes in foreign exchange rates relates to Healthscope's operating activities (when revenue or expense is denominated in a different currency from Healthscope's presentation currency, primarily New Zealand dollars, Malaysian Ringgit and Singapore dollars) and Healthscope's net investments in foreign subsidiaries where the value of the investments in subsidiaries is recorded in the foreign currency translation reserve.

4.11.3 Liquidity Risk

Liquidity risk is the risk that Healthscope will not have sufficient funds to meet its financial commitments as and when they fall due.

Liquidity risk management involves maintaining available funding and ensuring the consolidated entity has access to an adequate amount of committed credit facilities. Healthscope's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, bank overdrafts and finance leases.

The finance team manages liquidly risk through frequent and periodic cash flow forecasting and analysis. Healthscope expects to have unutilised committed debt facilities of approximately $300 million at the Offer date, which are available to fund working capital and expansion requirements.

4.11.4 Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Healthscope.

Healthscope is exposed to counterparty credit risk arising from its operating activities (primarily customer receivables) and financing activities, including deposits with banks and financial institutions, foreign exchange and other financial instruments. The maximum exposure to credit risk arising from potential default of the counterparty is equal to the carrying amount of the financial assets.

Credit risks related to balances with banks and financial institutions are managed by Group Finance in accordance with approved policies. Such policies only allow financial derivative instruments to be entered into with high credit quality financial institutions.

Trade receivables in the hospital division (which accounts for 80% of Healthscope's annual revenue) consists of a number of large private health insurance funds and government agencies and receivables balances are monitored regularly on a detailed basis with the result that Healthscope's exposure to bad debts in this division is negligible.

4.12 Critical accounting estimates and judgements

Preparing financial statements in accordance with Australian Accounting Standards requires management to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by management in the application of the Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. Refer to the Significant Accounting Policies section of this Prospectus.

4.13 Dividend Policy

Depending on available profits and the financial position of Healthscope, it is the current intention of Healthscope to pay dividends.

The Directors intend to pay out 70% of Healthscope's NPAT as a dividend commencing in FY2015.

The Directors anticipate that the first dividend to Shareholders will be determined in respect of the interim period from 1 July 2014 to 31 December 2014 with reference to available profits and the financial position of Healthscope and will become payable in March 2015. Healthscope does not expect to be in a position to frank dividends until FY2018.

In assessing the dividend payment in future periods the Directors may consider a number of factors, including the general business environment, the operating results and financial condition of Healthscope, future funding requirements, capital management initiatives, tax considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Healthscope, and any other factors the Directors may consider relevant.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend. Please read the Forecast Financial Information in conjunction with the assumptions underlying its preparation as set out in Sections 4.9.1 and 4.9.2, the risk factors set out in Section 5 and the terms of the New Banking Facilities set out in Section 9.7. Investors who are not residents of Australia and who acquire Shares may be subject to Australian withholding tax on dividends or other distributions paid in respect of the Shares. Prospective investors who are not residents of Australia should consult with their own tax advisers regarding the application of the Australian withholding or other taxes to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of the Shares.

5.
Key Risks

5. Key Risks

This Section describes some of the potential risks associated with an investment in Healthscope. An investment in Healthscope is subject to risks specific to Healthscope and its business and to general risks associated with investing in Shares. Each of these risks could, if it eventuates, have a material adverse effect on Healthscope's business, financial condition, operating and financial performance and the value of its Shares. Many of the circumstances giving rise to these risks are beyond the control of Healthscope, the Directors and Senior Management.

You should note that the risks described in this Section are not the only risks faced by Healthscope. Additional risks that Healthscope is unaware of or that Healthscope currently considers to be immaterial also have the potential to have a material adverse effect on Healthscope's business, financial condition, operating and financial performance and the value of its Shares.

Before deciding whether to invest in Healthscope, you should read the entire Prospectus and satisfy yourself that you have a sufficient understanding of these potential risks and should consider whether an investment in Healthscope is suitable for you having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of the Prospectus or are in any doubt as to whether to invest in Healthscope, you should seek professional advice from your stockbroker, accountant, lawyer or other professional adviser.

5.1 Risks specific to an investment in Healthscope

5.1.1 Government policy and regulation may change

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.

The risks relating to these policies and regulations in relation to Healthscope's Hospitals business in Australia include:

- changes to Federal Government initiatives which currently promote Private Health Insurance (refer Section 2.2.3.4);
- changes to regulations relating to private health insurance funds;
- changes to private hospital licensing policy;
- changes to medical negligence legislation; and
- changes to public hospital policy which may encourage an increase in the admission of private patients into public hospitals.

The risks relating to these policies and regulations to Healthscope's pathology and medical centres businesses include:

- changes to the nature and extent of the accreditation, government policy, regulation or licensing systems; and
- in Australia, changes to the Medicare regime, including any reduction of Medicare rebates for pathology and general practice services.

5.1.2 Healthscope's relationships with private health insurance funds may deteriorate

The majority of private hospital revenue in Australia is derived from private health insurance funds through negotiated schedules of fees. The profitability of Healthscope's business significantly depends on the 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.

The profitability of private health insurance funds is dependent on a number of factors, including the number of members and types of policies and coverage they have, and the level of claims and investment income. 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.

5.1.3 Private health insurance fund membership may decrease and members may downgrade their level of cover

A number of factors including, but not limited to, a worsening economic climate, changes in economic incentives, annual increases to 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 the level of their Private Health Insurance coverage. Changes in economic incentives include any adverse change to the Medicare Levy Surcharge, the Federal Government Rebate (such as the Federal Government's move since 1 July 2012 to "means test" individuals' Private Health Insurance rebate) or the Lifetime Health Cover policy.

Where a member decreases their level of Private Health Insurance coverage, they will typically be required to make higher excess payments[90] and/or their Private Health Insurance policy will typically have more exclusions[91]. This, in turn, has the potential to reduce demand for Healthscope's services, resulting in decreased revenues.

5.1.4 Relationships with Accredited Medical Practitioners may deteriorate

Accredited Medical Practitioners are the main source of admissions to Healthscope's hospitals. As the majority of Accredited Medical Practitioners practising at Healthscope's hospitals are not employed or remunerated by Healthscope, there is no obligation to admit their patients to any of Healthscope's facilities. Additionally, Accredited Medical Practitioners directly affect the efficiency and quality of Healthscope's facilities through the number and type of patients they admit and treat, the time they spend in the facility and their consumption of supplies. Furthermore, Healthscope's reputation may be affected by the quality of the Accredited Medical Practitioners using its facilities.

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 due to ageing of facilities, obsolescence of equipment, reductions in the number and quality of nursing staff and the deterioration in clinical safety outcomes, amongst other factors, 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.

5.1.5 Healthscope may not successfully retain existing, and/or attract new, key management personnel

The successful operation of Healthscope's business relies on Healthscope's ability to retain experienced and high-performing key management and operating personnel. The unexpected loss of any key members of management or operating personnel, or the inability on the part of Healthscope to attract experienced personnel, may adversely affect Healthscope's ability to develop and implement its business strategies.

5.1.6 Healthscope may be unable to secure or retain relevant licences and accreditation

All private hospitals are required to be licensed by the health authorities of the State and Territory in which they operate. Pathology laboratories and collection centres may be required to be licensed and/or accredited depending on the jurisdiction in which they are operate.

Private hospital and pathology license approvals in Australia are measured against detailed compliance regulations and monitored on an annual basis. State and Territory health authorities also mandate a range of operational and quality requirements that must be maintained. These licences are generally subject to regular review and are potentially subject to revocation in certain circumstances, including failure to comply with ongoing licensing requirements.

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.

[90] An excess payment is an amount of money a private health insurance fund member agrees to pay towards the cost of hospital treatment before any private health insurance fund benefits are payable.

[91] Exclusions are conditions or services not covered under a Private Health Insurance policy. A private health insurer will not pay benefits towards hospital or medical costs for exclusions. If an insured person receives treatment as a private patient for excluded services, they will incur large out-of-pocket expenses.

5.1.7 Healthscope's competitive position may deteriorate

Healthscope operates in markets with established competitors and faces competitive pressures. There is a risk that the actions of Healthscope's current or future competitors will negatively affect Healthscope's ability to:

- attract and retain Accredited Medical Practitioners to practice in Healthscope's hospitals;
- secure attractive locations for collection centres in its Australian pathology business;
- attract and retain General Practitioners to practice in Healthscope's medical centres; and
- successfully tender for DHB contracts in New Zealand.

If Healthscope's competitors are better able to attract and retain Accredited Medical Practitioners and General Practitioners, secure attractive locations and/or succeed in the tendering for DHB contracts, among other things, Healthscope's financial performance may be adversely impacted through reduced revenues or increased costs.

5.1.8 Healthscope is reliant on nursing labour in its provision of healthcare services to patients

The most significant cost in Healthscope's hospital operations is nursing labour, which represents 41% of Healthscope's total workforce and 59% of Healthscope's Hospitals workforce[92]. Increases in the cost of nursing labour could have a material impact on the financial and operational performance of Healthscope.

Due to a shortage of nurses in certain specialty areas, Healthscope faces competition to recruit and retain nursing staff. Failure to provide sufficient nursing support in these specialty areas may lead to disruptions to business operations and nursing wage inflation, which would negatively impact Healthscope's profitability. From time to time, Healthscope supplements domestic recruitment in certain specialty areas with the recruitment of nurses from outside Australia. Changes to immigration laws may adversely affect Healthscope's ability to recruit appropriately qualified nurses from outside of Australia.

5.1.9 Industrial relations disputes may lead to business disruptions and increased labour costs

Approximately 88% of Healthscope's employees, including nurses, are covered by enterprise bargaining agreements and other workplace agreements, which periodically require negotiation and renewal. A number of these agreements have passed their nominal expiry dates. Although these agreements will continue to operate until replaced or terminated, Healthscope may be approached by its employees to commence bargaining by the employees in respect of these agreements. Disputes may arise in the course of such negotiations which may lead to strikes or other forms of industrial action that could disrupt Healthscope's business operations. Further, any such negotiations could result in increased direct and indirect labour costs for Healthscope.

5.1.10 Medical indemnity claims and associated costs may increase

Healthcare companies, and particularly those which operate hospitals as part of their business, are exposed to the risk of medical indemnity claims and litigation. 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, against Healthscope could have an adverse impact on the financial performance and position and future prospects of Healthscope.

5.1.11 Healthscope's insurance may be inadequate or unavailable in the future

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.

[92] As at 31 December 2013.

5.1.12 Development projects may suffer cost overruns and delays in revenues flowing from proposed developments

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 currently has a number of development projects underway, particularly in relation to the expansion of its hospital portfolio. In particular, the Gold Coast Private Hospital "relocate and grow" development is being constructed on the basis of a fixed price contract and likely risks relating to that development include construction or other delays which may result in the hospital not being commissioned as scheduled in 2016 and the risk that, once the development has been completed, Accredited Medical Practitioners do not refer their patients to the hospital in line with expectations.

5.1.13 New Zealand pathology contracts may not be renewed

Healthscope currently has contracts with 10 District Health Boards for the provision of pathology services in New Zealand. These contracts account for approximately 84% of Healthscope's New Zealand pathology revenue. There is a risk that each time a contract comes up for renewal, the relevant DHB enters into a new contract with another party or renews the contract with Healthscope on less favourable terms.

5.1.14 The restructure of Healthscope's Australian Pathology business may not continue to be effective

In response to a period of underperformance, Healthscope's Australian Pathology business has recently been restructured. The restructure included the sale and closure of some laboratories, the rationalisation of collection centres and labour cost out initiatives. The restructure has resulted in an improvement in the performance of this business YTD in FY2014; however, there is no guarantee that such improved performance will continue. For the performance to be sustainable, the business is required to maintain market share and continue to effectively control costs, and there is a risk that the initiatives implemented by Healthscope will not continue to achieve these outcomes.

Should Healthscope not maintain its market share and/or not effectively control costs it may result in reduced future earnings which may also result in further impairment of goodwill and other non-current assets.

5.1.15 The Federal Government Pathology Funding Agreement may change

A five-year Pathology Funding Agreement between the Federal Government and the pathology sector came into effect on 1 July 2011. At least 85% of pathology revenue to private providers is covered under the Pathology Funding Agreement. The agreement provides for growth in Federal Government pathology expenditure of approximately 5% per year over the life of the agreement. In 2011–12 the underlying demand for pathology grew at a rate faster than 5%, which resulted in an expenditure overrun which led to a fee reduction on 1 January 2013 to all pathology item rebates of 0.67% and a $3.50 reduction in the fee for Vitamin D tests. A further overrun in Federal Government expenditure was experienced in 2012–13 over and above the agreed growth rate, however no further fee adjustments have been made by the Federal Government.

If pathology outlays continue to grow at a higher level than as agreed with the Federal Government, there is a risk that further fee cuts could be implemented during the remaining term of the agreement. As per the Pathology Funding Agreement, any potential fee changes are to be implemented by the Federal Government after joint review and consultation with industry stakeholders.

5.1.16 The existing shareholder will retain a significant stake in Healthscope post Listing

Following Completion of the Offer, CT Healthscope Holdings, L.P. will hold at least 25% of the issued capital of Healthscope, however reserves the right to hold up to 40% of the issued capital which will make CT Healthscope Holdings, L.P. the largest Shareholder. In addition, following Listing, the Board will continue to contain one Director who was nominated by TPG and one Director who was nominated by The Carlyle Group. Consequently, depending on the final size of the shareholding retained by CT Healthscope Holdings, L.P., it may be in a position to exercise influence in relation to matters requiring approval of Healthscope Shareholders, including the election of directors of Healthscope, and to influence the outcome of any takeover offer for the Shares or similar transaction involving the acquisition of the Shares.

The limited partners in CT Healthscope Holdings, L.P., being entities controlled by funds advised and managed by TPG and The Carlyle Group, are in discussions regarding the arrangements that will apply in respect of CT Healthscope Holdings, L.P. and its Shareholding in Healthscope following Completion of the Offer, including co-ordination between the limited partners in relation to any sale of the Healthscope Shares held by CT Healthscope Holdings, L.P. following expiry of the escrow arrangements described in Section 7.6 (see Section 9.5 for further details).

At least 25% of the issued capital of Healthscope, will be subject to escrow or other disposal restrictions until the date on which Healthscope's results for the year ending 30 June 2015 are released to the ASX (in respect of all Escrowed Shareholders)[93]. Following that date, disposal restrictions will remain on 7.2 million Shares held by the Key Management until the date two years after completion (see Section 7.6 for more details)[94]. There are no restrictions on the sale of any Existing Shares that are not subject to escrow or other disposal restrictions in the period following Listing and there will be no restrictions on the sale of any Escrowed Shares on and from the date on which those escrow restrictions are released in accordance with the terms of the relevant restriction (or sooner, in the event an exception to the restriction is available). A significant sale of Shares by CT Healthscope Holdings, L.P., or the perception that such sale has occurred or might occur, could adversely affect the price of Shares.

Alternatively, the absence of any sale of Shares by CT Healthscope Holdings, L.P. may cause or contribute to a diminution in the liquidity of the market for the Shares.

5.1.17 Healthscope may be unable to access capital markets or refinance debt on attractive terms

Healthscope relies on debt and equity funding to help fund its business operations. Healthscope's New Banking Facilities will require refinancing in the future. Healthscope may also seek to raise additional debt finance or new equity in the future to grow the business. If there is a deterioration in the level of debt and equity market liquidity, this may prevent Healthscope from being able to refinance some or all of its debt on current terms or if at all, or raise new equity respectively.

5.1.18 Healthscope faces other commercial and operational risks

Healthscope faces a number of other commercial and operational risks, including but not limited to:

- reputational damage resulting from, among other things, potential significant medical malpractice incidents or claims, or outbreaks of infection or contamination at a facility;
- the deterioration of the day to day management and operation of Healthscope's hospitals, medical centres, laboratories and collection centres;
- various broad macroeconomic and other factors, such as a deterioration in the Australian or global economy or rising unemployment, which may decrease demand for or cause people to delay certain healthcare treatments;
- the underperformance of development projects such as brownfield and "relocate and grow" hospital expansion projects;
- the breakdown of information technology infrastructure required to effectively process information and operate elements of its businesses;
- the failure to adopt necessary technological changes relating to Healthscope's information systems;
- a decrease in the level of market acceptance for existing services;
- disruption costs to Healthscope's business resulting from any third party suppliers of medical supplies, consumables and equipment terminating their supply arrangements with Healthscope, or Healthscope entering into new supply arrangements on less favourable terms and conditions than those presently in place;

[93] To the extent that an Escrowed Shareholder purchases any Shares in the bookbuild, those Shares will not be subject to the voluntary escrow arrangements disclosed in Section 7.5. Assumes Final Price is at the mid-point of the Indicative Price Range.

[94] Assumes the Final Price is at the mid-point of the Indicative Price Range.

- penalties and damages associated with workplace accidents and incidents;
- litigation or threatened litigation;
- the failure to properly maintain existing facilities; and
- the occurrence of other causes of business interruption.

5.2 General risks

5.2.1 General economic and financial market conditions may deteriorate

General economic conditions (both domestically and internationally), long-term inflation rates, exchange rate movements, interest rate movements and movements in the general market for ASX and internationally listed securities may adversely affect the market price of Shares and the ability of Healthscope to pay dividends. The Shares may trade on ASX at a price that is below the Final Price.

None of Healthscope or its Directors or any other person guarantees the market performance of the Shares or the payment of dividends.

5.2.2 Price of Shares may fluctuate

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Final Price. There is no assurance that the price of the Shares will increase following quotation on the ASX, even if Healthscope's earnings increase. Some of the factors which may affect the price of the Shares include:

- fluctuations in the domestic and international market for listed stocks;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices or changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which Healthscope operates; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence Healthscope specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

5.2.3 Shareholders may suffer dilution

In the future, Healthscope may elect to issue Shares or engage in fundraisings including to fund acquisitions that Healthscope may decide to make. While Healthscope will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

5.2.4 Currency movements may be unfavourable

Healthscope currently conducts pathology business operations in New Zealand, Malaysia, Singapore and Vietnam. Adverse movements in the exchange rate between the Australian dollar and those respective foreign currencies, and any others foreign currencies as a result of future international expansion, may cause Healthscope to incur foreign currency losses. Such losses may impact and reduce Healthscope's profitability, ability to pay dividends and service debt obligations.

5.2.5 Adverse taxation changes may occur

There is the potential for changes to tax laws. Any change to the current rates of taxes imposed on Healthscope (including in foreign jurisdictions in which Healthscope operates) is likely to affect returns to Shareholders.

An interpretation of taxation laws by the relevant tax authority that is contrary to Healthscope's view of those laws may increase the amount of tax to be paid or cause changes in the carrying value of tax assets in Healthscope's financial statements. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and shareholder returns.

With operations in Australia, New Zealand, Malaysia, Singapore and Vietnam, Healthscope is potentially exposed to changes in taxation law legislation or interpretation in each of those jurisdictions.

5.2.6 Australian Accounting Standards may change

Australian Accounting Standards are set by the Australian Accounting Standards Board ("AASB") and are outside the control of either Healthscope or its Directors. The AASB is due to introduce new or refined Australian Accounting Standards during the period from 2014 to 2018, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in Healthscope's consolidated financial statements.

5.2.7 Force majeure events may occur

Events may occur within or outside Australia, New Zealand, Malaysia, Singapore and Vietnam that could impact upon the Australian, New Zealand, Malaysian, Singaporean and Vietnamese economies, the operations of Healthscope and the price of the Shares. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Healthscope's services and its ability to conduct business. Healthscope has only a limited ability to insure against some of these risks.

6.
Key Individuals, Interests and Benefits

6. Key Individuals, Interests and Benefits

6.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including in industry and business knowledge, financial management and corporate governance experience.

6.1.1 Experience and background

Paula Dwyer

Independent Non-Executive Chairman

Paula Dwyer is the Chairman of Tabcorp Holdings Limited and a Director of the ANZ Banking Group and Lion Pty Limited. Ms Dwyer is a member of the International Advisory Board of Kirin Holdings of Japan.

Paula is a member of the Business and Economics Board of the University of Melbourne and the ASIC External Advisory Board.

Paula is a Chartered Accountant with strong financial and commercial experience. Her executive career was in investment management and investment banking.

Paula's past appointments include serving as Deputy Chairman of Leighton Holdings Limited and as a Director of Suncorp Group Limited, Astro Japan Property Group Limited, Fosters Limited, Healthscope Limited, Promina Group Limited, David Jones Limited and RACV Ltd, as a Member of the Victorian Casino and Gaming Authority and of the Victorian Gaming Commission, as a Deputy Director of Emergency Services Superannuation, VicSuper and Government Superannuation Office and as the Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute. Ms Dwyer is a former member of the Takeovers Panel.

Paula holds a Bachelor of Commerce Degree from the University of Melbourne (1982), is a Fellow of the Institute of Chartered Accountants, a Fellow of the Australian Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australia.

Robert Cooke

Chief Executive Officer and Managing Director

Robert Cooke has had a 37 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.

Robert's past appointments include Chairman of Spire Healthcare in the UK (a privately owned group of 36 private hospitals), Managing Director and Chief Executive Officer of ASX 100 Symbion Health Limited, and Managing Director of Affinity Health (at the time, Australia's largest private hospital business). Robert joined Healthscope in November 2010, and was Executive Chairman under its period of private ownership.

Robert holds a Bachelor of Health Administration Degree from The University of New South Wales and a Graduate Diploma in Accounting and Finance from Victoria University of Technology.

Tony Cipa

Independent Non-Executive Director

Tony Cipa is an Independent Non-Executive Director of SKILLED Group Limited since April 2011, a Non-Executive Director of Navitas Limited since May 2014 and a Non-Executive Director of Mansfield District Hospital since July 2011.

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.

Tony holds a Bachelor of Business (Accounting) Degree and a Graduate Diploma of Accounting both from Swinburne University. He is also an Associate of the Governance Institute of Australia.

Aik Meng Eng

Non-Executive Director

Aik Meng is currently a senior advisor to TPG. He also sits as a non executive director of some of TPG's portfolio companies (including Healthscope). In addition, he is a Non-Executive Director of Jurong Port Pte Ltd, an adviser to Nanyang Business School in Singapore and an adviser to Human Capital Leadership Institute, Singapore.

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.

Aik Meng holds a Bachelor of Accountancy Degree with Honors from Nanyang Technological University, Singapore and a Masters of Business Administration from Harvard University.

Simon Moore

Non-Executive Director

Simon Moore is a Partner and Managing Director of The Carlyle Group, based in Sydney. He is currently a director of Coates Hire and Healthscope and an alternate director of Qube Holdings. 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.

Simon holds Bachelor of Laws and Commerce Degrees with Honours from the University of Queensland.

Rupert Myer AM

Independent Non-Executive Director

Rupert Myer is Deputy Chairman of Myer Holdings Limited, a Director of Amcil Limited, Chairman of the Australia Council for the Arts, Chairman of Nuco Pty Ltd, a Director of the Yulgilbar Group of companies and Chairman of Aranday Group of Companies. Rupert is also a member of the Business and Economics Advisory Board of the University of Melbourne.

Rupert is a Board member of The Myer Foundation, the Yulgilbar Foundation, the Aranday Foundation, the Felton Bequests' Committee and the Australian International Cultural Foundation. Rupert is also an Emeritus Trustee of the National Gallery of Victoria.

Rupert was previously Chairman of The Myer Family Company Limited, a Director of Diversified United Investments Limited, Chairman of Spessito Group and Chairman of Country Road Superannuation Fund.

Rupert previously worked as a Manager at Citibank Limited in London and Melbourne.

In 2005, Rupert became a Member of the Order of Australia.

Rupert holds a Bachelor of Commerce Degree with Honours from the University of Melbourne and a Master of Arts from Cambridge University. He is a Fellow of the Australian Institute of Company Directors.

The composition of Healthscope's Board committees and a summary of the Board's key corporate governance policies are set out in Sections 6.4, 6.5 and 6.6. Each Director has confirmed to Healthscope that they anticipate being available to perform their duties as Non-Executive or Executive Director as the case may be without constraints from other commitments.

6.2 Senior Management

Robert Cooke

Chief Executive Officer

Robert Cooke has had a 37 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.

Robert's past appointments include Chairman of Spire Healthcare in the UK (a privately owned group of 36 private hospitals), Managing Director and Chief Executive Officer of ASX 100 Symbion Health Limited, and Managing Director of Affinity Health (at the time, Australia's largest private hospital business). Robert joined Healthscope in November 2010, and was Executive Chairman under its period of private ownership.

Robert holds a Bachelor of Health Administration Degree from The University of New South Wales and a Graduate Diploma in Accounting and Finance from Victoria University of Technology.

Michael Sammells

Chief Financial Officer

Michael joined Healthscope in January 2012, and was Finance Director of Healthscope during its time under private ownership. He was previously the Chief Financial Officer at Medibank Private, Australia's largest private health insurer. He has a long and proven track record in the health industry, as well as in business and banking. Prior to his role at Medibank Private, Michael was the Director of Finance and Corporate Services at Southern Health in Victoria. He also held corporate finance roles, as well as operational roles in private hospitals, over the 15 years he spent with the Mayne Group.

Mark Briscoe

General Manager Corporate Services

Prior to joining Healthscope in 2011, Mark was the Director of Operations and Developments at Spire Healthcare Limited in the UK, responsible for key performance indicators, ensuring hospital targets and budgets were delivered along with all capital spending and budgeting. In Australia, Mark has worked in various healthcare corporate roles at the Mayne Group, Affinity Health and Symbion Health. At Healthscope, Mark is responsible for private health insurance funding, the medical centres business and working with the Hospital State Managers and General Managers to deliver operational efficiencies across Healthscope's network.

Dr. Michael Coglin

Chief Medical Officer

Michael joined Healthscope in 1999. His current role involves executive responsibility for clinical risk management, patient safety, quality and compliance, claims and litigation, medical affairs and public affairs/media relations. He represents Healthscope on a number of bodies including the Private Hospital Sector Committee of the Australian Commission on Safety and Quality in Health Care.

Andrew Currie

Hospitals State Manager, Victoria, Tasmania and Western Australia

Prior to joining Healthscope in 2011, Andrew was the Managing Director of Clear Outcomes Pty Ltd, a health industry consultancy, for 11 years.

Prior to this he worked at HealthCare of Australia and then Mayne Health for 10 years as a Chief Executive Officer and director of nursing in various hospitals. Andrew has also worked in a variety of public and private hospitals in the areas of critical care and emergency.

Past appointments include serving as a director of many hospitals and as adviser on numerous hospital greenfield and redevelopment projects.

Stephen Gameren

Hospitals State Manager, New South Wales and ACT

Stephen has worked with Healthscope since 2004. He has over 20 years of experience in healthcare management, spanning three countries – New Zealand, the United Kingdom and Australia. Stephen worked as Chief Executive Officer at The Hills Private Hospital and was Project Director and Chief Executive Officer for the Norwest Private Hospital Project successfully commissioning this new hospital in September 2009 prior to moving to the NSW and ACT State Manager position in February 2010.

Alan Lane

Hospitals State Manager, South Australia

Alan has worked for over 25 years in healthcare, and joined Healthscope in 2004. Alan's extensive involvement in the healthcare sector spans the market sectors of hospitals, pharmacy, pathology, manufacturing, business development and logistics.

As part of his responsibility for South Australia, Alan is the Chief Executive Officer of the ACHA group.

Richard Lizzio

Hospitals State Manager, Queensland and Northern Territory

Richard has an extensive commercial background including in the not for profit sector in health, aged care and education.

Prior to joining Healthscope in 2011, Richard spent eight years working with Ramsay Health Care in various hospital general manager positions in Queensland including his most recent appointment as Chief Executive Officer Greenslopes Private Hospital. Richard started his working life as a Chartered Accountant with KPMG and later worked in retail stockbroking and financial services.

Ingrid Player

General Counsel and Company Secretary

Ingrid joined Healthscope in 2005. Since then she has established and led the Healthscope Group's Legal and Company Secretariat team. Prior to joining Healthscope, Ingrid worked for over nine years as a lawyer in private practice, both in Australia and overseas, working across various industries, including the health sector.

Peter Shepheard

General Manager, Property and Infrastructure

Peter joined Healthscope in 2011, bringing over 30 years of experience in public and private hospital and property management, management of capital developments from planning, tendering, construction and commissioning throughout Australia and management of infrastructure and compliance requirements. Peter has previously worked at Affinity Health and the Mayne Group in corporate positions, as well as several Melbourne hospitals in operational roles.

Anoop Singh

Chief Operating Officer, Pathology

Anoop joined Healthscope in 2011. Over the past 24 years, he has held a number of senior commercial appointments in the healthcare industry in Australia including leadership positions in large diversified companies such as the Mayne Group and Symbion Health. As Vice President of Pathology Australia, the national peak body for private pathology in Australia, Anoop is also involved in key strategic and policy matters in relation to the Australian pathology sector.

Jenny Williams

General Manager, Human Resources

Jenny leads the Human Resources function at Healthscope, overseeing people strategy and systems for our 20,000 strong workforce. Prior to joining Healthscope in 2011, Jenny has held a number of senior national HR roles in healthcare, including with the Mayne Group and Symbion Health and thus has experience across a number of health market sectors. Her HR career also spans higher education and the public sector and includes work both within Australia and overseas. She is a member of a number of State and national industry workforce and clinical training bodies.

6.3 Interests and benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of Healthscope or SaleCo;
- person named in this Prospectus who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of Healthscope; or
- underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds as at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Healthscope;
- property acquired or proposed to be acquired by Healthscope in connection with its formation or promotion or the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such person for services in connection with the formation or promotion of Healthscope or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3.1 Interests of advisers

The following professional advisers have been engaged in relation to the Offer:

- Macquarie Capital (Australia) Limited, UBS AG, Australia Branch, CIMB Capital Markets (Australia) Limited, Credit Suisse (Australia) Limited, Goldman Sachs Australia Pty Limited and Merrill Lynch Equities (Australia) Limited have acted as Joint Lead Managers to the Offer. Healthscope has paid, or agreed to pay, the Joint Lead Managers the fees described in Section 9.8 for these services, noting that CIMB Capital Markets (Australia) will be paid the fee of a Co-Lead Manager.
- CBA Equities Limited, Evans & Partners Pty Ltd and Morgans Financial Limited have acted as Co-Lead Managers to the Offer. Healthscope has paid, or agreed to pay, the Co-Lead Managers the fees described in Section 9.8 for these services.
- Baillieu Holst Ltd, JBWere Limited, Macquarie Equities Limited and UBS Wealth Management Australia Limited have acted as Co-Managers to the Offer. Healthscope has paid, or agreed to pay, the Co-Managers the fees described in Section 9.8 for these services.
- Herbert Smith Freehills has acted as Australian legal adviser (other than in respect of taxation, financing and security arrangements and employee incentive plans) in connection with the Offer. Approximately $1,760,000 (plus disbursements and GST) is payable for these services to the date of this Prospectus. Further amounts may be paid to Herbert Smith Freehills in accordance with its normal time-based charges.
- Deloitte Corporate Finance Pty Limited has acted as the Investigating Accountant in connection with the Offer and has performed work in relation to the Investigating Accountant's Reports. Approximately $1,370,000 (plus disbursements and GST) is payable to Deloitte Corporate Finance Pty Limited for these services to the date of this Prospectus. Further amounts may be paid to Deloitte Corporate Finance Pty Limited in accordance with its normal time-based charges.
- Ernst & Young has acted as the taxation adviser in connection with the Offer. Approximately $1,280,000 (plus disbursements and GST) is payable to Ernst & Young for these services to the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its normal time-based charges.

These amounts, and other expenses of the Offer, will ultimately be bourne by Healthscope out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.2.

Affiliates of Macquarie Capital (Australia) Limited, UBS AG, Australia Branch, Credit Suisse (Australia) Limited and Merrill Lynch Equities (Australia) Limited are lenders to Healthscope and may be repaid in part or in full from the proceeds of the Offer.

6.3.2 Directors' interests and remuneration

6.3.2.1 Chief Executive Officer

Robert Cooke is employed by Healthscope in the position of Chief Executive Officer of Healthscope. Refer to Section 6.3.2.5 for further details.

6.3.2.2 Non-Executive Director remuneration

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director to Healthscope. However, the total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by Healthscope in general meeting.

This amount has been fixed by Healthscope at $2,000,000 per annum. Any change to that aggregate annual sum needs to be approved by Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

Annual Directors' fees to be paid by Healthscope are $475,000 to the Chairman, Paula Dwyer, and $150,000 to each of Tony Cipa and Rupert Myer. Until further notice, the Director nominated by The Carlyle Group, Simon Moore, has waived his entitlement to any Director and Committee fees. The Director nominated by TPG, Aik Meng Eng, has waived his entitlement to any Director and Committee fees from the date of listing.

In addition, the Chairs of the Audit, Risk and Compliance Committee and the Remuneration Committee will be paid an additional $30,000 annually and each member of these committees will be paid $20,000 annually. Healthscope will not pay any additional fees in relation to membership of the Nomination Committee.

All Directors' fees include superannuation, as applicable.

Directors may also be reimbursed for all reasonable travelling and other expenses incurred by the Directors in attending to Healthscope's affairs including attending and returning from Board meetings or any meetings of committees of the Board and in attending and returning from any general meetings of Healthscope.

Directors may be paid additional or special remuneration if they, at the request of the Board, and for the purposes of Healthscope, perform any extra services or make special exertions.

There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

6.3.2.3 Deeds of access, insurance and indemnity

Healthscope has entered into a deed of indemnity, access and insurance with each Director which confirms the Director's right of access to Board papers and requires Healthscope to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of Healthscope or of a related body corporate.

Under the deeds of indemnity, insurance and access, Healthscope must maintain a D&O Policy insuring a Director (among others) against liability as a Director and officer of Healthscope and its related bodies corporate until seven years after a Director ceases to hold office as a Director of Healthscope or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

6.3.2.4 Directors' interests in Shares and other securities

The Directors are not required by the Constitution to hold any Shares.

The Directors' interests in Shares and other securities in Healthscope upon Completion are set out below.

Table 6.1 Directors' interest in Shares and other securities

Directors	Shares held immediately prior to the Offer	Shares acquired in the Offer	Offer bonus Shares	Shares held on Completion
Paula Dwyer	–	49,261	49,261	98,522
Robert Cooke	–	1,473,825	–	1,473,825
Tony Cipa	–	24,631	24,631	49,262
Aik Meng Eng	–	–	–	–
Simon Moore	–	–	–	–
Rupert Myer	–	24,631	24,631	49,262

Assumes the FInal Price is at the mid-point of the Indicative Price Range.

Directors may hold their interests in securities shown above directly, or through holdings by companies or trusts.

The Directors are entitled to apply for Shares under the Offer.

The Shares listed in the "Offer bonus Shares" column will be issued by Healthscope pursuant to this Prospectus to each of Paula Dwyer, Tony Cipa and Rupert Myer for nil consideration. These Shares will be issued to each of Paula Dwyer, Tony Cipa and Rupert Myer following the subscription by each of them for the same number of Shares at the Final Price.

Robert Cooke is also eligible to participate in Healthscope's new long-term incentive plan as described in Sections 6.3.2.5 and 9.5.

The Shares recorded in the above table as held by Robert Cooke will be subject to restrictions on disposal as outlined in Section 6.3.2.5.

6.3.2.5 Executive employment arrangements

Chief Executive Officer

Robert Cooke is employed by Healthscope in the position of Chief Executive Officer and Managing Director and reports to the Board. Under the terms of his agreement, Robert will be entitled to receive annual fixed compensation of $1,500,000 (inclusive of superannuation). Robert will also be entitled to participate in Healthscope's short-term incentive plan on the basis that Robert will be entitled to a short-term incentive calculated as follows:

- if each qualitative target for that year is met, and each quantitative performance target for that year is met or exceeded by no more than 4.99%, an amount of 100% of fixed compensation is payable; or
- if each qualitative target for that year is met, and each quantitative target for that year is exceeded, Robert shall be entitled to a percentage of fixed compensation as follows:
  - where each quantitative target is exceeded by at least 5% and up to 10%: 125% of fixed compensation is payable;
  - where each quantitative target is exceeded by more than 10% and up to 15%: 150% of fixed compensation is payable;
  - where each quantitative target is exceeded by more than 15% and up to 20%: 175% of fixed compensation is payable; and
  - where each quantitative target is exceeded by more than 20%: 200% of fixed compensation is payable.

Healthscope may terminate the employment contract by giving Robert 12 months' prior written notice, or payment in lieu of notice and Healthscope may terminate Robert's employment immediately and without payment in lieu of notice in certain circumstances, including for any dishonesty, fraud, wilful disobedience or misconduct. Robert may also terminate the contract on 12 months' notice; however Robert may not do so until two years after Completion. Robert's employment contract also includes a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

Robert will be eligible to participate in Healthscope's new long-term incentive plan ("LTIP"). On or around Listing, Healthscope intends to grant Robert performance rights with a face value of $1,750,000. Further details on the LTIP are set out in Section 9.5, including the key terms and conditions (such as the performance period and vesting conditions) applicable to the grant of performance rights to Robert.

Under the terms of Robert's employment contract, Robert will receive a payment of between $6,212,184 and $10,801,290[95] (before any tax payable by Robert) related to his interest in Healthscope's previous long-term incentive plan. Robert is required to reinvest between $1,669,440 and $3,068,676[96] into Shares (at the Final Price). Robert must not dispose of or otherwise deal with those Shares until two years after Completion. If Robert gives notice of resignation during that period, other than in case of death, total permanent disability or terminal illness, those Shares will be forfeited.

In addition to the above, on Listing, Robert will receive a one-off retention payment of between $500,331 and $3,864,541[96], depending on the outcome of the Offer, to be applied (less any amount of tax payable by Robert) by Healthscope as a subscription payment for further Shares at the Final Price. Robert must not dispose of or otherwise deal with those Shares until two years after Completion. If Robert gives notice of resignation during that period, other than in case of death, total permanent disability or terminal illness, those Shares will be forfeited.

The shareholders of Healthscope and HSP have approved the provision of benefits on cessation of employment as summarised in this section to Robert Cooke.

[95] Based on the Indicative Price Range, assuming that 50% of Notes are exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.

[96] Based on the Indicative Price Range, assuming that 50% of Notes are exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.

Other management

The other members of Senior Management are employed under individual employment agreements. These establish:

- total compensation including a base salary and superannuation contribution to a fund of the individual's election;
- termination notice provisions of three to 12 months by either party;
- in relation to the Chief Financial Officer, a restraint of trade provision of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements. In certain other cases, a non-solicitation provision of six months;
- eligibility to participate in Healthscope's short-term incentive plan at a specified target level based on fixed remuneration; and
- in relation to Key Management, eligibility to participate in the LTIP. On or around Listing, Healthscope intends to grant Key Management performance rights with a face value of $1,833,503 under the LTIP. The key terms and conditions (including the performance period and vesting conditions) applicable to the grant of performance rights are set out in Section 9.6.

Management (other than Robert Cooke) will receive an aggregate payment of between $20,542,838 and $35,369,179[97] (before any tax payable by Management) related to their interests in Healthscope's previous long-term incentive plan. Management are required to reinvest between $7,688,544 and $14,101,708[97] into Shares (at the Final Price). Management must not dispose of or otherwise deal with those Shares until two years after Completion. If a member of Management gives notice of resignation during that period, other than in case of death, total permanent disability or terminal illness, their Shares will be forfeited.

In addition to the above, on Listing, Key Management will receive a one-off retention payment of an aggregate amount between $500,331 and $3,864,541[97], depending on the outcome of the Offer, to be applied (less any amount of tax payable by Key Management) by Healthscope as a subscription payment for further Shares at the Final Price. Key Management must not dispose of or otherwise deal with those Shares until two years after Completion. If a member of Key Management gives notice of resignation during that period, other than in case of death, total permanent disability or terminal illness, their Shares will be forfeited.

The shareholders of Healthscope and HSP have approved the provision of benefits on cessation of employment as summarised in this section to Michael Sammells.

6.4 Corporate governance

The main policies and practices adopted by Healthscope are summarised below. Details of Healthscope's key policies and practices and the charters for the Board and each of its committees are available at www.healthscope.com.au.

The Board monitors the operational and financial position and performance of Healthscope and oversees its business strategy, including approving the strategic goals of Healthscope. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Healthscope.

In conducting Healthscope's business with these objectives, the Board seeks to ensure that Healthscope is properly managed to protect and enhance Shareholder interests, and that Healthscope, its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Healthscope, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Healthscope's business and which are designed to promote the responsible management and conduct of Healthscope.

Following Completion of the Offer, the Board intends to discuss the possible implementation of information sharing arrangements with CT Healthscope Holdings, L.P., which will remain a significant Shareholder of Healthscope.

[97] Based on the Indicative Price Range, assuming that 50% of Notes are exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion.

6.4.1 ASX Corporate Governance Principles and Recommendations

Healthscope is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its Corporate Governance Principles and Recommendations 3rd edition ("ASX Recommendations") for ASX listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, Healthscope will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where Healthscope does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

The Board does not anticipate that it will depart from the ASX Recommendations, with one exception:

- Recommendation 2.4 provides that a majority of the Board of a listed entity should be independent Non-Executive Directors. On Listing, half of the Directors will be independent. Three of the six members of the Board will be independent Non-Executive Directors. There will be a further two Non-Executive Directors (being those Directors who were nominated by TPG and The Carlyle Group) who are not considered to be independent and one Executive Director (the CEO). The Board considers that the Non-Executive Directors nominated by TPG and The Carlyle Group, Mr Aik Meng Eng and Mr Simon Moore, will add significant value given their considerable experience and skills and will bring objective and independent judgement to the Board's deliberations. Further information regarding the independence of Directors and the composition of the Board is contained in Section 6.4.2 below.

6.4.2 The Board of Directors

The Board of Directors is comprised of the Chief Executive Officer and five Non-Executive Directors of whom three are independent (including the Chairman). Detailed biographies of the Directors are provided in Section 6.1.

The Board considers an independent Director to be a Non-Executive Director who is not a member of Healthscope's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case-by-case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board Charter sets out guidelines for the purpose of determining independence of Directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board will have regard to quantitative and qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis.

The Board considers that each of Paula Dwyer, Tony Cipa and Rupert Myer are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the exercise of the Director's unfettered and independent judgement and is able to fulfil the role of independent Director for the purpose of the ASX Recommendations.

Robert Cooke, Aik Meng Eng and Simon Moore are currently considered by the Board not to be independent. Robert Cooke is currently the Chief Executive Officer of Healthscope. The other named directors are nominees of substantial shareholders of Healthscope (Aik Meng Eng of TPG and Simon Moore of The Carlyle Group).

Three of the six members of the Board are Non-Executive Directors and are independent of management. The two (being those Directors who were nominated by TPG and The Carlyle Group) of those Directors who are not considered to be independent add significant value to Board deliberations with their considerable experience and skills. Each of these two Directors brings objective and independent judgement to the Board's deliberations. Furthermore, all Directors have the right to seek independent professional advice, subject to necessary approvals, as and when required.

The Directors believe that they are able to objectively analyse the issues before them in the best interests of all Shareholders and in accordance with their duties as Directors.

6.4.3 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's composition and processes;
- the Board's role and responsibilities;
- the relationship and interaction between the Board and management; and
- the authority delegated by the Board to management and Board committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising Healthscope's strategies, policies and performance. This includes overseeing the financial and human resources Healthscope has in place to meet its objectives and reviewing management performance;
- protect and optimise Healthscope's performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and Healthscope's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with Healthscope's values and governance framework (including establishing and observing high ethical standards); and
- ensure that Shareholders are kept informed of Healthscope's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the Chief Executive Officer as directed by the Board (and by officers to whom the management function is properly delegated by the Chief Executive Officer). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and individual Directors, may seek independent professional advice subject to the approval of the Chair.

6.5 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established an Audit, Risk and Compliance Committee, a Remuneration Committee and a Nomination Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Healthscope, relevant legislative and other requirements and the skills and experience of individual Directors.

Under the Board Charter, Board committee performance evaluations will occur annually.

6.5.1 Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee will assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- overseeing Healthscope's relationship with the external auditor and the external audit function generally;
- overseeing Healthscope's relationship with the internal auditor and the internal audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing Healthscope's financial controls and systems; and
- managing the process of identification and management of financial risk.

The Committee's charter provides that the Committee must comprise only Non-Executive Directors, a majority of independent Directors, an independent chair who is not chair of the Board, and a minimum of three members of the Board. The Audit, Risk and Compliance Committee will comprise:

- Tony Cipa (chair);
- Simon Moore; and
- Rupert Myer.

Non-committee members, including members of management and the external auditor, may attend meetings of the Committee by invitation of the Committee chair.

6.5.2 Remuneration Committee

The Remuneration Committee's responsibilities are as follows:

- review and recommend to the Board arrangements for the executive directors and the executives reporting to the CEO, including contract terms, annual remuneration and participation in Healthscope's short and long-term incentive plans;
- review major changes and developments in Healthscope's remuneration, recruitment, retention and termination policies and procedures for senior management;
- review major changes and developments in the remuneration policies, superannuation arrangements, personnel practices and industrial relations strategies for Healthscope;
- review the senior management performance assessment processes and results as they reflect the capability of management to realise the business strategy;
- review and approve short-term incentive strategy, performance targets and bonus payments;
- review and recommend to the Board major changes and developments to Healthscope's employee equity incentive plans;
- recommend to the Board whether offers are to be made under any or all of Healthscope's employee equity incentive plans in respect of a financial year;
- review and make recommendations to the Board on remuneration by gender and recommend strategies or changes to address any pay bias;
- review and recommend to the Board the remuneration arrangements for the Chairman and the Non-Executive Directors of the Board, including fees, travel and other benefits;
- approve the appointment of remuneration consultants for the purposes of the Corporations Act;
- be satisfied that the Committee, the Board and management have available to them sufficient information and external advice to ensure informed decision making regarding remuneration; and
- review and facilitate shareholder and other stakeholder engagement in relation to Healthscope's remuneration policies and practices.

The Committee's charter provides that the Committee must consist of only Non-Executive Directors, a majority of independent Directors, a minimum of three members, and an independent Director as chair.

The current members of the Committee are:

- Rupert Myer (chair);
- Tony Cipa; and
- Aik Meng Eng.

6.5.3 Nomination Committee

The Nomination Committee's responsibilities are as follows:

- assist the Board to develop a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- review and recommend to the Board the size and composition of the Board, including review of Board succession plans and the succession of the Non-Executive Chairman and Chief Executive Officer, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender;
- review and recommend to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to Healthscope's affairs;
- review and recommend to the Board the composition and membership of the Board, including making recommendations for the re-election of Directors and assisting the Board as required to identify individuals who are qualified to become Board members;
- assist the Board as required in relation to the performance evaluation of the Board, its Committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- review and make recommendations in relation to any corporate governance issues as requested by the Board from time to time;

- review the Board charter on a periodic basis and recommend any amendments for the Board's consideration;
- ensure that an effective Director induction process is in place and regularly review its effectiveness;
- on an annual basis, review the effectiveness of the Board Diversity Policy by assessing Healthscope's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives and reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented; and
- in accordance with the Board Diversity Policy, on an annual basis, review the relative proportion of women and men in the workforce at all levels of Healthscope, and submit a report to the Board, which outlines the Committee's findings or, if applicable, provide the Board with the Company's most recent indicators as required by the *Workplace Gender Equality Act 2012* (Cth).

The Committee's charter provides that the Committee must consist of a majority of independent Directors, a minimum of three members, and an independent Director as chair.

The current members of the Committee are:

- Paula Dwyer (chair);
- Tony Cipa
- Aik Meng Eng;
- Simon Moore; and
- Rupert Myer.

6.6 Corporate governance policies

The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available on Healthscope's website at www.healthscope.com.au.

6.6.1 Policy for Dealing in Securities

Healthscope has adopted a Policy for Dealing in Securities which is intended to explain the types of dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects Healthscope and Directors and employees against the misuse of unpublished information which could materially affect the value of securities. The policy applies to all Directors, officers, senior executives and employees of Healthscope and its related bodies corporate and their connected persons.

The policy provides that relevant persons must not deal in Healthscope's securities:

- when they are in possession of price-sensitive information;
- on a short-term trading basis; and
- during trading blackout periods (except in exceptional circumstances).

Otherwise trading will only be permitted in trading windows or in all other periods by:

- Directors with prior written approval from the Non-Executive Chairman of the Board;
- the Non-Executive Chairman of the Board with prior written approval from the Chairman of the Audit, Risk and Compliance Committee; and
- senior executives with prior written approval from the Chief Executive Officer.

6.6.2 Continuous Disclosure policy

Healthscope places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information Healthscope becomes aware of concerning itself which is not generally available and which a reasonable person would expect to have a material effect on the price or value of Healthscope's securities.

Healthscope has adopted a Continuous Disclosure Policy which establishes procedures to ensure that Directors and Employees are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Healthscope is committed to observing its disclosure obligations under the ASX Listing Rules and Corporations Act. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with the ASX and continuous disclosure announcements will be made available on Healthscope's website at www.healthscope.com.au.

6.6.3 Code of Conduct

Healthscope is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct which outlines how Healthscope expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of Healthscope (including temporary employees, contractors and Directors) must comply with the Code of Conduct.

The Code is designed to:

- to promote a high level of professionalism and provide a benchmark for ethical and professional behaviour throughout Healthscope;
- to promote a healthy, respectful and positive workplace and environment for all Healthscope employees;
- support Healthscope's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the Code.

6.6.4 Communications with Shareholders

Healthscope's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of Healthscope. In addition to Healthscope's continuous disclosure obligations, Healthscope recognises that potential investors and other interested stakeholders may wish to obtain information about Healthscope from time to time and Healthscope will communicate this information regularly to Shareholders and other stakeholders through a range of forums and publications.

All ASX announcements made to the market, including annual and half year financial results, will be posted on Healthscope's website at www.healthscope.com.au as soon as practicable following their release by the ASX. The full text of all notices of meetings and explanatory material, Healthscope's Annual Report and copies of all investor presentations made to analysts and media briefings will be posted on Healthscope's website. The website will also contain a facility for the Shareholders to direct queries to Healthscope.

6.6.5 Diversity policy

The Board of Healthscope has formally approved a Diversity Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure.

The Board will include in the Annual Report each year a summary of Healthscope's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the Annual Report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

7. Details of the Offer

7. Details of the Offer

7.1 The Offer

The Prospectus relates to an initial public offering of New Shares by Healthscope and the sale of Existing Shares by SaleCo. Following Completion of the Offer, CT Healthscope Holdings, L.P. will hold at least 25% of Shares on issue but reserves the right to hold up to 40%.

Healthscope will raise total proceeds under the Offer of $2,246.8 million to $2,573.5 million, assuming the Final Price is within the Indicative Price Range.[98] The total number of Shares available under the Offer will be 1,123.9 million to 1,276.7 million, assuming the Final Price is within the Indicative Price Range.[98]

Assuming the Final Price is at the mid-point of the Indicative Price Range and CT Healthscope Holdings, L.P. elects to retain 32.5% of the Shares on issue at Completion, SaleCo will sell 311.5 million Existing Shares raising $632.3 million.[99]

Following Completion of the Offer, the total number of Shares on issue will be between 1,665.0 million and 1,891.4 million.[98]

Successful Applicants under the Offer will pay the Final Price. The Final Price will be determined at the conclusion of the bookbuild and may be set at a price below, within or above the Indicative Price Range.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus. All Shares will rank equally with each other.

7.1.1 Structure of the Offer

The Offer comprises:

- the Retail Offer, consisting of:
  - the Broker Firm Offer, which is open to Australian and New Zealand resident retail clients of Brokers who have received a firm allocation from their Broker; and
  - the Personnel and Priority Offer, which is only open to Eligible Employees located in Australia and New Zealand and investors nominated by Healthscope;
- the Institutional Offer, which is an invitation to bid for Shares made to Institutional Investors in Australia and in a number of other eligible jurisdictions under the Prospectus or Institutional Offering Memorandum (as applicable); and
- the Noteholder Exchange Offer, which is open to Eligible Healthscope Noteholders who wish to Exchange their Healthscope Notes for Shares under the Offer.

Details of each component of the Retail Offer and the allocation policy under the Retail Offer are described in Section 7.3. Details of the Institutional Offer and the allocation policy under the Institutional Offer are described in Section 7.4. Details of the Noteholder Exchange Offer are described in Section 7.5.

No general public offer will be made under the Offer. The allocation of Shares between the Retail Offer, the Institutional Offer and the Noteholder Exchange Offer will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers, having regard to the allocation policy outlined in Sections 7.3.1.4, 7.3.2.1, 7.3.2.2, 7.4.4 and 7.5.1.

98,523 Shares, in aggregate, will be issued pursuant to this Prospectus to Paula Dwyer, Tony Cipa and Rupert Myer, each a Non-Executive Director of Healthscope, for nil consideration, at the mid-point of the Indicative Price Range.

7.1.2 Purpose of the Offer and use of proceeds

The Offer is being conducted to:

- provide Healthscope with access to capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities;
- raise capital to reduce Healthscope's existing liabilities; and
- provide a liquid market for its Shares and an opportunity for others to invest in Healthscope.

The Offer also provides CT Healthscope Holdings, L.P. with an opportunity to realise part of its investment in Healthscope.

[98] Assumes 50% of Notes are Exchanged and CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion of the Offer.

[99] Assumes 50% of Notes are Exchanged.

The proceeds received by Healthscope from the issue of New Shares and drawdown of New Banking Facilities under the Offer will be used as follows:

- $2,424.1 million to repay existing liabilities;
- $259.0 million to fund the redemption of Healthscope Notes; and
- $86.6 million to fund the costs of the Offer.

$632.3 million of proceeds received by SaleCo for the sale of Existing Shares will be paid to CT Healthscope Holdings, L.P.

This assumes the Final Price is at the mid-point of the Indicative Price Range, CT Healthscope Holdings, L.P. holds 32.5% of Shares on issue at Completion, and 50% of Healthscope Notes are Exchanged.

Table 7.1 Sources and uses of funds[1]

Sources of funds	$m	%	Uses of funds	$m	%
Healthscope					
Cash proceeds received for New Shares issued under the Offer	1,520.5	44.7%	Repayment of existing liabilities[2]	2,424.1	71.3%
Noteholder Exchange Offer	259.0	7.6%	Exchange of Healthscope Notes	259.0	7.6%
Drawdown of New Banking Facilities[3]	990.1	29.1%	Costs of the Offer	86.6	2.5%
SaleCo					
Cash proceeds received for Existing Shares sold under the Offer	632.3	18.6%	Payments to CT Healthscope Holdings, L.P.	632.3	18.6%
Total sources	**3,401.9**	**100.0%**	**Total uses**	**3,401.9**	**100.0%**

Notes:

1. Assumes the Final Price is at the mid-point of the Indicative Price Range, that 50% of Notes are Exchanged, and that CT Healthscope Holdings, L.P. holds 32.5% of Shares on Completion of the Offer.
2. Includes repayment of existing senior debt facilities, Healthscope Notes that are redeemed, repayment of shareholder loans provided by funds advised and managed by TPG and The Carlyle Group, and payment of interest withholding tax and swap break costs.
3. $995.0 million net of $4.9 million up-front fees.

7.1.3 Shareholding structure

The details of the ownership of Shares at Completion are set out below.

Table 7.2 Shareholding structure

Shareholder	Share-holding pre-Offer (m)	Share-holding pre-Offer (%)	Share-holding at Completion of the Offer (m)[100]	Share-holding at Completion of the Offer (%)[100]
CT Healthscope Holdings, L.P.	883.6	100.0%	572.1	32.5%
Management and Directors	–	–	7.4	0.4%
New Shareholders	–	–	1,180.8	67.1%
Total	**883.6**	**100.0%**	**1,760.3**	**100.0%**

CT Healthscope Holdings, L.P. is the sole shareholder of Healthscope and will sell some of its Shares through SaleCo. CT Healthscope Holdings, L.P.'s limited partners are entities controlled by funds advised and managed by TPG and The Carlyle Group.

[100] Assumes the Final Price is at the mid-point of the Indicative Price Range, that 50% of Notes are Exchanged, and that CT Healthscope, L.P. holds 32.5% of Shares on Completion of the Offer. CT Healthscope Holdings, L.P. will hold at least 25% of Shares on issue at Completion but reserves the right to hold up to 40%.

7.1.4 Pro forma statement of financial position

Healthscope's pro forma statement of financial position from Completion of the Offer, including details of the pro forma adjustments, is set out in Section 4.6.

7.1.5 Control implications of the Offer

The Directors do not expect any Shareholder to control Healthscope on Completion.

7.1.6 Potential effect of the fundraising on the future of Healthscope

The Directors believe that on Completion, Healthscope will have sufficient working capital available from the cash proceeds of the Offer, its operations and the New Banking Facilities, to fulfil the purposes of the Offer as outlined in Section 7.1.2 above, and to carry out the Offer's stated objectives.

7.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in Healthscope).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.10.
What is the consideration payable for each security being offered?	The Indicative Price Range for the Offer is $1.76 to $2.29 per Share. The Indicative Price Range may be varied at any time by CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers. Successful Applicants under the Offer will pay the Final Price, which will be determined at the conclusion of the bookbuild and may be set at a price below, within or above the Indicative Price Range. Applicants under the Broker Firm Offer and Personnel and Priority Offer will apply for a set dollar value of Shares. Accordingly, Applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price. Except as required by law, Applicants cannot withdraw their Applications once the Final Price and allocations of Shares have been determined.
What is the Offer period?	The key dates, including details of the Offer period, are set out on page 5. No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date.
What are the cash proceeds to be raised?	$2,411.8 million is expected to be raised under the Offer.[101]
Is the Offer underwritten?	No. The Offer is not underwritten.
What is the minimum and maximum application size under the Broker Firm Offer?	Applicants under the Broker Firm Offer should contact their Broker about the minimum and maximum Application amount. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.

[101] Assuming the Final Price is at the mid-point of the Indicative Price Range, that 50% of Notes are Exchanged, and that CT Healthscope, L.P. holds 32.5% of Shares on Completion.

Topic	Summary
What is the minimum and maximum application size under the Personnel and Priority Offer?	Applications under the Personnel and Priority Offer must be for a minimum of $1,000 worth of Shares and in multiples of $500 worth of Shares thereafter. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to reject an Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion.
What is the allocation policy?	The allocation of Shares between the Retail Offer, the Institutional Offer and the Noteholder Exchange Offer will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers, having regard to the allocation policy outlined in Sections 7.3.1.4, 7.3.2.1, 7.3.2.2, 7.4.4 and 7.5.1. With respect to the Broker Firm Offer, it will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not CT HSP GP (Dutch) B.V., Healthscope or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares. The allocation of Shares under the Institutional Offer will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers. Subject to the guaranteed minimum allocation, the final allocation of Shares in the Personnel and Priority Offer will be at Healthscope's absolute discretion. Holders of Healthscope Notes who elect to participate in the Noteholder Exchange Offer will receive a guaranteed allocation. Participants in the Noteholder Exchange Offer who Exchange all their Healthscope Notes and apply for additional Shares will receive a priority allocation in respect of the application for additional Shares.
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on 1 August 2014. Refunds to Applicants under the Personnel and Priority Offer who make an Application and are scaled back, will be made as soon as possible post Settlement of the IPO, which is expected to occur on or about 30 July 2014. No refunds will be made where the overpayments relate solely to rounding at the Final Price.
Will my Shares be listed?	Healthscope will apply to the ASX for admission to the official list of the ASX and quotation of Shares on the ASX, which is expected to be under the code HSO. Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

Topic	Summary
When are the Shares expected to commence trading?	It is expected that trading of the Shares on the ASX will commence on 28 July 2014 initially on a conditional and deferred settlement basis. Shares will commence trading on the ASX on an unconditional and deferred settlement basis on 31 July 2014. Shares will commence trading on the ASX on an unconditional and normal settlement basis on or about 4 August 2014. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Healthscope Offer Information Line, by a Broker or otherwise.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.6.
Has any ASIC relief or ASX waiver been obtained or been relied on?	Yes. Details are provided in Section 9.12.
Are there any tax considerations?	Refer to Section 9.10.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.
What should you do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Healthscope Offer Information Line on 1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia) from 9.00am until 5.00pm (Melbourne time), Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you are unclear in relation to any matter or are uncertain as to whether Healthscope is a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Healthscope.

7.3 Retail Offer

7.3.1 Broker Firm Offer

7.3.1.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia or New Zealand and are not located in the United States. If you have received a firm allocation of Shares from your Broker, you will be treated as a Broker Firm Offer Applicant in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer.

7.3.1.2 How to apply

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker to request a Prospectus and Application Form. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (Melbourne time) on the Closing Date or any earlier closing date as determined by your Broker.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your firm allocation. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applicants under the Broker Firm Offer should contact their Broker about the minimum and maximum Application size. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person. Healthscope may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

CT HSP GP (Dutch) B.V., Healthscope, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9.00am (Melbourne time) on 8 July 2014 and is expected to close at 5.00pm (Melbourne time) on 22 July 2014. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

7.3.1.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

7.3.1.4 Allocation policy under the Broker Firm Offer

The allocation of firm stock to Brokers will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers.

Shares that have been allocated to Brokers for allocation to their Australian and New Zealand resident retail clients will be issued to the Applicants nominated by those Brokers. It will be a matter for each Broker as to how they allocate firm Shares among their retail clients, and they (and not CT HSP GP (Dutch) B.V. nor Healthscope nor the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.3.2 Personnel and Priority Offer

7.3.2.1 Personnel Offer

The personnel offer is open to Eligible Employees ("Personnel Offer").

Eligible Employees who are Australian residents may apply for Shares online and must comply with the instructions on the website, www.healthscopeoffer.com.au.

Applications under the Personnel Offer must be for a minimum of $1,000 worth of Shares and in multiples of $500 worth of Shares thereafter.

Eligible Employees will receive a guaranteed minimum allocation of $1,000 worth of Shares at the Final Price (rounded down to the nearest whole Share).

For Eligible Employees who are Australian residents, payment may be made via BPAY® only. Application Monies must be received by the Share Registry by 5.00pm (Melbourne time) on 22 July 2014.

To make a payment via BPAY®, Applicants will need to apply online at www.healthscopeoffer.com.au and must comply with the instructions on the website. It is the Applicant's responsibility to ensure that his or her BPAY® payment is received by the Share Registry by no later than 5.00pm (Melbourne time) on 22 July 2014 2014. Financial institutions may implement earlier cut-off times with regards to electronic payment, and Applicants should therefore take this into consideration when making payment.

For Eligible Employees who are New Zealand residents, applications may be made by completing and returning their personalised Application Form to the Share Registry with an accompanying cheque, bank draft or money order for the Application Monies.

Cheques, bank drafts or money orders must be drawn in Australian dollars and be made payable to "Healthscope Share Offer Account" and crossed "Not Negotiable". Cash will not be accepted. Receipts for payments will not be issued. Applicants should ensure that sufficient funds are held in the relevant account(s) to cover their cheque(s). If the amount of an Applicant's cheque(s) (or the amount for which those cheque(s) clear in time for allocation) is insufficient to pay for the Shares applied for in his or her Application Form, the Applicant may be taken to have applied for such lower amount as the cleared Application Monies will pay for or the Application may be rejected. Application Monies must be received by the Share Registry by 5.00pm (Melbourne time) on 22 July 2014. It is the Applicant's responsibility to ensure sufficient time is allowed for postage to the Share Registry's office in Melbourne.

Allocation policy

Subject to the guaranteed minimum allocation, the final allocation of Shares to Applicants in the Personnel Offer will be at Healthscope's absolute discretion and Healthscope may reject an Application, or allocate fewer Shares than the amount applied for.

7.3.2.2 Priority Offer

The Shares to be issued to the Chief Executive Officer and other Management pursuant to reinvestment of the proceeds from interests in Healthscope's previous long-term incentive plan and application of one-off retention payments described in Section 6.3.2.5 will occur under the Priority Offer.

The Priority Offer is open to investors nominated by Healthscope. If you are a Priority Offer Applicant, you will receive a personalised invitation for Shares in the Priority Offer.

You may apply for an amount up to the amount indicated on your personalised invitation. Any amount applied for in excess of this may be refunded in full (without interest) or accepted in full.

Priority Offer Applicants may apply for Shares online and must comply with the instructions on the website, www.healthscopeoffer.com.au.

Applications under the Priority Offer for an amount less than the amount indicated on your personalised invitation must be for a minimum of $1,000 worth of Shares and in multiples of $500 worth of Shares thereafter.

Priority Offer Applicants are guaranteed an allocation of Shares in the amount specified in their personalised invitation or such a lesser amount validly applied for (rounded down to the nearest whole Share).

Healthscope otherwise has absolute discretion regarding the allocation of Shares to Applicants in the Priority Offer and may reject an Application, or allocate fewer Shares than the amount applied for, in its absolute discretion.

Payment may be made via BPAY® only. Application Monies must be received by the Share Registry by 5.00pm (Melbourne time) on 22 July 2014.

To make a payment via BPAY®, you will need to apply online at www.healthscopeoffer.com.au and must comply with the instructions on the website. It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5.00pm (Melbourne time) on 22 July 2014. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

7.3.3 Acceptance of Applications under the Retail Offer

An Application in the Retail Offer is an offer by you to Healthscope and SaleCo to apply for Shares in the dollar amount specified in the Application Form at the Final Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. At the time of making an Application, an Applicant will not know the precise number of Shares they will be allocated and the price paid per Share until the Final Price is determined as set out in Section 7.4.3. To the extent permitted by law, an Application by an Applicant is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants conditional on the quotation of Shares on the ASX and Settlement.

Healthscope and the Joint Lead Managers reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Retail Offer, or to waive or correct any errors made by the Applicant in completing their Application.

Successful Applicants in the Retail Offer will be allotted Shares at the Final Price. Successful Applicants in the Retail Offer will receive the number of Shares equal to the value of their Application accepted by Healthscope and SaleCo divided by the Final Price (rounded down to the nearest whole Share). No refunds pursuant solely to rounding will be provided.

7.3.4 Application Monies

Application Monies received under the Retail Offer will be held in a special purpose account until Shares are issued or transferred to Successful Applicants. Applicants under the Retail Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by CT Healthscope Holdings, L.P.

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your cheque(s), bank draft(s) or BPAY® payment. If the amount of your cheque(s), bank draft(s) or BPAY® payment for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount.

7.4 Institutional Offer

7.4.1 Invitations to bid

Healthscope and SaleCo are inviting certain eligible Institutional Investors to bid for Shares in the Institutional Offer. The Institutional Offer will comprise an invitation to Institutional Investors in Australia and New Zealand to bid for Shares under this Prospectus, and an invitation to Institutional Investors in certain eligible jurisdictions outside Australia and New Zealand to bid for Shares under the Institutional Offering Memorandum.

The Institutional Offer includes a cornerstone process which was conducted prior to the date of this Prospectus. Selected Institutional investors have committed to the JLMs to acquire Shares under this Prospectus at the Final Price within the Indicative Price Range.

7.4.2 Institutional Offer process and the Indicative Price Range

The Institutional Offer will be conducted using a bookbuild process managed by the Joint Lead Managers. Full details of how to participate, including bidding instructions, will be provided to eligible participants by the Joint Lead Managers.

Participants can only bid into the bookbuild for Shares through the Joint Lead Managers. They may bid for Shares at specific prices or at the Final Price. Participants may bid above or within the Indicative Price Range, which is $1.76 to $2.29 per Share. The Indicative Price Range may be varied at any time by CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers. Under the terms of the Offer Management Agreement, the Final Price will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers after the close of the Retail Offer and the Institutional Offer as described in Section 7.4.3.

The Institutional Offer will open on 23 July 2014 and close on 24 July 2014. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to vary the times and dates of the Offer, including closing the Offer early, extend the Offer or accept late Applications or bids, either generally or in particular cases, without notification.

Bids in the Institutional Offer may be amended or withdrawn at any time up to the close of the Institutional Offer. Any bid not withdrawn at the close of the Institutional Offer is an irrevocable offer by the relevant bidder to subscribe or procure subscribers for the Shares bid for (or such lesser number as may be allocated) at the price per Share bid or at the Final Price, where this is below the price per Share bid, on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and in accordance with any bidding instructions provided by the Joint Lead Managers to participants.

Bids can be accepted or rejected in whole or in part without further notice to the bidder. Acceptance of a bid will give rise to a binding contract on allocation of Shares to Successful Applicants conditional on the quotation of Shares on the ASX and Settlement.

Details of the arrangements for notification and settlement of allocations applying to participants in the Institutional Offer will be provided to participants in the bookbuild process.

7.4.3 Final Price

The Institutional Offer bookbuild process will be used to determine the Final Price. Under the terms of the Offer Management Agreement, the Final Price will be determined by agreement between CT HSP GP (Dutch)

B.V., Healthscope and the Joint Lead Managers after the close of the Retail Offer and the Institutional Offer. It is expected that the Final Price will be announced to the market on 25 July 2014. In determining the Final Price, consideration will be given to, but will not be limited to, the following factors:

- the level of demand for Shares under the Institutional Offer at various prices;
- the level of demand for Shares under the Retail Offer;
- the objective of maximising the proceeds of the Offer; and
- the desire for an orderly secondary market in the Shares.

The Final Price will not necessarily be the highest price at which Shares could be sold. The Final Price may be set below, within or above the Indicative Price Range. All Successful Applicants under the Offer will pay the Final Price.

7.4.4 Allocation policy under the Institutional Offer

The allocation of Shares among Applicants in the Institutional Offer will be determined by agreement between CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers. CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers have absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

The initial determinant of the allocation of Shares under the Institutional Offer will be the Final Price. Bids lodged at prices below the Final Price will not receive an allocation of Shares.

The allocation policy will also be influenced by a range of factors, including:

- the price and number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants; and
- any other factors that CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers consider appropriate.

7.5 Noteholder Exchange Offer

7.5.1 Healthscope Noteholder Exchange

The Noteholder Exchange Offer is only open to Eligible Healthscope Noteholders. Eligible Healthscope Noteholders are those holders of Healthscope Notes at the Noteholder Exchange Closing Date who continue to hold Healthscope Notes on the date they are Exchanged and who are residents of Australia or New Zealand, or are Institutional Investors in Hong Kong, Singapore, Switzerland, United Kingdom, People's Republic of China and Malaysia and who are not US Persons or persons who hold Healthscope Notes for the account or benefit of US Persons. Due to legal reasons, Healthscope Noteholders who are US Persons or who hold the Healthscope Notes for, or who act for the account or benefit of, US Persons are not entitled to participate in the Noteholder Exchange Offer.

If an Eligible Healthscope Noteholder validly completes and lodges the Exchange Notice and Exchange Application Form by the Noteholder Exchange Closing Date, that Eligible Healthscope Noteholder will receive a guaranteed allocation of Shares (as a result of Exchange) under the Offer as outlined below.

Under the Noteholder Exchange Offer, each Exchanging Healthscope Noteholder will be issued a number of Existing Shares equal to the principal outstanding ($100 per Healthscope Note) on the Exchanged Healthscope Notes divided by 97.5% of the Final Price. If you are an Eligible Healthscope Noteholder as at 27 June 2014, you should have already received an Exchange Notice and you should receive a personalised Exchange Application Form with this Prospectus. Please call the Healthscope Offer Information Line on 1300 705 291 (within Australia) or +61 3 9415 4833 (outside Australia) if you purchased your Healthscope Notes after 27 June 2014, have not already received an Exchange Notice or did not receive a personalised Exchange Application Form with this Prospectus.

Your Exchange Application Form (a personalised copy of which is attached to this Prospectus) must be received by the Share Registry by the Noteholder Exchange Closing Date. You must continue to hold the Healthscope Notes you intend to exchange on the date the Healthscope Notes Register is closed, which is expected to be 17 July 2014.

Interest that has accrued on Healthscope Notes up to the date on which Shares are issued or transferred as a result of Exchange will be paid to Exchanging Healthscope Noteholders on or about the date Exchange occurs (currently expected to be 31 July 2014).

Subject to any suspension from trading of the Healthscope Notes, the last day on which an investor could buy the Healthscope Notes in the normal course of trading on ASX and settlement on CHESS in order to appear on the Healthscope Notes Register on the Noteholder Exchange Closing Date is 10 July 2014.

Eligible Healthscope Noteholders on the Healthscope Notes Register on 27 June 2014 should already have received a letter from the Healthscope Notes Issuer enclosing an Exchange Notice. A copy of the Exchange Application Form is enclosed with this Prospectus.

Healthscope Noteholders who wish to Exchange some or all of their Healthscope Notes for Shares must lodge the Exchange Notice and the Exchange Application Form, in accordance with the instructions provided, by the Noteholder Exchange Closing Date. If an Eligible Healthscope Noteholder validly completes and lodges the Exchange Application Form by the Noteholder Exchange Closing Date, that Eligible Healthscope Noteholder will receive a guaranteed allocation of Shares under the Offer equal to the value of the principal amount of each Healthscope Note which they elect to Exchange ($100), at 97.5% of the Final Price. Interest that has accrued on Healthscope Notes up to the date on which Shares are issued as a result of Exchange will be paid to Exchanging Healthscope Noteholders on or about the date Exchange occurs (currently expected to be 31 July 2014).

Eligible Healthscope Noteholders who do not complete and lodge their personalised Exchange Notice or Exchange Application Form will not be entitled to receive a guaranteed allocation of Shares under the Offer and will continue to hold their Healthscope Notes which may be Redeemed – see Section 7.5.4.

The Healthscope Notes are currently proposed to be suspended from trading on ASX on 10 July 2014, being the date that is five business days before the Noteholder Exchange Closing Date. This is to enable all Eligible Healthscope Noteholders to have a fair and reasonable opportunity to accept the Noteholder Exchange Offer before the Noteholder Exchange Closing Date. The Healthscope Notes Issuer currently intends to close the Healthscope Notes Register at 5.00pm on the Noteholder Exchange Closing Date.

The last day a Healthscope Noteholders may deal with their Healthscope Notes on the ASX is 10 July 2014.

7.5.2 Applications for additional Shares by Exchanging Healthscope Noteholders

Exchanging Healthscope Noteholders may apply for Shares in addition to the Shares which will result from Exchange of their Healthscope Notes.

If Exchanging Healthscope Noteholders elect to Exchange all of their Healthscope Notes, they will receive a priority (but not guaranteed) allocation of additional Shares.

If Exchanging Healthscope Noteholders elect to Exchange only some of their Healthscope Notes, they will not receive a priority allocation.

To the extent that Exchanging Healthscope Noteholders apply for Shares in addition to the value of their Exchange Healthscope Notes, they will need to provide Application Monies with their Exchange Notice and valid Exchange Application Form. If you apply for additional Shares, the minimum Application size is $1,000. To apply for additional Shares, you should forward your Application Monies along with your Exchange Application Form to the Share Registry or pay your Applications Monies via BPAY® in accordance with the instructions on the Exchange Application Form by the Noteholder Exchange Closing Date. Exchanging Healthscope Noteholders will pay the Final Price for any additional Shares.

The aggregate value of Applications for additional Shares by Healthscope Noteholders will be placed as a Final Price bid in the bookbuild under the Institutional Offer (refer to Section 7.4). The number of additional Shares allocated to Exchanging Healthscope Noteholders in total will be determined according to the allocation policy under the Institutional Offer (refer to Section 7.4.4). The allocation of any additional Shares among Exchanging Healthscope Noteholders who have applied for additional Shares will be determined by CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers with reference to whether each Healthscope Noteholder elected to Exchange all their Healthscope Notes, the number of Healthscope Notes each Healthscope Noteholder holds, the size of each Healthscope Noteholder's Application for additional Shares, and any other factors that CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers consider appropriate, in their sole discretion.

7.5.3 Application Monies

Exchanging Healthscope Noteholders who apply for additional Shares can apply via BPAY® by following the instructions on the Exchange Application Form. Application Monies received for additional Shares from Exchanging Healthscope Noteholders will be held in a special purpose account until Shares are issued or transferred to Exchanging Healthscope Noteholders. Applicants under the Noteholder Exchange Offer whose Applications for additional Shares are not accepted, or who are allocated a lesser dollar amount of additional Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by CT Healthscope Holdings, L.P.

Exchanging Healthscope Noteholders whose Applications for additional Shares are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies by the Final Price. Where the Final Price does not divide evenly into the Application Monies, the number of additional Shares

to be allocated will be rounded down to the nearest whole number of Shares. In this circumstance, surplus Application Monies resulting from unallocated fractions of Shares will become assets of Healthscope.

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on the Exchange Application Form, you may be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Exchange Application Form) or your Application for additional Shares may be rejected.

7.5.4 Redemption of Notes not Exchanged by Healthscope Noteholders

The Healthscope Notes Issuer intends to Redeem any remaining Healthscope Notes, subject to the Offer proceeding, on Completion of the Offer. On Redemption, Healthscope Notes I Noteholders will receive 102.5% of the principal outstanding on the Healthscope Notes I (i.e. $102.50 for each Healthscope Note I) and Healthscope Notes II Noteholders will receive 105% of the principal outstanding on the Healthscope Notes II (i.e. $105.00 for each Healthscope Note II).

Any accrued interest must also be paid at the time of Redemption, which is currently anticipated to be on or around 31 July 2014.

If the Offer does not proceed, then all of the Healthscope Notes (including those in respect of which an Exchange Notice and Exchange Application Form are received) will remain on issue on their current terms.

The Healthscope Notes are currently proposed to be suspended from trading on ASX on 10 July 2014.

7.6 Voluntary escrow arrangements

Shares held at Completion by the Escrowed Shareholders (other than any Shares purchased by them under the Offer except for any Shares purchased by Management under employment arrangements described in Section 6.3.2.5) will be subject to voluntary escrow arrangements.

The Shares held by CT Healthscope Holdings, L.P. will be escrowed until the date on which Healthscope's full-year results for the period ending 30 June 2015 are released to the ASX.

The Shares held by the Chief Executive Officer, Key Management and Management will be escrowed until the date two years after Completion.

Each of these Escrowed Shareholders has agreed to enter into an escrow deed in respect of their escrowed Shareholding retained following the Offer, which prevents them from dealing with their respective escrowed Shares for the applicable escrow period. The restriction on dealing is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Shares or agreeing to do any of those things.

All of the Escrowed Shareholders may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares if holders of at least half of the Shares the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid;
- the Shares held by the Escrowed Shareholders to be transferred or cancelled as part of a merger by scheme of arrangement under Part 5.1 of the Corporations Act;
- the Escrowed Shareholders to participate in an equal access share buyback, capital return or capital reduction made in accordance with the Corporations Act;
- the Escrowed Shareholders to encumber any or all of its Shares to a bona fide third party financial institution as security for a loan, hedge or other financial accommodation, provided that the encumbrance does not in any way constitute a direct or indirect disposal of the economic interests, or decrease an economic interest, that the relevant Escrowed Shareholder has in any of its escrowed Shares and no escrowed Shares may be transferred to the financial institution in connection with the encumbrance (with the documentation for such an encumbrance making clear that the escrowed Shares remain in escrow and subject to the voluntary escrow arrangements for the term of those arrangements); and
- in order to transfer (in one or more transactions) any or all escrowed Shares to an affiliate (for individuals) or an affiliated fund (for CT Healthscope Holdings, L.P.) of the Shareholder provided such affiliate or affiliated fund transferee agrees to be bound by the voluntary escrow arrangements for the term of those arrangements.

During the escrow period, the Escrowed Shareholders, whose Shares are subject to escrow, may deal in any of their Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

7.7 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia and New Zealand. In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia and New Zealand, unless it is attached to, or constitutes part of, the Institutional Offering Memorandum, and only distributed to persons to whom the Institutional Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and the Shares may not be offered or sold, directly or indirectly, in the United States.

Each Applicant in the Retail Offer and each person in Australia or New Zealand to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and any other applicable US securities laws;
- it is not in the United States;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia and New Zealand except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction which Shares are offered and sold.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.8 Discretion regarding the Offer

Healthscope and SaleCo may withdraw the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

CT HSP GP (Dutch) B.V., Healthscope and the Joint Lead Managers reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than applied or bid for.

7.9 ASX listing, registers and holding statements, conditional and deferred settlement trading

7.9.1 Application to the ASX for listing of Healthscope and quotation of Shares

Healthscope will apply for admission to the official list of the ASX and quotation of the Shares on the ASX within seven days of the Prospectus Date. Healthscope's expected ASX code is HSO.

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit Healthscope to the official list of the ASX is not to be taken as an indication of the merits of Healthscope or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the date of this Prospectus (or any later date permitted by law), the Offer will be withdrawn and all Application

Monies received by Healthscope will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by Healthscope from time to time), Healthscope will be required to comply with the ASX Listing Rules.

7.9.2 CHESS and issuer sponsored holdings

Healthscope will apply to participate in the ASX's Clearing House Electronic Subregister System ("CHESS") and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS subregister or an issuer sponsored subregister. For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Securityholder Reference Number ("SRN") of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. Healthscope and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.9.3 Conditional and deferred settlement trading and selling Shares on market

It is expected that the Shares will commence trading on the ASX on 28 July 2014, initially on a conditional and deferred settlement basis.

The contracts formed on acceptance of Applications and bids in the bookbuild will be conditional on the ASX agreeing to quote the Shares on the ASX, and on settlement occurring under the Offer Management Agreement ("Settlement"). Trades occurring on the ASX before Settlement will be conditional on Settlement occurring.

If the Offer is withdrawn after Shares have commenced trading on a conditional and deferred settlement basis, all contracts for the sale of the Shares on the ASX would be cancelled and any Application Monies received would be refunded as soon as possible (without interest).

Conditional trading will continue until Healthscope has advised the ASX that Settlement has occurred, which is expected to be on 30 July 2014. Trading will then be on an unconditional but deferred settlement basis until Healthscope has advised the ASX that holding statements have been despatched to Shareholders which will be about or on 1 August 2014. Normal settlement trading is expected to commence on 4 August 2014.

If Settlement has not occurred within 14 days (or such longer period as the ASX allows) after the day Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of Applications and bids will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

To assist Applicants in determining their allocation prior to receipt of a holding statement, Healthscope will announce details of pricing and the basis of allocations in various newspapers on Healthscope. After the basis for allocations has been determined, Applicants will also be able to call the Healthscope IPO Information Line on 1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia), in each case open from 9.00am to 5.00pm (Melbourne time) Monday to Friday until Completion; or their Broker to confirm their allocations.

It is the responsibility of each Applicant or bidder to confirm their holding before trading in Shares. Applicants or bidders who sell Shares before they receive an initial statement of holding do so at their own risk. CT HSP GP (Dutch) B.V., Healthscope, the Joint Lead Managers and the Share Registry disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them or by the Healthscope Offer Information Line.

7.10 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

7.10.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Healthscope is admitted to the official list of the ASX.

7.10.2 Rights attaching to Shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of Healthscope justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, allot or grant options for, or otherwise dispose of, Shares in Healthscope on such terms as the Board decides.

Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that section, with the:

- consent in writing of the holders of at least 75% of the issued Shares in the particular class; or
- sanction of a special resolution passed at a separate meeting of the holders of Shares in that class,

the rights attached to a class of Shares may be varied or cancelled.

Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred in accordance with the ASX Settlement Operating Rules, any other ASX requirements and the Corporations Act or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote, at general meetings of Healthscope and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. Healthscope must give at least 28 days' written notice of a general meeting.

Winding up

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of Healthscope in proportion to the Shares held by them. If Healthscope is wound up, the liquidator may, with the sanction of a special resolution, divide the whole or part of Healthscope's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

Unmarketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares which constitute less than a marketable parcel by following the procedures set out in the Constitution.

Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of eight, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of Healthscope.

No Director (excluding any Managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the Managing Director) will then hold office until the conclusion of the next annual general meeting of Healthscope.

Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote.

Directors – remuneration

Under the Constitution, the Board may decide the remuneration from Healthscope to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by Healthscope in general meeting. The remuneration of a Director (who is not a Managing Director or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to Healthscope's affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of Healthscope or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of Healthscope.

Directors' remuneration is discussed in Section 6.3.2.

Powers and duties of Directors

The business and affairs of Healthscope are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within Healthscope's power and the powers that are not required by law or by the Constitution to be exercised by Healthscope in general meeting.

Preference Shares

Healthscope may issue preference Shares including preference Shares which are, or at the option of Healthscope or holders are, liable to be redeemed or convertible to ordinary Shares. The rights attaching to preference Shares are those set out in the Constitution unless other rights have been approved by special resolution of Healthscope.

Amendment

The Constitution may be amended only by a special resolution passed by Shareholders.

7.10.3 Share capital

As at the date of this Prospectus, the only class of security on issue by Healthscope is fully paid ordinary Shares.

8. Investigating Accountant's Reports

8. Investigating Accountant's Reports

8.1 Investigating Accountant's Report on Historical Financial Information

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AFSL 241457

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The Directors
Healthscope Hospitals Holdings Pty Ltd
(to be renamed Healthscope Limited)
Level 1, 312 St Kilda Road
Melbourne VIC 3000

The Directors
Healthscope SaleCo Limited
Level 1, 312 St Kilda Road
Melbourne VIC 3000

30 June 2014

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT ON PRO FORMA HISTORICAL FINANCIAL INFORMATION

Introduction

This report has been prepared at the request of the Directors of Healthscope Hospitals Holdings Pty Ltd (to be renamed Healthscope Limited) (the Company or Healthscope) and the Directors of Healthscope SaleCo Limited (SaleCo) for inclusion in a prospectus to be issued by the Company and SaleCo (the Prospectus) in respect of the offer of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange (ASX).

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 for the issue of this report.

References to the Company, Healthscope Aggregated Group and Healthscope Consolidated Group and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

Scope

Pro Forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review the pro forma historical financial information of the Healthscope Consolidated Group, being the:

- the pro forma historical statements of profit or loss for FY2011, FY2012, FY2013 which are included in tables 4.3, 4.8, 4.9, 4.10 and 4.11 of the Prospectus; and

- the pro forma historical statements of profit or loss for H1FY2013 and H1FY2014 which are included in tables 4.20, 4.22, 4.23, 4.24 and 4.25 of the Prospectus;

(together, the "Pro Forma Historical Results");

- the pro forma historical statements of cash flows for FY2011, FY2012, FY2013 which are included in table 4.16 of the Prospectus; and
- the pro forma historical statements of cash flows for H1FY2013 and H1FY2014 which are included in table 4.29 of the Prospectus;

(together, the "Pro Forma Historical Cash Flows");

- pro forma historical statement of financial position as at 31 December 2013 (the "Pro Forma Historical Financial Position") which is included in table 4.13 of the Prospectus.

Together, the Pro Forma Historical Results, the Pro Forma Historical Cash Flows and the Pro Forma Historical Financial Position represent the Pro Forma Historical Financial Information).

The Pro Forma Historical Financial Information has been derived from:

- the historical statements of profit or loss for the Healthscope Aggregated Group for:
  - FY2011, which reflects the financial performance of the Healthscope business for the 8.5 month period from 12 October 2010 (the date of closing of the 2010 Acquisition) to 30 June 2011; and
  - FY2012 and FY2013;
- the historical statement of financial position for the Healthscope Aggregated Group as at 31 December 2013; and
- the historical statements of cash flows for the Healthscope Aggregated Group for:
  - FY2011, which reflects the cash flows of the Healthscope business for the 8.5 month period from 12 October 2010 (the date of closing of the 2010 Acquisition) to 30 June 2011; and
  - FY2012 and FY2013,

(together the Historical Financial Information) after adjusting for the effects of Pro Forma Adjustments described in section 4.2 of the Prospectus.

The Historical Financial Information has been extracted from:

- the financial report of the Healthscope Aggregated Group for FY2011, FY2012 and FY2013, which were audited by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion on the financial reports; and
- the financial report of the Healthscope Aggregated Group for H1FY2013 and H1FY2014, which were reviewed by Deloitte Touche Tohmatsu in accordance with the Auditing Standard on Review Engagements 2410. Deloitte Touche Tohmatsu issued an unmodified review conclusion on the financial reports.

The Pro Forma Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports and interim condensed financial reports prepared in accordance with the *Corporations Act 2001* (Cth).

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in section 4.2 of the Prospectus, as if those events or transactions had occurred as at the date of the Historical Financial Information.

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Due to its nature, the Pro Forma Historical Financial Information does not represent the Healthscope Consolidated Group's actual or prospective financial position, financial performance, and/or cash flows.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Historical Financial Information and the Pro Forma Historical Financial Information, including the selection and determination of Pro Forma Adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Historical Financial Information and the Pro forma Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

- consideration of work papers, accounting records and other documents, including those dealing with:
  - the extraction of the Historical Financial Information of Healthscope from the audited financial statements for FY2011, FY2012 and FY2013 and from the reviewed financial statements for H1FY13 and H1FY2014; and
  - the extraction of the historical financial information of Healthscope from management accounts and other accounting records for the 3.5 month period from 1 July 2010 to 11 October 2010 (the date immediately prior to closing of the 2010 Acquisition);
- consideration of the appropriateness of Pro Forma Adjustments described in Section 4.2 of the Prospectus;
- enquiry of Directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information;
- a review of work papers, accounting records and other documents of the Company; and
- a review of the accounting policies adopted and used by Healthscope over the period for consistency of application.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 4.2 of the Prospectus.

Restrictions on Use

Without modifying our conclusions, we draw attention to Section 4.2 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully
DELOITTE CORPORATE FINANCE PTY LIMITED

Ashley Miller
Director

8.2 Investigating Accountant's Report on Forecast Financial Information

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The Directors
Healthscope Hospitals Holdings Pty Ltd
(to be renamed Healthscope Limited)
Level 1, 312 St Kilda Road
Melbourne VIC 3000

The Directors
Healthscope SaleCo Limited
Level 1, 312 St Kilda Road
Melbourne VIC 3000

30 June 2014

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT ON FORECAST AND PRO FORMA FORECAST FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the Directors of Healthscope Hospitals Holdings Pty Ltd (to be renamed Healthscope Limited) (the Company) and the Directors of Healthscope SaleCo Limited (SaleCo) for inclusion in a Prospectus to be issued by the Company and SaleCo in respect of the offer of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange (ASX).

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 for the issue of this report.

References to the Company, the Healthscope Aggregated Group and the Healthscope Consolidated Group and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

Scope

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review the forecast financial information of the Healthscope Consolidated Group, being the:

- The statutory forecast statement of profit and loss and the statutory forecast statement of cash flows for:
  - the Healthscope Aggregated Group for the year ending 30 June 2014; and
  - the Healthscope Consolidated Group for the year ending 30 June 2015,

  as set out in the Prospectus in Tables 4.5 and 4.16 (the Statutory Forecast Financial Information).

  The director's best-estimate assumptions underlying the Statutory Forecast Financial Information are described in Section 4.9 of the Prospectus.

  The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies adopted by the Healthscope Consolidated Group which are consistent with those historically applied by the Healthscope Aggregated Group; and
- The pro forma forecast statement of profit and loss and the pro forma forecast statement of cash flows of the Healthscope Consolidated Group for the years ending 30 June 2014 and 30 June 2015 as set out in Tables 4.3 and 4.16 of the Prospectus (the Pro forma Forecast Financial Information).

  The Pro forma Forecast Financial Information has been derived from the Statutory Forecast Financial Information, after adjusting for the effects of the pro forma adjustments described in Tables 4.8 to 4.11 of the Prospectus (the Pro forma Adjustments).

  The stated basis of preparation used in the preparation of the Pro forma Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies adopted by the Healthscope Consolidated Group and applied to the Statutory Forecast Financial Information, which are consistent with those historically applied by the Healthscope Aggregated Group, and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred prior to 1 July 2013.

  Due to its nature the Pro forma Forecast Financial Information does not represent the Company's actual prospective financial performance and cash flows for the years ending 30 June 2014 and 30 June 2015,

(together, the Forecast Financial Information).

The Forecast Financial Information has been prepared by management of the Company and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the years ending 30 June 2014 and 30 June 2015. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and transactions that management of the Company expects to occur and actions that management of the Company expects to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Deloitte.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in Section 5 of the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks and sensitivities set out in Section 4.10 of the Prospectus. The sensitivity analysis set out in the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the pro forma adjustments made to the Statutory Forecast Financial Information and included in the Pro forma Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Statutory Forecast Financial Information and the Pro forma Forecast Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

In connection with the review, we made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Forecast Financial Information.

Conclusions

The Statutory Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Statutory Forecast Financial Information do not provide reasonable grounds for the Statutory Forecast Financial Information; and

(ii) in all material respects, the Statutory Forecast Financial Information is not:

a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus; and

b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Healthscope Consolidated Group, which are consistent with those historically applied by the Healthscope Aggregated Group, and the recognition and measurement principles contained in Australian Accounting Standards; and

(iii) the Statutory Forecast Financial Information itself is unreasonable.

The Pro forma Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Pro forma Forecast Financial Information do not provide reasonable grounds for the Pro forma Forecast Financial Information; and

(ii) in all material respects, the Pro forma Forecast Financial Information is not:

a. prepared on the basis of the Directors' best estimate assumptions as described in the Prospectus; and

b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Healthscope Consolidated Group, which are consistent with those historically adopted by the Healthscope Aggregated Group, and the recognition and measurement principles contained in Australian Accounting Standards, applied to the Statutory Forecast Financial Information and the Pro forma Adjustments as if those adjustments had occurred prior to 1 July 2013 as disclosed in the Prospectus; and

(iii) the Pro forma Forecast Financial Information itself is unreasonable.

Restrictions on Use

Without modifying our conclusions, we draw attention to Section 4.2 of the Prospectus, which describes the purpose of the Forecast Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

Deloitte.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and the Investigating Accountant's Report issued in respect of the Historical Financial Information included in Section 8 of the Prospectus, and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully
DELOITTE CORPORATE FINANCE PTY LIMITED

Ashley Miller
Director

Deloitte.

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and regulated emissions units (i.e., carbon) to retail and wholesale clients. We are also authorised to provide general financial product advice relating to derivatives to retail clients and personal financial product advice relating to derivatives to wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We and other entities related to Deloitte Touche Tohmatsu:

- do not have any formal associations or relationships with any entities that are issuers of financial products
- may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1300 780 808
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

9. Additional Information

9. Additional Information

9.1 Registration

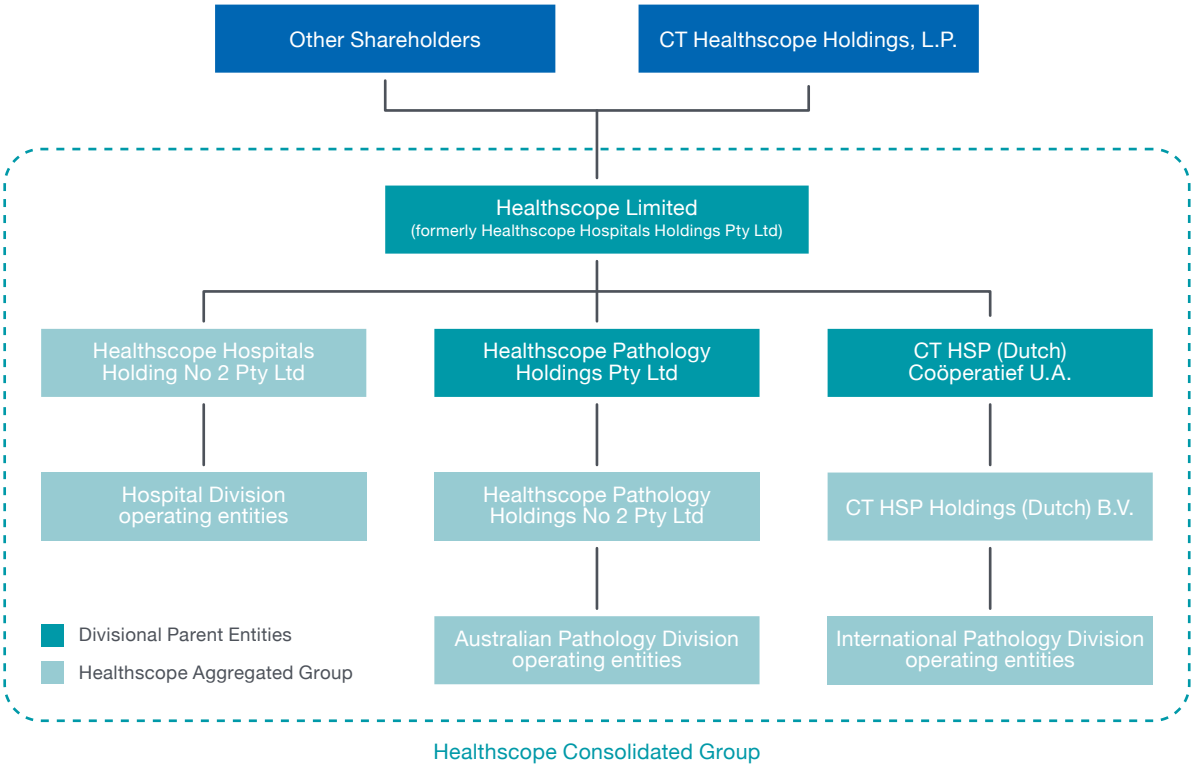
Healthscope was registered in Western Australia on 25 June 2010 as a private company and is expected to convert to a public company on 3 July 2014.

9.2 Healthscope tax status

Healthscope is and will be subject to tax at the Australian corporate tax rate. The financial year of Healthscope ends on 30 June annually. International subsidiaries will be subject to tax in relevant jurisdictions.

9.3 Corporate structure (simplified)

Figure 9.1 Overview of Healthscope corporate structure at Completion of the Offer



9.4 Sale of Existing Shares

SaleCo is a special purpose vehicle, established to enable CT Healthscope Holdings, L.P. to sell some of its Existing Shares. CT Healthscope Holdings, L.P. has executed a sale agreement with SaleCo under which it irrevocably offers to sell Existing Shares to SaleCo free from encumbrances and third party rights and conditional upon the commencement of conditional and deferred trading of Shares on ASX.

The Existing Shares will be transferred to Successful Applicants at the Final Price. The price payable by SaleCo for these Existing Shares is the Final Price. Healthscope will also issue New Shares to Successful Applicants under the Offer.

SaleCo has no material assets, liabilities or operations other than its interest in the sale agreement described above. The directors and shareholders of SaleCo are Paula Dwyer, Tony Cipa and Rupert Myer. Healthscope has indemnified SaleCo and the directors of SaleCo for any loss which SaleCo or the directors of SaleCo may incur as a consequence of the Offer.

9.5 Co-investment arrangements between TPG and The Carlyle Group

The limited partners in CT Healthscope Holdings, L.P., being entities controlled by funds advised and managed by TPG and The Carlyle Group, are in discussions regarding the arrangements that will apply in respect of CT Healthscope Holdings, L.P. and its Shareholding in Healthscope following Completion of the Offer. Among other things, those arrangements will include:

- equal control of CT Healthscope Holdings, L.P. as between the TPG and The Carlyle Group limited partners, including equal rights to appoint directors to the board of the general partner CT HSP GP (Dutch) B.V.;
- the TPG limited partners and The Carlyle Group limited partner separately controlling the voting of the number of Shares held by CT Healthscope Holdings, L.P. in which they have or it has (as applicable) an indirect interest, without reference to each other; and
- co-ordination between the limited partners in relation to any sale of Shares held by CT Healthscope Holdings, L.P. following expiry of the escrow arrangements described in Section 7.6.

9.6 Employee equity plans

9.6.1 Features of the Long-Term Incentive Plan

Healthscope has established a long-term incentive plan ("LTIP") to assist in the motivation, retention and reward of certain employees. The LTIP is designed to align the interests of employees with the interests of Shareholders by providing an opportunity for employees to receive an equity interest in Healthscope through the granting of performance rights ("Performance Rights").

It is intended that Performance Rights will initially be granted to the Chief Executive Officer, Robert Cooke, and other members of Key Management who are invited by the Board to participate.

The key terms of the LTIP are set out in the table below:

Eligibility	Offers may be made at the Board's discretion to employees of Healthscope or its related bodies corporate or any other person that the Board determines to be eligible to receive a grant under the LTIP.
Offers under the LTI	The Board may make offers at its discretion. The Board has the discretion to set the terms and conditions on which it will offer Performance Rights in individual offer documents. Offers must be accepted by the employee and can be made on an opt-in or opt-out basis. The initial grants will be made on an opt-in basis.
Grant of Performance Rights	A Performance Right entitles the holder to acquire a Share for nil consideration at the end of the performance period, subject to meeting specific performance conditions.
Issue price	The Performance Rights will be issued for nil consideration.
Exercise price	No exercise price is payable in respect of the Performance Rights.

Performance conditions, Performance Period and vesting

Performance Rights granted as part of the LTIP offer will vest subject to the satisfaction of performance conditions.

The performance conditions will be tested over a performance period of approximately three years (commencing on the date of the initial Listing of Healthscope and ending on 30 June 2017 "Performance Period"). The performance conditions must be satisfied in order for the Performance Rights to vest.

The performance conditions are as follows:

- 75% of the Performance Rights will be subject to a performance condition based on Healthscope's absolute EPS over the Performance Period ("EPS Component"); and
- the remaining 25% of the Performance Rights will be subject to a relative total Share return ("TSR") performance condition, measured over the Performance Period ("TSR Component"). Healthscope's relative TSR will be compared to a comparator group comprising the ASX100 (excluding companies classified as banks, energy, metals and mining, trusts and overseas domiciled companies ("Relevant Comparator Group").

EPS Component

In order for any Performance Rights in the EPS Component of the LTIP to vest, a threshold target must be achieved (as set out below). The percentage of Performance Rights comprising the EPS Component that vest, if any, will be determined over the Performance Period by reference to the following vesting schedule.

Healthscope's EPS over the Performance Period	% of Performance Rights that vest
Less than threshold target	Nil
Equal to threshold target	50%
Greater than threshold target up to maximum target	Straight line pro rata vesting between 50% and 100%
At or above maximum target	100%

The maximum target for Healthscope's EPS over the Performance Period will be determined by the Board. The threshold target is set at 95% of the maximum target.

TSR Component

In order for any Performance Rights in the TSR Component of the LTIP to vest, Healthscope must achieve the threshold performance for its TSR ranking (as set out below) and a minimum TSR of 7.5% over the Performance Period. The percentage of Performance Rights comprising the TSR Component that vest, if any, will be based on Healthscope's TSR ranking over the Performance Period, as set out in the following vesting schedule.

<table>
<tr><td>Performance conditions, Performance Period and vesting</td><td>
<table>
<tr><th>Healthscope's TSR rank in the Relevant Comparator Group</th><th>% of Performance Rights that vest</th></tr>
<tr><td>Less than 50th percentile</td><td>Nil</td></tr>
<tr><td>At 50th percentile (threshold performance)</td><td>50%</td></tr>
<tr><td>Between 50th and 75th percentile</td><td>Straight line pro rata vesting between 50% and 100%</td></tr>
<tr><td>At 75th percentile or above</td><td>100%</td></tr>
</table>
Any Performance Rights that remain unvested at the end of the Performance Period will lapse immediately.
</td></tr>
<tr><td>Rights associated with Performance Rights</td><td>The Performance Rights do not carry dividends or voting rights prior to vesting.</td></tr>
<tr><td>Restrictions on dealing</td><td>The Participant must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights.

The Participant will be free to deal with the Shares allocated on vesting of the Performance Rights, subject to the requirements of Healthscope's Policy for Dealing in Securities.</td></tr>
<tr><td>Cessation of employment</td><td>If the Participant ceases employment for cause or due to their resignation (other than for death, ill health or disability) unless the Board determines otherwise, any unvested Performance Rights will automatically lapse.

In all other circumstances, the Performance Rights will remain on foot and subject to the original performance conditions unless the Board exercises a discretion to treat them otherwise.</td></tr>
<tr><td>Change of control</td><td>In a situation 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 the 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 expected or actual (as appropriate) date of the change of control will immediately vest; and

• the Board may, in its absolute discretion, decide whether the balance should vest or lapse.</td></tr>
</table>

Reconstructions, corporate actions, rights issues, bonus issues, etc	A Participant cannot participate in new issues of securities by Healthscope prior to vesting of the Performance Rights. However, the Rules of the LTIP include specific provisions dealing with rights issues, bonus issues and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the Participant in respect of their Performance Rights as a result of such corporate actions.
Clawback and preventing inappropriate benefits	The Board has broad "clawback" powers if, amongst other things, • the Participant has: – acted fraudulently or dishonestly; or – engaged in gross misconduct; • there is a material financial misstatement; • Healthscope is required or entitled under law or company policy to reclaim remuneration from the Participant; or • the Participant's entitlements vest as a result of the fraud, dishonesty or serious breach of duties of any other person and the Board is of the opinion that the incentives would not have otherwise vested.

9.6.2 Grants to the Chief Executive Officer

An LTI offer of Performance Rights will be made to the Chief Executive Officer at or around the date of Listing.

Under the LTI offer, the Chief Executive Officer will be entitled to receive Performance Rights with a total face value of $1,750,000.

The final number of Performance Rights awarded to the Chief Executive Officer will be calculated by dividing $1,750,000 by the Final Price.

The Performance Rights will be granted to the Chief Executive Officer under the LTIP and subject to the key terms and vesting and performance conditions outlined above.

9.6.3 Grants to the other members of Key Management

On or around Listing, Healthscope intends to grant performance rights with a total face value of $1,833,503 to members of Key Management under the LTIP on the terms set out in Section 9.6.1 above.

9.7 Corporate facilities

9.7.1 Corporate facilities

9.7.1.1 Overview

Healthscope Finance has entered into a detailed commitment letter dated 2 June 2014 ("Commitment Letter") with Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Credit Agricole CIB Australia Ltd, The Hongkong and Shanghai Banking Corporation Limited, Mizuho Bank, Ltd., National Australia Bank Limited and Westpac Banking Corporation (the "Lenders") for the Lenders to provide debt finance facilities to Healthscope Finance and other members of the Healthscope Group (together, the "Borrowers") as follows:

- a term loan facility in an amount of $995 million ("Facility A"); and
- a revolving multi-option working capital facility in an amount of $300 million ("Facility B"),

(together, the "New Banking Facilities").

The New Banking Facilities are repayable in full after three years from the date of the first drawdown under the New Banking Facilities (which is expected to occur on or about the date of Completion).

The Commitment Letter contains all of the conditions to funding and sets forth the material terms of the New Banking Facilities.

Pursuant to the Commitment Letter, the New Banking Facilities will be available to the Borrowers as follows:

- Facility A is available to be used to refinance the Existing Banking Facilities (and any associated derivative transactions) and pay costs, expenses and financing and transaction advisory fees in connection with the Listing and the financing.
- Facility B is available to be used:
  - to fund growth capital expenditure;
  - to issue guarantees, letters of credit or performance bonds; and
  - for the working capital and general corporate purposes of the Healthscope Group.

The New Banking Facilities are available in Australian dollars and a portion of Facility B (up to $50 million) is also available in US dollars, Sterling, Singapore dollars, New Zealand dollars and other currencies as agreed with the Lenders.

Currency equalisation provisions apply to Facility B requiring cash cover or debt repayment if exposure is more than 110% of Australian dollar commitments.

9.7.1.2 Security

The New Banking Facilities are provided on an unsecured basis.

9.7.1.3 Guarantors

The New Banking Facilities are required to be guaranteed by Healthscope, Healthscope Finance and other wholly-owned subsidiaries in the Healthscope Group (together, the "Obligors") which, together, comprise at least 90% of total assets and 90% of EBITDA for Healthscope and the wholly-owned subsidiaries in the Healthscope Group other than any project finance entities in the Healthscope Group ("Project Finance Subsidiaries") such as the entities developing the Gold Coast Private Hospital and that which would develop The Northern Beaches Hospital, if Healthscope was named the preferred party for that project.

The Project Finance Subsidiaries are excluded from the Healthscope Group for the purpose of the New Banking Facilities (including the financial covenants described in Section 9.7.1.8 of this Prospectus); no guarantee is required to be provided by such entities in favour of the Lenders and these entities will not be "Obligors" under the New Banking Facilities.

9.7.1.4 Interest rates and payments

Each of the New Banking Facilities bears interest at a variable rate per annum plus the applicable margin. The applicable variable rate is selected by the Borrowers under the New Banking Facilities at the time of drawdown and is based on BBR (the average rate displayed on Reuters screen BBSY in Sydney at 10.30am on the relevant day for a term equivalent to that period).

Interest is payable by reference to one, two, three or six month periods, as selected by the Borrowers under the New Banking Facilities (or any other period with Lender consent).

9.7.1.5 Events of default

The New Banking Facilities contain certain events of default which are customary for facilities and a business of the nature of the Healthscope Group and include where:

- an Obligor defaults in payment of principal when due and payable unless remedied within three business days;
- there is a failure to comply with financial covenants;
- a representation or warranty made or deemed made by an Obligor proves to have been false or misleading in any material respect when made;
- there is a failure by any Obligor to observe or perform any undertaking;
- there is a default under any other indebtedness of the Healthscope Group in excess of $30 million; or
- an insolvency event occurs in respect of an Obligor.

In a number of instances, the events of default are subject to materiality thresholds and cure periods.

At any time after and during the continuance of an event of default, the Lenders will be entitled to, among other things, terminate the commitments and declare the loans then outstanding to be due and payable in whole or part.

9.7.1.6 Review events

The New Banking Facilities contain a review event, which is customary for facilities and a business of the nature of the Healthscope Group, where:

- any person other than The Carlyle Group or TPG acquires, either directly or indirectly, more than 50% of the ordinary voting power of the outstanding voting shares in Healthscope; or
- Healthscope is removed from the official list of the ASX, or any classes of securities in Healthscope are suspended from trading on the ASX for a continuous period of 15 business days or longer (for reasons other than there being an imminent announcement of a major acquisition or merger transaction).

Following the occurrence of a review event, the Lenders and Healthscope Finance will consult for 60 days as to the continuation of the New Banking Facilities. If agreement cannot be reached by the expiry of that period and the review event is subsisting at that time, the Lenders may require the Borrowers to repay the New Banking Facilities in full by the date falling 90 days from the date of that notice.

9.7.1.7 Representations and warranties

The New Banking Facilities contain customary representations and warranties including that:

- each Obligor party is duly incorporated and has duly executed the loan documents;
- there is no litigation pending which would reasonably be expected to have a material adverse effect;
- there has been no event or circumstance that has had or would reasonably be expected to have a material adverse effect;
- there is no default; and
- the necessary authorisations required for each of the loan documents has been obtained.

In a number of instances, the representations and warranties are subject to materiality thresholds.

9.7.1.8 Financial covenants

The following financial covenants apply and are tested semi-annually, with the first test date to be 31 December 2014:

- interest cover ratio: the ratio of EBITDA to net interest expense (excluding capitalised or suspended interest) for the Healthscope Group must not fall below 3.0×; and
- gearing ratio: the ratio of the amounts drawn under the New Banking Facilities and certain other indebtedness of the Healthscope Group excluding contingent debt, exposure under hedging arrangements and indebtedness under subordinated financing or transactional facilities) to EBITDA must not exceed 3.5×.

For the purpose of calculating the financial covenants under the New Banking Facilities, certain adjustments are entitled to be made to EBITDA. These adjustments include, but are not limited to, the following:

- any contribution or deduction in respect of individually significant (and non-recurring) or extraordinary items;
- any loss or gain against book value arising from the disposal of any asset (not being disposals made in the ordinary course of trading) during that period and any increment or decrement relating to the revaluation of any asset during that period;
- unrealised exchange gains and losses and any unrealised gains or losses on derivative financial instruments; and
- pro-forma EBITDA adjustments, including:
  - adjustments for entities acquired by the Healthscope Group during the previous 12 months (other than in the case of certain limited exceptions) on a full year run rate basis;
  - adjustments for cost savings made for entities acquired by the Healthscope Group during the previous 12 months on a full year run rate basis;
  - adjustments for the growth capital expenditure of the Healthscope Group prior to completion of the relevant project equal to the relevant proportion (being the proportion which that growth capital expenditure represents to the total growth capital expenditure budgeted for that project) of expected EBITDA for that project for the first 12 months (but no pro forma adjustment shall be made for growth capital expenditure on a project more than nine months before the scheduled completion of that project);
  - adjustments for growth capital expenditure of the Healthscope Group in relation to a project completed during the previous 12 months equal to the expected EBITDA for that project (being the EBITDA as set out in the board paper relating to that project based on forecasts prepared with due care and having regard to historical figures for similar brownfields projects) for the relevant 12 months less the actual EBITDA relating to that growth capital expenditure for the relevant period; and
  - dividends received from any entity which has not been consolidated within consolidated operating profit (or loss) during that period.

9.7.1.9 Dividends

Usual market provisions restrict payment of dividends under the New Banking Facilities. Dividends will be permitted to be paid by Healthscope where there is no event of default, potential event of default or review event subsisting or will immediately occur as a result of the dividend being paid.

9.7.1.10 Undertakings

The Obligors are subject to customary negative undertakings under the New Banking Facilities, including as follows:

- financial indebtedness: there is no restriction on incurring financial indebtedness provided that the Obligors would not be in breach of the financial covenants as a result of the incurrence of such financial indebtedness;
- disposals: disposals on arm's length terms are permitted, provided EBITDA attributable to assets subject to such a disposal does not in aggregate exceed 10% of EBITDA of the Healthscope Group in any financial year (in addition to other permissions customary for a facility of this nature, including any disposals under or in connection with any Receivables Purchase Agreement (discussed below)). The terms of the New Banking Facilities also provide that, for any sale and lease back transaction after Completion, for the purposes of determining compliance with this undertaking the EBITDA attributable to the sale and leaseback property will be deemed to be the increased rental expense resulting from that sale and leaseback transaction;

- acquisitions: acquisitions are permitted where the acquisition is of a business, undertaking, shares or other ownership interest in another company which is compatible with the business of the Healthscope Group and the Obligors will be in compliance with the financial covenants immediately after the proposed acquisition is completed; and
- financial accommodation and guarantees: customary types of financial accommodation and guarantees are permitted to be given by the Obligors, with thresholds applying in certain instances.

9.7.1.11 Other undertakings

In addition to the undertakings described above, the Obligors are subject to usual positive and negative undertakings under the New Banking Facilities including:

- an undertaking to provide annual and semi-annual accounts to the Lenders;
- an undertaking to provide the Lenders with written notice of default, specifying the nature and extent thereof; and
- a negative pledge.

9.7.1.12 Prepayment

Market standard provisions exist under the New Banking Facilities in relation to prepayments, including:

- the right to prepay any loan in whole or in part in an amount, subject to the payment of break costs; and
- a requirement to prepay the New Banking Facilities in full if all or substantially all of the business of the Healthscope Group is disposed of.

9.7.1.13 Fees

Fees are market for facilities of this nature and include:

- an upfront fee to each Lender;
- a commitment fee to each Lender; and
- agency fees to the agent under the Facilities.

9.7.1.14 Conditions precedent

The availability of the New Banking Facilities is subject to a number of conditions precedent, including:

- receipt by the Lenders of executed financing documents on terms consistent with the Commitment Letter; and
- that appropriate provisions have been made such that the Existing Banking Facilities and the Healthscope Notes be repaid and all related securities terminated.

It is expected that these conditions will be satisfied by the date of Completion. If all of the conditions precedent are satisfied and the funding has been provided, then the Lenders must provide the funds for their portion of their applicable commitment under the New Banking Facilities. As at the date of this Prospectus, Healthscope is not aware of any reason why any of the conditions precedent in the financing documents will not be satisfied in time for Completion.

9.7.2 Transactional facilities

Healthscope Finance is also party to the Transactional Facilities Agreement under which ANZ provides the following facilities to the Healthscope Group:

- ANZ Online Facility (transactional facility) – $26,770,000
- Credit Card Facility (ancillary facility) – $1,500,000
- Overdraft Facility (ancillary facility) – Gross and Net Limit – $5,000,000
- Encashment Facility (transactional facility) – $150,000

The terms of these facilities are customary and are renewed annually on 12 October.

9.7.3 Receivables purchase agreement

9.7.3.1 Overview

HSP is a party to a Receivables Purchase Agreement with Westpac under which HSP may offer to sell receivables and related rights originated by HSP or certain approved originators within the Healthscope Group to Westpac from time to time in accordance with the terms of the Receivables Purchase Agreement.

The scheduled termination date of the commitment under the Receivables Purchase Agreement is three years from the date of Completion (or as otherwise extended), however, the commitment may be terminated earlier by Westpac in certain circumstances, such as following specified early amortisation events and events of default (which are further discussed below).

9.7.3.2 Purchase of receivables and related rights

Westpac is not obliged to accept any offer for the sale of receivables and related rights and the acceptance of any offer is subject to the satisfaction of a range of conditions precedent. Westpac acquires the equitable title to any purchased receivables and related rights ("Purchased Receivables") and holds the relevant cash reserves as agent for participants who have acquired an interest in those receivables and other assets. Currently, Westpac is the senior participant and HSP is the mezzanine participant and subordinated participant. The participants receive interest and principal in respect of their participations from collections on the Purchased Receivables in accordance with the terms of the Receivables Purchase Agreement. Westpac also receives certain program fees and other costs under and in connection with the Receivables Purchase Agreement (including as a result of a change in law).

The Receivables Purchase Agreement includes restrictions on when receivables and related rights may be acquired by Westpac if certain limits are exceeded and sets out concentration limits in respect of certain obligors. The current purchase limit under the Receivables Purchase Agreement is $140,000,000.

9.7.3.3 Servicing of the Purchased Receivables

HSP has been appointed as servicer of the Purchased Receivables and has various obligations including to service, administer and collect the Purchased Receivables. Collections in respect of the Purchased Receivables are to be applied to specified collection accounts and accounted to Westpac in accordance with the terms of the Receivables Purchase Agreement. Westpac has the right to remove HSP as servicer, to perfect its rights in the Purchased Receivables and to appoint a replacement servicer upon the occurrence of certain servicer transfer events such as the insolvency of HSP.

The approved originators under the Receivables Purchase Agreement have also provided to Westpac a guarantee of the amounts which HSP, as servicer, is or at any time may become actually or contingently liable to pay to or for the account of Westpac.

9.7.3.4 General obligations of HSP

In certain circumstances HSP has an obligation to pay deemed collections. For example, deemed collections can arise when specified dilutions in respect of the Purchased Receivables occur.

HSP also gives a broad range of representations, warranties and undertakings as seller and servicer which include representations, warranties and undertakings that go to the nature and characteristics of the receivables and related rights and Purchased Receivables, the servicing of the Purchased Receivables and general corporate matters. Many of the representations, warranties and undertakings are typical for an agreement of this nature.

HSP also indemnifies Westpac (including its successors and assigns and its officers, directors, shareholders and other specified persons) on demand for all damages, losses, claims, liabilities and related costs that Westpac may sustain or incur as a direct result of certain events in respect of the Receivables Purchase Agreement, such as a breach of a representation or warranty by HSP.

9.7.3.5 Termination of the Receivables Purchase Agreement

The occurrence and continuation of certain events are early amortisation events and events of default entitling Westpac to terminate its commitment and perfect its interest in the Purchased Receivables. Many of the early amortisation events and events of default are typical for an agreement of this nature.

If the termination date of the commitment under the Receivables Purchase Agreement is a date other than the scheduled termination date, HSP is required to pay to Westpac a prepayment amount. If HSP determines that it does not intend to offer any further receivables under the Receivables Purchase Agreement, certain break costs are also payable by HSP.

HSP may voluntarily terminate the commitment under the Receivables Purchase Agreement and reduce the unused portion of the purchase limit.

9.7.4 Gold Coast Private Hospital project financing

GCPHCo is the borrower under a $156 million GCPH Facility Agreement in respect of the Gold Coast Private Hospital project (as described in Section 3.3.4.3 of the Prospectus), maturing in September 2018. The facility is provided on terms that are customary for facilities of this nature and converting into a term facility following "commissioning completion" (which is the point at which Gold Coast Private Hospital is in a position to admit patients). The facility is non-recourse to the Healthscope Group and security is limited to the assets of the Gold Coast Private Hospital project.

9.8 Offer Management Agreement

The Offer is being managed by the Joint Lead Managers pursuant to the Offer Management Agreement dated 30 June 2014 between Healthscope, SaleCo, CT HSP GP (Dutch) B.V and the Joint Lead Managers.

The Joint Lead Managers have agreed to:

- arrange and manage the Offer; and
- provide settlement support for the Institutional Offer and Broker Firm Offer.

The Joint Lead Managers have not agreed to underwrite the Offer or guarantee that the Offer will be successful.

Fees and costs

The Company must pay the Joint Lead Managers the following management and settlement fees:

- the Base Fee (as defined below); and
- the Notes Fee (as defined below),

out of the **Offer Proceeds**, being the number of Shares offered for issue or transfer under this Prospectus multiplied by the Final Price, on Settlement (together, the **Fees**).

Base Fee

The **Base Fee** means a selling and management fee equal to 1.8% of the Base Offer Proceeds. The **Base Offer Proceeds** will be the total number of Shares issued or transferred under the Institutional Offer, Broker Firm Offer, Personnel Offer, the Priority Offer and applications made by Healthscope Noteholders for additional Shares pursuant to the Noteholder Exchange Offer (as described in section 7.5.2 of this Prospectus), multiplied by the Final Price.

Notes Fee

The **Notes Fee** means a selling and management fee equal to 1.0% of the Noteholder Exchange Offer Proceeds. The **Noteholder Exchange Offer Proceeds** will be the total number of Shares issued or transferred under the Noteholder Exchange Offer (excluding applications made by Healthscope Noteholders for additional Shares pursuant to the Noteholder Exchange Offer, as described in section 7.5.2 of this Prospectus) multiplied by the Final Price.

Incentive Fee

If, and to the extent CT HSP GP (Dutch) B.V instructs, Healthscope will pay the Joint Lead Managers, in the discretion of CT HSP GP (Dutch) B.V, an incentive fee of up to 0.9% of the Base Offer Proceeds, 7 business days after Settlement, out of the Offer Proceeds. This incentive fee is payable at the absolute discretion of CT HSP GP (Dutch) B.V having regard to agreed performance criteria.

Co-Lead Managers, Co-Managers and Broker fees

The Joint Lead Managers must pay, on behalf of Healthscope, any commission and fees payable to any Co-Lead Managers, Co-Managers and Brokers, payable out of the above management and settlement fees, such fees being:

- any fee payable to a Broker, which will be 1.5% of the Offer Proceeds represented by the firm commitment of the relevant Broker (**Broker Firm Fee**); and
- a fee of 2.75% of the amount determined by aggregating the Base Fee (less the Broker Firm Fees payable to all Brokers) and the Notes Fee, payable to each of the Co-Lead Managers.

The Joint Lead Managers are also authorised to pay to the Co-Lead Managers, on behalf of Healthscope, an incentive fee out of the above incentive fees on a basis agreed between the parties and the division of such an incentive fee between the Co-Lead Managers will be determined by CT HSP GP (Dutch) B.V.

Other costs

The Company has also agreed to reimburse the Joint Lead Managers for the reasonable costs of and incidental to the Offer. The costs are payable even if the Offer Management Agreement is terminated or the Offer is withdrawn.

Representations, warranties and undertakings

The Offer Management Agreement contains certain representations and warranties provided by Healthscope, CT HSP GP (Dutch) B.V and SaleCo (as applicable) to the Joint Lead Managers, as well as customary conditions precedent (including entry into voluntary restriction deeds by certain members of key management and CT HSP GP (Dutch) B.V).

The representations and warranties relate to matters such as the nature of Healthscope and SaleCo, the conduct of Healthscope and SaleCo (including in respect of their businesses and operations, disclosure and compliance with applicable laws and the ASX Listing Rules), information provided to the Joint Lead Managers, accounting controls, material contracts, licences, litigation, insurance, information in this Prospectus and the conduct of the Offer.

A number of standard representations and warranties are also given by:

- each Joint Lead Manager to Healthscope; and
- CT HSP GP (Dutch) B.V to each Joint Lead Manager.

The Company's undertakings include that it will not, without the prior written consent of the Joint Lead Managers, at any time after the date of the Offer Management Agreement and up to 180 days after Completion, allot or agree to allot (or indicate that it may do so), any shares or other securities that are convertible or exchangeable into equity, or represent the right to receive equity of Healthscope, SaleCo and their respective subsidiaries, subject to certain limited exceptions including pursuant to an employee share or option plan, a dividend reinvestment plan or bonus share plan, or proposed transaction disclosed in this Prospectus.

Indemnity

Subject to certain exclusions relating to, among other things fraud, wilful misconduct or negligence by an indemnified party, Healthscope and SaleCo agree to keep the Joint Lead Managers, and certain of their affiliated parties, indemnified from losses suffered in connection with the Offer, including for losses, claims, damages or liabilities under the US Securities Act and other US securities laws.

Termination

Subject to any requirements of reasonableness on the part of a terminating Joint Lead Manager, as described below, if any of the following events has occurred or occurs at any time from the date of this agreement until on or before 4.00pm on Settlement or at any other time as specified below, any Joint Lead Manager may terminate its obligations under the Offer Management Agreement without cost or liability by notice to Healthscope and SaleCo and the other Joint Lead Managers:

- (**disclosures in the Institutional Offering Memorandum or the pricing disclosure package**) the Institutional Offering Memorandum or the **Pricing Disclosure Package** (being the Institutional Offering Memorandum and the final price information relating to the Shares allocated under the Institutional Offer) includes an untrue statement or a material fact or omits to state a material fact necessary to make the statements in those documents not misleading.
- **(Supplementary Prospectus)** Healthscope and SaleCo issue or, in the reasonable opinion of the terminating Joint Lead Manager, are required to issue, a supplementary prospectus to comply with section 719 of the Corporations Act or amend or supplement, in any material respect, the Institutional Offering Memorandum or the Pricing Disclosure Package or Healthscope and SaleCo lodge a supplementary prospectus that is in a form that has not been approved by the Joint Lead Managers.
- **(Escrow deeds)** any of the escrow deeds entered into by certain members of key management and CT HSP GP (Dutch) B.V are withdrawn, varied, terminated, rescinded, materially altered or amended, breached or failed to be complied with.

- **(Sale agreements)** either of the share sale agreements entered into by CT HSP GP (Dutch) B.V and Healthscope in relation to the purchase of shares in Healthscope Pathology Holdings Pty Ltd and CT HSP (Dutch) Coöperatief U.A. is withdrawn, materially varied, terminated, rescinded, breached or failed to be complied with.
- **(fraud)** Healthscope or SaleCo or any of their respective directors or officers (as those terms are defined in the Corporations Act) engage in any fraudulent conduct or activity.
- **(listing and quotation)** approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - Healthscope's admission to the official list of ASX on or before 5.00pm on the listing approval date required under the Offer Management Agreement; or
  - the quotation of the Shares on ASX or for the Shares to be cleared through CHESS on or before the date on which the Shares are to be first quoted on ASX,

  or if granted, the approval is subsequently withdrawn or qualified (other than by customary conditions).
- **(mutual recognition)** Healthscope and SaleCo fail in a material respect to comply with the requirements of the NZ Mutual Recognition Regulations in connection with the Offer.
- **(notifications)** any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739 of the Corporations Act;
  - ASIC holds a hearing under section 739(2) of the Corporations Act, except where such investigation or hearing does not become publicly known and is withdrawn within 3 business days of being made (or in any event, before Settlement);
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer document or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Offer or an Offer document, except where such investigation or hearing does not become publically known and is withdrawn within 3 business days of being made (or in any event, before Settlement);
  - any person (other than the terminating Joint Lead Manager) who has previously consented to the inclusion of its name in any Offer document withdraws that consent;
  - any person (other than the terminating Joint Lead Manager) gives a notice under section 730 of the Corporations Act in relation to an Offer document; or
  - the New Zealand Registrar or the New Zealand Financial Markets Authority contacts or gives any notice to Healthscope.
- **(certificate not provided)** Healthscope or SaleCo do not provide a certificate as and when required by the Offer Management Agreement.
- **(withdrawal)** Healthscope and SaleCo withdraw an Offer document or the Offer, or indicates that it does not intend to proceed with the Offer.
- **(insolvency events)** any Healthscope Group member is or becomes insolvent or there is an act or omission which may result in any member of the Healthscope Group becoming insolvent.
- **(unable to issue or transfer Shares)** Healthscope is prevented from allotting and issuing, or SaleCo is prevented from transferring, the Shares within the time required by the timetable for the Offer, the Offer documents, the ASX Listing Rules, the ASX Settlement Operating Rules or by any other applicable laws, an order of a court of competent jurisdiction or a governmental authority.
- **(change in key management)** a change in the chairman of Healthscope or chief executive officer or chief financial officer of Healthscope occurs or any one of those persons dies or becomes permanently incapacitated.
- **(prosecution)** either:
  - a director of or a proposed director of Healthscope named in this Prospectus is charged with an indictable offence; or
  - any director or a proposed director named in this Prospectus is disqualified from managing a corporation under Part 2D.6 of the Corporations Act.

Termination events subject to reasonableness of the terminating Joint Lead Manager

If one of the following events occurs, a terminating Joint Lead Manager may not terminate its obligations under the Offer Management Agreement unless in the reasonable opinion of the terminating Joint Lead Manager, it believes that the event is material and adverse and makes it impracticable or inadvisable to proceed with the Offer, sale or delivery of the Shares on Settlement, as the case may be, on the terms and in the manner contemplated by the Offer Management Agreement and this Prospectus:

- (**disclosures**) a statement in this Prospectus or the information used by or on behalf of Healthscope to conduct the Offer (the **Public Information**) is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter is omitted from this Prospectus or the Public Information, without limitation, having regard to the provisions of Part 6D.2 of the Corporations Act and the Companies Act 1993 of New Zealand, the New Zealand Securities Act 1978, the New Zealand Securities Regulations 2009 and the New Zealand Securities (Mutual Recognition of Security Offerings – Australia) Regulations 2008 (**NZ Mutual Recognition Regulations**) (together, the **NZ Securities Laws**).
- (**forecasts**) there are not, or there cease to be, reasonable grounds for any statement or estimate in the Offer documents, including this Prospectus, the Institutional Offering Memorandum and Public Information, which relates to a future matter or any statement or an estimate in the Offer documents is unlikely to be met in the projected timeframe (including financial forecasts).
- (**timetable**) an event specified in timetable contained in the Offer Management Agreement up to and including the Retail Offer closing date is delayed by more than 2 business days or an event specified in the timetable from but excluding the Retail Offer closing date is delayed by more than one business day (other than any delay agreed between Healthscope and the Joint Lead Managers).
- (**disclosures in the due diligence report and any other information**) the due diligence report prepared by the due diligence committee in connection with the Offer or the verification material or any other information supplied by or on behalf of Healthscope or SaleCo to the Joint Lead Managers in relation to the Healthscope Group or the Offer is (or is likely to), or becomes (or becomes likely to be), misleading or deceptive, including by way of omission.
- (**adverse change**) any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of Healthscope.
- (**representations and warranties**) a representation, warranty, undertaking or obligation contained in the Offer Management Agreement on the part of Healthscope or SaleCo (whether severally or jointly) or CT HSP GP (Dutch) B.V is breached, becomes not true or correct or is not performed.
- (**breach**) Healthscope, SaleCo or CT HSP GP (Dutch) B.V defaults on one or more of its obligations under the Offer Management Agreement.
- (**legal proceedings**) legal proceedings against Healthscope commence or any regulatory body commences an enquiry or public action against Healthscope.
- (**information supplied**) any information supplied (including any information supplied prior to the date of the Offer Management Agreement) by or on behalf of Healthscope to the Joint Lead Managers in respect of the Offer or Healthscope is, or is found to be, misleading or deceptive, or likely to mislead or deceive (including by omission).
- (**certificate incorrect**) a certificate provided by Healthscope or SaleCo pursuant to the Offer Management Agreement is false, misleading, inaccurate or untrue or incorrect (including by omission).
- (**disruption in financial markets**) any of the following occur:
  - hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, Canada, Japan, the United Kingdom, the People's Republic of China, South Korea, Israel, Singapore or a member state of the European Union or any major terrorist attack is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;
  - a general moratorium on commercial banking activities in Australia, Singapore, Hong Kong, the United Kingdom or the United States is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
  - any adverse effect on the financial markets in Australia, Singapore, Hong Kong, the United Kingdom or the United States, or in foreign exchange rates; or

– trading in all securities quoted or listed on ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Singapore Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of 1 day) on which that exchange is open for trading.

9.9 Litigation and claims

Healthscope is, from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As far as the Directors are aware, except as disclosed elsewhere in this Prospectus, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or governmental prosecution of a material nature in which Healthscope is directly or indirectly concerned which would have a material adverse effect on the business or financial position of Healthscope.

9.10 Tax considerations

9.10.1 Summary of tax issues for Australian tax resident investors

The comments in Section 9.10.2 below provide a general outline of Australian tax issues for Australian tax resident shareholders who acquire shares under this Prospectus and that hold Shares in Healthscope on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks, Shareholders that hold their shares on revenue account or carry on a business of trading in shares, Shareholders who are exempt from Australian tax, or Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary in this Section is general in nature and is not exhaustive of all Australian tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this Section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.

Tax laws are complex and subject to ongoing change. The tax consequences discussed in these summaries do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act 2001. This summary is confined to taxation issues and is only one of the matters which need to be considered by Shareholders before making a decision about their investments. Shareholders should consider taking advice from a licenced adviser, before making a decision about their investment to acquire shares under this Prospectus.

9.10.2 Income tax treatment of dividends received by Australian tax resident Shareholders

9.10.2.1 Australian resident individuals and complying superannuation entities

Where dividends on a Share are paid by Healthscope, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his/her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a tax offset equal to the franking credits attached to the dividend subject to being a qualified person (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by Healthscope is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

9.10.2.2 Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset is then allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

9.10.2.3 Trusts and partnership

Australian tax resident Shareholders who are Trustees (other than Trustees of complying superannuation entities) or Partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

9.10.2.4 Shares held at risk

To be eligible for the benefit of franking credits and tax offset a Shareholder must satisfy both the holding period and related payment rules. This requires that a Shareholder hold the Shares in Healthscope "at risk" for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (for example through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares "at risk". In addition, a Shareholder must not be obliged to make a related payment in respect of any dividend, unless they hold the Shares "at risk" for the required holding period around the dividend dates.

Where these rules are not satisfied the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

On 14 May 2013, the former Federal Government announced changes that may apply to deny tax offsets to certain dividend washing arrangements. On 29 May 2014, legislation was introduced into Parliament to enact the proposed amendment. Shareholders should consider the impact of this proposed change together with the broader integrity provisions that apply to the claiming of tax offsets given their own personal circumstances.

9.10.3 Capital gains tax ("CGT") implications for Australian tax resident Shareholders on a disposal of Shares

The disposal of a share by a Shareholder will be a CGT event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for more than 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

9.10.4 Tax File Numbers

Shareholders are not required to quote their tax file number ("TFN"), or where relevant Australian Business Number ("ABN"), to Healthscope. However, if a valid TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by Healthscope from distributions and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy. Australian tax should not be required to be deducted by Healthscope in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

9.10.5 GST implications

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in Healthscope, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by Healthscope.

9.10.6 Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in Healthscope. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares whilst Healthscope remains listed.

9.10.7 Tax consequences upon Redemption or Exchange of Healthscope Notes

The following summary addresses the consequences arising on the Redemption or Exchange of the Healthscope Notes as described in Section 7.5. This summary is only relevant to Australian tax resident Healthscope Noteholders who hold their Healthscope Notes on capital account.

The tax consequences for the Healthscope Noteholder upon Redemption or Exchange of the Healthscope Notes will depend on the specific tax rules applicable to each Healthscope Noteholder. This includes the application of the Taxation of Financial Arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* and to the extent these rules do not apply, the traditional security provisions contained in Section 26BB of the Income Tax Assessment Act 1936. Consistent with the summary above, the comments below do not consider Australian tax resident shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997*. The summary below is prepared on the basis that the Healthscope Notes are "traditional securities" in accordance with Section 26BB of the *Income Tax Assessment Act 1936*.

9.10.7.1 Redemption for cash

Any gain on Redemption of the Healthscope Notes should be included as assessable income to the Healthscope Noteholder in the income year in which the Redemption takes place. Any loss on the Redemption of the Healthscope Notes should be deductible to the Healthscope Noteholder. The gain or loss should be calculated by reference to the Redemption Amount (being $102.50 for each Healthscope Note I and $105 for each Healthscope Note II) less the consideration paid to acquire the Healthscope Notes (and any relevant costs associated with the acquisition or Redemption).

Any interest that has accrued on the Healthscope Notes up to the date of Redemption should also be included in the Healthscope Noteholder's assessable income.

The manner and timing of inclusion of such amounts in assessable income will depend upon the specific tax rules applying to the Healthscope Noteholder, including whether and how the Taxation of Financial Arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* apply to the Healthscope Noteholder. Where these rules do not apply, the Healthscope Noteholder will need to consider the application of the rules dealing with traditional securities on the basis that no interest has been deferred more than twelve months.

The Redemption of the Healthscope Notes should also give rise to a CGT event. However, anti-overlap rules exist to prevent any gain from being subject to both the traditional security provisions and CGT provisions. Accordingly, the amount of any capital gain realised by the Healthscope Noteholder on Redemption should be reduced by any amount included in the Healthscope Noteholder's assessable income under the traditional security provisions.

9.10.7.2 Exchange for Shares

This summary is only relevant for Australian tax resident Healthscope Noteholders who acquire Shares under the Noteholder Exchange Offer and hold their Shares on capital account.

Healthscope Noteholders have a priority right to receive a guaranteed allocation of Shares under the Offer as outlined in Section 7.5 for 97.5% of the Final Price.

There should be no assessable gain or loss (including capital gain or capital loss) for the Healthscope Noteholder on Exchange of their Healthscope Notes for Shares. The Healthscope Noteholders should be taken to have acquired the Shares at the date of the Exchange. The cost base of Shares received on Exchange should be equal to the cost base of the Healthscope Notes plus any other non-deductible expenses incurred by the Healthscope Noteholder in respect of the Exchange. Any capital gain or capital loss otherwise arising from the Exchange of Healthscope Notes for Shares should be deferred until the Shares are sold or otherwise disposed.

Any interest that has accrued on the Healthscope Notes up to the date of Exchange should be included in the Healthscope Noteholder's assessable income. The manner and timing of inclusion of the accrued interest in assessable income will depend upon the specific tax rules applying to the Healthscope Noteholder, including whether and how the Taxation of Financial Arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* apply to the Healthscope Noteholder. Where these rules do not apply, the Healthscope Noteholder will need to consider the application of the rules dealing with traditional securities on the basis that no interest has been deferred more than twelve months.

Healthscope Noteholders who acquire Shares on capital account are subject to the taxation treatment described in Sections 9.9.1 to 9.9.6.

9.10.7.3 Goods and Services Tax

The Redemption or the Exchange of Healthscope Notes should not result in Healthscope Noteholders making a taxable supply. Consequently, no GST should be payable on these transactions regardless of whether or not a Noteholder is registered for GST.

Healthscope Noteholders may not be entitled to claim full input tax credits for the GST included in costs incurred in connection with the Redemption or the Exchange. Separate GST advice should be sought by Healthscope Noteholders in this respect that would be relevant to their particular circumstances.

9.11 Consents

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, have not been withdrawn by the following parties:

- Macquarie Capital (Australia) Limited, UBS AG, Australia Branch, CIMB Capital Markets (Australia) Limited, Credit Suisse (Australia) Limited, Goldman Sachs Australia Pty. Ltd. and Merrill Lynch Equities (Australia) Limited have given, and have not withdrawn prior to the lodgement of this Prospectus with ASIC, their written consent to be named in this Prospectus as the Joint Lead Managers to the Offer in the form and context in which they are named.
- CBA Equities Limited, Evans & Partners Pty Ltd and Morgans Financial Limited have given, and have not withdrawn prior to the lodgement of this Prospectus with ASIC, their written consent to be named in the Prospectus as the Co-Lead Managers to the offer in the form and context in which they are named.
- Baillieu Holst Ltd, JBWere Limited, Macquarie Equities Limited and UBS Wealth Management Australia Limited have given, and have not withdrawn prior to the lodgement of this Prospectus with ASIC, their written consent to be named in the Prospectus as the Co-Managers to the Offer in the form and context in which they are named.
- Deloitte Corporate Finance Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Investigating Accountant to Healthscope in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the Investigating Accountant's Reports in the form and context in which they are included.

- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the lodgement of the Prospectus with ASIC, its written consent to the inclusion in the Prospectus of statements specifically attributed to it in the text of this Prospectus, in the form and context in which they are included (and all other references to those statements) in this Prospectus.
- Ernst & Young has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the taxation adviser to Healthscope in relation to the Offer the form and context in which it is named.
- Herbert Smith Freehills has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Australian legal adviser (other than in respect of taxation, financing and security arrangements and employee incentive plans) to Healthscope in relation to the Offer in the form and context in which it is named.
- Computershare Investor Services Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the share registry to Healthscope in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to Healthscope.

No entity or person referred to above has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to above has not authorised or caused the issue of this Prospectus, does not make any offer of Shares and, subject to the law, expressly disclaims and takes no responsibility for any statements or omissions in this Prospectus except as stated above.

9.12 ASIC relief and modifications and ASX waivers

9.12.1 ASIC exemption and relief

Healthscope has applied to ASIC for a declaration that the Corporations Act is modified such that Healthscope does not have a relevant interest in its own shares by virtue of entering into the voluntary escrow deeds, as well as modification of Section 671B to require Healthscope to make substantial holding disclosure of the relevant interest it would have acquired but for the relief, as a result of the voluntary escrow deeds.

9.12.2 ASX waivers

Healthscope has applied to the ASX for a waiver from the requirement in Listing Rules 10.11 and 10.14 to obtain Shareholder approval in respect of the issue of performance rights (or shares on the vesting of performance rights) to the Chief Executive Officer that are issued, or which have been issued, under the LTIP which are disclosed in this Prospectus.

9.13 Ownership restrictions

The sale and purchase of Shares in Healthscope is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This section contains a general description of these laws.

9.13.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in Healthscope.

9.13.2 Foreign Acquisitions and Takeovers Act

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

9.14 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the law applicable in Victoria and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of Victoria.

9.15 Statement of directors

This Prospectus is authorised by each Director of Healthscope and by each director of SaleCo who has consented to its lodgement with ASIC and its issue.

10. Significant Accounting Policies

10. Significant Accounting Policies

Healthscope Significant Accounting Policies

At the date of authorisation of the audited historical FY2013 financial report, the Australian Accounting Standards and Australian Accounting Interpretations listed below were in issue but not yet effective. However, these standards did affect the reviewed financial statements of the Healthscope Aggregated Group for H1FY2014. The application of these standards will also affect future financial reporting of the Healthscope Consolidated Group:

- AASB 10 Consolidated Financial Statements. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 11 Joint Arrangements. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 12 Disclosures of Interests in Other Entities. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 13 Fair Value Measurement. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 119 Employee Benefits. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle. Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039. Effective for annual reporting periods beginning on or after 1 January 2013; and
- AASB 1053 Application of Tiers of Australian Accounting Standards. Effective for annual reporting periods beginning on or after 1 July 2013.

The potential effect of the initial application of the following standard has not yet been determined:

- AASB 9 Financial Instruments (December 2010). Effective for annual reporting periods beginning on or after 1 July 2015.

Basis of aggregation

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

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

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

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

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Information in Section 4.

Basis of consolidation

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

- 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.

Healthscope 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 Healthscope 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. Healthscope considers all relevant facts and circumstances in assessing whether or not Healthscope's voting rights in an investee are sufficient to give it power, including:

- the size of Healthscope's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by Healthscope, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that Healthscope 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 Healthscope obtains control over the subsidiary and ceases when Healthscope 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 Healthscope gains control until the date when Healthscope ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of Healthscope and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Healthscope and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

(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 Healthscope Consolidated Group, liabilities incurred by the Healthscope Consolidated Group to the former owners of the acquiree and the equity instruments issued by the Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(b) Taxation

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other 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 Healthscope Consolidated Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

Deferred Tax

Deferred tax is 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 Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

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

Tax consolidation

Healthscope elected to form a multiple entry consolidated group with effect from 22 September 2010. Healthscope Operations Ltd and its controlled entities joined the consolidated group with effect from 12 October 2010. The multiple entry consolidated group is expected to convert to a consolidated group either prior to or as a result of the listing process.

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Healthscope Consolidated 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.

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

Loans and receivables

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

Impairment of financial assets

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

De-recognition of financial assets

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

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

(e) Property, plant and equipment

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

- Freehold land and buildings are measured on the cost basis.
- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.
- Finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments. Each is determined at the inception of the lease.
- 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 Healthscope Consolidated 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 Healthscope Consolidated Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired year of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting year, with the effect of any changes recognised on a prospective basis.

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

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

Freehold land is not depreciated.

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

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

(f) Goodwill

Goodwill arising in a business combination is recognised as an asset and carried at cost as established at the date that control is acquired (the acquisition date) less accumulated impairment losses, if any. Goodwill is not amortised but is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Healthscope Consolidated Group's cash-generating units ("CGUs"), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs or groups of CGUs 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 groups of CGUs is less than the carrying amount of the CGU or groups of CGUs, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or groups of CGUs and then to the other assets of the CGU or groups of CGUs pro-rata on the basis of the carrying amount of each asset in the CGU or groups of CGUs.

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

(g) Intangible assets

Intangible assets acquired in a business combination

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

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

Intangible assets acquired separately

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

Research and 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 five years.

(h) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting year, the Healthscope Consolidated 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 Healthscope Consolidated 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.

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

(i) Leased assets

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

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

Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

(j) Employee benefits

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

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

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

Defined contribution plans

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

(k) 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 Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

(l) Investments in associates

An associate is an entity over which the Healthscope Consolidated Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements.

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

The investment in the associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Healthscope Consolidated Group's share of net assets of the associates, less any impairment in value. The consolidated statement of profit or loss and other comprehensive income reflects the Healthscope Consolidated Group's share of the results of operations of the associates.

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

(m) Cash and cash equivalents

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

(n) Financial liability and equity instruments issued by the Healthscope Consolidated Group

Debt and equity instruments

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

Other financial liabilities

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

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

De-recognition of financial liabilities

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

Transaction costs on the issue of equity instruments

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

(o) Foreign currency

Foreign currency transactions

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

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

(p) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts/leases

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Healthscope Consolidated 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 Healthscope Consolidated Group has no related insurance policy. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and when appropriate, the risks specific to the liability. The provision is reviewed at the end of each reporting year and updated for additional information.

Restructuring

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

(q) Revenue

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

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

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

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

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

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

(r) Derivative financial instruments

The Healthscope Consolidated Group enters into interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting year. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Healthscope Consolidated 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.

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

Embedded derivatives

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

Hedge Accounting

The Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the Statement of Changes in Equity.

Fair value hedges

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

Cash flow hedge

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

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

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

(s) Goods and services tax (GST)

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

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

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

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

(t) Borrowing costs

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

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

(u) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Healthscope Consolidated Group in return for past or future compliance with certain conditions relating to the operating activities of the Healthscope Consolidated Group. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Healthscope Consolidated 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 Healthscope Consolidated 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 Healthscope Consolidated Group with no future related costs are recognised as income of the year in which it becomes receivable.

(v) Non-current assets held for sale

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

When the Healthscope Consolidated 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 Healthscope Consolidated Group will retain a non-controlling interest in its former subsidiary after the sale.

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

(w) Share-based payments transactions

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

The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Healthscope Consolidated Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Healthscope Consolidated 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.


FIRE EXTINGUISHER
Anaesthetic Bay 2
Scrub Bay 2
FIRE EXTINGUISHER

11. Glossary

11. Glossary

Defined term	Definition
2010 Acquisition	The acquisition of the Healthscope business by a consortium of funds advised and managed by TPG and The Carlyle Group on 12 October 2010
AASB	Australian Accounting Standards Board
ABN	Australian business number
Accredited Medical Practitioner	A medical practitioner accredited by a hospital to admit and treat patients at that hospital within a defined scope of practice
ACHA	Adelaide Community Healthcare Alliance
ACT	Australian Capital Territory
AIHW	Australian Institute of Health and Welfare
ANZ	Australia and New Zealand Banking Group Limited
Applicant	A person who submits an Application
Application	An application made to subscribe for Shares under the Offer
Application Form	The application form attached to or accompanying this Prospectus (including electronic form provided by an online application facility)
Application Monies	The amount accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ACN 008 624 961 or the market it operates
ASX Listing Rules	The listing rules of the ASX
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
ASX Settlement Operating Rules	The rules of ASX Settlement Pty Limited ACN 008 504 532
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the AASB and Urgent Issues Group Interpretations
Australian Pathology	The Australian pathology business division of Healthscope
Board or Board of Directors	Healthscope's board of directors
Borrowers	The Borrowers as described in Section 9.7.1.1
Broker	Any ASX participating organisation selected by the Joint Lead Managers and Healthscope to act as a broker for the Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Broker provided that such clients are not in the United States
CAGR	Cumulative Annual Growth Rate

Defined term	Definition
Carlyle or The Carlyle Group	The Carlyle Group L.P. and its affiliates
CHESS	The ASX's Clearing House Electronic Subregister System
Closing Date	The date on which the Offer is expected to close, being 22 July 2014 in respect of the Broker Firm Offer and the Personnel and Priority Offer (these dates may be varied without notice)
Co-Lead Managers	CBA Equities Limited (ABN 76 003 485 952), Evans & Partners Pty Limited (ABN 85 125 338 758) and Morgans Financial Limited (ABN 49 010 669 726)
Co-Managers	Baillieu Holst Limited (ABN 74 006 519 393), JBWere Limited (ABN 68 137 978 360), Macquarie Equities Limited (ABN 41 002 574 923) and UBS Wealth Management Australia Limited (ABN 50 005 311 937)
Commitment Letter	The Commitment Letter as described in Section 9.7.1.1
Completion	Completion in respect of the issue of New Shares and transfer of Existing Shares pursuant to the Offer and the Offer Management Agreement
Constitution	The constitution of Healthscope
Corporations Act	*Corporations Act 2001* (Cth)
CT Healthscope Holdings, L.P.	CT Healthscope Holdings, L.P., acting through its general partner, CT HSP GP (Dutch) B.V. CT Healthscope Holdings, L.P.'s limited partners are entities controlled by funds advised and managed by TPG and The Carlyle Group
CT HSP GP (Dutch) B.V.	is the general partner for CT Healthscope Holdings, L.P.
Deloitte	Deloitte Touche Tohmatsu
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DHB	District Health Board
Directors	Each of the directors of Healthscope
DVA	Federal Government Department of Veterans' Affairs
EBITDA	Earnings before interest, tax, depreciation and amortisation
Eligible Employees	Australian or New Zealand resident permanent full-time or part-time employees of Healthscope as at 5.00pm (Melbourne time) on 30 June 2014 and any other persons invited by the Board to participate in the Personnel Offer
Eligible Healthscope Noteholder	Eligible Healthscope Noteholders are those holders of Healthscope Notes at the Noteholder Exchange Closing Date who continue to hold Healthscope Notes on the date they are Exchanged and who are residents of Australia or New Zealand, or are Institutional Investors in Hong Kong, Singapore, the United Kingdom, China or Switzerland and who are not US Persons or persons who hold Healthscope Notes for the account or benefit of US Persons

Defined term	Definition
Eligible US Fund Manager	A dealer or other professional fiduciary organisation, incorporated or (if an individual) resident in the United States that is acting for the account (other than an estate or trust) held for the benefit or account of persons that are not US Persons for which it has an is exercising investment discretion within the meaning of Rule 902(k) under Regulation S of the US Securities Act
Escrowed Shareholders	The parties the subject of the voluntary escrow deeds referred to in Section 7.6, being CT Healthscope, L.P., the Chief Executive Officer, Key Management and Management
Exchange Application Form	The Application Form accompanying this Prospectus sent to Eligible Healthscope Noteholders
Exchange Notice	The notice sent to Eligible Healthscope Noteholders advising them of their right to Exchange their Healthscope Notes
Exchange or Exchanged or Exchanging	The redemption of Healthscope Notes and application of the redemption amount to the purchase of Shares at 97.5% of the Final Price, pursuant to the Healthscope Notes Trust Deed
Existing Banking Facilities	• The senior syndicated facility agreement dated 22 September 2010 among Healthscope Finance, Westpac (as "Senior Agent" and "Security Trustee") and others; and • The syndicated facility agreement – additional capex facility dated 26 April 2013 among Healthscope Finance, Westpac (as "Facility Agent" and "Security Trustee") and others
Existing Shares	Shares on issue immediately prior to Completion of the Offer
Exposure Period	The seven day period after the Prospectus Date, which may be extended by ASIC for up to an additional seven days, during which an Application must not be accepted
Extras Cover	Extras Cover provides specified levels of funding for services not covered by Medicare (e.g. optometry, dentistry, physiotherapy etc.)
Federal Government	Federal Government of Australia
Federal Government Rebate	The Federal Government Rebate is a rebate ranging from 0–30% for individuals and families aged under 65, awarded to families and individuals who have Private Health Insurance and/or Extras Cover
Final Price	The price per Share that all Successful Applicants will pay for Shares under the Offer as determined by the bookbuild and the process set out in Section 7.4, denominated in Australian dollars
Financial Information	The Historical Financial Information, the Pro Forma Historical Financial Information and the Forecast Financial Information together
Forecast Financial Information	See definition in Section 4.1
FTE	Full-time equivalent
GCPH	Gold Coast Private Hospital

Defined term	Definition
GCPH Facility Agreement	The $156 million project finance syndicated facility agreement dated 19 September 2013 in respect of the Gold Coast Private Hospital project among GCPHCo, Commonwealth Bank of Australia (as "Facility Agent" and "Security Trustee") and others
GCPHCo	Gold Coast Private Property Pty Ltd in its personal capacity and as trustee for the GCPH Property Trust
GDP	Gross domestic product
General Practitioner	A General Practitioner is a medical practitioner typically based in a medical centre who treats acute and chronic illnesses and provides preventive care and health education to patients. General Practitioners are usually the first point of contact for a patient in the Australian health care system and are the main source of referrals for specialists
Healthscope	Healthscope Hospitals Holdings Pty Ltd, to be renamed Healthscope Limited (ACN 144 840 639) and as the context requires comprises Healthscope, the Healthscope Aggregated Group, Healthscope Pathology Holdings Pty. Ltd., (ACN 145 250 157) and CT HSP (Dutch) Coöperatief. U.A. (registration no. 50839675)
Healthscope Aggregated Group	Healthscope Hospitals Holdings No. 2 Pty. Ltd., (ACN 145 126 094) and its controlled entities, Healthscope Pathology Holdings No. 2 Pty. Ltd., (ACN 146 342 832) and its controlled entities, and CT HSP Holdings (Dutch) B.V. (registration no. 34308383) and its controlled entities
Healthscope Finance	Healthscope Finance Pty Limited ACN 145 126 067
Healthscope Group	Healthscope not including the Project Finance Subsidiaries
Healthscope Limited	Healthscope Hospitals Holdings Pty Ltd ACN 144 840 639 to be named Healthscope Limited prior to Completion
Healthscope Noteholders	Holders of Healthscope Notes
Healthscope Notes	Healthscope Notes I and Healthscope Notes II
Healthscope Notes I	2 million $100 redeemable, exchangeable, secured but subordinated Notes, issued on 17 December 2010
Healthscope Notes I Trust Deed	The Trust Deed dated 15 November 2010 between the Healthscope Notes Issuer and the Trust Company (Australia) Limited ACN 000 000 993 as trustee of the Healthscope Notes I
Healthscope Notes II	3 million and 50 thousand $100 redeemable, exchangeable, secured but subordinated Notes, issued on 27 March 2013
Healthscope Notes II Trust Deed	The Trust Deed dated on or about 4 March 2013 between the Healthscope Notes Issuer and the Trust Company (Australia) Limited ACN 000 000 993 as trustee of the Healthscope Notes II
Healthscope Notes Issuer	Healthscope Notes Limited ACN 147 250 780
Healthscope Notes Register	The register for Healthscope Notes

Defined term	Definition
Healthscope Notes Trust Deed	Healthscope Notes I Trust Deed or Healthscope Notes II Trust Deed as applicable
Healthscope Offer Information Line	1300 705 291 (toll free within Australia) or +61 3 9415 4833 (outside Australia), in each case open from 9.00am to 5.00pm (Melbourne time) Monday to Friday until Completion
Historical Financial Information	See definition in Section 4.1
Hospitals	The hospitals business division of Healthscope
HSP	Healthscope Operations Limited ACN 006 405 152
IASB	International Accounting Standards Board
ICU	Intensive care unit
IFRS	International Financial Reporting Standards
Indicative Price Range	The Indicative Price Range for the Offer being $1.76 to 2.29 per Share
Institutional Investor	An investor in Australia who is either a "professional investor" or "sophisticated investor" under sections 708(11) and 708(8) of the Corporations Act; or in certain other jurisdictions, as agreed between Healthscope and the Joint Lead Managers, an investor to whom offers or invitations in respect of securities can be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which Healthscope and SaleCo are willing, in their absolute discretion, to comply), in either case, provided that if such person is in the United States, it is reasonably believed to be a QIB or it is an Eligible US Fund Manager
Institutional Offer	The invitation of Institutional Investors under this Prospectus to acquire Shares as described in Section 7.4
Institutional Offering Memorandum	The offering memorandum under which the Institutional Offer will be made in certain jurisdictions outside Australia and New Zealand, which consists of this Prospectus and an offer document "wrap"
International Pathology	The international pathology business division of Healthscope
IPO Acquisitions	Healthscope's conditional share purchase agreement to acquire all of the shares in each of Healthscope Pathology Holdings Pty Ltd and CT HSP (Dutch) Coöperatief
Joint Global Co-ordinators or JGCs	Macquarie Capital (Australia) Limited (ABN 79 123 199 548) and UBS AG, Australia Branch (ABN 47 088 129 613)
Joint Lead Managers or JLMs	The Joint Global Co-ordinators and CIMB Capital Markets (Australia) Limited (ABN 17 000 757 111), Credit Suisse (Australia) Limited (ABN 94 007 016 300), Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795)
Key Management	Chief Financial Officer (Michael Sammells), Mark Briscoe, Andrew Currie, Stephen Gameren, Peter Shepheard and Anoop Singh

Defined term	Definition
Lenders	The Lenders as described in Section 9.7.1.1
Lifetime Health Cover	Lifetime Health Cover is a Federal Government initiative that started on 1 July 2000 designed to encourage people to take out private hospital insurance earlier in life, and to maintain their cover
Listing	The admission of Healthscope to the official list of the ASX
LTIP	Long-term incentive plan
Management	The senior management of Healthscope that participated in Healthscope's previous long-term incentive plan
Medicare	Medicare is a publicly funded universal healthcare scheme in Australia
Medicare Levy Surcharge	The Medicare Levy Surcharge is levied on payers of Australian tax who do not have Private Health Insurance and who earn above a certain income as discussed in Section 2.2.3.4
New Banking Facilities	The new banking facilities as described in Section 9.7
New Shares	Shares issued upon Completion of the Offer
Noteholder Exchange Closing Date	17 July 2014
Noteholder Exchange Offer	Under the Noteholder Exchange Offer, each Healthscope Noteholder electing to Exchange will be issued or transferred a number of Shares equal to the principal outstanding on the Exchanged Healthscope Notes divided by 97.5% of the Final Price and an Exchanging Healthscope Noteholder that Exchanges all Healthscope Notes held by that Healthscope Noteholder may apply for additional Shares at the Final Price
NSQHS Standards	National Safety and Quality Health Service Standards
Offer	The offer under this Prospectus of New Shares for issue by Healthscope and of Existing Shares by SaleCo
Offer Management Agreement	The offer management agreement dated 30 June 2014 between Healthscope, SaleCo, CT HSP GP (Dutch) B.V. and the Joint Lead Managers
Operating EBITDA	Operating EBITDA represents the profit earned by each segment without the allocation of central administrative costs, investment revenue, finance costs, income tax expense, depreciation, amortisation and significant items
Pathology Funding Agreement	The funding agreement between Healthscope and the Federal Government as referred to in Section 2.3.2
Performance Rights	The Performance Rights described in Section 9.6.1
Personnel and Priority Offer	The offer of Shares to Eligible Employees, and investors nominated by Healthscope, as described in Sections 7.3.2.1 and 7.3.2.2 respectively
Personnel Offer	Has the meaning given in Section 7.3.2.1
PHI Act	*Private Health Insurance Act 2007* (Cth)

Defined term	Definition
PHIAC	Private Health Insurance Administration Council
Priority Offer	The Offer of Shares to investors nominated by Healthscope as described in Section 7.3.2.2
Private Health Insurance	Private hospital cover to help cover the cost of in-hospital treatment by an Accredited Medical Practitioner and hospital costs such as accommodation and operating theatre fees
Pro Forma Historical Financial Information	See definition in Section 4.1
Project Finance Subsidiary	The Project Finance Subsidiary as described in Section 9.7.1.3
Prospectus	This document dated 30 June 2014 and any replacement or supplementary prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being 30 June 2014
Purchased Receivables	The Purchased Receivables as described in Section 9.7.3
QIB	A "qualified institutional buyer," as defined in Rule 144A under the US Securities Act
Receivables Purchase Agreement	The receivables purchase agreement dated 27 June 2007, as amended and restated on 8 October 2010, between HSP and Westpac.
Redeem or Redemption	The redemption of Healthscope Notes for the Redemption Amount pursuant to the Healthscope Notes Trust Deed
Redemption Amount	In respect of Healthscope Notes I means 102.5% of the principal amount of the Healthscope Notes I being redeemed and in respect of Healthscope Notes II means 105% of the principal amount of the Healthscope Notes II being redeemed
Relocate and grow	Relocation of existing hospitals to new facilities
Retail Offer Investors	An Australian or New Zealand resident who is not in the United States and is not an Institutional Investor or a Broker
ROIC	Return on invested capital
SaleCo	Healthscope SaleCo Limited (ACN 169 924 396)
Senior Management	Chief Executive Officer and Managing Director (Robert Cooke), Chief Financial Officer (Michael Sammells) and other senior executives being Mark Briscoe, Michael Coglin, Andrew Currie, Stephen Gameren, Alan Lane, Richard Lizzio, Ingrid Player, Peter Shepheard, Anoop Singh and Jenny Williams
Separation	An episode of care for an admitted patient, which can be a total hospital stay (from admission to discharge, transfer or death) or a portion of a hospital stay beginning or ending in a change of type of care (for example, from acute to rehabilitation)

Defined term	Definition
Settlement	Settlement of the Offer
Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277)
Shareholder	Holder of a Share
Share	A fully paid ordinary share in Healthscope
Successful Applicant	An Applicant or Institutional Investor who is issued or transferred Shares under the Offer
TAC	The Victorian Transport Accident Commission
TFN	Tax file number
TPG	TPG Global, LLC and its affiliates
Transactional Facilities Agreement	The transactional facilities agreement dated on or around 30 March 2012 between HSP and ANZ
US or United States	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
US Person	Has the meaning given to it in Rule 902(k) under Regulation S of the US Securities Act
US Securities Act	US Securities Act of 1933, as amended
Westpac	Westpac Banking Corporation
YTD	Year to date

Corporate Directory

ISSUER'S REGISTERED OFFICE
Healthscope Limited
Level 1, 312 St Kilda Road
Melbourne, VIC, 3004, Australia

INVESTIGATING ACCOUNTANT
Deloitte Corporate Finance Pty Limited
550 Bourke Street
Melbourne, VIC, 3000, Australia

JOINT GLOBAL CO-ORDINATORS
Macquarie Capital (Australia) Limited
No. 1 Martin Place
Sydney, NSW, 2000, Australia

UBS AG, Australia Branch
Level 16, Chifley Tower, 2 Chifley Square
Sydney, NSW, 2000, Australia

AUDITOR
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne, VIC, 3000, Australia

JOINT LEAD MANAGERS
CIMB Capital Markets (Australia) Limited
Level 29, 88 Phillip Street
Sydney, NSW, 2000, Australia

Credit Suisse (Australia) Limited
Level 31, Gateway
1 Macquarie Place
Sydney, NSW, 2000, Australia

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney, NSW, 2000, Australia

Merrill Lynch Equities (Australia) Limited
Level 38, Governor Phillip Tower
1 Farrer Place
Sydney, NSW, 2000, Australia

CO-LEAD MANAGERS
CBA Equities Limited
Ground Floor, Tower 1, 201 Sussex Street
Sydney, NSW, 2000, Australia

Evans & Partners
171 Collins Street
Melbourne, VIC, 3000, Australia

Morgans Financial Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000, Australia

CO-MANAGERS
Baillieu Holst Ltd
Level 26, 360 Collins Street
Melbourne, VIC, 3000, Australia

JBWere Limited
Level 17, 101 Collins Street
Melbourne, VIC, 3000, Australia

Macquarie Equities Limited
1 Shelley Street
Melbourne, VIC, 3000, Australia

UBS Wealth Management Australia Limited
Level 16, The Chifley Tower
2 Chifley Street
Sydney, NSW, 2000, Australia

SHARE REGISTRY
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, VIC, 3067, Australia

OFFER INFORMATION LINE
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1300 705 291
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+61 3 9415 4833

AUSTRALIAN LEGAL ADVISER
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OFFER WEBSITE
www.healthscopeoffer.com.au

CORPORATE WEBSITE
www.healthscope.com.au

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