RAMSAY HEALTH CARE LIMITED

AND CONTROLLED ENTITIES

A.B.N. 57 001 288 768

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

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AND CONTROLLED ENTITIES

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Your Directors submit their report for the year ended 30 June 2010.

## DIRECTORS

The names of the Directors of the Company in office during the financial year and until the date of this report, unless otherwise stated, are:

**Names**

P.J. Ramsay AO - Non-Executive Chairman
M.S. Siddle - Non-Executive Deputy Chairman
C.P. Rex - Managing Director
B.R. Soden - Group Finance Director
A.J. Clark AM - Non-Executive Director
P.J. Evans - Non - Executive Director
I.P.S. Grier AM - Non - Executive Director
R.H. McGeoch AM - Non-Executive Director
K.C.D. Roxburgh - Non-Executive Director

Particulars of each Director's experience and qualifications are set out in Attachment 1.

**Interests in the shares and options of the Company and related bodies corporate**

The beneficial interest of each Director in the share capital of the Company as at the date of this report was as follows:

| Director | Ordinary Shares | Ramsay Health Care Limited Convertible Adjustable Rate Equity Securities | Rights over Ordinary Shares |
|---|---|---|---|
| P.J. Ramsay | 73,149,269 | - | - |
| M.S. Siddle | 152,564 | - | - |
| C.P. Rex | 315,109 | 5,334 | 105,000 |
| B.R. Soden | 100,791 | 3,335 | 95,000 |
| A.J. Clark | 82,000 | 1,200 | - |
| P.J. Evans | 7,209 | - | - |
| I.P.S. Grier | 133,116 | - | - |
| R.H. McGeoch | 74,231 | 257 | - |
| K.C.D. Roxburgh | 79,500 | - | - |

Mr Paul Ramsay has a relevant interest in 73,149,269 (2009: 73,148,372) shares held by Paul Ramsay Holdings Pty Limited and is a director of that company.

**Interests in Contracts or Proposed Contracts with the Company**

Mr Rex has retention rights to receive 600,000 ordinary shares pursuant to an Executive Service Agreement with the Company. These rights will vest subject to his continuing in employment as Managing Director until 1 July 2013.

No director has any interest in any contract or proposed contract with the Company other than as disclosed elsewhere in this report.

## PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were the owning and operating of private hospitals. There were no significant changes in the nature of these activities during the year.

## OPERATING RESULTS AND DIVIDENDS

**Consolidated Results**

Consolidated profit attributable to members of the parent after providing for income tax was $148,282,000 (2009: profit of $106,473,000). The operating profit before tax from continuing operations was $220,757,000 (2009: $154,270,000).

**Earnings per Share**

Basic earnings per share (after CARES dividend) 69.4 cents (2009: 51.3 cents)
Basic earnings per share (after CARES dividend) from continuing operations 69.4 cents (2009: 51.3 cents)

**Dividends**

Dividends paid or recommended for payment on ordinary shares are as follows:

| | |
|---|---|
| Final dividend recommended @ 25.0 cents per share (2009: 21.5 cents) | $50,520,313 (2009: $37,680,010) |
| Interim dividend paid during the year @ 18.5 cents per share (2009: 16.5 cents) | $37,385,032 (2009: $28,856,000) |

Dividends paid or recommended for payment on CARES are as follows:

| | |
|---|---|
| Final dividend recommended @ $2.65 per security (2009: $2.06) | $6,901,000 (2009: $5,365,460) |
| Interim dividend paid during the year @ $2.50 per security (2009: $2.82) | $6,495,000 (2009: $7,347,863) |

## REVIEW OF OPERATIONS

Group core net profit after tax from continuing operations (before specific items and amortisation of intangibles) increased 21.9% to $178.5 million for the year to 30 June 2010 and translates to core earnings per share (EPS) of 84.5 cents.

Ramsay recorded specific items and amortisation of intangibles of $30.2 million (net of tax) for the 2010 financial year which mostly relate to deferred non-cash rent expenses from the UK hospitals and include some restructuring and integration costs.

## CORPORATE INFORMATION

This annual report covers the Ramsay Health Care Limited consolidated group which comprises Ramsay Health Care Limited and its subsidiaries ('the Group'). The Group's functional and presentation currency is AUD ($).

Ramsay Health Care Limited is a company limited by shares that is incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The registered office is 9th Floor, 154 Pacific Highway, St Leonards NSW 2065.

The financial report of Ramsay Health Care Limited (the Company) for the year ended 30 June 2010 was authorised for issue on 14 September 2010 in accordance with a resolution of the directors.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of the Group's affairs during the financial year.

## PERFORMANCE RIGHTS (EQUITY)

At the date of this report there were 822,701 (2009: 654,850) ordinary shares under the Executive Performance Rights Plan that are yet to vest. Refer to note 27 of the financial statements for further details of any rights outstanding.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 26 August 2010, Ramsay announced that it will not convert or redeem CARES on 20 October 2010 and, as a result, the dividend margin will "step up" by 2.0% to 4.85% with effect from the dividend payable on 20 April 2011. Management have taken this decision having regard to the ongoing best interest of Ramsay as a whole.

Ramsay retains the ability to redeem or convert CARES at subsequent CARES dividend payment dates.

There have been no other significant events after the reporting date that may significantly affect the Group's operations in future years, the results of these operations in future years or the Group's state of affairs in future years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Directors and management of the consolidated entity will continue to seek growth in health care operations and to seek further cost efficiencies so as to optimise the returns to shareholders from existing hospitals. Directors and management are continuing to pursue opportunities, including expansion of existing facilities, further hospital acquisitions as well as other opportunities closely allied to the private hospital sector which are within the Company's core competencies and investment criteria.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has a Directors' and Officers' Liability policy covering each of the directors and certain executive officers for liabilities incurred in the performance of their duties and as specifically allowed under the Corporations Act 2001. The premiums in respect of the policy are payable by the Company. The terms of the policy specifically prohibit the disclosure of any other details relating to the policy and therefore the directors do not intend disclosing further particulars relating thereto.

## REMUNERATION REPORT – AUDITED

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001 (**Act**) for the Company and its controlled entities (the **Group**) for the year ended 30 June 2010. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Act.

## USING THIS REMUNERATION REPORT

In response to corporate governance developments and feedback received from last year's Remuneration Report, the Company has undertaken a number of initiatives to improve the robustness of the remuneration framework and has also devoted significant attention to the layout, structure and content of its 2010 Remuneration Report with a view to ensuring it meets the needs and expectations of shareholders and other stakeholders.

This 2010 Remuneration Report is designed to provide transparent, clear disclosure of the Company's remuneration structures, whilst still making the Report as concise and readable as possible. In addition to the disclosures required under the Act, the Company has included some additional information that is likely to be of interest to shareholders, including the summary of actual remuneration received by the Managing Director and Senior Executives during the year ended 30 June 2010 (**FY2010**) which appears in table 3 of this Report.

This Remuneration Report is presented in four sections:

**2010 ESSENTIALS** – this section provides a concise summary of the information that is likely to be of most interest to shareholders.

**SETTING EXECUTIVE REMUNERATION** – this section explains how remuneration decisions are made within the Group and summarises the guiding principles and objectives that underpin the Group's remuneration arrangements.

**SENIOR EXECUTIVE REMUNERATION: IN DETAIL** – this section provides more information regarding senior executive remuneration arrangements, including the detailed disclosures required by the Act.

**NON-EXECUTIVE DIRECTOR ARRANGEMENTS** – this section outlines the remuneration arrangements in place for Non-Executive Directors.

The table below provides a content guide for the 2010 Report and outlines the particular information included in each of the Report's four sections.

## REMUNERATION REPORT – Audited (continued)

*Table 1 – 2010 Report: content guide*

## REMUNERATION REPORT – Audited (continued)

2010 ESSENTIALS

## WHO'S WHO

This Remuneration Report sets out the compensation arrangements in place for the Company's Non-Executive Directors and the senior executives (including the executive directors) who are the five highest remunerated executives of the Group for FY2010 (**Senior Executives**). The Senior Executives include the key management personnel (**KMP**) of the Company and the Group for the purposes of the Corporations Act and the Accounting Standards (see table 2 below).

*Table 2: Directors and Senior Executives*

| ***Senior Executives*** | | ***Non-Executive Directors*** | |
|---|---|---|---|
| ***Name*** | ***Position*** | ***Name*** | ***Position*** |
| C.P. Rex | Managing Director | P.J. Ramsay AO | Non-Executive Chairman |
| B.R. Soden | Group Finance Director | M.S. Siddle | Non-Executive Deputy Chairman |
| D.A. Sims | Chief Operating Officer – Australia/Indonesia | A.J. Clark AM | Non-Executive Director |
| C.R. McNally | Head of Global Strategy & European Operations | P.J. Evans | Non-Executive Director |
| J.M. Watts [1] | Chief Executive Officer – Ramsay UK | I.P.S. Grier AM | Non-Executive Director |
| | | R.H. McGeoch AM | Non-Executive Director |
| | | K.C.D. Roxburgh | Non-Executive Director |

[1] *Although Ms Watts is one of the top five remunerated executives, she is not part of the Company's KMP.*

## REMUNERATION INITIATIVES

During the year, the Board reassessed its remuneration strategy in light of feedback received from shareholders and other stakeholders, and to take into account the shift in corporate governance expectations regarding remuneration issues.

As a result of this process, the Company identified and implemented several remuneration initiatives which build on and continue to improve the Company's remuneration structures. These include:

- The Board determining that, subject to shareholder endorsement, the Directors Retirement Benefits Plan is to be frozen effective from 31 December 2009. Frozen entitlements will be indexed annually against the one year Commonwealth Government Bond Rate (adjusted twice a year) to preserve their value, but will no longer be linked to Directors' fees;
- Where appropriate, the Company has early adopted the Recommendations made by the Productivity Commission in its final report on executive remuneration (Productivity Commission Report);
- The introduction of a Remuneration Committee Performance Evaluation process, as part of the Company's commitment to continuous improvement;
- Full disclosure of the EPS component of the Executive Performance Rights Plan (LTI Plan) for the financial year to which this Remuneration Report relates; and
- A more 'user friendly' and transparent Remuneration Report for 2010.

These initiatives are discussed in further detail throughout the Report.

## REMUNERATION OUTCOMES

In response to shareholder feedback and comments made in the Productivity Commission Report, the Company has recognised the need to provide information in the Remuneration Report to make it easier for shareholders to understand and assess the links between remuneration outcomes for Senior Executives and Company performance.

## REMUNERATION REPORT – Audited (continued)

Table 3 below provides a guide as to the actual reward outcomes for the Senior Executives, by setting out the actual 'dollar value' of remuneration received by Senior Executives for FY2010 (i.e. amounts to which they have become entitled, having satisfied any applicable performance hurdles). Details of Senior Executives' remuneration prepared in accordance with statutory obligations and accounting standards are set out in table 16 of this Report.

**Note:** The table below is in line with Recommendation 8 of the Productivity Commission Report that suggests that companies disclose *actual* levels of remuneration received by the individuals named in the report.

Remuneration calculated in accordance with accounting standards, included in the Statement of Comprehensive Income for the Senior Executives, is shown in Table 16 below.

*Table 3: Actual remuneration received by the Managing Director and Senior Executives for FY2010*

| | *Fixed Remuneration* | *STI* [1] | *LTI* [2] | *Superannuation* | *Other*[3] | *Total* |
|---|---|---|---|---|---|---|
| C.P. Rex | 1,306,250 | 1,083,300 | 851,729[4] | 14,461 | 13,458 | 3,269,198 |
| B.R. Soden | 832,000 | 340,000 | 333,190 | 14,461 | 30,472 | 1,550,123 |
| D. A. Sims | 624,000 | 200,000 | 121,163 | 14,461 | 35,072 | 994,696 |
| C.R. McNally | 550,000 | 220,000 | 242,315 | 14,461 | 15,861 | 1,042,637 |
| J.M. Watts | 594,092 | 143,190 | - | 55,844 | 20,222 | 813,348 |

1. *This figure represents the actual STI paid in FY2010 (relating to FY2009) to the Senior Executives (or in the case of Mr Rex, the value of his STI as he is obliged to accept half of his STI in cash and half in shares to be held for 3 years). For further details of the Company's STI programme, please see table 8 of this Report.*
2. *This figure represents the value of Performance Rights (at the date of vesting) which actually vested during the financial year. The value is calculated by multiplying the number of rights that vest by the 5-day volume weighted average share price at vesting. After vesting, the shares are held in trust and continue to be subject to disposal restrictions. Performance Rights that were granted during FY2010 and other grant years that are still in progress do not appear in this table, as they are not eligible for vesting until the conclusion of the performance period (3 years) or vesting period. For further details of the Company's LTI programme, please see table 11 of this Report.*
3. *This figure represents non-monetary benefits such as health insurance cover and motor vehicles.*
4. *This figure includes the value of Mr Rex's Performance Rights that vested during the financial year ($508,872) and the value of dividends paid in respect of the 600,000 underlying shares for Mr Rex's Performance Rights ($342,857). Mr Rex is entitled to a dividend equivalent payment in respect of his retention rights pursuant to his Executive Service Agreement - the terms of which are set out in table 17 of this Report.*

In addition the 'Supporting Business Objectives' section on pages 11 - 12 of this Report includes an analysis of the links between Company performance and 'at-risk' remuneration outcomes for Senior Executives over a 5 year time horizon.

The actual remuneration figures for FY2010 demonstrate that remuneration outcomes for the Managing Director and Senior Executives continue to align with the overall performance of the Group. Only 3 companies out-ranked Ramsay in its ASX comparator group, described on page 18 of this Report, for Total Shareholder Return (**TSR**) performance over the 3 years ended 30 June 2010.

The high levels of at-risk rewards earned in FY2010 reflect the Group's continuing strong performance, both in absolute terms and relative to its peers. In particular:

- The Managing Director received 92% of his maximum STI bonus opportunity for FY2010, being:
  - 100% of his possible base component (for performance against base KPIs worth 60% of the total STI); and
  - 80% of his possible stretch component (for performance against stretch targets, worth 40% of the total STI).
- Other Senior Executives received their maximum STI bonuses based on performance against challenging targets.
- All of the Performance Rights granted to Senior Executives in 2007 vested on 31 July 2010, based on Ramsay's strong performance over the three year performance period to 30 June 2010 relative to its peers in the comparator group. The actual percentile ranking achieved over the performance period against the ASX 101 to 200 index was 95.59%, which was significantly above the percentile ranking of 75% required for full vesting.

Further details of the terms of the STI and LTI plans are set out in tables 8 and 11 in the 'Senior Executive Remuneration: In Detail' section of this Report.

## REMUNERATION REPORT – Audited (continued)

## SETTING EXECUTIVE REMUNERATION

## HOW WE MAKE DECISIONS

**Board responsibility**

The Board is responsible for ensuring that the Company's remuneration structures are equitable and aligned with the long term interests of the Company and its shareholders.

In performing this function, it is critical that the Board is fully informed and acts independently of management when making decisions affecting employee remuneration.

The Board carefully considers the recommendations of the Remuneration Committee prior to making decisions affecting remuneration.

**Independence of the Remuneration Committee**

In discharging its duties, a critical factor for any remuneration committee is that it is independent of management. Each member of the Ramsay Remuneration Committee is a Non-Executive Director who is independent of management.

**Note:** Recommendation 2 of the Productivity Commission Report states that a majority of the Remuneration Committee should be independent.

Adopting the broader independence test applied under the Corporate Governance Principles and Recommendations (2nd Edition) published by the ASX Corporate Governance Council (**ASX Corporate Governance Principles and Recommendations**), the Chairman of the Remuneration Committee (Mr McGeoch) is an independent director. The Board is also of the view that, for the reasons set out in the Corporate Governance Statement of the Annual Report, Mr Evans is an independent director. Accordingly, the Remuneration Committee comprises a majority of independent directors using the test applied under the ASX Corporate Governance Principles and Recommendations.

Where appropriate, members of management attend Remuneration Committees meetings by invitation, however they do not participate in the formal decision-making process. The two Executive Directors and the Company Secretary do not attend the Remuneration Committee meetings when their own remuneration is being discussed. Further, each of them absent themselves from Board meetings when their own remuneration is being discussed.

Details of the members of the Remuneration Committee and information regarding their skills, qualification and experience are set out in the Statement of Corporate Governance and Information on Directors section of the Annual Report.

**Engagement of remuneration consultants**

To ensure that it has all relevant information at its disposal, the Board also seeks and considers advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by and report directly to the Remuneration Committee. Potential conflicts of interest are taken into account when remuneration consultants are selected and their terms of engagement regulate their level of access to, and require their independence from, the Company's management.

The advice and recommendations of external consultants are used as a guide, but do not serve as a substitute for thorough consideration of the issues by the Directors. All decisions relating to remuneration strategy and approach are made by the Board itself, following careful consideration of the Remuneration Committee's recommendations, the Company's position, strategic objectives and current requirements.

## REMUNERATION REPORT – Audited (continued)

## GUIDING PRINCIPLES

**Note:** Recommendation 8 of the Productivity Commission Report states that remuneration reports should include a plain English summary of the Company's remuneration polices. Accordingly the following is a summary of the Company's remuneration policies.

The following 'guiding principles' represent the key policy drivers and considerations that underpin the Board's approach to executive remuneration.

**Talent management and succession planning**

The success of the Group depends on the quality of its directors and executives. Attracting and retaining exceptional people to lead and manage the Group is critical to achieving the Company's objective of delivering shareholder value compared to its peers in the Australian and international healthcare industry, and the Company's remuneration structures are set having regard to this objective.

The Board believes that people who have developed their career within the Company are in the best position to understand the Company's operations, challenges and opportunities. Accordingly the Board supports internal development and promotion of executive talent.

**Performance driven outcomes**

While the Board recognises that regulations, guidelines and market forces necessarily influence remuneration practices and benchmarks, the Board strongly believes that the fundamental driver behind the Company's remuneration structure should be Company performance. Accordingly, while remuneration is structured to attract, motivate and retain executives, the amount of remuneration received by an individual is dependent on superior performance and generating value for shareholders. This is mainly achieved through the 'at-risk' component of executive remuneration (consisting of both long-term and short-term incentives).

**Long term value for shareholders**

Remuneration is structured to drive *sustainable* growth and returns to shareholders. Both short term and long term performance targets are linked to the core conditions necessary to build competitive advantages for the Company's business, without excessive risk. To ensure that executives remain focussed on long term Company outcomes:

- under the STI Plan, the Managing Director is required to take 50% of his total STI bonus (less applicable tax) in the form of shares in the Company acquired on-market and at market price. These shares are subject to restrictions and cannot be dealt with by the Managing Director until the earlier of 3 years or the termination of his employment;
- under the LTI Plan, 'vesting' of the LTI (which is the point at which the executive can derive value from their LTI award) does not occur before three years; and
- consistent with the objective of creating a meaningful alignment of interests, Senior Executives are not permitted to hedge any LTI awards that have not yet vested. Any shares acquired under the LTI Plan are subject to transfer and disposal restrictions. A Senior Executive may not sell, transfer or otherwise deal in his or her shares without first applying for and receiving Board approval for the transaction. Where the Board has approved an application to sell shares acquired under the LTI Plan, the shares may only be sold within one of the Company's 'securities trading windows' (**the trading windows**) and otherwise in accordance with the Company's Securities Trading Policy.

To further enhance the alignment of remuneration with long term shareholder interests, LTI grants are now tested against up to three performance hurdles that combine the relative TSR measure used for previous LTI grants with an Earnings Per Share growth hurdle (**EPS**) and, where appropriate, a business unit performance hurdle. This combination of measures ensures that rewards to senior executives under the LTI Plan are reflective of the Group's overall performance.

**Communication and engagement of stakeholders**

The Board is committed to clear disclosure and explanation of the Company's remuneration structures. In keeping with this commitment, the Board has made significant changes to the format and content of the 2010 Remuneration Report to make it more user-friendly.
In addition, the Board has had regard to the interests and views of shareholders and other stakeholders when considering remuneration issues.

## REMUNERATION REPORT – Audited (continued)

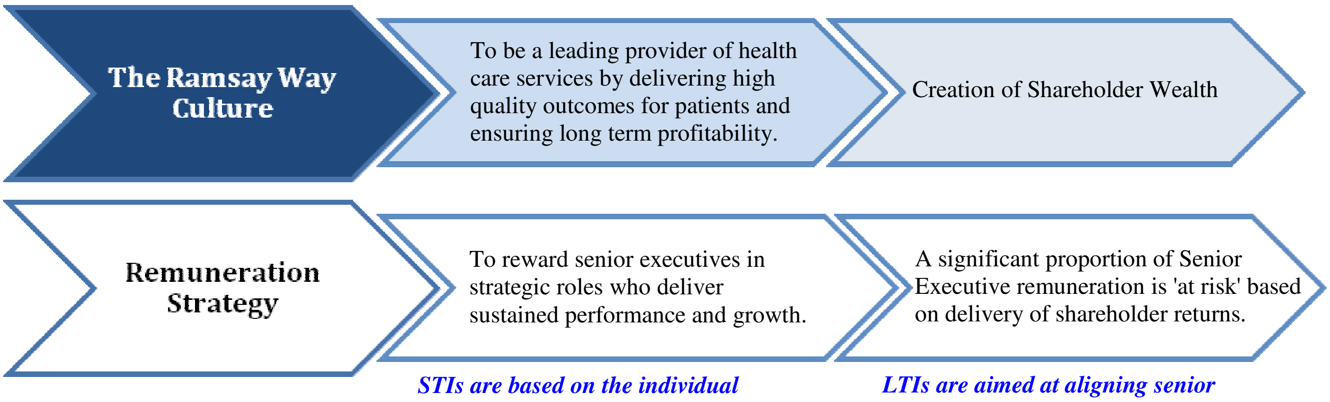
The Board will, where appropriate, seek the views of shareholder representative bodies in designing and implementing changes to the Company's remuneration structures, and invite questions from shareholders on the Remuneration Report either prior to or at the 2010 Annual General Meeting (**AGM**).

## SUPPORTING BUSINESS OBJECTIVES

**Remuneration structures support business objectives**

Sustained performance over the long-term is the key focus of the Company and it is the efforts of employees, under the leadership of the Board and Senior Executives, which makes the achievement of this possible.
The remuneration structures for Senior Executives support the achievement of the Company's core business objectives, as illustrated by the diagram below.

*Diagram 1 - Aligning Remuneration Structures to Corporate Objectives*




***STIs are based on the individual performance of senior executives and linked to strategic milestones and operational targets set at the beginning of the financial year.***

***Key financial and non-financial performance indicators used to assess individual performance include:***

- ***Performance to budget***
- ***Delivering high quality patient care***
- ***Team leadership and culture***
- ***Succession planning***
- ***Effective risk management***
- ***OH&S***

***LTIs are aimed at aligning senior executive remuneration with shareholder returns and are delivered in the form of equity settled Performance Rights.***

***The vesting of LTI awards are subject to the satisfaction of the following performance hurdles measured over a specified 3-year performance period:***

- ***EPS targets***
- ***TSR targets***
- ***In some cases, business unit performance is a third hurdle.***

**Remuneration outcomes demonstrate alignment with performance objectives**

The success of our remuneration structures in aligning shareholder and executive rewards is demonstrated by the close correlation between Company performance and the value derived by Senior Executives from their 'at risk' remuneration over the past 5 years.

The table below sets out the Company's performance over the past 5 years in respect of the key financial indicators identified by the Board to assess the Company's performance and future prospects.

## REMUNERATION REPORT – Audited (continued)

*Table 4: Year-on-year performance snapshot*

| Financial Year | Share Performance ($) | | | | Earnings Performance ($M) | | Enterprise Value[3] ($m) |
|---|---|---|---|---|---|---|---|
| | Closing share price (A$) | Dividend (cents/ share) | TSR[1] (%) | Core EPS (cents/ share)[2] | Core EBIT ($m) | Core NPAT ($m) | |
| 2010 | $14.05 | 42.5¢ | 95.59% | 84.5¢ | $333.8 | $178.5 | $4,254.0 |
| 2009 | $11.54 | 38.0¢ | 89.39% | 74.1¢ | $303.3 | $146.4 | $3,626.1 |
| 2008 | $8.71 | 32.5¢ | 67.14% | 60.7¢ | $255.6 | $123.1 | $3,050.5 |
| 2007 | $11.21 | 29.0¢ | 73.02% | 54.3¢ | $212.5 | $110.9 | $2,931.0 |
| 2006 | $9.61 | 24.0¢ | 80.77% | 45.3¢ | $194.2 | $91.9 | $2,712.3 |

1. *TSR is determined over a rolling 3-year performance period*
2. *Core EPS is calculated using earnings from continuing operations before specific items, amortisation of intangibles and divested operations.*
3. *Enterprise Value is the Company's market capital (being the total number of issued ordinary shares on 30 June at the closing market share price) plus CARES and net debt.*

The Company's strong year-on-year performance has resulted in Senior Executives receiving a substantial proportion of the available STI bonuses for FY2010 and the four preceding financial years. Table 5 below sets out the average proportion of the maximum bonuses that Senior Executives received for each of the past 5 financial years.

Whilst in each of these years the Company paid maximum STI bonuses or close to maximum bonuses for all Senior Executives, the Board emphasises that this result is not an indication of the KPIs being 'too soft', but instead reflects the outstanding performance and contribution of each of the Senior Executives.

*Table 5: Average proportion of STI awarded, FY2006-FY2010*

| *Financial Year* | *2006* | *2007* | *2008* | *2009* | *2010* |
|---|---|---|---|---|---|
| **% of maximum STI awarded (average for Senior Executives)** | 100% | 100% | 98% | 92% | 96% |

Strong year-on-year performance has enabled Ramsay to outperform its peers over a longer-term time horizon. Consistent with the strong relative performance of Ramsay compared to its comparator group described on page 13 of this Report, Senior Executives have derived significant value from their LTI grants over the past 4 years – as shown in table 6 below.

*Table 6: Vesting levels achieved under the LTI Performance Rights Plan over the last four years*

| Financial Year | TSR Percentile Ranking for Vesting to Commence | TSR Percentile Ranking for Full Vesting | Actual TSR Percentile Ranking Achieved[1] | Performance Rights Vesting under LTI Plan |
|---|---|---|---|---|
| **2010** | **50%** | **75%** | **95.59%** | **100%** |
| **2009** | **50%** | **75%** | **89.39%** | **100%** |
| **2008** | **50%** | **75%** | **67.14%** | **84.28%** [2] |
| **2007** | **50%** | **75%** | **73.02%** | **96.04%** [2] |

1. *TSR measured over the 3-year performance period up to the close of each relevant Financial Year*
2. *Unvested rights subsequently vested on re-testing in accordance the terms of issue*

The table above shows a high level of correlation between the returns delivered by the Company to its shareholders (against its comparator group) and the level of vesting of Senior Executive LTIs, which demonstrates that the intended alignment between shareholder and Senior Executive interests is being achieved in practice. It is envisaged that the introduction of two, and in some cases, three separate performance hurdles under the LTI plan will reinforce and strengthen this alignment and will ensure that it continues to operate effectively in changing market conditions.
Further details of the terms of the STI and LTI plans are set out in the 'Senior Executive Remuneration: In Detail' section below.

## REMUNERATION REPORT – Audited (continued)

## SENIOR EXECUTIVE REMUNERATION: IN DETAIL

## REMUNERATION COMPONENTS

**Remuneration components and their relative weightings**

Total remuneration for the Managing Director and Senior Executives is made up of fixed remuneration (comprising base salary and superannuation) and variable remuneration.

The variable remuneration has two 'at risk' components:

- STI – an annual bonus linked to Company performance and achievement of strategic objectives; and
- LTI – equity grants tied to vesting conditions dependent on the satisfaction of challenging performance hurdles.

The relative weightings of the three remuneration components of the senior executives are determined by the Board on the recommendation of the Remuneration Committee and are set out in the table below:

*Table 7: Relative weightings of remuneration components for FY2010*

| | % of total remuneration (annualised) | | |
|---|---|---|---|
| | Fixed remuneration | Performance-based remuneration | |
| | | STI | LTI [1] |
| C.P. Rex | 34% | 30% | 36% |
| B.R. Soden | 56% | 23% | 21% |
| D.A. Sims | 57% | 24% | 19% |
| C.R. McNally | 58% | 22% | 20% |
| J.M. Watts | 71% | 16% | 13% |

[1] *Assumes all hurdles are achieved in full.*

**Fixed remuneration**

The remuneration for all Senior Executives includes a fixed component expressed as a dollar amount. This fixed component is comprised of base salary and employer superannuation contributions. The executive may take their base salary in a variety of forms, including cash and fringe benefits such as motor vehicles and expense payment plans.

Fixed remuneration is reviewed annually by the Remuneration Committee with reference to:

- each Senior Executive's individual and business unit performance; and
- relevant comparative compensation in the market.

Executive remuneration levels are market-aligned by comparison to similar roles in industrial companies with international operations of similar size to Ramsay in terms of enterprise value and revenue. The comparator group chosen for benchmarking comprised 20 companies, with 10 larger and 10 smaller than the Group's enterprise value and revenue.

The independent consultant engaged by the Remuneration Committee to provide the benchmarking data for purposes of the FY2010 remuneration review process was Godfrey Remuneration Group. The comparator group referred to above was chosen by the Godfrey Remuneration Group after excluding incompatible companies and companies from the Finance and Resource sectors. The Godfrey Remuneration Group has no link to the Company, its Directors, or Senior Executives other than as a professional service provider.

The Board is satisfied after receiving independent advice, and having given due consideration to the level of fixed remuneration paid by the companies in the comparator group, that the fixed remuneration of the Managing Director and the other Senior Executives is fair and reasonable.

## REMUNERATION REPORT – Audited (continued)

**Short-term Incentive (STI)**

*Table 8 – Summary of STI Plan*

| | |
|---|---|
| **What is the STI program?** | An incentive plan under which participants are eligible to receive an annual bonus if they satisfy pre-determined operational, strategic and individual performance targets. |
| **Who participates in the STI program?** | Senior Executives (including the Managing Director) as well as other key executives below the senior executive team on a discretionary basis. |
| **Why does the Board consider the STI program an appropriate incentive?** | The STI program and the performance conditions set under the program are designed to motivate and reward high performance.<br>The STI program puts a significant proportion of Senior Executive remuneration at-risk against meeting targets linked to the Company's business objectives. This aligns executive interests with the Company's financial performance and with the management principles and cultural values of the Company.<br>The total potential STI available is set at a level designed to provide sufficient incentive to the executive to achieve the operational targets at a cost to the Company that is appropriate in the circumstances. |
| **Are both target and stretch performance conditions imposed?** | Stretch targets apply to the Managing Director's STI bonus so that if his performance exceeds the already challenging targets, the STI program will deliver higher rewards. The Managing Director's STI bonus is determined on the basis of key performance indicators (**KPIs**), with 60% of the total maximum award available where target performance is achieved and a further 40% of the total maximum award available for satisfying stretch targets. The stretch targets are designed to be met only in exceptional circumstances. They are broken down into two equal components, namely non-financial and financial criteria.<br>For all other Senior Executives, a single set of challenging KPIs apply to the entire STI bonus (although the specific targets vary between individual executives – as explained below). |
| **What are the key performance indicators (KPIs)?** | The KPIs vary, depending on the individual executive's position. Formal KPIs have been set for each of the Senior Executives, including the Managing Director. STI awards for all other executives below Senior Executive level are made on a discretionary basis.<br>For the Managing Director, STI awards, as noted above, are linked to both base and stretch KPI targets:<br>• Base KPIs – 60% of the potential STI award is determined by reference to base KPI targets, which are equally divided between financial and non-financial measures.<br>• Stretch KPIs – 40% of the STI award is determined by reference to the additional KPIs, or stretch targets which are designed to be met only in exceptional circumstances. The STI stretch targets are also equally divided between financial and non-financial measures.<br>For other Senior Executives, STI awards are linked to performance against specific operational targets set around the beginning of the financial year. Operational targets consist of a number of KPIs covering both financial and non-financial measures.<br>Depending upon the Senior Executive's responsibilities, the emphasis upon financial and non-financial measurements can vary significantly.<br>*Table 9 – Financial and Non-Financial KPIs for FY2010* |

| | *% Financial KPIs* | *% Non-financial KPIs* |
|---|---|---|
| C.P. Rex | 50% | 50% |
| B.R. Soden | 65% | 35% |
| C.R. McNally | 15% | 85% |
| D.A. Sims | 50% | 50% |
| J.M Watts | 60% | 40% |

## REMUNERATION REPORT – Audited (continued)

| | |
|---|---|
| | Specific examples of financial measures used for FY2010 include:<br>• Core NPAT performance to budget<br>• Core EBIT performance to budget<br>• Business unit contribution to EBIT<br>• Capital and Financial Management<br>• Strategic financial planning<br>Specific examples of non-financial measures used for FY2010 include:<br>• Delivering safe, high quality patient care<br>• Promotion of the 'Ramsay Way' culture<br>• Team leadership<br>• Risk management<br>• OH&S<br>• Private health fund and doctor relationship<br>• Strategic planning and development<br>• New business initiatives<br>• Succession planning<br>• Investor relations |
| **How are the performance conditions measured?** | Performance is assessed against the relevant operational targets annually as part of the broader performance review process for the individual executives. Financial KPIs are assessed quantitatively against predetermined benchmarks. Non-financial KPIs are assessed quantitatively where possible and otherwise by periodic qualitative performance appraisal.<br>Where applicable any abnormal, extraordinary or unanticipated factors which may have affected the Company's performance during the year are considered and where necessary, the relevant performance measure is adjusted. |
| **Who assesses the performance of Senior Executives?** | The Remuneration Committee assesses the Managing Director's performance against his KPIs and stretch KPIs and makes a recommendation to the Board for final determination.<br>The Managing Director assesses the performance of all other senior executives and makes recommendations to the Remuneration Committee for consideration, which in turn makes recommendations to the Board for final determination. |
| **In what form is the STI delivered?** | All STI awards are delivered as a cash bonus to Senior Executives, with the exception of the Managing Director.<br>Under the Managing Director's Executive Service Agreement, the Company must withhold 50% of his total STI bonus, less applicable tax, to be applied towards on-market purchase of ordinary shares in the Company at market price. These shares do not form part of the share based payments for the purposes of note 27.1 of the Financial Statements. The shares are restricted and cannot be dealt with by the Managing Director until the earlier of his ceasing employment with the Group or 3 years from the date they are acquired. The restriction on trading is aimed at strengthening the link between the Managing Director's remuneration and shareholder interests, as it provides an additional incentive for the Managing Director to focus on long-term, sustainable growth. These shares are only ever acquired on-market during the trading windows, in accordance with the Company's Securities Trading Policy.<br>The remaining 50% of the Managing Director's total STI bonus is paid in cash, less applicable tax. |
| **What if a Senior Executive ceases employment?** | If a Senior Executive ceases employment with the Company before STI targets are achieved, then they will generally not be entitled to receive any STI bonus.<br>If cessation is due to illness, disability, death or Company-initiated termination other than for cause (for example redundancy) the Senior Executive may receive a pro-rata STI entitlement. |
| **What STI awards did Senior Executives earn in FY2010?** | STI bonuses for FY2010 are set out in table 10 below. The bonuses are only paid after the statutory auditors have signed off on the financial accounts for the full year.<br>The shares for the Managing Director are acquired on-market and within the trading windows. |

## REMUNERATION REPORT – Audited (continued)

*Table 10 – STI bonuses for FY2010 – to be paid in FY2011*

| ***STI Bonuses – Base KPI's*** | ***Actual STI awarded to be paid in FY2011 ($)*** | ***Maximum potential STI bonus[1] ($)*** | ***Actual STI awarded as % of maximum STI*** |
|---|---|---|---|
| C.P. Rex[2] | 783,750 | 783,750 | 100% |
| B.R. Soden | 374,000 | 374,000 | 100% |
| D.A. Sims | 300,000 | 300,000 | 100% |
| C.R. McNally | 250,000 | 250,000 | 100% |
| J.M. Watts | 148,917 | 148,917 | 100% |
| ***STI Bonuses – Stretch KPI's*** | | | |
| C.P. Rex[2] | 418,000 | 522,500 | 80% |

1. *The maximum potential value of the Managing Director's FY2010 STI award will depend on movements in the Company's share price over the 3 year restriction period for the deferred component. The maximum potential value of the FY2010 STI awards for other Senior Executives (who receive STI awards wholly in cash) is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in FY2010 was nil.*
2. *For Mr Rex, 60% of his total maximum bonus is awarded where KPI performance levels are achieved. The remaining 40% only becomes available where performance exceeds stretch KPI target levels, in which case some or all of this 40% may be awarded based on performance against stretch KPI targets.*
3. *As Mr Rex exceeded target performance levels for FY2010 and partially succeeded in meeting the stretch targets, his total FY2010 STI award is 92% of the total maximum STI available for the financial year.*

## REMUNERATION REPORT – Audited (continued)

**Long-term Incentive (LTI)**

*Table 11 – Summary of LTI Plan*

| | |
|---|---|
| **What is the purpose of the LTI program?** | The purpose of the LTI program is to align Senior Executive reward with shareholder wealth by tying this component of Senior Executive remuneration to the achievement of performance conditions which underpin sustainable long term growth. |
| **Who participates in the LTI program?** | Participation in the LTI program is only offered to Senior Executives who are able to significantly contribute to the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles. |
| **What proportion of total remuneration does the LTI program represent?** | The Senior Executives, including the Managing Director were offered grants under the LTI program for FY2010 designed to be equivalent to approximately 34% of their total remuneration (on an annualised basis) subject to full satisfaction of performance hurdles.<br>However, Senior Executives will not derive actual value from their LTI grants unless challenging performance hurdles are achieved. |
| **How is reward delivered under the LTI program?** | LTI grants are delivered to participating Senior Executives in the form of equity-based Performance Rights under the Company's Executive Performance Rights Plan previously approved by shareholders. Each Performance Right is an entitlement to receive a fully-paid ordinary share in the Company on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a 3 year period.<br>If the vesting conditions are satisfied, the Performance Rights vest and shares will be delivered to the Senior Executive. |
| **Do participants pay for the Performance Rights?** | Performance Rights are offered at no cost to the Senior Executive. |
| **What rights are attached to the Performance Rights?** | Performance Rights do not carry voting or dividend rights, however shares allocated upon vesting of Performance Rights will carry the same rights as other ordinary shares.<br>The Company prohibits hedging of Performance Rights.<br>Shares acquired under the LTI Plan are subject to transfer and disposal restrictions. Shares cannot be sold, transferred or otherwise disposed without Board approval. Where the Board has approved an application for the disposal restrictions to be lifted on shares acquired under the LTI Plan, the shares may only be sold within one of the 'share trading windows' and otherwise in accordance with the Company's Securities Trading Policy. |

## REMUNERATION REPORT – Audited (continued)

**What are the performance hurdles?**

Grants made prior to FY2009 had a single performance hurdle, namely relative Total Shareholder Return.

In response to shareholder feedback, this was reviewed for FY2009.

For Performance Rights granted since FY2009, vesting is linked to two (or, in some cases, three) independently applying performance conditions:

- Relative Total Shareholder Return (TSR);
- Earnings Per Share Growth (EPS); and
- Business unit performance.

Where a grant is not subject to the business unit hurdle, the Performance Rights granted to a Senior Executive are split into two equal components, one of which is tested against the relative TSR hurdle and the other against the EPS hurdle. Where the business unit hurdle applies to a grant, the grant is split into three equal components, one which is tested against the relative TSR hurdle, one which is tested against the EPS hurdle and one which is tested against the business unit hurdle.

The business unit hurdle only applies to grants made to Senior Executives who have a degree of control over a discrete business unit.

There has been no change to the structure of the LTI Plan since FY2009.

Diagram 2 below demonstrates the way in which these performance conditions interact and the times at which an LTI grant is tested and has the opportunity to vest.

**How is the relative TSR hurdle measured?**

**Relative TSR hurdle**

The relative TSR hurdle is determined by measuring and ranking the Company's return relative to a comparator group comprising the last 100 companies in the ASX 200 index at the commencement of the 3 year performance period. This comparator group is adjusted to exclude companies in the metals and mining category, and companies which have undergone mergers, takeovers or insolvency during the performance period. This broad industry group is used as there are too few Australian healthcare companies of similar size to Ramsay for benchmarking purposes.

Performance Rights vest on a sliding scale, with half vesting for performance the 50th percentile ranking, up to full vesting for performance at or above the 75th percentile ranking.

The following table outlines the vesting schedule:

*Table 12 – TSR vesting schedule*

| *Company's TSR ranking in the comparator group* | *% of Performance Rights that vest* |
|---|---|
| TSR below $50^{th}$ percentile | Nil |
| TSR at $50^{th}$ percentile | 50% |
| TSR between $51^{st}$ & $75^{th}$ percentile | Between 50% and 100% increasing on a straight line basis |
| TSR above $75^{th}$ percentile | 100% |

If the TSR hurdle is not achieved on the first test date then unvested Performance Rights will be rolled forward for re-testing on two more occasions at six monthly intervals.

As the comparator group used for assessing Ramsay's TSR is very broad, with a composition of companies from a range of sectors, the Directors believe that the measurement of the Company's TSR performance on the first test may not necessarily reflect the Company's true relative TSR performance. In particular, the Company's share price may be significantly impacted by unexpected market forces external to the Company. Accordingly it is felt that re-testing on two further occasions (if necessary) will afford a fairer opportunity for assessing the Company's TSR performance

If the TSR hurdle is not satisfied on the second and final re-test, all unvested Performance Rights will immediately lapse.

## REMUNERATION REPORT – Audited (continued)

**How is the EPS hurdle measured?**

**EPS hurdle**

EPS was introduced as an LTI performance hurdle for the first time in FY2009.

EPS is defined as core earnings per share from continuing operations, calculated before specific items, amortisation of intangibles and divested operations.

The EPS hurdle is measured by comparing the Company's aggregate EPS over 3 years against the aggregate threshold (or minimum) EPS target and the maximum EPS target as set by the Board after the announcement of the full year financial results.

These targets are set annually by the Board to reflect the Board's performance expectations for the coming year, taking into account prevailing market conditions and outlook. The Board believes that this approach is better aligned to shareholders' interest than setting a 3 year target in advance which may become unrealistically high or unrealistically low as market conditions change over the 3 year period. The annual targets are then aggregated to provide the threshold and maximum 3 year targets for vesting of Performance Rights.

Performance Rights vest on a sliding scale, with half vesting for achieving the aggregate threshold EPS target up to full vesting for achieving the aggregate maximum EPS growth.

No retesting of the EPS hurdle is permitted.

The Performance Rights that vest in relation to the Company's EPS will vest in accordance with the following table.

*Table 13 – EPS vesting schedule*

| ***Aggregate EPS Performance*** | ***% of Performance Rights that vest*** |
|---|---|
| Less than aggregate threshold EPS target | Nil |
| Equal to aggregate threshold EPS target | 50% |
| Greater than aggregate threshold EPS target up to the aggregate maximum EPS target | Between 50% and 100% increasing on a straight line basis |
| Greater than aggregate maximum EPS target | 100% |

Due to their commercial sensitivity, the annual EPS hurdles and the extent to which the hurdles have been achieved can only be disclosed retrospectively. However, the Company is able to disclose that for the year ended 30 June 2010 the maximum EPS target was set at 78.1 cents per share and the threshold EPS target was 90% of the maximum target, 70.2 cents.

The EPS targets were adjusted to take into account the capital raising that took place in September/October 2009. This adjustment was necessary to take into account the additional shares that were issued under the capital raising and the effect that this had on the Company's expected EPS.

The FY2010 audited accounts indicate that the EPS achieved was 84.5 cents per share. Since the EPS component is determined as the aggregate EPS performance over a 3 year period, the extent of vesting of the EPS component of the LTI for the first year of introduction will not be determined until after 30 June 2011. There is no retesting mechanism for the EPS component of the LTI.

## REMUNERATION REPORT – Audited (continued)

| | |
|---|---|
| **How is the business unit hurdle measured?** | **Business unit performance hurdle**<br>As noted above, the business unit performance hurdle only applies to grants made to executives who have a real degree of control over a specific business unit.<br>Examples of executives subject to business unit performance hurdles include State Managers in Australia and the CEO of the Group's UK Operations. Specific performance conditions for those executives regarding their relevant business units are determined by the Managing Director and endorsed by the Remuneration Committee and the Board.<br>These performance conditions vary from executive to executive and include specific financial targets.<br>The component of an executive's LTI grant that is subject to a business unit performance hurdle will be assessed at the end of the 3-year performance period in accordance with various strategic objectives and milestones derived from the Company's 5-year plan. Separate performance conditions are set by the Board in respect of each business unit at the beginning of the performance period.<br>Those executives to whom this hurdle is applicable need to fully satisfy the performance condition for their relevant business unit. There is no sliding scale and there is no re-testing mechanism. |
| **Why have the performance hurdles been chosen?** | The TSR hurdle has been chosen because it provides a direct link between executive reward and shareholder return (relative to the Company's peers). Executives will not derive any value from the LTI grants made in FY2010 unless the Company's performance is at least at the median of the comparator group.<br>The EPS hurdle has been chosen as it provides evidence of the Company's growth in earnings and is linked to shareholder returns. The EPS growth hurdle is also linked to the Company's overall strategic objectives and requires that the Company's EPS growth over the performance period is greater than the targets set by the Board.<br>The business unit performance measure is an additional hurdle chosen only for those executives who have a degree of control over the performance of discrete parts of the Group's business. The purpose of this additional hurdle for these executives is to help focus their efforts towards continually improved performance of the business unit for which they are responsible.<br>Diagram 2 on page 22 demonstrates the operation of the performance hurdles noted above. |

## REMUNERATION REPORT – Audited (continued)

| | |
|---|---|
| **What if a Senior Executive ceases employment?** | Under the terms of issue of the LTI grants and the LTI Plan Rules, if a participant ceases employment with the Company before the performance conditions are tested, then the unvested Performance Rights will generally lapse.<br>If cessation is due to death, illness, disability or redundancy, or where the Board consents, some or all of the unvested Performance Rights may vest at the Board's discretion having regard to pro rata performance.<br>Where an executive acts fraudulently, dishonestly or is, in the Board's opinion, in breach of his or her obligations to the Company, then any unvested Performance Rights will lapse.<br>Any Performance Rights that vest upon cessation of employment will remain subject to the trading restrictions set out above. |
| **What happens in the event of a change in control?** | In the event of a takeover or change of control of the Company, any unvested Performance Rights may vest at the Board's discretion, having regard to pro rata performance. |
| **What Performance Rights were granted for FY2010?** | These are summarised in table 14 below.<br>The Board, consistent with past practice, sources the underlying shares on-market for the Performance Rights that it is granting. However, in the interests of transparent corporate governance, the Company will be seeking shareholder approval for the proposed grants of Performance Rights to its Executive Directors, Mr Rex and Mr Soden, at the 2010 AGM. |
| **What was the movement in the number and value of Performance Rights by Senior Executives during FY2010?** | These are summarised in table 15 below. |

## REMUNERATION REPORT – Audited (continued)

*Diagram 2 – Operation of LTI hurdles*

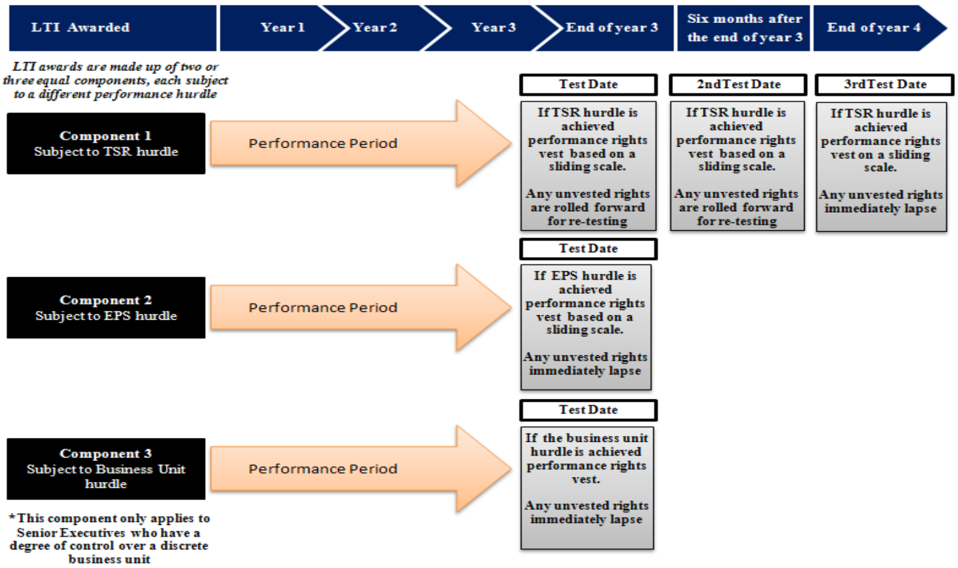



*Table 14 – Performance Rights granted in FY2010*

| *Senior Executive* | *Performance Condition* | *Number of Performance Rights Granted* [1] | *Fair value per Performance Right* [3] | *Maximum value of grant* [4] |
|---|---|---|---|---|
| C.R. Rex | TSR | 27,500 | $7.58 | $208,450 |
| | Core EPS | 27,500 | $9.68 | $266,200 |
| | | **55,000** | | **$474,650** |
| B.R. Soden | TSR | 25,000 | $7.58 | $189,500 |
| | Core EPS | 25,000 | $9.68 | $242,000 |
| | | **50,000** | | **$431,500** |
| C.R. McNally | TSR | 17,500 | $7.58 | $132,650 |
| | Core EPS | 17,500 | $9.68 | $169,400 |
| | | **35,000** | | **$302,050** |
| D.A. Sims | TSR | 20,000 | $7.58 | $151,600 |
| | Core EPS | 20,000 | $9.68 | $193,600 |
| | | **40,000** | | **$345,200** |
| J.M. Watts | TSR | 6,666 | $7.58 | $50,528 |
| | Core EPS | 6,667 | $9.68 | $64,536 |
| | Business Unit | 6,667 | $9.68 | $64,536 |
| | | **20,000** | | **$179,600** |

1. *The grants made to Senior Executives constituted their full LTI entitlement for FY2010 and were made on 20 October 2009 on the terms summarised above.*
2. *Performance Rights vest subject to performance over the 3 year period from 1 July 2009 through to 30 June 2012. Performance Rights lapse where the performance conditions are not satisfied on testing. As the Performance Rights only vest on satisfaction of performance conditions which are to be tested in future financial periods, none of the Senior Executives forfeited Performance Rights during FY2010.*
3. *The fair value was calculated by independent consultants, PriceWaterhouseCoopers, as at the grant date of 20 October 2009. An explanation of the pricing model used to calculate these values is set out in Note 27 to the financial statements.*
4. *The maximum value of the grant has been estimated based on the fair value per instrument. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.*

## REMUNERATION REPORT – Audited (continued)

*Table 15 – Movement in Performance Rights to date of this report*

| | *Date of grant* | *Number of rights granted* | *Vesting date* | *Number of rights vested* [1] | *Value of rights vested* [2] *$* | *Number of rights forfeited / lapsed* [3] | *Value of rights forfeited / lapsed $* |
|---|---|---|---|---|---|---|---|
| **C.P. Rex** | | | | | | | |
| *Equity Settled Performance Rights* | 31-Oct-06 | 48,387 | 31-Jul-09 | 48,387 | $508,872 | - | - |
| | 23-Oct-07 | 42,306 | 31-Jul-10 | 42,306 | $609,160 | - | - |
| | 30-Dec-08 | 50,000 | 31-Aug-11 | - | - | - | - |
| | 20-Oct-09 | 55,000 | 30-Sep-12 | - | - | - | - |
| *Equity based retention rights* | 1-Jul-08 | 600,000 | 1-Jul-13 | - | - | - | - |
| **B.R. Soden** | | | | | | | |
| *Equity Settled Performance Rights* | 31-Oct-06 | 31,682 | 31-Jul-09 | 31,682 | $333,190 | - | - |
| | 23-Oct-07 | 27,700 | 31-Jul-10 | 27,700 | $398,850 | - | - |
| | 30-Dec-08 | 45,000 | 31-Aug-11 | - | - | - | - |
| | 20-Oct-09 | 50,000 | 30-Sep-12 | - | - | - | - |
| **C.R. McNally** | | | | | | | |
| *Equity Settled Performance Rights* | 31-Oct-06 | 23,041 | 31-Jul-09 | 23,041 | $242,315 | - | - |
| | 23-Oct-07 | 20,146 | 31-Jul-10 | 20,146 | $290,080 | - | - |
| | 30-Dec-08 | 25,000 | 31-Aug-11 | - | - | - | - |
| | 20-Oct-09 | 35,000 | 30-Sep-12 | - | - | - | - |
| **D.A. Sims** | | | | | | | |
| *Equity Settled Performance Rights* | 31-Oct-06 | 11,521 | 31-Jul-09 | 11,521 | $121,163 | - | - |
| | 23-Oct-07 | 10,073 | 31-Jul-10 | 10,073 | $145,040 | - | - |
| | 30-Dec-08 | 35,000 | 31-Aug-11 | - | - | - | - |
| | 20-Oct-09 | 40,000 | 30-Sep-12 | - | - | - | - |
| **J.M. Watts** | | | | | | | |
| *Equity Settled Performance Rights* | 30-Dec-08 | 20,000 | 31-Aug-11 | - | - | - | - |
| | 20-Oct-09 | 20,000 | 30-Sep-12 | - | - | - | - |

1. *On the vesting of each Performance Right, the holder received one fully paid ordinary share in the Company.*
2. *The amount is based on the Company's 5-day volume weighted share price (VWAP) on the date of vesting (as there is no exercise price payable in respect of Performance Rights).*

   *The value of each Performance Right on vesting was:*

   - *$10.5167 on 31 July 2009*
   - *$14.3989 on 31 July 2010*
3. *The performance conditions attaching to Performance Rights which vested on 31 July 2009 and 31 July 2010 were fully satisfied, and there were no forfeitures or lapsing Performance Rights for the respective performance periods.*

## REMUNERATION REPORT – Audited (continued)

## TOTAL REMUNERATION

Details of each Senior Executive's remuneration for FY2010 and FY2009 (calculated in accordance with applicable accounting standards) are set out in table 16. All values are in A$ unless otherwise stated.

*Table 16 – Senior Executive remuneration (calculated in accordance with accounting standards) for FY2010 and FY2009*

| Name | Short term | | | | Post employment | | Shared based payment rights [3] | | | Total | Total Performance Related |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Non monetary $ | Leave entitlements $ | Accrued Cash Bonus [1, 2] $ | Super-annuation $ | Accrued termination benefits $ | Amortised cost of incentive share based rights $ | Equity based retention rights [4] $ | Percentage of remuneration % | $ | % |
| **C.P. Rex** | | | | | | | | | | | |
| FY2010 | 1,306,250 | 13,458 | 11,709 | 1,201,750 | 14,461 | - | 401,546 | 1,060,800 | 36% | 4,009,974 | 66% |
| FY2009 | 1,250,000 | 14,025 | 254,185 | 1,083,300 | 13,745 | - | 363,329 | 1,060,800 | 35% | 4,039,384 | 62% |
| **B.R. Soden** | | | | | | | | | | | |
| FY2010 | 832,000 | 30,472 | 55,808 | 374,000 | 14,461 | - | 340,350 | - | 21% | 1,647,091 | 43% |
| FY2009 | 800,000 | 31,736 | 142,938 | 340,000 | 13,745 | - | 275,088 | - | 17% | 1,603,507 | 38% |
| **D.A. Sims** | | | | | | | | | | | |
| FY2010 | 624,000 | 35,072 | 57,416 | 300,000 | 14,461 | - | 243,058 | - | 19% | 1,274,007 | 43% |
| FY2009 | 600,000 | 7,145 | 61,608 | 200,000 | 13,745 | - | 156,564 | - | 15% | 1,039,062 | 34% |
| **C.R. McNally** | | | | | | | | | | | |
| FY2010 | 550,000 | 15,861 | 60,854 | 250,000 | 14,461 | - | 220,166 | - | 20% | 1,111,342 | 42% |
| FY2009 | 500,000 | 14,797 | 43,743 | 220,000 | 13,745 | - | 176,625 | - | 18% | 968,910 | 41% |
| **J.M. Watts[5]** | | | | | | | | | | | |
| FY2010 | 594,092 | 20,222 | - | 148,917 | 55,844 | - | 118,200 | - | 13% | 937,275 | 28% |
| **L. Stock[6]** | | | | | | | | | | | |
| FY2009 | 251,217 | 28,734 | - | - | 37,683 | 626,087 | - | - | 0% | 943,721 | 0% |
| **Totals** | | | | | | | | | | | |
| **FY2010** | **3,906,342** | **115,085** | **185,787** | **2,274,667** | **113,688** | **-** | **1,323,320** | **1,060,800** | **27%** | **8,979,689** | **52%** |
| **FY2009** | **3,401,217** | **96,437** | **502,474** | **1,843,300** | **92,663** | **626,087** | **971,606** | **1,060,800** | **24%** | **8,594,584** | **45%** |

## REMUNERATION REPORT – Audited (continued)

1. *Accrued STI bonuses payable to Mr Rex for FY2009 onwards are paid 50% in cash (less applicable tax) and the other 50% is withheld (less applicable tax) to purchase on- market ordinary shares in the Company at market price, held in Mr Rex's name.*
2. *The FY2010 amount represents accrued STI payments to the Senior Executive for FY2010.*
3. *In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year (ie Performance Rights awarded under the LTI plan and equity-based retention grants made that remained unvested as at 1 July 2009). The fair value of equity instruments is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that Senior Executives may ultimately realise should the equity instruments vest. The fair value of Performance Rights at the date of their grant has been determined in accordance with AASB 2 applying a Black-Scholes valuation method. The assumptions underpinning these valuations are set out in Note 27 to the financial statements. The value of the deferred equity component of LTI awarded for FY2010 for the Managing Director has been included as a share-based payment in accordance with AASB 2.*
4. *Pursuant to Mr Rex's Executive Service Agreement he received equity based retention rights which give him a conditional entitlement to receive 600,000 ordinary shares in the Company. They will vest subject to Mr Rex continuing his employment as Managing Director until 1 July 2013.*
5. *Comparative figures are not provided for Ms Watts as she was not one of the top five remunerated executives in FY2009.*
6. *Ms Stock who was in the top five remunerated executives in FY2009, ceased employment with Ramsay UK in April 2009.*

## REMUNERATION REPORT – Audited (continued)

## SERVICE AGREEMENTS

**Mr Christopher Rex**

Details of the Managing Director's Executive Service Agreement are set out in the table below.

*Table 17 – Key terms of Executive Service Agreement for C Rex*

| | |
|---|---|
| **Duration** | From 1 July 2008 to 30 June 2013 (5 years).<br>The Company must notify Mr Rex at least 3 months prior to the end of the 5 year term whether it wishes to extend Mr Rex's appointment, however if no notice is given Mr Rex's employment will continue on the existing terms. |
| **Termination by Managing Director** | 12 months' notice.<br>Company may elect to make payment in lieu of notice.<br>No further STI entitlement.<br>All unvested equity instruments (under the Company's LTI Plan and the Retention Benefit) will lapse. |
| **Termination for illness / disability** | 6 months' notice.<br>Company may elect to make payment in lieu of notice.<br>Pro-rata STI entitlement.<br>Full vesting of Retention Benefit.<br>Unvested entitlements under the LTI Plan will lapse. |
| **Termination upon death** | Pro-rata STI entitlement.<br>Full vesting of Retention Benefit and LTI Plan entitlements (subject to satisfaction of performance hurdles). |
| **Termination for cause** | No notice required.<br>No further STI entitlement.<br>All unvested equity instruments will lapse. |
| **Other Company initiated termination** | 12 months' notice.<br>Company may elect to make payment in lieu of notice.<br>Pro-rata STI entitlement.<br>Full vesting of Retention Benefit.<br>Unvested entitlements under the LTI Plan will lapse. |

## REMUNERATION REPORT – Audited (continued)

*Table 17 – Key terms of Executive Service Agreement for C Rex (continued)*

Upon his appointment on 1 July 2008, the Managing Director was granted 600,000 share rights in the Company that vest on 1 July 2013 (or on termination by the Company other than for cause). This grant, which is retention-driven and is therefore not subject to performance hurdles, reflects the kind of equity opportunity that the Managing Director would have been offered at the time of his appointment by private equity funds in Europe seeking new management for health care businesses. As disclosed to the ASX at the time of Mr Rex's appointment in February 2008, he is entitled to any dividends (or cash equivalent) paid on the underlying shares.

**Other Senior Executives**

No other senior executives have written employment/service contracts and therefore their employment is continuing until terminated by either the individual executive or the Company. On termination, reasonable notice will apply and the executive will be entitled to any benefits that they have earned prior to termination (including statutory entitlements) and any applicable payments under Ramsay policies.

**Mr Patrick Grier**

Following his retirement as Managing Director on 30 June 2008, Mr Patrick Grier agreed to provide on-going management consultancy services to the Company as part of transitional arrangements to the current Managing Director, Mr Christopher Rex.

Under the terms of the agreement, a company related to Mr Grier was paid a consultancy fee of $10,000 per month during FY2010. This was in addition to his fees as a non-executive director shown in table 21.

As the transitional arrangements are now complete, the consultancy arrangement ceased as at 30 June 2010 and no further consultancy fees are payable to Mr Grier.

## NON-EXECUTIVE DIRECTOR REMUNERATION

## GUIDING PRINCIPLES

The Company's remuneration policy as set by the Board is summarised below and highlights how the Company's remuneration approach achieves both the remuneration policy objective and broader business objectives.

## REMUNERATION REPORT – Audited (continued)

*Table 18 – Non-Executive Director remuneration – guiding principles*

| Principle | Explanation |
|---|---|
| Aggregate Board and Committee fees are approved by shareholders | The current aggregate fee pool for Non-Executive Directors of $1,400,000 (excluding the superannuation guarantee levy) was approved by shareholders at the 2007 AGM.<br>A resolution will be put to shareholders at the 2010 AGM to increase the fee pool to $2,000,000 which would be inclusive of superannuation contributions made by the Company for the benefit of Non-Executive Directors. This proposal is discussed further on pages 29 - 30 of this Report. |
| Fees are set by reference to key considerations | The annual amount of the aggregate fee pool for Non-Executive Directors and the manner in which it is apportioned amongst the Non-Executive Directors is reviewed annually. The Remuneration Committee undertakes this review and makes recommendations to the Board after taking into consideration a number of relevant factors including:<br>• the responsibilities and risks attaching to the role of Non-Executive Director;<br>• the time commitment expected of Non-Executive Directors;<br>• the fees paid by peer companies to Non-Executive Directors; and<br>• the independent advice received from external advisers.<br>In the FY2010 review of Non-Executive Directors' fees, the Remuneration Committee engaged the services of independent consultants, Godfrey Remuneration Group.<br>The comparator group which was used to benchmark Non-Executive Director fees with similar sized companies with international operations, was prepared by the Godfrey Remuneration Group on the same basis as that used for the review of senior executive remuneration, refer page 13. |
| Remuneration is structured to preserve independence whilst creating alignment | To preserve independence and impartiality, no element of Non-Executive Director remuneration is 'at risk'. In other words, it is not based on the performance of the Company.<br>However, to create alignment between Directors and shareholders, directors are encouraged to hold shares in the Company (purchased by the Director on-market). All Non-Executive Directors have acquired shares in the Company, and hold them in their own right. |
| Reviews of remuneration | The Remuneration Committee and the Board annually reviews its approach to Non-Executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of good corporate governance. |

## REMUNERATION REPORT – Audited (continued)

### BOARD AND COMMITTEE FEES

*Table 19 – Components of Non-Executive Director Remuneration*

| Component | Explanation |
|---|---|
| Board fees/Committee fees | Fees, per annum, for FY2010:<br>• **Board:**<br>– Chairman - $261,250<br>– Deputy Chairman - $130,625<br>– Members - $104,500<br>• **Audit Committee:**<br>– Chairman - $35,000<br>– Members - $22,500<br>• **Risk Management Committee:**<br>– Chairman - $30,000<br>– Members - $20,000<br>• **Remuneration Committee:**<br>– Chairman - $17,500<br>– Members - $12,500<br>• **Nomination Committee:**<br>– Chairman – Nil<br>– Members – Nil |
| Other fees/benefits | No additional fees for special duties or exertions were paid during FY2010 (except for Mr Grier – refer to page 27).<br>Non-Executive Directors are also entitled to be reimbursed for all reasonable business related expenses, including travel, as may be incurred in the discharge of their duties. |
| Post-employment benefits | Superannuation contributions are made on behalf of the Non-Executive Directors at a rate of 9%, which satisfies the Company's statutory superannuation obligations. This is capped at the statutory limit, which was $14,469 per Director for FY2010.<br>Certain Non-Executive Directors are entitled to retirement benefits under the Directors Retirement Benefits Plan. During the year, the Board resolved to suspend the Retirement Benefits Plan and participating Directors' benefits were frozen with effect from 31 December 2009. Further details are provided below. |

The Company is proposing to increase the Non-Executive Director fee cap to $2,000,000 (inclusive of superannuation) per annum at the 2010 Annual General Meeting. Unlike the current fee pool, the proposed fee pool would be *inclusive* of superannuation contributions made by the Company for the benefit of Non-Executive Directors (which is consistent with recent changes made to the ASX Listing Rules) and any fees which a Non-Executive Director agrees to sacrifice on a pre-tax basis. The current fee pool of $1,400,000, excluding superannuation, was approved by shareholders at the 2007 AGM.

The Company believes that this proposed increase is reasonable because it will:

- include superannuation contributions made by the Company for the benefit of Non-Executive Directors;
- allow for some growth in Non-Executive Directors' remuneration in future years, to reflect market competitiveness for Non-Executive Directors with the skills and experience which are most relevant to the business strategy of the Company;

## REMUNERATION REPORT – Audited (continued)

- create flexibility to appoint additional Non-Executive Directors, as the Company continues to expand in Australia and overseas and as the Board considers potential additional appointments to satisfy on-going board renewal and board diversity objectives; and
- recognise the increased workload of Non-Executive Directors due to the growth in scale and complexity of the Company's business since 2007, when the aggregate of Non-Executive Directors fees ($1,400,000 per annum) was last approved by shareholders on 20 November 2007. Since then, the Company has commenced operations in the United Kingdom (33 facilities acquired on 23 November 2007, expanded to 38 facilities at the date of this report) and in France (9 facilities acquired on 29 March 2010). This expansion has increased the commitments of directors, particularly by requiring knowledge and understanding of the Company's businesses, governance requirements and business practices in the markets and health sectors of Australia, Indonesia, UK and France. The scale of expansion of the Ramsay business is illustrated in the financial indicators of Company growth in table 4 of this Report.

## FREEZING RETIREMENT BENEFITS

**Overview of Retirement Benefit Plan**

Prior to 1 January 2010, Non-Executive Directors were entitled to retirement benefits after serving a minimum service period of three years with the Company. The amount of the retirement benefit did not exceed the maximum limit as set out in Section 200G of the Corporations Act 2001.

The entitlement to retirement benefits of three years remuneration, accrued on a pro-rata basis over a period of nine years commencing after the minimum service period of three years. The minimum service period commenced from either the date of the Company's public listing in September 1997 or the date of the Director's appointment (whichever was the later).

In October 2003, the Directors Retirement Benefit Plan was 'grandfathered' to apply only to the then currently serving Non-Executive Directors. Hence the Directors Retirement Benefit Plan does not apply to any Non-Executive Directors appointed after October 2003.

**Suspension of Retirement Benefit Plan**

In June 2010, the Board resolved, subject to shareholder approval, to freeze the operation of the Directors Retirement Benefit Plan with effect from 31 December 2009. The Company, as a result of amendments to the termination benefit provisions in the Act, is required to obtain shareholder approval for the frozen entitlement to be paid upon retirement of each affected Non-Executive Director in accordance with sections 200B and 200E of the Act. As a result of this decision:

- the accrued benefits of participating Directors will be frozen as at 31 December 2009;
- to preserve their real value, the frozen benefits will be indexed in line with the one year Commonwealth Government Bond Rate (adjusted twice a year);
- no other adjustments will be made to the value of the frozen benefits. In particular, a Director's entitlement will no longer be adjusted based on future increases in directors' fees or years of service; and
- upon retirement, a payment equal to the indexed value of the frozen benefit will be made to the participating Director.

The Board engaged external consultants to assist the Company in its proposal to freeze the Non-Executive Directors' Retirement Benefits Plan. This included advice on taxation, accounting and governance issues relating to this proposal.

A range of options were considered, including freezing the levels of retirement benefits and paying the balance to Non-Executive Directors immediately and converting retirement benefits into a notional value of shares in the Company.

## REMUNERATION REPORT – Audited (continued)

It was recognised by the Remuneration Committee and the Board that alignment with the interests of shareholders as a whole was the paramount consideration.

Hence it was decided:

1) to bring forward the date of freezing of the retirement benefits to 31 December 2009;
2) not to pay the balance to Non-Executive Directors at this time. All Non-Executive Directors will only receive their benefit on retirement;
3) to keep the plan simple and not to convert the funds into notional shares in the Company; and
4) to freeze the benefits existing as at 31 December 2009, subject only to indexation (based on the one year Commonwealth Bond Rate, adjusted twice a year) to preserve the real value of the benefits.

The Board believes that the freezing of the Non-Executive Directors' Retirement Benefits Plan as at 31 December 2009 is in the best interests of all shareholders as it breaks the nexus between the Non-Executive Directors' retirement benefits and future increases in directors' fees.

**Accrued benefits**

The value of the frozen benefits to which participating Non-Executive Directors are entitled upon retirement (as at 30 June 2010) are set out below:

*Table 20 – Frozen Non-Executive Directors Retirement Benefits*

| Director | Frozen Benefit 31 December 2009 | Bond Rate Adjustment | Provision 30 June 2010 |
|---|---|---|---|
| P.J. Ramsay AO | 766,875 | 16,509 | 783,384 |
| M.S. Siddle | 420,938 | 9,061 | 429,999 |
| A.J. Clark AM | 370,500 | 7,976 | 378,476 |
| P.J. Evans | 531,750 | 11,448 | 543,198 |
| R.H. McGeoch AM | 359,250 | 7,734 | 366,984 |
| K.C.D. Roxburgh | 430,500 | 9,268 | 439,768 |
| **Total** | **2,879,813** | **61,996** | **2,941,809** |

Cumulatively an amount of $2,941,809 (2009: $2,812,500) has been provided as at 30 June 2010 and $129,309 (2009: $571,500) expensed in the current year. No retirement benefits were paid out in FY2010 or FY2009.

## REMUNERATION REPORT – Audited (continued)

## TOTAL REMUNERATION

Details of Non-Executive Directors' remuneration for FY2009 and FY2010 (calculated in accordance with applicable accounting standards) are set out in table 21.

*Table 21 – Non-Executive Director Remuneration for FY2010 and FY2009*

| | Short-term benefits | | Post-employment benefits | | Total |
|---|---|---|---|---|---|
| | Fees | Non-monetary benefits | Superannuation Contributions[1] | Retirement Benefits[2] | Fees |
| **P.J. Ramsay AO (Chairman)** | | | | | |
| FY2010 | 261,250 | - | 14,461 | 33,384 | 309,095 |
| FY2009 | 250,000 | - | 13,745 | 90,000 | 353,745 |
| **M.S. Siddle (Deputy Chairman)** | | | | | |
| FY2010 | 143,125 | - | 12,881 | 17,499 | 173,505 |
| FY2009 | 137,500 | - | 12,375 | 121,500 | 271,375 |
| **A.J. Clark AM** | | | | | |
| FY2010 | 127,000 | - | 11,430 | 18,476 | 156,906 |
| FY2009 | 120,000 | - | 10,800 | 61,500 | 192,300 |
| **P.J. Evans** | | | | | |
| FY2010 | 182,000 | - | 14,461 | 25,698 | 222,159 |
| FY2009 | 172,500 | - | 13,745 | 147,000 | 333,245 |
| **I.P.S. Grier AM** | | | | | |
| FY2010 | 124,500 | - | 11,205 | - | 135,705 |
| FY2009 | 120,000 | - | 10,800 | - | 130,800 |
| **R.H. McGeoch AM** | | | | | |
| FY2010 | 122,000 | - | 10,980 | 14,484 | 147,464 |
| FY2009 | 110,500 | - | 9,945 | 54,000 | 174,445 |
| **K.C.D. Roxburgh** | | | | | |
| FY2010 | 147,000 | - | 13,230 | 19,768 | 179,998 |
| FY2009 | 140,000 | - | 12,600 | 97,500 | 250,100 |
| **Totals** | | | | | |
| **FY2010** | **1,106,875** | **-** | **88,648** | **129,309** | **1,324,832** |
| **FY2009** | **1,050,500** | **-** | **84,010** | **571,500** | **1,706,010** |

1. *Superannuation contributions made on behalf of Non-Executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee legislation, capped to the then current statutory limit.*
2. *Amounts provided for by the Company during the financial year in relation to the contractual retirement benefits which the Non-Executive Director will be entitled to upon retirement from office.*

## DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

| | Board Meetings | | Committee Meetings | | | | |
|---|---|---|---|---|---|---|---|
| | Scheduled | Special | Audit | Risk Management | Remuneration | Nomination | Board Sub Committee on Capital Raising |
| **Number of Meetings held:** | **9** | **2** | **7** | **6** | **5** | **1** | **3** |
| Number of Meetings attended: | | | | | | | |
| P. J. Ramsay | 8 | 2 | - | - | - | 1 | - |
| M. S. Siddle | 9 | 2 | - | - | 5 | - | 1 |
| C. P. Rex | 9 | 2 | - | 5 | - | - | 2 |
| B. R. Soden | 9 | 2 | - | 6 | - | - | 2 |
| A. J. Clark | 9 | 2 | 7 | - | - | - | - |
| P. J. Evans | 9 | 2 | 7 | 6 | 5 | - | 3 |
| I. P. S. Grier | 8 | 1 | - | 4 | - | - | - |
| R. H. McGeoch | 8 | 2 | - | - | 5 | 1 | - |
| K. C. D. Roxburgh | 9 | 2 | 7 | 6 | - | 1 | 3 |

## COMMITTEES

As at the date of this report, the Company had the following four committees:

| Committee | Directors who are members |
|---|---|
| Audit Committee | Messrs Evans (c), Roxburgh, Clark |
| Risk Management Committee | Messrs Evans (c), Grier, Rex, Roxburgh, Soden |
| Remuneration Committee | Messrs McGeoch (c), Evans, Siddle |
| Nomination Committee | Messrs McGeoch (c), Ramsay, Roxburgh |

(c) : Designates the chairman of the committee

Further information on the Committees noted above are disclosed in the Corporate Governance Statement included in the Annual Report.

## ROUNDING

The amounts contained in this report and in the financial report have been rounded off to the nearest thousand unless otherwise specified under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

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## Auditor's Independence Declaration to the Directors of Ramsay Health Care Limited

In relation to our audit of the financial report of Ramsay Health Care Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

David Simmonds
Partner
Sydney
Date: 14 September 2010

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity holds licences from the Environment Protection Regulatory Bodies applicable to Hospitals for the maintenance of a safe environment. The Directors are not aware of any breaches of these licences.

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|---|---|
| Tax services | $931,821 |
| Other services | $182,474 |

Signed in accordance with a resolution of the Directors.

**P.J. RAMSAY**
**Non-Executive Chairman**

**M.S. SIDDLE**
**Non-Executive Deputy Chairman**

Sydney, 14 September 2010

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# Independent auditor's report to the members of Ramsay Health Care Limited

## Report on the Financial Report

We have audited the accompanying financial report of Ramsay Health Care Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

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

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

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

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

## *Auditor's Opinion*

In our opinion:

1. the financial report of Ramsay Health Care Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## *Report on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Ramsay Health Care Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Ernst + Young

Ernst & Young

David Simmonds
Partner
Sydney
Date: 14 September 2010

# RAMSAY HEALTH CARE LIMITED
# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Ramsay Health Care Limited, we state that:

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

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

(c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

(e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 36 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

**P.J. RAMSAY**
**Non-Executive Chairman**

**M.S. SIDDLE**
**Non-Executive Deputy Chairman**

Sydney, 14 September 2010

## RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
## INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $000 | 2009 $000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue and other income** | | | |
| Revenue from services | | 3,399,254 | 3,222,350 |
| Net gain on disposal of assets | | - | 1,555 |
| Interest income | | 6,418 | 5,742 |
| **Revenue and other income** | 4 | **3,405,672** | **3,229,647** |
| Employee benefits costs | 5 | (1,657,186) | (1,566,286) |
| Occupancy costs | | (212,163) | (214,704) |
| Service costs | | (194,010) | (215,626) |
| Medical consumables and supplies | | (867,121) | (815,624) |
| Depreciation and amortisation | 5 | (137,152) | (110,072) |
| **Expenses, excluding finance costs** | | **(3,067,632)** | **(2,922,312)** |
| **Profit from continuing operations before tax, specific items and finance costs** | | **338,040** | **307,335** |
| Finance costs | 5 | (79,692) | (97,360) |
| *Specific items* | | | |
| Revenue - Income from sale of medical suites | | 41,109 | - |
| Cost of goods sold - Book value of medical suites sold | | (25,553) | - |
| Finance cost - Ineffectiveness of interest rate hedge | | (89) | (111) |
| Service cost - Acquisition, restructuring and integration costs | | (12,666) | (3,826) |
| Service cost - Development projects costs | | (1,351) | (4,707) |
| Service cost - Unrealised foreign exchange gain on unhedged portion of GBP loan | | 3,743 | 622 |
| Depreciation and amortisation - Impairment of non - current assets | | (11,018) | (6,423) |
| Occupancy cost - Non-cash rent expense relating to UK leased hospitals | 5 | (31,766) | (41,260) |
| **Profit before income tax from continuing operations** | | **220,757** | **154,270** |
| Income tax expense | 6 | (71,911) | (47,765) |
| **Profit after tax from continuing operations** | | **148,846** | **106,505** |
| **Net profit for the year** | | **148,846** | **106,505** |
| Attributable to non - controlling interest | | 564 | 32 |
| Attributable to owners of the parent | | 148,282 | 106,473 |
| | | 148,846 | 106,505 |
| **Earnings per share (cents per share)** | | | |
| Basic earnings per share | | | |
| Profit (after CARES dividend) | 8 | 69.4 | 51.3 |
| Profit (after CARES dividend) from continuing operations | 8 | 69.4 | 51.3 |
| Diluted earnings per share | | | |
| Profit (after CARES dividend) | 8 | 69.2 | 51.2 |
| Profit (after CARES dividend) from continuing operations | 8 | 69.2 | 51.2 |

# RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
# STATEMENT OF COMPREHENSIVE INCOME
# FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $000 | 2009 $000 |
|---|---|---|---|
| **Net profit for the year** | | 148,846 | 106,505 |
| **Other comprehensive income/(expense):** | | | |
| Cash flow hedges | | | |
| Gain/(loss) taken to equity | 26 | 30,236 | (73,150) |
| Transferred to income statement | 26 | (25,769) | 6,406 |
| Actuarial (loss) on defined benefit plans | 31 | (1,476) | (862) |
| Net gain on hedge of net investment | | 27,018 | 3,536 |
| Foreign currency translation | | (31,167) | (1,658) |
| Income tax relating to components of other comprehensive income | 6 | (1,340) | 20,023 |
| **Other comprehensive (expense) for the year net of tax** | | **(2,498)** | **(45,705)** |
| **Total comprehensive income for the year** | | **146,348** | **60,800** |
| Attributable to non - controlling interest | | 564 | 32 |
| Attributable to owners of the parent | | 145,784 | 60,768 |
| | | 146,348 | 60,800 |

# RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
# STATEMENT OF FINANCIAL POSITION
# AS AT 30 JUNE 2010

| | Note | Consolidated 2010 $000 | 2009 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 10 | 185,689 | 89,295 |
| Trade receivables | 13 | 465,849 | 418,592 |
| Inventories | 14 | 90,532 | 63,885 |
| Derivative financial instruments | 26 | 1,313 | - |
| Other current assets | 15 | 47,309 | 50,789 |
| | | 790,692 | 622,561 |
| Assets classified as held for sale | 7 | 8,040 | 3,200 |
| **Total Current Assets** | | **798,732** | **625,761** |
| **Non-current Assets** | | | |
| Other financial assets | 16 | 2,190 | 1,383 |
| Property, plant and equipment | 17 | 1,737,106 | 1,626,045 |
| Goodwill and intangible assets | 18 | 924,232 | 854,461 |
| Deferred tax asset | 6 | 73,150 | 48,133 |
| Non-current prepayments | | 11,089 | - |
| Non-current receivables | 20 | 29,880 | 31,345 |
| **Total Non-current Assets** | | **2,777,647** | **2,561,367** |
| **TOTAL ASSETS** | | **3,576,379** | **3,187,128** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 21 | 533,207 | 452,117 |
| Interest-bearing loans and borrowings | 22 | 17,605 | 12,437 |
| Derivative financial instruments | 26 | 16,251 | 23,438 |
| Provisions | 23 | 128,230 | 114,008 |
| Income tax payable | 6 | 35,819 | 17,650 |
| | | 731,112 | 619,650 |
| Liabilities associated with assets held for sale | | 205 | - |
| **Total Current Liabilities** | | **731,317** | **619,650** |
| **Non-current Liabilities** | | | |
| Interest-bearing loans and borrowings | 24 | 1,322,838 | 1,420,532 |
| Provisions | 23 | 222,447 | 207,451 |
| Pension liability | 31 | 14,325 | 6,646 |
| Derivative financial instruments | 26 | 17,843 | 14,129 |
| Other creditors | | 9,706 | - |
| Deferred income tax liability | 6 | 33,960 | 9,558 |
| **Total Non-current Liabilities** | | **1,621,119** | **1,658,316** |
| **TOTAL LIABILITIES** | | **2,352,436** | **2,277,966** |
| **NET ASSETS** | | **1,223,943** | **909,162** |
| **EQUITY** | | | |
| Issued capital | 25 | 713,523 | 447,774 |
| Treasury shares | 25 | (8,081) | (10,210) |
| Convertible Adjustable Rate Equity Securities (CARES) | 25 | 252,165 | 252,165 |
| Cash flow hedges | | (22,252) | (25,379) |
| Share based payment reserve | | 16,397 | 9,776 |
| Vested employee equity | | (14,019) | (11,890) |
| Other reserves | | (8,944) | (4,795) |
| Retained earnings | | 306,485 | 251,334 |
| **Parent interests** | | **1,235,274** | **908,775** |
| **Non-controlling interests** | | **(11,331)** | **387** |
| **TOTAL EQUITY** | | **1,223,943** | **909,162** |

# RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 30 JUNE 2010

| | Changes in Equity for the Year to 30 June 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Balance at 1 July 2009 $000** | **Dividends $000** | **Share placement and DRP $000** | **Treasury shares vesting to employees in the year $000** | **Share based payment reserve $000** | **Non-Controlling Interest in Proclif $000** | **Total comprehensive income for the year, net of tax $000** | **Balance at 30 June 2010 $000** |
| Issued Capital | 447,774 | - | 265,749 | - | - | - | - | 713,523 |
| Treasury Shares | (10,210) | - | - | 2,129 | - | - | - | (8,081) |
| Convertible Preference Shares - CARES | 252,165 | - | - | - | - | - | - | 252,165 |
| Share Based Payment Reserve | 9,776 | - | - | - | 6,621 | - | - | 16,397 |
| Cash Flow Hedges | (25,379) | - | - | - | - | - | 3,127 | (22,252) |
| Hedge of a Net Investment | 31,784 | - | - | - | - | - | 27,018 | 58,802 |
| Foreign Currency Translation | (36,579) | - | - | - | - | - | (31,167) | (67,746) |
| Actuarial Gains and Losses | (862) | - | - | - | - | - | (1,476) | (2,338) |
| Retained Earnings | 252,196 | (91,655) | - | - | - | - | 148,282 | 308,823 |
| Vested Employee Equity | (11,890) | - | - | (2,129) | - | - | - | (14,019) |
| **Members of the Parent** | **908,775** | **(91,655)** | **265,749** | **-** | **6,621** | **-** | **145,784** | **1,235,274** |
| **Non-controlling interests** | **387** | **(8)** | **-** | **-** | **-** | **(12,274)** | **564** | **(11,331)** |
| **Total Equity** | **909,162** | **(91,663)** | **265,749** | **-** | **6,621** | **(12,274)** | **146,348** | **1,223,943** |

# RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 30 JUNE 2010

**Changes in Equity for the Year to 30 June 2009**

| | Balance at 1 July 2008 $000 | Dividends $000 | Share placement and DRP $000 | Treasury shares vesting to employees in the year $000 | Shares purchased for Executive Performance Share Plan $000 | Share based payment reserve $000 | Total comprehensive income for the year, net of tax $000 | Balance at 30 June 2009 $000 |
|---|---|---|---|---|---|---|---|---|
| Issued Capital | 437,622 | - | 10,152 | - | - | - | - | 447,774 |
| Treasury Shares | (13,599) | - | - | 5,395 | (2,006) | - | - | (10,210) |
| Convertible Preference Shares - CARES | 252,165 | - | - | - | - | - | - | 252,165 |
| Share Based Payment Reserve | 7,184 | - | - | - | - | 2,592 | - | 9,776 |
| Cash Flow Hedges | 21,342 | - | - | - | - | - | (46,721) | (25,379) |
| Hedge of a Net Investment | 28,248 | - | - | - | - | - | 3,536 | 31,784 |
| Foreign Currency Translation | (34,921) | - | - | - | - | - | (1,658) | (36,579) |
| Actuarial Gains and Losses | - | - | - | - | - | - | (862) | (862) |
| Retained Earnings | 222,263 | (76,540) | - | - | - | - | 106,473 | 252,196 |
| Vested Employee Equity | (6,495) | - | - | (5,395) | - | - | - | (11,890) |
| **Members of the Parent** | **913,809** | **(76,540)** | **10,152** | **-** | **(2,006)** | **2,592** | **60,768** | **908,775** |
| **Non-controlling interests** | **355** | **-** | **-** | **-** | **-** | **-** | **32** | **387** |
| **Total Equity** | **914,164** | **(76,540)** | **10,152** | **-** | **(2,006)** | **2,592** | **60,800** | **909,162** |

# RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $000 | 2009 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 3,412,587 | 3,167,565 |
| Payments to suppliers and employees | | (2,934,339) | (2,775,275) |
| Income tax paid | | (59,809) | (51,266) |
| Finance costs | | (81,128) | (99,278) |
| **Net cash flows from operating activities** | 10 | **337,311** | **241,746** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (175,012) | (267,279) |
| Proceeds from sale of property, plant and equipment | | - | 10,624 |
| Interest received | | 6,418 | 5,742 |
| Acquisition of subsidiary, net of cash received | 11 | (70,793) | - |
| **Net cash flows used in investing activities** | | **(239,387)** | **(250,913)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | (83,534) | (66,389) |
| Repayment of principal to Bondholders | | (2,484) | (2,367) |
| Repayment of finance lease - principal | | (2,057) | (1,786) |
| Purchase of ordinary shares | | - | (2,006) |
| Proceeds from issue of shares | | 257,628 | - |
| (Repayments of)/proceeds from borrowings | | (169,823) | 77,790 |
| **Net cash flows (used in)/from financing activities** | | **(270)** | **5,242** |
| Net increase/(decrease) in cash and cash equivalents | | 97,654 | (3,925) |
| Net foreign exchange differences on cash held | | (1,260) | (48) |
| Cash and cash equivalents at beginning of year | | 89,295 | 93,268 |
| **Cash and cash equivalents at end of year** | 10 | **185,689** | **89,295** |

## 1. CORPORATE INFORMATION

The financial report of Ramsay Health Care Limited ('The Company') for the year ended 30 June 2010 was authorised for issue on 14 September 2010, in accordance with a resolution of the Directors.

Ramsay Health Care Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Group are described in the Directors' Report.

The Company's functional and presentational currency is AUD ($).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and listed investments which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items are otherwise carried at cost.

Comparatives have been disclosed on a consistent basis and as used in the annual financial statements for the year ended 30 June 2009.

The financial report is presented in Australian dollars and all values are rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. This is an entity to which the Class Order applies.

The Directors believe that the core net profit after tax from continuing operations, before specific items and amortisation and the core earnings per share from continuing operations measures provided additional useful information for shareholders on the underlying performance of the business, and are consistent with how business performance is measured internally. It is not a recognised profit measure under IFRS and may not be directly comparable with core net profit after tax from continuing operations measures used by other companies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

| | Consolidated | |
|---|---|---|
| | **2010 \$000** | **2009 \$000** |
| **Core profit after tax from continuing operations** | | |
| Profit from continuing operations before tax, specific items and finance costs | 338,040 | 307,335 |
| Less: Finance costs | (79,692) | (97,360) |
| Profit from continuing operations before tax and specific items | 258,348 | 209,975 |
| Add: Amortisation - operating rights | 2,173 | 1,736 |
| Profit from continuing operations before tax, specific items and amortisation | 260,521 | 211,711 |
| Profit attributable to non-controlling interests | (742) | (32) |
| Income tax expense on continuing operations (excluding specific items) | (81,292) | (65,284) |
| Core profit after tax from continuing operations | 178,487 | 146,395 |
| **Core earnings per share from continuing operations** | | |
| Core profit after tax from continuing operations (above) | 178,487 | 146,395 |
| Less: CARES Dividend | (11,860) | (17,194) |
| Core profit after tax from continuing operations used to calculate Core earnings per share continuing operations | 166,627 | 129,201 |
| Weighted average number of ordinary shares adjusted for effect of dilution | 197,106,727 | 174,356,259 |
| Core earnings per share from continuing operations | 84.54 c | 74.10 c |
| **Reconciliation of core profit after tax from continuing operations to profit attributable to members of the parent** | | |
| Core profit after tax from continuing operations (above) | 178,487 | 146,395 |
| Specific items and amortisation of intangibles (net of tax) | | |
| - Non-cash rent expense relating to leased UK hospitals | (21,880) | (29,707) |
| - Other | (8,325) | (10,215) |
| Net profit attributable to members of the parent | 148,282 | 106,473 |

### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) New Accounting Standards and Interpretations

*(i) Changes in Accounting Policy and Disclosures*

From 1 July 2009 the Group adopted the following Standards and Interpretation, adoption of these Standards and Interpretations did not have any significant effect on the financial position or performance of the Group for the year ended 30 June 2010. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.

- AASB 101 (*Revised) AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and consequential amendments.*
- AASB 127 (*Revised) Consolidated and Separate Financial Statements*
- AASB 3 *Revised Business Combinations*
- AASB Int 16 *Hedges of a Net Investment in a Foreign Operation*
- AASB 7 *Financial Instruments (Revised)*
- AASB Int 17 *and AASB 2008-13 Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 10*
- AASB Int 18 *Transfers of Assets from Customer*
- AASB 8 and AASB 2007-3 *Operating Segments and consequential amendments to other Australian Accounting Standards*
- AASB 1039 *(Revised) Concise Reporting*
- AASB 123 *(Revised) and AASB 2007-6 Borrowing Costs and consequential amendments to other Australian Accounting Standards*
- AASB 2008-1 *Amendments to Australian Accounting Standard-Share based Payments: Vesting Conditions and Cancellations*
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2008-8 *Amendments to Australian Accounting Standards - Eligible Hedged Items*
- AASB 2009-2 *Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (AASB 4, AASB 7, AASB 1023 and AASB 1038)*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 2 and AASB 138 and AASB Interpretations 9 & 16)*
- AASB 2009-Y *Amendments to Australian Accounting Standards (AASB 5,7,107,112,136 & 139 and Interpretation 17)*

The principal effects of these changes are:

*AASB 3 Business Combinations (revised 2008)*

AASB 3 introduced significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests (previously ‘minority interests’), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

*AASB 8 Operating Segments*

The AASB issued AASB 8 in February 2007. AASB 8 replaces AASB 114 Segment Reporting (IAS 14) upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in Note 12, including the related revised comparative information.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) New Accounting Standards and Interpretations (Continued)

*(i) Changes in Accounting Policy and Disclosures (Continued)*

*AASB 7 Financial Instruments: Disclosures*
The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements relating to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 3. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 3.

*AASB 101 Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

*AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and the income statement. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary. The receipt of dividends by Ramsay Health Care Limited during the year did not impact the recoverability of the investment in the subsidiaries.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

*(ii) Accounting Standards and Interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2010, are outlined in the table on the following pages.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
### (c) New Accounting Standards and Interpretations (Continued)

*(ii) Accounting Standards and Interpretations issued but not yet effective*

| Reference | Title | Summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|---|---|---|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project<br><br>[AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:<br><br>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.<br><br>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.<br><br>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:<br>► has primary responsibility for providing the goods or service;<br>► has inventory risk;<br>► has discretion in establishing prices;<br>► bears the credit risk.<br>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.<br><br>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.<br>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges. | 1 January 2010 | These amendments are only expected to effect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. | 1 July 2010 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
### (c) New Accounting Standards and Interpretations (Continued)

*(ii) Accounting Standards and Interpretations issued but not yet effective*

| Reference | Title | Summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|---|---|---|---|---|---|
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] | The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:<br>► two categories for financial assets being amortised cost or fair value<br>► removal of the requirement to separate embedded derivatives in financial assets<br>► strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows<br>► an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition<br>► reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes<br>► changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income | 1 January 2013 | The Group has not yet determined the extent of the impact of these amendments if any. | 1 July 2013 |
| AASB 2009-14 | Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement | These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.<br><br>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. | 1 January 2011 | The Group's defined benefit pension plans are currently in deficit so these amendments are unlikely to have any impact on the Group in the short term. | 1 July 2011 |

* designates the beginning of the applicable annual reporting period unless otherwise stated

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Basis of consolidation

*Subsequent to 1 July 2009*

The consolidated financial statements comprise the financial statements of Ramsay Health Care Limited and its subsidiaries and special purpose entities as at and for the period ended 30 June each year (‘the Group'). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Special purpose entities are those entities over which the Group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries and special purpose entities are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Ramsay Health Care Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Non-controlling interests represent the interest in Health Care Trust No 1, Glenferrie Private Hospital Pty Limited, PT Affinity Health Indonesia and Ramsay Santé SA not held by the Group.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it
- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Basis of consolidation (continued)

*Prior to 1 July 2009*

In comparison to the above mentioned requirements which were applied on a prospective basis from 1 July 2009, the following differences applied:

- Non-controlling interests (formerly known as minority interests) represented the portion of profit or loss and net assets of a subsidiary that were not wholly-owned by the Group and were presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

### (e) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

*(i) Significant accounting judgements*

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next five years together with future tax planning strategies.

*Impairment of non-financial assets other than goodwill and indefinite life intangibles*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology, economic and political environments. If an impairment trigger exists the recoverable amount of the asset is determined.

*Classification of assets and liabilities as held for sale*

The Group classifies assets and liabilities as held for sale when the carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Significant accounting judgements, estimates and assumptions (continued)

*(i) Significant accounting judgements (continued)*

*Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of patient volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

*(ii) Significant accounting estimates and judgements*

*Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in note 19.

*Share – based payment transactions*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo simulation model, using the assumptions detailed in note 27.

*Medical malpractice provision*

The Group determines an amount to be provided for the self-insured retention, potential uninsured claims and 'Incurred but not Reported' ('IBNR') in relation to medical malpractice with reference to actuarial calculations. This actuarial calculation is performed at each reporting period.

*Pension benefits*

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the interest rates of corporate bonds in the respective country. The mortality rate is based on publicly available mortality tables for the specific country.

Future salary increases and pension increases are based on expected future inflation rates for the specific country.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Foreign currency translation

Both the functional and presentation currency of Ramsay Health Care Limited and its Australian subsidiaries is Australian dollars (A$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences, arising in relation to foreign operations, in the consolidated financial report are taken directly to equity until the disposal of these operations, at which time they are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary, PT Affinity Health Indonesia, is Indonesian Rupiah.
As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Ramsay Health Care Limited at the rate of exchange ruling at the reporting date and the Income Statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

The functional currency of the overseas subsidiary, Ramsay Health Care (UK) Limited, is British Pounds.
As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Ramsay Health Care Limited at the rate of exchange ruling at the reporting date and the Income Statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

The functional currency of the overseas subsidiary, Ramsay Santé SA, is Euro. As the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Ramsay Health Care Limited at the rate of exchange ruling at the reporting date and the Income Statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

### (g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated, consistent with the prior year, on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings and integral plant – 40 years
- Leasehold improvements – over lease term
- Plant and equipment, other than plant integral to buildings – various periods not exceeding 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Property, plant and equipment (continued)

*(i) Impairment*
The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of property, plant and equipment 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 an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses are recognised in the income statement.

*(ii) Derecognition and disposal*
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the year the asset is derecognised.

### (h) Finance costs

Finance costs include interest, amortisation of discounts or premiums related to borrowings and other costs incurred in connection with the arrangement of borrowings. Financing costs are expensed as incurred unless they relate to a qualifying asset. A qualifying asset is an asset which generally takes more than 12 months to get ready for its intended use or sale. In these circumstances, the financing costs are capitalised to the cost of the asset. Where funds are borrowed by the Group for the acquisition or construction of a qualifying asset, the amount of financing costs capitalised are those incurred in relation to that borrowing.

### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated that

- It represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group’s reporting format determined in accordance with AASB 8 “Operating Segments”.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

### (j) Impairment of non – financial assets other than goodwill and intangibles

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (k) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 "Financial Instruments: Recognition and Measurement" are classified as either, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting period.

*Recognition and derecognition*
All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace. Financial assets are derecognised when the right to receive cashflows from the financial assets have expired or been transferred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Investments and other financial assets (continued)

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non – current.

### (l) Inventories

Inventories are recorded using the FIFO method and are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.
Inventories include medical and food supplies to be consumed in providing future patient services, and medical suites to be sold, that are currently under construction.

### (m) Trade and other receivables

Trade receivables, which generally have 15-30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

### (n) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts and restricted cash.

### (o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### (p) Provisions

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently one plan in place to provide these benefits, being the Executive Performance Rights Plan (Equity-settled transactions), which provides benefits to senior executives and executive directors.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the 30 June 2010 and the date at which they were granted, respectively. The fair value is determined by an external valuer using the Monte Carlo model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ramsay Health Care Limited ('market conditions').

*Equity-settled transactions*
The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

*Treasury Shares*
Shares in the Group held by the Executive Performance Share Plan are classified and disclosed as Treasury shares and deducted from equity.

*Vested Employee Equity*
Shares that have vested and have been exercised by employees under the Executive Performance Share Plan are classified and disclosed as Vested Employee Equity.

### (r) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Leases (continued)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

*Onerous/Unfavourable lease*
A lease whereby the carrying value exceeds the fair value is considered an onerous/unfavourable lease. These onerous/unfavourable leases are reflected as a liability with an assigned fair value and are amortised over the remaining life of the lease term.

### (s) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Revenue from patients*
Revenue from services is recognised on the date on which the services were provided to the patient.

*Interest*
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Dividends*
Revenue is recognised when the Groups' right to receive the payment is established.

*Rental income*
Rental income is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised in the income statement as an integral part of the total rental income.

*Income from ancillary services*
Income from ancillary services is recognised on the date the services are provided to the customer.

*Income from sale of medical suites*
Income from sale of medical suites is recognised when the payment is received.

### (t) Government grants

Government grants are recognised in the Statement of Financial Position as a liability when the grant is received. Government grants are recognised in the income statement when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.
When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.
Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### (u) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Income tax (continued)**

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(v) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:
- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as a liability when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the income statement in the period in which those gains or losses arose. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

*(i) Cash Flow Hedges*
Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

*(ii) Hedges of a net investment*
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Interest in jointly controlled operations

The Group has interests in joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operations.

### (y) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill impairment testing. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

A summary of the policy applied to the Group's intangible assets are as follows:

| **Operating Rights** |
|---|
| *Useful lives* |
| Finite |
| *Amortisation method used* |
| Amortised over the period of the lease |
| *Internally generated or acquired* |
| Acquired |
| *Impairment testing* |
| When an indication of impairment exists. The amortisation method is reviewed at each financial year end |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Intangible assets (continued)

| **Development Costs** |
|---|
| *Useful lives* |
| Finite |
| *Amortisation method used* |
| Amortised over the period of expected future benefit from the related project on a straight line basis |
| *Internally generated or acquired* |
| Internally generated |
| *Impairment testing* |
| Annually for assets not yet available for use. The amortisation method is reviewed at each financial year end |

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### (z) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature and they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured.

### (aa) Employee leave benefits

*(i) Wages, salaries, annual leave and sick leave*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(ii) Long service leave*
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### (ab) Insurance

Insurance policies are entered into to cover the various insurable risks. These policies have varying levels of deductibles.

*Medical Malpractice Insurance*
A provision is made to cover excesses arising under the Medical Malpractice Insurance Policy. This provision is actuarially assessed at each reporting period.

*Insurance Funding*
Insurance premiums are prepaid at the beginning of each insurance period through an external insurance financier. The insurance premiums are expensed over the period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ac) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (ad) Earnings per share (EPS)

Basic EPS for profit is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity and CARES dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS for profit is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity and CARES dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (ae) Business combinations

*Subsequent to 1 July 2009*

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

*Prior to 1 July 2009*

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquirer were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (af) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Managing Director and the Board of Directors.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

### (ag) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement, and the assets and liabilities are presented separately on the face of the Statement of Financial Position.

### (ah) Pensions and other post-employment benefits

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice.

The employer's portion of the current services cost, past service costs related to employee service in prior periods, and any curtailment gains or losses are charged to the income statement.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the period.

The interest cost on liabilities net of the expected return on asset in the plans, is charged to the finance expense line in the income statement.

Actuarial gains and losses are recognised in full in equity. These comprise on scheme assets, the difference between the expected and actual return on assets, and, on scheme liabilities, the difference between the actuarial assumptions and actual experience, and the effect of changes in actuarial assumptions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ah) Pensions and other post-employment benefits (continued)

The defined benefit pension asset or liability in the Statement of Financial Position comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the group expects to recover by way of refunds from the plan or reductions in the future contributions.

### (ai) Service Concession Assets

Service concession assets represent the Group's rights to operate hospitals under Service Concession Arrangements. Service concession assets constructed by the Group are recorded at the fair value of consideration received or receivable for the construction services delivered. Service concession assets acquired by the group are recorded at the fair value of the assets at the date of acquisition. All service concession assets are classified as intangible assets and are amortised over the term of the lease on a straight line basis (range between 7 to 27 years) and are tested for impairment whenever there is an indication that the intangible may be impaired. The amortisation method is reviewed at least each financial year-end.

To the extent that the Group has an unconditional right to receive cash or other financial assets under the Service Concession Arrangements a financial asset has been recognised. The financial asset is measured at fair value on initial recognition and thereafter at amortised cost using the effective interest rate method. The financial asset will be reflected on initial recognition and thereafter as a 'loan or receivable'.

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits, available-for-sale financial assets and derivatives.

### Risk Exposures and Responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swap contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Group has entered into a Syndicated Facility Agreement with its Banks. The Syndicated Facility Agreement is with prime financial institutions. By entering into a Syndicated Facility Agreement with a number of financial institutions compared to financing through a Bilateral Facility Agreement, the Group has reduced its counterparty risk.

**3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk Exposures and Responses (continued)**

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

*(a) Interest rate risk*
The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 33.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$000** | **$000** |
| **Financial Assets** | | |
| Cash and cash equivalents | 185,689 | 89,295 |
| **Financial Liabilities** | | |
| Bank Loans | (439,461) | (454,343) |
| Net exposure | (253,772) | (365,048) |

Interest rate derivatives contracts are outlined in note 26, with a net negative fair value of $32,781,000 (2009: negative: $37,567,000) are exposed to fair value movements if interest rates change.

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain at least 50% of its borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2010, after taking into account the effect of interest rate swaps, approximately 64% (2009: 67%) of the Group's borrowings are at a fixed rate of interest.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Risk Exposures and Responses (continued)**

*(a) Interest rate risk (continued)*

At 30 June 2010, if the prevailing market cash interest rates had moved by +/- 1% (100 basis points) per annum from the year end rates, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonably possible movements: | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $000 | $000 | $000 | $000 |
| **AUD** | | | | |
| +1% (100 basis points) | (2,611) | (3,067) | 3,687 | 3,836 |
| -1% (100 basis points) | 2,217 | 3,069 | (3,767) | (3,949) |
| **GBP** | | | | |
| +1% (100 basis points) | (202) | (382) | 6,105 | 9,024 |
| -1% (100 basis points) | 180 | 384 | (6,194) | (9,402) |
| **IDR** | | | | |
| +1% (100 basis points) | (156) | 52 | - | - |
| -1% (100 basis points) | 156 | (52) | - | - |
| **EUR** | | | | |
| +1% (100 basis points) | 471 | - | - | - |
| -1% (100 basis points) | (712) | - | - | - |

The 1% sensitivity is based on reasonably possible movements, over a financial year, using historical rates for the preceding 5 year period and under the current economic conditions.

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movement in equity is due to an increase/decrease in the fair value of derivative instruments designated as cash flow hedges. The change in sensitivity in 2010, lower for profit than equity, comparing to 2009 is due to the increase of the level of hedging in 2010. There was a decrease of borrowings and a decrease of interest rate swaps engaged.

*(b) Foreign currency risk*

*United Kingdom*
As a result of significant operations in the United Kingdom, the Group's Statement of Financial Position can be affected significantly by movements in the AUD/GBP exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in British Pounds.

At 30 June 2010, the Group had the following exposure to GBP that is not designated in net investment hedges:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | £000 | £000 |
| **Financial Assets** | | |
| Cash and cash equivalents | 1,332 | 117 |
| **Financial Liabilities** | | |
| Interest bearing loans and borrowings | - | (9,500) |
| **Equity** | | |
| Residual net investment not hedged | 5,748 | - |
| Net exposure | 7,080 | (9,383) |

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Risk Exposures and Reponses (continued)**

*(b) Foreign currency risk (continued)*

The Group has a GBP borrowing of £117,000,000 (2009: £107,500,000) that is designated as a hedge of the net investment in the UK operation. Further information on the hedge is set out in note 26.

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

At 30 June 2010, had the Australian Dollar moved +/-10% against the British Pound, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonably possible movements: | Post Tax Profit Higher/(Lower) | | Equity* Higher/(Lower) | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $000 | $000 | $000 | $000 |
| **Consolidated** | | | | |
| AUD/GBP +10% | 216 | 1,014 | 930 | 19,965 |
| AUD/GBP -10% | (237) | (1,239) | (1,023) | (24,401) |

The 10% sensitivity is based on reasonably possible movements, over a financial year, using historical rates for the preceding 5 year period and under the current economic conditions.

The movements in profit are due to the effect to the unrealised foreign currency gain/loss, by applying an exchange rate sensitivity to the UK financial instruments not designated in net investment hedges.

* Movements disclosed for variation in exchange rates relate to financial instruments. These would be offset by equal movements to the assets of the net investment giving an overall impact to equity of zero.

*France*
As a result of operations in the France, the Group's Statement of Financial Position can be affected significantly by movements in the AUD/EUR exchange rates.

At 30 June 2010, the Group had the following exposure to the EURO that is not designated in net investment hedges:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | EUR 000 | EUR 000 |
| Net Equity at 30 June 2010 | 41,809 | - |
| Subordinated bonds | 43,232 | - |
| Net exposure | 85,041 | - |

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Risk Exposures and Reponses (continued)**

*(b) Foreign currency risk (continued)*

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

At 30 June 2010, had the Australian Dollar moved +/-10% against the Euro, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonably possible movements: | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $000 | $000 | $000 | $000 |
| **Consolidated** | | | | |
| AUD/EUR +10% | 3,930 | - | 5,555 | - |
| AUD/EUR -10% | (4,323) | - | (6,110) | - |

The 10% sensitivity is based on reasonably possible movements, over a financial year, using historical rates for the preceding 5 year period and under the current economic conditions.

The movements in profit are due to the effect to the unrealised foreign currency gain/loss, by applying an exchange rate sensitivity to the Euro financial instruments.

*(c) Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The majority of transactions are with the Government and Health Funds.

The Group's credit policy requires all debtors to pay in accordance with agreed terms. The payment terms for the major debtors range from 15 days to 30 days. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's credit risk is evenly spread across a number of Health Funds and the Government. The Group does not have any significant credit risk exposure to a single debtor or group of related debtors. Derivative financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

The credit quality of financial assets that are neither past due nor impaired is considered to be high, due to the absence of defaults, and the fact that the Group deals with creditworthy Health Funds and the Government. Management has also put in place procedures to constantly monitor the exposures in order to manage its credit risk.

*(d) Liquidity risk*

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases.

To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Ramsay has established management reporting covering its worldwide business units that reflects expectations of management of expected settlement of financial assets and liabilities.

The Group continually reviews its liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

**3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk Exposures and Reponses (continued)**

*(d) Liquidity risk (continued)*

**A. Non-derivative financial liabilities**
The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities are based on contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount if paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The risk implied from the values shown in the tables below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital including inventories and trade receivables.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

| Year ended 30 June 2010 | ≤ 1 year $000 | 1-2 years $000 | 2-5 years $000 | >5years $000 | Total $000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash and cash equivalents | 185,689 | - | - | - | 185,689 |
| Trade and other receivables | 470,873 | 5,024 | 15,072 | 12,739 | 503,708 |
| | 656,562 | 5,024 | 15,072 | 12,739 | 689,397 |
| **Consolidated** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | (633,887) | (104,861) | (314,582) | (2,577,664) | (3,630,994) |
| Interest-bearing loans and borrowings | (62,271) | (77,306) | (241,213) | (1,224,980) | (1,605,770) |
| Sub-ordinated bonds | - | - | (5,453) | (59,502) | (64,955) |
| | (696,158) | (182,167) | (561,248) | (3,862,146) | (5,301,719) |
| **Net (outflow)** | (39,596) | (177,143) | (546,176) | (3,849,407) | (4,612,322) |

**B. Derivative financial liabilities**

Due to the unique characteristics and risks inherent to derivative instruments, the Group (through the Group Treasury Function) separately monitors the liquidity risk arising from transacting in derivative instruments.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Risk Exposures and Reponses (continued)**

*(d) Liquidity risk (continued)*

**B. Derivative financial liabilities (continued)**

The table below details the liquidity risk arising from the derivative liabilities held by the Group at balance date. Net settled derivative liabilities comprise forward commodity contracts that are used as economic hedges of commodity purchases. Gross settled derivatives mainly comprise forward exchange contracts that are used to hedge future purchase commitments.

| Consolidated | < 6 months $000 | 6 – 12 months $000 | 1 – 5 years $000 | >5 years $000 | Total $000 |
|---|---|---|---|---|---|
| Year ended 30 June 2010 | | | | | |
| Derivatives liabilities – net settled | 8,144 | 8,229 | 18,446 | 1 | 34,820 |
| Net maturity | 8,144 | 8,229 | 18,446 | 1 | 34,820 |

*(e) Fair value*

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 the fair value is calculated using quoted prices in active markets.

Level 2 the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

| Consolidated | Quoted market price (Level 1) | Valuation technique – market observable inputs (Level 2) | Valuation technique – non market observable inputs (Level 3) | Total $000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative instruments | - | 1,313 | - | 1,313 |
| **Financial liabilities** | | | | |
| Derivative instruments | - | (34,094) | - | (34,094) |

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Risk Exposures and Reponses (continued)**

*(e) Fair value (continued)*

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

***Transfer between categories***

There were no transfers between Level 1 and Level 2 during the year.

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **4. REVENUE** | | |
| ***Revenue from Continuing Operations*** | | |
| Revenue from patients | 3,344,860 | 3,164,967 |
| Rental income | | |
| Other persons/corporations | 25,105 | 22,348 |
| Bad debts recovered | 19 | 13 |
| Income from ancillary services | 29,270 | 34,979 |
| Other income | - | 43 |
| Interest | | |
| Other persons/corporations | 6,418 | 5,742 |
| Net gain on disposal of property, plant and equipment | - | 1,555 |
| Revenues from continuing operations | 3,405,672 | 3,229,647 |
| Specific items - Income from sale of medical suites | 41,109 | - |
| | 3,446,781 | 3,229,647 |
| **5. EXPENSES** | | |
| ***Expenses from Continuing Operations*** | | |
| **(a) Depreciation included in income statement** | | |
| - Plant and equipment | 91,533 | 78,413 |
| - Buildings | 37,273 | 29,923 |
| Total depreciation | 128,806 | 108,336 |
| **(b) Amortisation included in income statement** | | |
| - Right to operate hospitals | 2,173 | 1,736 |
| - Development cost | 6,173 | - |
| Total amortisation | 8,346 | 1,736 |

**5. EXPENSES (CONTINUED)**

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **(c) Operating lease costs and incentive** | | |
| Lease costs included in occupancy costs expenses in the income statement | 102,996 | 110,378 |

The amount charged to the income statement in respect of operating lease costs for the Group under AIFRS has an adverse impact on reported profit relating to the treatment of deferred rent from leases with annual fixed increments in rent. The accounting for this is as follows:

| | | |
|---|---|---|
| Deferred rent from leases with fixed annual increments in rent | 31,766 | 41,260 |
| Reduction in operating profit resulting from accounting in accordance with AASB 117 "Leases" and UIG 115 "Operating leases – incentives" | (31,766) | (41,260) |

Ramsay Health Care (UK) Limited has entered into 30 year term lease agreements for the rent of hospital properties. The lease agreements have fixed annual increases of 2.75% per annum which is currently lower than CPI. Where leases have fixed annual increases and not variable annual increases, AASB 117 requires that straight line accounting be applied. The cash rent paid for the year ended 30 June 2010 was lower than the rent expensed by $31,766,000 (2009: $41,260,000).The ongoing effect of the difference between cash rent paid and rent expense will be separately identified at each period.

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **(d) Employee benefits expense** | | |
| Wages and salaries | 1,503,081 | 1,444,782 |
| Workers' compensation expense | 17,375 | 13,721 |
| Superannuation expense | 86,934 | 82,456 |
| Termination benefits expense | 301 | 857 |
| Other employment expense | 46,245 | 21,656 |
| Share-based payments expense (including expense arising from transactions accounted for as equity-settled share-based payment transactions) | 3,250 | 2,814 |
| | 1,657,186 | 1,566,286 |
| Specific items - termination benefits included in acquisition, restructuring and integration costs | 862 | 3,166 |
| | 1,658,048 | 1,569,452 |
| **(e) Finance costs** | | |
| - Interest expense | | |
| Other persons/corporations | 84,658 | 101,737 |
| - Finance charges - lease liability | 1,145 | 1,656 |
| Total Finance costs | 85,803 | 103,393 |
| Less: Finance costs capitalised | (6,111) | (6,033) |
| Total finance costs expensed for continuing operations (excluding specific items) | 79,692 | 97,360 |

## 6. INCOME TAX

(a) Income tax expense
The major components of income tax expense are:
**Income Statement**

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| **Continuing operations:** | | |
| *Current income tax* | | |
| Current income tax charge | 79,199 | 58,162 |
| Adjustments in respect of previous years | (2,772) | - |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | (1,447) | (11,944) |
| Adjustments in respect of deferred income tax of previous years | (3,069) | 1,547 |
| Income tax expense reported in the income statement | 71,911 | 47,765 |

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Accounting profit before tax from continuing operations | 220,757 | 154,270 |
| Accounting profit before income tax | 220,757 | 154,270 |
| At the Parent Entity's statutory income tax rate of 30% (2009: 30%) | 66,227 | 46,281 |
| Expenditure not allowable for income tax purposes | 8,554 | 3,110 |
| Foreign tax rate adjustment | (593) | 1,104 |
| Other | (2,277) | (2,730) |
| | 71,911 | 47,765 |
| Income tax expense reported in the consolidated income statement attributable to continuing operations | 71,911 | 47,765 |
| Income tax attributable to discontinued operations | - | - |
| | 71,911 | 47,765 |

(c) Amounts charged or credited directly to equity

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Deferred income tax related to items charged or credited directly to equity | | |
| Net unrealised gains | 1,733 | (19,855) |
| Treasury shares | (3,369) | 191 |
| | (1,636) | (19,664) |

## 6. INCOME TAX (CONTINUED)

(d) Recognised deferred tax assets and liabilities

| | Consolidated | | | |
|---|---|---|---|---|
| | 2010 $000 Current income tax | 2010 $000 Deferred income tax | 2009 $000 Current income tax | 2009 $000 Deferred income tax |
| Opening balance | (17,650) | 38,575 | (10,466) | 9,156 |
| (Charged)/ credited to income | (76,428) | 4,517 | (58,162) | 10,397 |
| (Charged)/ credited to equity | - | 1,636 | - | 19,664 |
| Payments/(Refunds) | 57,492 | - | 50,859 | - |
| Exchange differences | (54) | (2,679) | 119 | (642) |
| Acquisition of subsidiary | 821 | (2,859) | - | - |
| Closing balance | (35,819) | 39,190 | (17,650) | 38,575 |
| | | | | |
| Tax expense in the income statement | | (71,911) | | (47,765) |
| | | | | |
| *Amounts recognised in the statement of financial position* | | | | |
| Deferred tax asset | | 73,150 | | 48,133 |
| Deferred tax liability | | (33,960) | | (9,558) |
| | | 39,190 | | 38,575 |

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| *Deferred income tax at 30 June relates to the following:* | | |
| ***(i) Deferred tax liabilities*** | | |
| Inventory | (10,734) | (8,754) |
| Recognition of revenue | (8,989) | (9,460) |
| Depreciable assets | (66,453) | (48,161) |
| Other | (12,023) | (7,324) |
| Other provisions and lease liabilities | (11,656) | (11,656) |
| **Gross deferred tax liabilities** | (109,855) | (85,355) |
| Set-off of deferred tax assets | 75,895 | 75,797 |
| **Net deferred tax liabilities** | (33,960) | (9,558) |
| ***(ii) Deferred tax assets*** | | |
| Employee provisions | 60,040 | 51,502 |
| Other provisions and lease liabilities | 49,724 | 54,332 |
| Unearned income | 3,968 | 2,963 |
| Other | 25,777 | 3,863 |
| Derivatives | 9,536 | 11,270 |
| **Gross deferred tax assets** | 149,045 | 123,930 |
| Set - off of deferred tax assets | (75,895) | (75,797) |
| **Net deferred tax assets** | 73,150 | 48,133 |

## 6. INCOME TAX (CONTINUED)

(e) Tax losses

At 30 June 2010, there is $54,349,617 (2009: $53,052,117) of unrecognised deferred income tax assets in relation to capital losses carried forward as it is not probable that they will be used in the foreseeable future.

(f) Tax consolidation

Ramsay Health Care Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group effective 1 July 2003. Ramsay Health Care Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a modified standalone basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

***Tax effect accounting by members of the tax consolidated group***

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current and deferred taxes using a group allocation method, on a modified standalone basis in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement are made every six months.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company. There is no difference between the current and deferred tax amounts allocated under the tax funding agreement and the amount that is allocated under an acceptable method. Therefore there is no contribution/distribution of the subsidiaries' equity accounts.

As a result of tax consolidation intercompany assets of Ramsay Health Care Limited have increased by $34,841,000 (2009: increased $4,103,000).

(g) Tax relating to other comprehensive income

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$000** | **$000** |
| Disclosure of tax effects relating to each component of other comprehensive income | | |
| - Cashflow hedges taken to equity | (9,071) | 21,945 |
| - Cashflow hedges transferred to the income statement | 7,731 | (1,922) |
| | (1,340) | 20,023 |

## 7. ASSETS CLASSIFIED AS HELD FOR SALE

| | | |
|---|---|---|
| Property, plant and equipment that is available for sale to external parties and has been written down to fair value | 8,040 | 3,200 |

Assets are held for sale to external parties in the next 6 months. Assets are non-core parts of the Asia Pacific segment.

## 8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting the CARES dividend) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting the CARES dividend) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Net profit for the year attributable to the members of the parent | 148,282 | 106,473 |
| Less: dividend paid on Convertible Adjustable Rate Equity Securities (CARES) | (11,860) | (17,194) |
| Profit used in calculating basic and diluted (after CARES dividend) earnings per share from continuing operations | 136,422 | 89,279 |

| | 2010 Number of Shares | 2009 Number of Shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 196,473,531 | 173,935,078 |
| Effect of dilution – share rights | 633,196 | 421,181 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 197,106,727 | 174,356,259 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. The rights granted to Executives (Note 27) have the potential to dilute earnings per share.

## 9. DIVIDENDS PAID OR PROPOSED

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| **(a) Dividend on ordinary shares paid during the year:** | | |
| *(i) Interim dividend paid* | | |
| Franked dividends – ordinary (18.5 cents per share) (2009: 16.5 cents per share) | 37,385 | 28,856 |
| *(ii) Previous year final dividend paid* | | |
| Franked dividends – ordinary (21.5 cents per share) (2009: 17.5 cents per share) | 42,410 | 30,490 |
| | 79,795 | 59,346 |
| **(b) Dividend proposed and not recognised as a liability:** | | |
| *Current year final dividend proposed* | | |
| Franked dividends – ordinary (25.0 cents per share) (2009: 21.5 cents per share) | 50,520 | 37,680 |
| **(c) Dividends on CARES paid during the year** | 11,860 | 17,194 |
| **(d) Dividends on CARES proposed and not recognised as a liability** | 6,901 | 5,365 |

| | Parent 2010 $000 | Parent 2009 $000 |
|---|---|---|
| **(e) Franking credit balance** | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| - franking account balance as at the end of the financial year at 30% (2009: 30%) | 108,617 | 93,675 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year * | 14,923 | 12,215 |
| | 123,540 | 105,890 |
| The amount of franking credits available for future reporting periods: | | |
| - impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period. | (24,609) | (18,448) |
| | 98,931 | 87,442 |

* As Ramsay Health Care Ltd and its 100% owned subsidiaries have formed a tax consolidated group, effective 1 July 2003, this represents the current tax payable for the Australian group.

The tax rate at which paid dividends have been franked is 30% (2009: 30%). $57,421,000 (2009: $43,045,000) of the proposed dividends will be franked at the rate of 30% (2009: 30%).

## 10. CASH AND CASH EQUIVALENTS

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| Cash at bank and in hand | 185,689 | 89,295 |
| **Reconciliation to Cash Flow Statement** | | |
| For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June | | |
| Cash at bank and in hand | 185,689 | 89,295 |
| **Reconciliation of net profit after tax to net cash flows from operations** | | |
| Net profit after tax for the year | 148,846 | 106,505 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 137,152 | 110,072 |
| Decrease in value of non - current assets | 11,018 | - |
| Interest received | (6,418) | (5,742) |
| Net gain on sale of non - current assets | - | (1,555) |
| **Changes in assets and liabilities** | | |
| Deferred tax | (7,786) | (19,551) |
| Receivables | (27,776) | (50,315) |
| Other assets | (7,944) | (1,294) |
| Creditors and accruals | 35,439 | 36,112 |
| Provisions | 59,960 | 58,080 |
| Inventory | (25,067) | (3,897) |
| Tax provisions | 19,887 | 13,331 |
| Net cash from operating activities | 337,311 | 241,746 |

**Disclosure of financing facilities**

Refer to note 33.

**Disclosure of non-cash financing and investing activities**

Under the terms of the dividend reinvestment plan (‘the plan’) $8,121,417 (2009: $10,152,489) dividends were paid via the issue of 759,627 (2009: 1,027,530) ordinary shares during the year. The dividend re-investment plan was suspended by the Directors for the dividend payable in April 2010.

## 11. BUSINESS COMBINATIONS

### Acquisition of the Proclif Group – 2010

On 29 March 2010, Ramsay acquired 57% of the share capital of the Proclif Group. The Group has provisionally recognised the fair values of the identifiable assets and liabilities of the Proclif Group based upon the best information available as of the reporting date. Provisional business combination accounting is as follows:

| | $000 |
|---|---|
| Cash | 60,826 |
| Accounts Receivable | 21,944 |
| Inventory | 3,758 |
| Other assets | 13,159 |
| Property, plant and equipment | 117,475 |
| Creditors | (19,623) |
| Accruals and provisions – current | (29,476) |
| Derivatives liability | (790) |
| Bank loan and other interest bearing liabilities | (80,825) |
| Subordinated bonds | (95,758) |
| Provisions – non-current | (11,282) |
| Other liabilities – non current | (11,339) |
| Deferred income tax liability | (2,859) |
| Provisional fair value of identifiable net assets | (34,790) |
| Non-controlling interest in identifiable acquired net liabilities | 12,274 |
| Sub-ordinated bonds eliminated on consolidation | 51,814 |
| Goodwill arising on acquisition | 102,321 |
| | 131,619 |
| Acquisition date fair value of consideration transferred | |
| Cash paid | 131,619 |
| | 131,619 |
| | |
| Direct costs relating to the acquisition | 6,934 |
| | |
| The cash outflow on acquisition is as follows: | |
| Net cash acquired with the subsidiary | 60,826 |
| Cash paid | (131,619) |
| Net consolidated cash outflow | (70,793) |

The non-controlling interest is 43%. The value of the non-controlling interest was calculated using the fair value of the identifiable net assets as at the acquisition date.

## 11. BUSINESS COMBINATIONS (CONTINUED)

**Acquisition of the Proclif Group – 2010**

Key factors contributing to the $102,321,000 of goodwill are the synergies existing within the acquired business and the synergies expected to be achieved as a result of combining the Proclif facilities with the rest of the Group. The goodwill balance represents goodwill attributed to the parent only, as indicated goodwill attributable to the non-controlling interest has not been recognised. This acquisition provides a number of strategic benefits for The Ramsay group, as follows:

- entry into a stable integrated public and private hospital system underpinned by strong regulatory framework and funding support;
- growing demand for acute care driven by an ageing French population;
- increasing private sector participation in the industry in co-ordination with public hospitals and authorities; and
- provide a solid platform, local management expertise and investment partner for further expansion in France.

The results of the Proclif Group from acquisition to 30 June 2010 are disclosed separately in the segment note.

The revenue and results of the total Ramsay Group, for the year ended the 30 June 2010, as though the Proclif Group was acquired on 1 July 2009, would not be significantly different to the Group results as reported.

Included in the business acquired were receivables with a gross contractual and fair value of $21,944,000 resulting from providing services to patients. Management expects these to be collected in full and converted to cash consistent with customer terms.

## 12. SEGMENT INFORMATION

*Identification of reportable segments*

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the country in which the service is provided, as this is the Group's major risk and has the most effect on the rate of return, due to differing currencies and differing health care systems in the respective countries. The group has three reportable operating segments being Asia Pacific, the United Kingdom and France.

Discrete financial information about each of these operating businesses is reported to the Managing Director and his management team on at least a monthly basis.

*Types of services*

The reportable operating segments derive their revenue primarily from providing health care services to both public and private patients in the community.

*Accounting policies and inter-segment transactions*

Transfer prices between operating segments are on an arms length basis in a manner similar to transactions with third parties Segment revenue, segment expense and segment results include transfers between the segments. These transfers are eliminated on consolidation.

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the accounts and in prior periods.

## 12. SEGMENT INFORMATION (CONTINUED)

| | Total and Continuing operations | | | |
|---|---|---|---|---|
| | Asia Pacific $000 | UK $000 | France $000 | Total $000 |
| **Year ended 30 June 2010** | | | | |
| **Revenue** | | | | |
| Revenue from services | 2,716,735 | 627,954 | 54,565 | 3,399,254 |
| Total revenue before intersegment revenue | 2,716,735 | 627,954 | 54,565 | 3,399,254 |
| Intersegment revenue | 3,413 | - | - | 3,413 |
| Total segment revenue | 2,720,148 | 627,954 | 54,565 | 3,402,667 |
| **Results** | | | | |
| Segment net profit/(loss) after tax | 165,947 | 13,100 | (560) | 178,487 |
| Specific Items | | | | |
| - Income from sale of medical suites | 41,109 | - | - | 41,109 |
| - Book value of medical suites sold | (25,553) | - | - | (25,553) |
| - Ineffectiveness of interest rate hedge | (89) | - | - | (89) |
| - Acquisition, restructuring and integration costs | (11,771) | (322) | (573) | (12,666) |
| - Development projects costs | (1,351) | - | - | (1,351) |
| - Unrealised foreign exchange gain on unhedged portion of GBP loan | 3,743 | - | - | 3,743 |
| - Impairment of non-current assets | (7,581) | (3,437) | - | (11,018) |
| - Non - cash rent expense relating to UK leased hospitals | - | (31,766) | - | (31,766) |
| Finance costs | (47,332) | (27,660) | (4,700) | (79,692) |
| Interest income | 6,418 | - | - | 6,418 |
| Income tax expense | (68,217) | (2,722) | (972) | (71,911) |
| Depreciation | (83,779) | (42,044) | (2,983) | (128,806) |
| Amortisation - software | (6,082) | - | (91) | (6,173) |
| Amortisation - operating rights | (2,173) | - | - | (2,173) |

**12. SEGMENT INFORMATION (CONTINUED)**

| | Total and continuing operations | | | |
|---|---|---|---|---|
| | Asia Pacific $000 | UK $000 | France $000 | Total $000 |
| **Year ended 30 June 2010** | | | | |
| **Assets and liabilities** | | | | |
| Segment assets | 2,989,989 | 772,096 | 306,688 | 4,068,773 |
| Segment liabilities | (1,704,504) | (553,611) | (245,759) | (2,503,874) |
| **Other segment information** | | | | |
| Capital expenditure | 168,263 | 42,730 | 2,541 | 213,534 |
| **Cash flow information** | | | | |
| Net cash flows from operating activities | 266,485 | 65,719 | 5,107 | 337,311 |
| Net cash flow from investing activities | (149,207) | (89,549) | (631) | (239,387) |
| Net cash flow from financing activities | (38,186) | 39,449 | (1,533) | (270) |

### 12. SEGMENT INFORMATION (CONTINUED)

| | Total and Continuing operations | | |
|---|---|---|---|
| | **Asia Pacific $000** | **UK $000** | **Total $000** |
| **Year ended 30 June 2009** | | | |
| **Revenue** | | | |
| Revenue from services | 2,532,419 | 689,931 | 3,222,350 |
| Other revenue | 1,555 | - | 1,555 |
| Total revenue before intersegment revenue | 2,533,974 | 689,931 | 3,223,905 |
| Intersegment revenue | 3,072 | - | 3,072 |
| Total segment revenue | 2,537,046 | 689,931 | 3,226,977 |
| **Results** | | | |
| Segment net profit after tax | 140,555 | 5,840 | 146,395 |
| Specific Items | | | |
| - Ineffectiveness of interest rate hedge | (111) | - | (111) |
| - Acquisition, restructuring and integration costs | (370) | (3,456) | (3,826) |
| - Development projects costs | (3,227) | (1,480) | (4,707) |
| - Unrealised foreign exchange gain on unhedged portion of GBP loan | 622 | - | 622 |
| - Impairment of non-current assets | - | (6,423) | (6,423) |
| - Non - cash rent expense relating to UK leased hospitals | - | (41,260) | (41,260) |
| Finance costs | (62,170) | (35,190) | (97,360) |
| Interest income | 5,742 | - | 5,742 |
| Income tax expense | (45,045) | (2,720) | (47,765) |
| Depreciation | (75,766) | (32,570) | (108,336) |
| Amortisation of intangibles - operating rights | (1,736) | - | (1,736) |

## 12. SEGMENT INFORMATION (CONTINUED)

| | Total and continuing operations | | |
|---|---|---|---|
| | **Asia Pacific $000** | **UK $000** | **Total $000** |
| **Year ended 30 June 2009** | | | |
| **Assets and liabilities** | | | |
| Segment assets | 2,763,183 | 707,857 | 3,471,040 |
| Segment liabilities | (1,793,208) | (501,463) | (2,294,671) |
| **Other segment information** | | | |
| Capital expenditure | 193,094 | 81,599 | 274,693 |
| **Cash flow information** | | | |
| Net cash flows from operating activities | 180,694 | 61,052 | 241,746 |
| Net cash flow from investing activities | (175,435) | (75,478) | (250,913) |
| Net cash flow from financing activities | (12,718) | 17,960 | 5,242 |

**12. SEGMENT INFORMATION (CONTINUED)**

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **i) Segment revenue reconciliation to income statement** | | |
| Total segment revenue | 3,402,667 | 3,226,977 |
| Inter - segment sales elimination | (3,413) | (3,072) |
| Interest income | 6,418 | 5,742 |
| Total revenue – income statement | 3,405,672 | 3,229,647 |

**ii) Segment net profit after tax reconciliation to income statement**

The executive management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's core net profit after tax. A segment's core net profit after tax excludes income and expenses from specific items and amortisation.

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| Reconciliation of segment core net profit after tax to profit before tax from continuing operations | | |
| Segment core net profit after tax | 178,487 | 146,395 |
| Income tax expense on core profit | 81,292 | 65,284 |
| Specific Items | | |
| - Ineffectiveness of interest rate hedge | (89) | (111) |
| - Amortisation restructuring and integration costs | (12,666) | (3,826) |
| - Development projects costs | (1,351) | (4,707) |
| - Unrealised foreign exchange gain on unhedged portion of GBP loan | 3,743 | 622 |
| - Non - cash rent expense relating to UK leased hospitals | (31,766) | (41,260) |
| - Impairment of non-current assets | (11,018) | (6,423) |
| - Amortisation of intangibles - operating rights | (2,173) | (1,736) |
| - Income from sale of medical suites | 41,109 | - |
| - Book value of medical suites sold | (25,553) | - |
| Other | 742 | 32 |
| Profit before tax from continuing operations | 220,757 | 154,270 |

**iii) Segment assets reconciliation to the statement of financial position**

In assessing the segment performance on a monthly basis, the executive management committee analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables, inventory, intangibles, derivative assets and deferred tax assets.

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **Reconciliation of segment operating assets to total assets** | | |
| Segment operating assets | 4,068,773 | 3,471,040 |
| Intersegment eliminations | (492,394) | (283,912) |
| Total assets per the statement of financial position | 3,576,379 | 3,187,128 |

**12. SEGMENT INFORMATION (CONTINUED)**

**iii) Segment assets reconciliation to the statement of financial position (continued)**

The analysis of the location of non-current assets other than financial instruments, deferred tax assets, pension assets is as follows.

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| Asia Pacific | 1,966,750 | 1,937,185 |
| UK | 452,095 | 543,320 |
| France | 208,175 | - |
| Total assets | 2,627,020 | 2,480,505 |

**13. RECEIVABLES**

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| Trade Debtors | 474,701 | 424,055 |
| Allowances for impairment loss | (8,852) | (5,463) |
| | 465,849 | 418,592 |

**(i) Allowances for impairment loss**

Trade debtors are non-interest bearing and are generally on 15-30 day terms, dependent on the conditions of specific contracts. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $8,852,000 (2009: $5,463,000) has been recognised by the Group, in the current year. These amounts have been included in the service costs item, in the income statement.

Movements in the provision for impairment loss were as follows:

| | 2010 | 2009 |
|---|---|---|
| At 1 July | (5,463) | (4,795) |
| Charge for the year | (2,601) | (2,331) |
| Acquisition of subsidiary | (2,319) | - |
| Foreign exchange translation | 383 | 66 |
| Amounts written off (included in service costs) | 1,148 | 1,597 |
| At 30 June | (8,852) | (5,463) |

At 30 June, the ageing analysis of trade receivables is as follows:

| | Total | Neither past due nor impaired | 0-30 Days PDNI* | 31-60 Days PDNI* | 61-90 Days PDNI* | 91+ Days PDNI* | Considered Impaired |
|---|---|---|---|---|---|---|---|
| 2010 - Consolidated | 474,701 | 282,796 | 101,827 | 41,462 | 16,154 | 23,610 | 8,852 |
| 2009 - Consolidated | 424,055 | 319,796 | 37,735 | 28,206 | 22,944 | 9,911 | 5,463 |

*PDNI – Past due not impaired

Receivables past due but not considered impaired are: Consolidated $183,053,000 (2009: $98,796,000). Payment terms on these amounts have not been re-negotiated as based on the credit history of receivables past due not considered impaired, management believes that these amounts will be fully recovered. This is due to the fact that the Group mainly deals with the Government and creditworthy Health Funds.

## 13. RECEIVABLES (CONTINUED)

### (ii) Related party receivables

For terms and conditions of related party receivables refer to note 34.

### (iii) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value approximates fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security. The Group's credit risk is low in relation to trade debtors because the majority of transactions are with the Government and Health Funds.

### (iv) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 3.

## 14. INVENTORIES

| | Consolidated | |
|---|---|---|
| | 2010 $000 | 2009 $000 |
| Amount of medical and food supplies to be consumed in providing future patient services - at cost | 75,935 | 63,885 |
| Medical consulting suites to be sold that are currently under construction – at cost | 14,597 | - |
| | 90,532 | 63,885 |

### (i) Inventory expense

Medical and food inventories recognised as an expense for the year ended 30 June 2010 totalled $867,121,000 (2009: $815,624,000) for the Group. This expense has been included in the medical consumables and supplies in the income statement. The cost of medical suites sold which has been recognised as an expense for the year ended 30 June 2010 totalled $25,553,000 (2009:$nil) for the Group. This expense has been included in specific items in the income statement.

## 15. OTHER CURRENT ASSETS

| | | |
|---|---|---|
| Prepayments | 37,058 | 31,109 |
| Other current assets | 10,251 | 19,680 |
| | 47,309 | 50,789 |

### (i) Fair values

Due to short term nature of these other current assets, their carrying value approximates fair value.

## 16. OTHER FINANCIAL ASSETS (NON – CURRENT)

| | Consolidated | |
|---|---|---|
| | 2010 $000 | 2009 $000 |
| **Investments comprise** | | |
| Ordinary Shares | 2,019 | 1,241 |
| Units in unit trust | 171 | 142 |
| | 2,190 | 1,383 |

| | Consolidated | | |
|---|---|---|---|
| | **Land & buildings $000** | **Plant & Equipment $000** | **Total $000** |
| **17. PROPERTY, PLANT AND EQUIPMENT** | | | |
| At 1 July 2009, net of accumulated depreciation and impairment | 1,291,140 | 334,905 | 1,626,045 |
| Acquisition of subsidiary | 73,440 | 44,035 | 117,475 |
| Additions | 128,310 | 75,694 | 204,004 |
| Disposals | (21,954) | (5,263) | (27,217) |
| Assets reclassified from/(to) held for sale | (1,150) | (3,690) | (4,840) |
| Impairment | (11,018) | - | (11,018) |
| Exchange differences | (16,263) | (22,274) | (38,537) |
| Depreciation for the year | (37,273) | (91,533) | (128,806) |
| At 30 June 2010, net of accumulated depreciation and impairment | 1,405,232 | 331,874 | 1,737,106 |
| **At 1 July 2009** | | | |
| Cost | 1,469,556 | 843,478 | 2,313,034 |
| Accumulated depreciation and impairment | (178,416) | (508,573) | (686,989) |
| Net carrying amount | 1,291,140 | 334,905 | 1,626,045 |
| **At 30 June 2010** | | | |
| Cost | 1,654,788 | 907,627 | 2,562,415 |
| Accumulated depreciation and impairment | (249,556) | (575,753) | (825,309) |
| Net carrying amount | 1,405,232 | 331,874 | 1,737,106 |

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2010 is $53,511,000 (2009: $17,068,000).
Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Consolidated | | |
|---|---|---|---|
| | Land & buildings $000 | Plant & Equipment $000 | Total $000 |
| At 1 July 2008, net of accumulated depreciation and impairment | 1,160,078 | 330,331 | 1,490,409 |
| Additions | 168,714 | 89,472 | 258,186 |
| Disposals | (726) | (4,351) | (5,077) |
| Assets reclassified from held for sale | 2,040 | - | 2,040 |
| Impairment | (6,153) | (77) | (6,230) |
| Exchange differences | (2,890) | (2,057) | (4,947) |
| Depreciation for the year | (29,923) | (78,413) | (108,336) |
| At 30 June 2009, net of accumulated depreciation and impairment | 1,291,140 | 334,905 | 1,626,045 |
| **At 1 July 2008** | | | |
| Cost | 1,302,418 | 760,414 | 2,062,832 |
| Accumulated depreciation and impairment | (142,340) | (430,083) | (572,423) |
| Net carrying amount | 1,160,078 | 330,331 | 1,490,409 |
| **At 30 June 2009** | | | |
| Cost | 1,469,556 | 843,478 | 2,313,034 |
| Accumulated depreciation and impairment | (178,416) | (508,573) | (686,989) |
| Net carrying amount | 1,291,140 | 334,905 | 1,626,045 |

## 18. GOODWILL AND INTANGIBLE ASSETS

| | Consolidated | | | |
|---|---|---|---|---|
| | Goodwill | Service Concession Assets | Development Costs ^ | Total |
| | $000 | $000 | $000 | $000 |
| **At 1 July 2009** | | | | |
| Cost (gross carrying amount) | 805,068 | 39,646 | 16,216 | 860,930 |
| Accumulated amortisation | - | (6,469) | - | (6,469) |
| Net carrying amount | 805,068 | 33,177 | 16,216 | 854,461 |
| **Year ended 30 June 2010** | | | | |
| At 1 July 2009, net of amortisation | 805,068 | 33,177 | 16,216 | 854,461 |
| Acquisition of subsidiary | 102,321 | - | 1,056 | 103,377 |
| Exchange differences | (35,924) | 898 | 236 | (34,790) |
| Additions | - | 605 | 8,925 | 9,530 |
| Amortisation | - | (2,173) | (6,173) | (8,346) |
| At 30 June 2010, net of amortisation | 871,465 | 32,507 | 20,260 | 924,232 |
| **At 30 June 2010** | | | | |
| Cost (gross carrying amount) | 871,465 | 43,329 | 26,433 | 941,227 |
| Accumulated amortisation | - | (10,822) | (6,173) | (16,995) |
| Net carrying amount | 871,465 | 32,507 | 20,260 | 924,232 |

^ Internally generated, including software costs

Goodwill has been acquired through business combinations. Goodwill is determined to have an indefinite life and is therefore not amortised but is subject to annual impairment testing. Refer to note 19.

The intangible asset, ‘Service Concession Assets’, has been acquired through business combinations and purchases of assets. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over periods between 7 and 27 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 3 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

The key factor contributing to the goodwill relates to the synergies existing within the acquired businesses and also expected to be achieved as a result of combining these facilities with the rest of the Group.

### 18. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

| | Consolidated | | | |
|---|---|---|---|---|
| | **Goodwill** | **Service Concession Assets** | **Development Costs ^** | **Total** |
| | **$000** | **$000** | **$000** | **$000** |
| **At 1 July 2008** | | | | |
| Cost (gross carrying amount) | 809,659 | 39,457 | - | 849,116 |
| Accumulated amortisation | - | (4,733) | - | (4,733) |
| Net carrying amount | 809,659 | 34,724 | - | 844,383 |
| **Year ended 30 June 2009** | | | | |
| At 1 July 2008, net of amortisation | 809,659 | 34,724 | - | 844,383 |
| Exchange differences | (4,591) | (102) | - | (4,693) |
| Additions | - | 291 | 16,216 | 16,507 |
| Amortisation | - | (1,736) | - | (1,736) |
| At 30 June 2009, net of amortisation | 805,068 | 33,177 | 16,216 | 854,461 |
| **At 30 June 2009** | | | | |
| Cost (gross carrying amount) | 805,068 | 39,646 | 16,216 | 860,930 |
| Accumulated amortisation | - | (6,469) | - | (6,469) |
| Net carrying amount | 805,068 | 33,177 | 16,216 | 854,461 |

## 19. IMPAIRMENT TESTING OF GOODWILL

### (i) Description of the cash generating units and other relevant information

Goodwill acquired through business combinations has been allocated in part to individual cash generating units and part to segments as synergies are achieved from the larger group. Management assess goodwill by aggregating cash generating units to the level of the segment for purposes of impairment testing because the goodwill relates to synergies existing within the acquired business and synergies achieved from combining acquired facilities with the rest of the group. Hence impairment testing is performed for the following:

- Australia;
- United Kingdom;
- France; and
- Indonesia

Goodwill allocated to the Indonesian business segment is not significant in comparison with the total carrying amount of goodwill.

**Australia**

The recoverable amount of the Australian business has been determined based on a value in use calculation using cash flow projections as at 30 June 2010 based on financial budgets approved by senior management covering a five-year period. The budgets are calculated using an approved budget for 2010 with a 5% extrapolated growth factor for the next 4 years. Cash flows beyond the five year period are extrapolated using a 3% growth factor (2009:3%).

The pre tax discount rate applied to cash flow projections is 11.52% (2009: 10.58%). The post tax discount rate is 9.0% (2009: 8.35%).

**United Kingdom**

The recoverable amount of the United Kingdom business is also determined based on a value in use calculation using cash flow projections as at 30 June 2010 based on financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 8.75% (2009: 9.88%). The post tax discount rate applied to cash flow projections is 7.0% (2009: 8.0%).

The long-term growth rate used to extrapolate the cash flows of the overseas business beyond the five-year period is 2% (2009: 2%).

**France**

The recoverable amount of the French business is also determined based on a value in use calculation using cash flow projections as at 30 June 2010 based on financial budgets approved by senior management covering a three-year period.

The pre-tax discount rate applied to cash flow projections is 7.8% (2009: N/A). The post tax discount rate applied to cash flow projections is 7.0% (2009: N/A).

The long-term growth rate used to extrapolate the cash flows of the overseas business beyond the three-year period is 2.5% (2009: N/A).

## 19. IMPAIRMENT TESTING OF GOODWILL (CONTINUED)

### (ii) Carrying amount of goodwill, allocated to each of the cash generating units

The carrying amounts of goodwill allocated to the Asia Pacific business, to the UK business and the French business, are significant in comparison with the total carrying amounts of goodwill.

| | Asia Pacific Segment | | UK Segment | | French Segment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| Carrying amount of goodwill | 555,033 | 555,033 | 217,868 | 250,035 | 98,564 | - | 871,465 | 805,068 |

### (iii) Key assumptions used in value in use calculations for the goodwill for 30 June 2010 and 30 June 2009

- Budgeted margins – the basis used to determine the value assigned to the budgeted margins is the average margin achieved in the year immediately before the budgeted year, increased for expected efficiency improvements. Thus values assigned to margins reflects past experience and expected efficiency improvements. The margins are driven by consideration of future admissions and occupancy case mix across all facilities within the group based on past experiences and management's assessment of growth.

- Tax rates have been estimated at 30% for Australian operations, and 28% - 33% for overseas operations consistent with the current local tax legislation.

- Discount rates – discount rates reflect management's estimate of the time value and the risks specific to each of the cash generating units that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for country and business risk specific to the unit.

- Growth rate estimates – they are based on management's internal estimates of long term growth rates for each of the cash generating units.

Management has performed sensitivity testing by Cash Generating Unit (CGU) and on the aggregated CGU's based on assessing the effect of changes in hospital occupancy rates, health fund rates, wage increases, revenue growth rates and discount rates.

For the aggregated Asia Pacific segment (Australia and Indonesia) management do not consider that any reasonable likely combination of changes in hospital occupancy rates, health fund rates, wage increases, revenue growth rates and discount rates would result in the carrying value of goodwill exceeding the recoverable amount.

For the aggregated United Kingdom segment, management has considered that a 2% change to the discount rate would not result in an impairment to goodwill. Management consider that any reasonable likely combination of changes in hospital occupancy rates, health fund rates, wage increases, revenue growth rates or a loss of the GC4 revenue would not result in the carrying value of the UK goodwill exceeding the recoverable amount.

For the aggregated French segment, management do not consider that any reasonable likely combination of changes in hospital occupancy rates, wage increases, revenue growth rates and discount rates would result in the carrying value of goodwill exceeding the recoverable amount.

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$000** | **$000** |
| **20. NON-CURRENT RECEIVABLES** | | |
| Receivable from the Government in respect of the availability charge for the operation of a private operated public hospital | 25,090 | 27,852 |
| Other | 4,790 | 3,493 |
| | 29,880 | 31,345 |

**(i) Allowances for impairment loss**
A provision for impairment loss is recognised when there is objective evidence that the receivable is impaired. No allowance for impairment loss (2009: nil) has been provided on the basis that the receivables are not yet past due nor considered impaired.

**(ii) Fair values**
The carrying values of these discounted non-current receivables approximates their fair values.

**(iii) Interest rate risk**
Details regarding interest rate risk exposure is disclosed in note 3.

**(iv) Credit risk**
The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables. As the receivables is from the Government, this is assessed as low risk.

**(v) Terms and Conditions**
This non-current receivables will be fully repaid by June 2018**.**

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$000** | **$000** |
| **21. TRADE AND OTHER PAYABLES** | | |
| Trade payable | 230,020 | 194,824 |
| Sundry creditors and accrued expenses | 166,203 | 160,599 |
| Employee and director entitlements | 133,750 | 96,694 |
| Other payables | 3,234 | - |
| | 533,207 | 452,117 |

**(i) Fair values**
Trade payables are non-interest bearing and are normally settled on 30-60 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

**(ii) Interest rate, foreign exchange and liquidity risk**
Details regarding interest rate, foreign exchange and liquidity risk exposure are set out in note 3.

## 22. INTEREST BEARING LOANS AND BORROWINGS (CURRENT)

| | | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|---|
| Secured: | | | |
| - Loan – bondholders | (i) | 2,691 | 2,484 |
| - Lease liabilities | (ii) | 3,459 | 2,952 |
| - Loan – insurance funding | (iii) | 2,567 | - |
| - Bank Loan | (iv) | 8,888 | 7,001 |
| | | 17,605 | 12,437 |

(i) Loan – bondholders. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge over the assets of the entity issuing the bonds, principally the receivable from the Government (refer note 20)
(ii) Lease liabilities are effectively secured by the leased asset.
(iii) Loan – insurance funding. This loan is carried at the principal amount less any repayments. It is secured by the unexpired premium of the insurance policy.
(iv) Further information on bank loans is set out in note 33.

**(a) Fair values**

The fair values of these current liabilities approximates their carrying values.

**(b) Interest rate, foreign exchange and liquidity risk**

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 3.

**(c) Assets pledged as security**

Details regarding assets pledged as security are disclosed in note 24 (c).

**(d) Defaults and breaches**

During the current and prior years, there were no defaults or breaches on any of the loans.

## 23. PROVISIONS

| | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|
| **Current** | | |
| Restructuring provision | 8,656 | 7,675 |
| Unfavourable contracts | 5,682 | 6,551 |
| Insurance provision | 113,892 | 99,782 |
| | 128,230 | 114,008 |
| **Non-current** | | |
| Non-current employee and director entitlements | 85,065 | 84,670 |
| Deferred lease provision | 101,232 | 79,604 |
| Unfavourable contracts | 32,811 | 43,177 |
| Other provisions | 3,339 | - |
| | 222,447 | 207,451 |
| Total | 350,677 | 321,459 |

## 23. PROVISIONS (CONTINUED)

**Consolidated**

| | Deferred lease $000 | Restructuring provision $000 | Insurance $000 | Unfavourable Contracts $000 | Other Provision | Total $000 |
|---|---|---|---|---|---|---|
| At 1 July 2009 | 79,604 | 7,675 | 99,782 | 49,728 | - | 236,789 |
| Acquisition of subsidiary | - | 1,018 | 1,263 | - | 4,532 | 6,813 |
| Arising during the year | 36,580 | - | 15,425 | - | - | 52,005 |
| Utilised during the year | - | - | (2,161) | (5,980) | (1,107) | (9,248) |
| Exchange differences | (14,952) | (37) | (417) | (5,255) | (86) | (20,747) |
| Discount rate adjustment | - | - | - | - | - | - |
| At 30 June 2010 | 101,232 | 8,656 | 113,892 | 38,493 | 3,339 | 265,612 |
| Current 2010 | - | 8,656 | 113,892 | 5,682 | - | 128,230 |
| Non-current 2010 | 101,232 | - | - | 32,811 | 3,339 | 137,382 |
| | 101,232 | 8,656 | 113,892 | 38,493 | 3,339 | 265,612 |
| Current 2009 | - | 7,675 | 99,782 | 6,551 | - | 114,008 |
| Non-current 2009 | 79,604 | - | - | 43,177 | - | 122,781 |
| | 79,604 | 7,675 | 99,782 | 49,728 | - | 236,789 |

**Restructuring provision**

The restructuring provision primarily related to:

- the restructuring of the Group subsequent to the purchase of the Capio and Affinity Group in the prior years. The restructuring plan was drawn up and announced to the employees during the year of acquisition;
- land rich duties payable; and
- costs expected to be incurred with the disposal of facilities during 2010 and 2011.

**Insurance provision**

Insurance policies are entered into to cover the various insurable risks. These policies have varying levels of deductibles. The medical malpractice provision is made to cover excesses arising under the Medical Malpractice Insurance Policy. This provision is actuarially assessed at each reporting period using a probability of sufficiency between 80% - 95% based on differing exposures to risk. The greatest uncertainly in estimating the provision is the costs that will ultimately be incurred which is estimated using historical claims, market information and other actuarial assessments. Included in the insurance provision is an amount for claiming handling expenses at between 5-10% of the estimated Ramsay claim cost.

**Deferred lease provision**

The deferred lease provision is recognised in accordance with AASB117 "Leases" for contracts where there is a fixed, not variable annual increase written into the lease, requiring the lease costs to be straight lined over the 30 year lease term. The provision represents the excess of rent expensed over the rent paid. The leases are due to expire in 2037.

**Unfavourable contracts**

Ramsay holds contracts with various lessors for up to twenty eight years. As at acquisition these contracts were not at market rates and as such were considered unfavourable. These unfavourable contracts were not recognised as a liability in the books of the acquiree but have been assigned a fair value and recognised as a liability on acquisition. The leases are due to expire in 2037.

| | | Consolidated | |
|---|---|---|---|
| | | 2010 | 2009 |
| | | $000 | $000 |
| **24. INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT)** | | | |
| Unsecured liabilities: | | | |
| - Bank loans | (i) | 1,221,438 | 1,374,285 |
| Secured liabilities: | | | |
| - Lease liabilities | (ii) | 31,688 | 17,076 |
| - Loan - bondholders | (iii) | 26,480 | 29,171 |
| - Loan – subordinated bonds | (iv) | 43,232 | - |
| | | 1,322,838 | 1,420,532 |

(i) Further information on bank loans is set out in note 33.
(ii) Lease liabilities are effectively secured by the leased asset.
(iii) Loan – bondholders. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge over the assets of the entity issuing the bonds, principally the receivable from the Government (refer note 20).
(iv) Loan – subordinated bonds. Further information is set out in note 33.

**(a) Fair values**

Unless disclosed below, the carrying amount of the Group's current and non-current borrowings approximate their fair value. The fair values have been calculated by discounting the expected future cash flows at prevailing market interest rates depending on the type of borrowings. At balance date, the market interest rates vary from 4.91% to 5.46% (2009: 3.15% to 6.07%) for Australia, 0.71% to 3.86% (2009: 0.65% to 4.42%) for UK, 6.93% to 7.10% (2009: 7.32% to 10.10%) for Indonesia, and 0.77% to 3.36% for France respectively.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying Amount $000 | Fair Value $000 | Carrying Amount $000 | Fair Value $000 |
| Bank loans | 1,230,326 | 1,141,827 | 1,381,286 | 1,309,956 |
| Lease liabilities | 35,147 | 34,162 | 20,028 | 21,324 |
| Bond holders | 29,171 | 31,314 | 31,655 | 34,022 |
| Subordinated bonds | 43,232 | 56,962 | - | - |
| | 1,337,876 | 1,264,265 | 1,432,969 | 1,365,302 |

The fair values disclosed are the directors estimate of amounts that will be payable by the Group.

**(b) Interest rate, foreign exchange and liquidity risk**

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

**(c) Assets pledged as security**

The carrying amounts of assets pledged as security for current and non – current interest bearing liabilities are set out in the following table:

**24. INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT) (CONTINUED)**

**(c) Assets pledged as security (continued)**

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **Current** | | |
| *Fixed and Floating charge* | | |
| Receivables | 2,762 | 2,586 |
| Total current assets pledged as security | 2,762 | 2,586 |
| **Non-current** | | |
| *Finance lease* | | |
| Leased assets | 53,511 | 17,068 |
| *Fixed and Floating charge* | | |
| Receivables | 25,090 | 27,852 |
| Total non-current assets pledged as security | 78,601 | 44,920 |
| Total assets pledged as security | 81,363 | 47,506 |

**(d) Defaults and breaches**

During the current and prior years, there were no defaults or breaches on any of the loans.

**25. ISSUED CAPITAL, RETAINED EARNINGS AND RESERVES**

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **25.1 Ordinary Shares** | | |
| ***(a) Issued and paid up capital*** | | |
| 202,081,252 ordinary shares fully paid (30 June 2009: 175,255,862 ordinary shares fully paid) | 713,523 | 447,774 |

| | **Number of shares** | **$000** |
|---|---|---|
| ***(b) Movements in share issue*** | | |
| Balance at beginning of the year | 175,255,862 | 447,774 |
| Issued during the period | | |
| - Share Placement (DRP) | 759,627 | 8,121 |
| - Share Placement | 22,000,000 | 221,100 |
| - Share Purchase Plan | 4,065,763 | 39,987 |
| Less: issue costs | | (3,459) |
| Balance at end of the year | 202,081,252 | 713,523 |

**25. ISSUED CAPITAL, RETAINED EARNINGS AND RESERVES (CONTINUED)**

***(c) Terms and conditions of issued capital***

*Ordinary Shares*
Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

**25.2 Net Unrealised Gains Reserve**

*Nature and Purpose*
This reserve records movements in the fair value of the cash flow hedges in relation to the interest rate swaps that are determined to be effectively hedged. The charge to equity during the year to 30 June 2010 represent the fall in interest rates over this period.

**25.3 Equity Based Payment Reserve**

*Nature and Purpose*
This reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their compensation. Refer note 27 for further details of these plans.

**25.4 Vested Employee Equity**

*Nature and Purpose*
Vested employee equity is used to record the difference between the value of the share based payments provided to employees as recorded in the Equity Based Payment Reserve and the actual purchase price of the shares.

**25.5 Convertible Adjustable Rate Equity Securities (CARES)**

| | **Consolidated** | |
|---|---|---|
| | **2010** **$000** | **2009** **$000** |
| ***(a) Issued and paid up capital*** | | |
| 2,600,000 CARES shares fully paid (30 June 2009: 2,600,000 CARES shares fully paid) | 252,165 | 252,165 |

## 25. ISSUED CAPITAL, RETAINED EARNINGS AND RESERVES (CONTINUED)

### 25.5 Convertible Adjustable Rate Equity Securities (CARES) (Continued)

*(b) Terms and conditions of CARES*

| | |
|---|---|
| **Issuer** | **Ramsay Health Care Limited** |
| Security | Convertible Adjustable Rate Equity Securities (CARES) which are a non-cumulative, redeemable and convertible preference shares in Ramsay. |
| Face Value | \$100 Per CARES. |
| Dividends | The holder of each CARES is entitled to a preferred, non-cumulative, floating rate dividend equal to:<br>Dividend Entitlement = $\frac{\text{Dividend Rate x Face Value x N}}{365}$<br>where:<br>N is the number of days in the Dividend Period<br>The payment of Dividends is at the Directors' discretion and is subject to there being funds legally available for the payment of Dividends and the restrictions which apply in certain circumstances under the financing arrangements.<br>If declared, the first Dividend will be payable on each CARES in arrears on 20 October 2005 and thereafter on each 20 April and 20 October until CARES are converted or exchanged. |
| Dividend Rate | The Dividend Rate for each Dividend Period is calculated as:<br>Dividend Rate = (market Rate + Margin) x (1-T)<br>where:<br>The Market Rate is the 180 day Bank Bill Swap Rate applying on the first day of the Dividend Period expressed as a percentage per annum.<br>The Margin for the period to 20 October 2010 is 2.85% per annum. It was determined by the Bookbuild held on 26 April 2005.<br>T is the prevailing Australian corporate tax rate applicable on the Allotment Date.<br>If Ramsay does not convert or exchange by 20 October 2010 the Margin will be increased by a one time step up of 2.00% (200 basis points) per annum. |
| Step-up | One-time 2.00% (200 basis points) step-up in the Margin at 20 October 2010 |
| Franking | Ramsay expects the Dividends paid on CARES to be fully franked. If a Dividend is not fully franked, the Dividend will be grossed up to compensate for the unfranked component.<br>If, on a Dividend Payment Date, the Australian corporate tax differs from the Australian corporate tax rate on the Allotment Date, the Dividend will be adjusted downwards or upwards accordingly. |
| Conversion or exchange by Ramsay | CARES have no maturity. Ramsay may convert or exchange some or all CARES at its election for shares or \$100 in cash for each CARES on 20 October 2010 and each Dividend Payment Date thereafter.<br>Ramsay also has the right to:<br>• convert or exchange CARES after the occurrence of a Regulatory Event; and<br>• convert CARES on the occurrence of a Change in Control Event.<br>Ramsay cannot elect to convert or exchange only some CARES if such conversion or exchange would result in there being less than \$50 million in aggregate Face Value of CARES on issue. |
| Conversion Ratio | The rate at which CARES will convert into Shares will be calculated by reference to the market price of Shares during 20 business days immediately preceding, but not including, the conversion date, less a conversion discount of 2.5%. An adjustment is made to the market price calculation in the case of a Change in Control Event. The Conversion Ratio for each CARES will not be greater than 400 shares. |
| Ranking | CARES rank equally amongst themselves in all respects and are subordinated to all creditors but rank in priority to Shares. |
| Participation | Unless CARES are converted into Shares, CARES confer no rights to subscribe for new shares in any fundraisings by Ramsay or to participate in any bonus or rights issues by Ramsay. |
| Voting Rights | CARES do not carry a right to vote at general meeting of Ramsay except in limited circumstances. |

## 25. ISSUED CAPITAL, RETAINED EARNINGS AND RESERVES (CONTINUED)

### 25.6 Treasury Shares

| | Consolidated | |
|---|---|---|
| | **2010** **$000** | **2009** **$000** |
| 749,729 ordinary shares (30 June 2009: 928,878) | 8,081 | 10,210 |

*Nature and Purpose*
Treasury shares are shares in the Group held by the Executive Performance Share Plan and are deducted from equity.

### 25.7 Capital Management

When managing capital, management's objective is to ensure the entity will be able to continue as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures sufficient funds are available for capital expenditure and growth strategies whilst at the same time striving for the lowest cost of capital available to the entity.

The Company may raise or retire debt, change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt in order to achieve the optimal capital structure.

Refer to note 25.5 for further information on the existing CARES ($260 million).

During 2010, dividends of $91,655,000 (2009: $76,521,000) were paid. For the year ended 30 June 2010 fully franked ordinary dividends of 43.5c (2009: 39.0c) per share were declared (Interim dividend of 18.5c, Final dividend of 25.0c). These dividends represented a payout ratio of approximately 50% of Core Earnings per Share of 84.5c. Management's target for dividends for 2011 – 2015, subject to ongoing cash needs of the business, are increases in line with the growth in Core Earnings per Share and management will endeavour to maintain a dividend payout ratio of approximately 50% of Core Earnings per share.

The group monitors its capital structure primarily by reference to its leverage ratio whereby debt levels are assessed relative to the cash operating profits (*EBITDA) of the company that are used to service debt. This ratio is calculated as Net Debt/EBITDA and is 4.3 times (2009: 3.3 times) for the year ended 30 June 2010.

Additionally under the current senior debt facility which was executed in Nov 07, the Group has committed funding until the expiry of the facility in Nov 2012. As such, the group has to comply with various financial and other undertakings in particular the following customary financial undertakings:

- Total net leverage ratio (Net Debt/*EBITDA)
- Interest Cover Ratio (*EBITDA/ Net Interest)
- Minimum Shareholders Funds

The group is not and has not been in breach of any of its financial and other undertakings of the senior debt facility agreement.

Note: *EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated | |
|---|---|---|
| | 2010 $000 | 2009 $000 |
| **Current assets** | | |
| Interest rate derivatives contracts – cash flow hedges | 1,313 | - |
| **Current liabilities** | | |
| Interest rate derivatives contracts – cash flow hedges | 15,719 | 23,438 |
| Interest rate derivatives contracts – fair value through the income statement | 532 | - |
| | 16,251 | 23,438 |
| **Non - Current liabilities** | | |
| Interest rate derivatives contracts – cash flow hedges | 17,472 | 14,129 |
| Interest rate derivatives contracts – fair value through the income statement | 371 | - |
| | 17,843 | 14,129 |

### (a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

*(i) Interest rate swaps – cash flow hedges*

Interest bearing loans in Australian Dollar of the Group currently bear an average variable interest rate of 4.91% (2009: 4.45%). Interest bearing loans in British Pound of the Group currently bear an average variable interest rate of 0.71% (2009: 2.43%). Interest bearing loans in Euro of the Group currently bear an average variable interest rate of 1.27% (2009: N/A).

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into Australian Dollar, British Pound and Euro interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 64% (2009: 67%) of the principal outstanding.

The Australian Dollar interest rate swap contracts fixed interest rate range between 4.08% and 5.68% (2009: 4.08% and 6.43%) and the variable rates is the 90-day bank bill swap bid rate, which at balance date was 4.92% (2009: 3.24%). The British Pound interest rate swap contracts fixed interest rate was 5.44% (2009: 5.44%) and the variable rate is the 90-day London inter-bank offered rate, which at balance date was 0.73% (2009: 1.19%). The Euro interest rate swap contracts fixed interest rate range between 2.48% and 2.51% (2009: N/A) and the variable rate is the 90 day Euro zone interbank deposit rates, which at date was 0.77%.

**26. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Instruments used by the Group (continued)**

The notional principal amounts and period of expiry of the interest rate derivatives contracts are as follows:

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| 0-1 years | 106,024 | 531,401 |
| 1-2 years | 306,243 | 100,000 |
| 2-3 years | 374,804 | 150,000 |
| 3-5 years | 3,465 | 408,580 |
| | 790,536 | 1,189,981 |

The interest rate derivatives require settlement of net interest receivable or payable each 90 or 180 days. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributed to the hedged risk are taken directly to equity and re-classified to the income statement when the interest expense is recognised.

Movement in interest rate swaps cash flow hedge reserve:

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| Opening balance | (25,379) | 21,342 |
| Transferred to interest expense | (25,769) | 6,406 |
| Credited to equity | 30,236 | (73,150) |
| Related income tax | (1,340) | 20,023 |
| Closing balance | (22,252) | (25,379) |
| Loss on cash flow hedge ineffectiveness recognised immediately in the income statement | (89) | (111) |

*(ii) Hedge of net investments in foreign operations*

Included in bank loans at 30 June 2010 is a GBP borrowing of £117,000,000 (2009: £107,500,000) which has been designated as a hedge of the net investments in the UK subsidiaries. It is being used to hedge the Group's exposure to changes in exchange rates on the value of its net investment in the UK operations. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. A net loss on the hedge of the net investment of $27,018,000 (2009: net gain $3,536,000) was recognised in equity during the year.

There has been no hedge ineffectiveness recognised in profit or loss on this hedge.

**(b) Interest rate risk**

Information regarding interest rate risk exposure is set out in note 3.

**(c) Credit risk**

Credit risk arises from the potential failure of counterparties to meet their obligations at maturity of contracts. This arises on derivative financial instrument with unrealised gains. Management constantly monitor the fair value of favourable contracts outstanding with any individual counterparty. Management only deal with prime financial institutions with appropriate credit rating in order to manage its credit risk.

## 27. SHARE BASED PAYMENT PLANS

### 27.1 Recognised share-based payment expenses

The expenses recognised for employee services received during the year is shown in the table below:

| | Consolidated | |
|---|---|---|
| | 2010 $000 | 2009 $000 |
| Expense arising from equity - settled share based payment transactions | 3,250 | 2,814 |
| Total expense arising from share – based payment transactions (note 5 (d)) | 3,250 | 2,814 |

### 27.2 Executive Performance Rights Plan (Equity)

An executive performance rights scheme has been established in January 2004 where Ramsay Health Care Limited may, at the discretion of the Board, grant rights over the ordinary shares of Ramsay Health Care Limited to executives of the consolidated entity. The rights are issued for nil consideration and are granted in accordance with the plan's guidelines established by the directors of Ramsay Health Care Limited. The rights cannot be transferred and will not be quoted on the ASX. Non-executive directors are not eligible for this plan.

Information with respect to the number of rights granted under the executive performance rights plan is as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of rights | Weighted Average Fair Value | Number of Rights | Weighted Average Fair Value |
| Balance at beginning of year | 654,850 | $8.24 | 897,654 | $6.81 |
| - granted | 347,000 | $8.72 | 310,000 | $9.10 (1) |
| - vested | (179,149) | $7.44 | (531,209) | $6.69 |
| - forfeited | - | - | (21,595) | $7.00 |
| Balance at end of year | 822,701 | | 654,850 | |
| Exercisable at end of year | - | | - | |

The following table summarises information about rights held by specified executives as at 30 June 2010:

| Number of rights | Grant date | Vesting date | Weighted average Fair value |
|---|---|---|---|
| 165,701 | 23 Oct 2007 | 31 Jul 2010 | $6.50 (1) |
| 310,000 | 30 Dec 2008 | 31 Aug 2011 | $9.10 (1) |
| 158,666 | 20 Oct 2009 | 31 Aug 2012 | $7.58 (1) |
| 188,334 | 20 Oct 2009 | 31 Aug 2012 | $9.68 (1) |
| 822,701 | | | |

(1) Fair value at grant date

## 27. SHARE BASED PAYMENT PLANS (CONTINUED)

### 27.2 Executive Performance Rights Plan (Equity) (continued)

**Fair Values of Performance Rights (Equity)**

The fair value of each performance right is estimated on the date of grant using a Monte Carlo model with the following weighted average assumptions used for grants made on 23 October 2007, 30 December 2008 and 20 October 2009.

| | Granted 20-Oct-09 | Granted 30-Dec-08 | Granted 23-Oct-07 |
|---|---|---|---|
| Dividend yield | 3.80% | 3.68% | 3.15% |
| Expected volatility | 30% to 35% | 20% to 25% | 20% to 25% |
| Historical volatility | 35% | 35% | 25% |
| Risk-free interest rate | 5.2% - 5.4% | 3.39% - 3.14% | 6.53% |
| Effective life of incentive right | 3 years | 3 years | 3 years |

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the rights is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

### 27.3 Retention rights to receive ordinary shares

On 1 July 2008, Mr Rex, received equity-based retention rights to receive 600,000 ordinary shares pursuant to an Executive Service Agreement with the Company. These rights are not dependent upon satisfaction of a performance condition but will vest subject to Mr Rex continuing in employment as Managing Director until 1 July 2013.

| Number of rights | Grant date | Vesting date | Weighted average Fair value |
|---|---|---|---|
| 600,000 | 1 Jul 2008 | 1 Jul 2013 | $8.84[1] |

[1] Fair Value at grant date.

### 28. DIRECTORS AND EXECUTIVES DISCLOSURES

#### (a) Details of Key Management Personnel

*(i) Directors*

| | |
|---|---|
| P.J. Ramsay AO | Non-Executive Chairman |
| M.S. Siddle | Non-Executive Deputy Chairman |
| C.P. Rex | Managing Director |
| B.R. Soden | Group Finance Director |
| A.J. Clark AM | Non-Executive Director |
| P.J. Evans | Non-Executive Director |
| I.P.S. Grier AM | Non-Executive Director |
| R.H. McGeoch AM | Non-Executive Director |
| K.C.D. Roxburgh | Non-Executive Director |

*(ii) Executives*

| | |
|---|---|
| D.A. Sims | Chief Operating Officer – Australia/Indonesia |
| C.R. McNally | Head of Global Strategy and European Operations |

There were no changes of the key management personnel after reporting date, and the date the financial report was authorised for issue.

#### (b) Compensation of Key Management Personnel

Further details regarding the compensation of key management personnel have been disclosed in the Remuneration Report.

| | Consolidated | |
|---|---|---|
| | 2010 $ | 2009 $ |
| **Non-Executive Directors** | | |
| Short term | 1,106,875 | 1,050,500 |
| Post employment | 217,957 | 655,510 |
| | 1,324,832 | 1,706,010 |
| **Executive Directors** | | |
| Short term | 3,825,446 | 3,916,185 |
| Post employment | 28,922 | 27,490 |
| Performance/Incentive/Retention rights | 1,802,696 | 1,699,218 |
| | 5,657,064 | 5,642,893 |
| **Executives** | | |
| Short term | 1,893,203 | 1,647,293 |
| Post employment | 28,922 | 27,490 |
| Performance/Incentive/Retention rights | 463,225 | 333,188 |
| | 2,385,350 | 2,007,971 |
| **Total** | | |
| Short term | 6,825,524 | 6,613,978 |
| Post employment | 275,801 | 710,490 |
| Performance/Incentive/Retention rights | 2,265,921 | 2,032,406 |
| | 9,367,246 | 9,356,874 |

## 28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

### (c) Compensation Performance Rights: granted and vested during the year (consolidated)

During the financial year, performance rights were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. Performance rights are issued for nil consideration and are granted in accordance with the plan's guidelines established by the directors of Ramsay Health Care Limited. The rights cannot be transferred and will not be quoted on the ASX. Non-executive directors are not eligible for this plan. The performance rights vest in accordance with the performance criteria described in the Directors Report. No exercise price is payable upon their vesting. Hedging of Compensation Performance Rights is forbidden.

| 30 June 2010 | Vested | Granted | Grant Date | Fair Value $ *(note 27)* | First Test Date | Second Test Date | Last Test & Expiry Date |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| C. Rex (2) | 48,387 | - | 31.10.06 | $7.44 | 30.6.09 | 31.12.09 | 30.6.10 |
| C. Rex (2) | - | 27,500 | 20.10.09 | $7.58 | 30.6.12 | 31.12.12 | 30.6.13 |
| C. Rex (3) | - | 27,500 | 20.10.09 | $9.68 | 30.6.12 | N/A | N/A |
| B. Soden (2) | 31,682 | - | 31.10.06 | $7.44 | 30.6.09 | 31.12.09 | 30.6.10 |
| B. Soden (2) | - | 25,000 | 20.10.09 | $7.58 | 30.6.12 | 31.12.12 | 30.6.13 |
| B. Soden (3) | - | 25,000 | 20.10.09 | $9.68 | 30.6.12 | N/A | N/A |
| **Executives** | | | | | | | |
| C. McNally (2) | 23,041 | - | 31.10.06 | $7.44 | 30.6.09 | 31.12.09 | 30.6.10 |
| C. McNally (2) | - | 17,500 | 20.10.09 | $7.58 | 30.6.12 | 31.12.12 | 30.6.13 |
| C. McNally (3) | - | 17,500 | 20.10.09 | $9.68 | 30.6.12 | N/A | N/A |
| D. Sims (2) | 11,521 | - | 31.10.06 | $7.44 | 30.6.09 | 31.12.09 | 30.6.10 |
| D. Sims (2) | - | 20,000 | 20.10.09 | $7.58 | 30.6.12 | 31.12.12 | 30.6.13 |
| D. Sims (3) | - | 20,000 | 20.10.09 | $9.68 | 30.6.12 | N/A | N/A |

| 30 June 2009 | Vested | Granted | Grant Date | Fair Value $ *(note 27)* | First Test Date | Second Test Date | Last Test & Expiry Date |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| P. Grier (1) | 4,243 | - | 11/09/04 | $9.81 | 30/06/07 | 31/12/07 | 31/07/08 |
| P. Grier (2) | 322,376 | - | 20/07/05 | $6.75 | 30/06/08 | 31/12/08 | 30/06/09 |
| C. Rex (2) | 2,829 | - | 11/09/04 | $4.32 | 30/06/07 | 31/12/07 | 1/07/08 |
| C. Rex (2) | 53,097 | - | 20/07/05 | $6.75 | 30/06/08 | 31/12/08 | 30/06/09 |
| C. Rex (2) | - | 25,000 | 30/12/08 | $9.05 | 30/06/11 | 31/12/11 | 30/06/12 |
| C. Rex (3) | - | 25,000 | 30/12/08 | $9.15 | 30/06/11 | N/A | N/A |
| C. Rex (4) | - | 600,000 | 01/07/08 | $8.84 | N/A | N/A | N/A |
| B. Soden (1) | 2,121 | - | 11/09/04 | $10.89 | 30/06/07 | 31/12/07 | 31/07/08 |
| B. Soden (2) | 34,387 | - | 20/07/05 | $6.75 | 30/06/08 | 31/12/08 | 30/06/09 |
| B. Soden (2) | - | 22,500 | 30/12/08 | $9.05 | 30/06/11 | 31/12/11 | 30/06/12 |
| B. Soden (3) | - | 22,500 | 30/12/08 | $9.15 | 30/06/11 | N/A | N/A |
| **Executives** | | | | | | | |
| C. McNally (2) | 1,414 | - | 11/09/04 | $4.32 | 30/06/07 | 31/12/07 | 1/07/08 |
| C. McNally (2) | 25,284 | - | 20/07/05 | $6.75 | 30/06/08 | 31/12/08 | 30/06/09 |
| C. McNally (2) | - | 12,500 | 30/12/08 | $9.05 | 30/06/11 | 31/12/11 | 30/06/12 |
| C. McNally (3) | - | 12,500 | 30/12/08 | $9.15 | 30/06/11 | N/A | N/A |
| D. Sims (2) | 554 | - | 11/09/04 | $4.32 | 30/06/07 | 31/12/07 | 1/07/08 |
| D. Sims (2) | 4,956 | - | 20/07/05 | $6.75 | 30/06/08 | 31/12/08 | 30/06/09 |
| D. Sims (2) | - | 17,500 | 30/12/08 | $9.05 | 30/06/11 | 31/12/11 | 30/06/12 |
| D. Sims (3) | - | 17,500 | 30/12/08 | $9.15 | 30/06/11 | N/A | N/A |

(1) Cash settled incentive rights
(2) Equity based performance rights subject to satisfaction of relative TSR performance condition
(3) Equity based performance rights subject to satisfaction of EPS Growth performance condition
(4) Equity based retention rights

## 28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

### (d) Shares issued under the Performance Rights Plan

| | No. of shares issued 2010 | 2009 |
|---|---|---|
| **Executives** | | |
| C. McNally | 23,041 | 26,698 |
| D. Sims | 11,521 | 5,510 |
| | 34,562 | 32,208 |

No amount was paid by the above executives to exercise vested performance rights. Refer Note 27.

### (e) Performance and Incentive Right holdings of Key Management Personnel (consolidated)

| 30 June 2010 | Performance/ Retention/ Incentive Right | Balance at beginning of period 01 Jul 09 | Granted as Remuneration | Exercised | Balance at end of period 30 Jun 10 | Vested at 30 Jun 10 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| C. Rex | Performance Rights | 140,693 | 55,000 | (48,387) | 147,306 | - |
| C. Rex | Retention Rights | 600,000 | - | - | 600,000 | - |
| B. Soden | Equity Performance Rights | 104,382 | 50,000 | (31,682) | 122,700 | - |
| **Executives** | | | | | | |
| C. McNally | Equity Performance Rights | 68,187 | 35,000 | (23,041) | 80,146 | - |
| D. Sims | Equity Performance Rights | 56,594 | 40,000 | (11,521) | 85,073 | - |

| 30 June 2009 | Performance/ Retention/ Incentive Right | Balance at beginning of period 01 Jul 08 | Granted as Remuneration | Exercised | Balance at end of period 30 Jun 09 | Vested at 30 Jun 09 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| C. Rex | Performance Rights | 146,619 | 50,000 | (55,926) | 140,693 | - |
| C. Rex | Retention Rights | - | 600,000 | - | 600,000 | - |
| B. Soden | Equity Performance Rights | 93,769 | 45,000 | (34,387) | 104,382 | - |
| B. Soden | Cash settled Incentive Rights | 2,121 | - | (2,121) | - | - |
| **Executives** | | | | | | |
| C. McNally | Equity Performance Rights | 69,885 | 25,000 | (26,698) | 68,187 | - |
| D. Sims | Equity Performance Rights | 27,104 | 35,000 | (5,510) | 56,594 | - |

### (f) Shareholdings of Key Management Personnel (consolidated)

| 30 June 2010 | Balance 01 Jul 09 | | Granted as Remuneration | | Exercise of Performance Rights | | Net Change - Other | | Balance 30 Jun 10 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* |
| **Directors** | | | | | | | | | | |
| C. Rex | 198,108 | 5,334 | - | - | 48,387 | - | 26,308 | - | 272,803 | 5,334 |
| B. Soden | 40,512 | 3,335 | - | - | 31,682 | - | 897 | - | 73,091 | 3,335 |
| **Executives** | | | | | | | | | | |
| C. McNally | 132,147 | - | - | - | 23,041 | - | 713 | - | 155,901 | - |
| D. Sims | 18,956 | - | - | - | 11,521 | - | - | - | 30,477 | - |

## 28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

### (f) Shareholdings of Key Management Personnel (consolidated) (continued)

| 30 June 2009 | Balance 01 Jul 08 | | Granted as Remuneration | | Exercise of Performance Rights | | Net Change - Other | | Balance 30 Jun 09 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* | *Ord.* | *Pref.* |
| **Directors** | | | | | | | | | | |
| C. Rex | 142,110 | 5,334 | - | - | 55,926 | - | 72 | - | 198,108 | 5,334 |
| B. Soden | 6,125 | 1,030 | - | - | 34,387 | - | - | 2,305 | 40,512 | 3,335 |
| **Executives** | | | | | | | | | | |
| C. McNally | 104,258 | - | - | - | 26,698 | - | 1,191 | - | 132,147 | - |
| D. Sims | 13,446 | - | - | - | 5,510 | - | - | - | 18,956 | - |

| | Note | Consolidated 2010 $000 | Consolidated 2009 $000 |
|---|---|---|---|
| **29. EXPENDITURE COMMITMENTS** | | | |
| **(a) Finance leases and hire purchase commitments - Group as lessee** | | | |
| - not later than one year | | 5,441 | 3,093 |
| - later than one year but not later than five years | | 15,574 | 10,222 |
| - later than five years | | 29,619 | 16,032 |
| Total minimum lease payments | | 50,634 | 29,347 |
| - future finance charges | | (15,487) | (9,319) |
| - lease liability | | 35,147 | 20,028 |
| - current liability | 22 | 3,459 | 2,952 |
| - non-current liability | 24 | 31,688 | 17,076 |
| | | 35,147 | 20,028 |
| Total lease liability accrued for: | | | |
| *Current* | | | |
| - Finance leases | 22 | 3,459 | 2,952 |
| | | 3,459 | 2,952 |
| *Non-current* | | | |
| - Finance leases | 24 | 31,688 | 17,076 |
| | | 31,688 | 17,076 |
| | | 35,147 | 20,028 |

The Group has finance leases and hire purchase contracts for various items of medical equipment, fittings, buildings and other equipment. The leases have lease terms of between one year and twenty six years and the average discount rate implicit in the leases is between 4.0% to 7.4% (2009: 12.6%). The security over finance leases is disclosed in note 22 and 24.

**29. EXPENDITURE COMMITMENTS (CONTINUED)**

| | | Consolidated | |
|---|---|---|---|
| | Note | **2010 $000** | **2009 $000** |
| **(b) Lease expenditure commitments – Group as lessee** | | | |
| Operating leases (non-cancellable): | | | |
| Minimum lease payments | | | |
| - not later than one year | | 100,680 | 104,578 |
| - later than one year but not later than five years | | 419,443 | 422,915 |
| - later than five years | | 2,577,664 | 3,007,697 |
| Aggregate lease expenditure contracted for at balance date | | 3,097,787 | 3,535,190 |
| Amounts provided for: | | | |
| - deferred lease – non-current | 23 | 101,232 | 79,604 |
| - unfavourable contract - current | 23 | 5,682 | 6,551 |
| - non-current | 23 | 32,811 | 43,177 |
| | | 139,725 | 129,332 |
| Amounts not provided for: | | | |
| - rental commitments | | 2,958,062 | 3,405,858 |
| Aggregate lease expenditure contracted for at balance date | | 3,097,787 | 3,535,190 |

Operating leases have lease terms of between one and thirty years and an average implicit interest rate of 8.9% (2009: 8.9%). Assets which are the subject of operating leases include land and buildings, motor vehicles and items of medical equipment.

**29. EXPENDITURE COMMITMENTS (CONTINUED)**

| | Consolidated | |
|---|---|---|
| | **2010 $000** | **2009 $000** |
| **(c) Capital expenditure commitments** | | |
| Estimated capital expenditure contracted for at balance date but not provided for, payable: | | |
| - not later than one year | 26,555 | 49,267 |
| - later than one year but not later than two years | - | - |
| | 26,555 | 49,267 |

**(d) Commitment to manage and operate the Mildura Base Hospital**

Ramsay Health Care Pty Limited has a 15 year agreement with Mildura Base Hospital Pty Limited to manage and operate the Mildura Base Hospital, in accordance with the Hospital Service Agreement between Mildura Base Hospital Pty Limited and the State of Victoria. Under this agreement Ramsay Health Care Australia Pty Limited takes full operator risk. The Hospital was opened on 19 September 2000.

**(e) Guarantee and indemnity in relation to a hospital**

In relation to one of the hospitals, Ramsay Health Care Limited has given a guarantee in favour of Australian Unity. Ramsay Health Care Limited granted a guarantee and indemnity in favour of an unrelated third party, Australian Unity (‘Landlord’), the lessor of The Valley Private Hospital (‘Lessee’). Ramsay has guaranteed, amongst other things, the performance of the lessees' obligations under the lease. The guaranteed obligations include the payment of all sums of money payable by the Lessee and the Landlord and prompt performance of all obligations of the tenant. Ramsay sold all of the shares in the lessee to BCN. Ramsay's obligations to guarantee the performance and payment of monies continue during the term of the lease. No liability is expected to arise.

**30. SUPERANNUATION COMMITMENTS**

The Group contributes to industry and individual superannuation funds established for the provision of benefits to employees of entities within the economic entity on retirement, death or disability. Benefits provided under these plans are based on contributions for each employee and for retirement are equivalent to accumulated contributions and earnings. All death and disability benefits are insured with various life assurance companies. The entity contributes to the funds at various agreed contribution levels, which are not less than the statutory minimum.

## 31. DEFINED BENEFIT PENSION PLAN

The Group has a number of defined benefit plans. The defined benefit plans in the UK and Australia are only open to existing employees who have always been on the plan. They are not open to new employees.

The following tables summarise the components of net benefit expense recognised in the consolidated income statements and the funded status and amounts recognised in the consolidated Statement of Financial Position for the plans:

| | Consolidated Pension Plans 2010 $000 | 2009 $000 |
|---|---|---|
| **Net benefit expense (recognised in employee benefits)** | | |
| Current service cost | 703 | 620 |
| Interest cost on benefit obligation | 764 | 832 |
| Expected return on plan assets | (239) | (337) |
| Net actuarial losses recognised in the period | 518 | 79 |
| Past service cost | 9 | 9 |
| Net benefit expense (note 5) (recognised in superannuation expense) | 1,755 | 1,203 |
| Actual return on plan assets | 598 | (830) |

| | 2010 $000 | 2009 $000 | 2008 $000 |
|---|---|---|---|
| **Net (liability) included in the Statement of Financial Position** | | | |
| Present value of defined benefit obligation | (18,423) | (10,636) | (10,304) |
| Fair value of plans assets | 4,098 | 3,990 | 5,236 |
| Net (liability) - non-current | (14,325) | (6,646) | (5,068) |

**31. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Changes in the present value of the defined benefit obligation are as follows:

| | Consolidated Pension Plans 2010 $000 | Consolidated Pension Plans 2009 $000 |
|---|---|---|
| Opening defined benefit obligation | 10,636 | 10,304 |
| Acquisition of subsidiary | 5,691 | - |
| Current service cost | 703 | 620 |
| Interest cost | 764 | 832 |
| Benefits paid | (634) | (905) |
| Actuarial losses/(gain) on obligation | 1,745 | (303) |
| Past service costs | 9 | 9 |
| Exchange differences on foreign plans | (491) | 79 |
| Closing defined benefit obligation | 18,423 | 10,636 |

Changes in the fair value of plan assets are as follows:

| | Consolidated Pension Plans 2010 $000 | Consolidated Pension Plans 2009 $000 |
|---|---|---|
| Opening fair value of plans assets | 3,990 | 5,236 |
| Expected return | 238 | 335 |
| Contributions by employer | 460 | 346 |
| Benefits paid | (433) | (733) |
| Actuarial losses/(gain) | 269 | (1,165) |
| Exchange differences on foreign plans | (426) | (29) |
| Fair value of plans assets | 4,098 | 3,990 |

The Group expects to contribute $607,000 to its defined benefit pension plans in 2011.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

| | Consolidated Pension Plans 2010 (%) | Consolidated Pension Plans 2009 (%) |
|---|---|---|
| Equities | 0 – 68 | 0 - 73 |
| Bonds | 0 – 24 | 0 - 23 |
| Property | 0 – 6 | 0 - 6 |
| Other | 0 – 14 | 0 - 14 |

| | Consolidated Pension Plans 2010 $000 | Consolidated Pension Plans 2009 $000 |
|---|---|---|
| Actuarial losses recognised in the statement of comprehensive income | 1,476 | 862 |
| Cumulative actuarial losses recognised in the statement of comprehensive income | 2,338 | 862 |

## 31. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The principal actuarial assumptions used in determining pension obligations for the plans are shown below (expressed as weighted averages):

| | Consolidated Pension Plans 2010 (%) | 2009 (%) |
|---|---|---|
| Discount rate | 4.5 – 9.0 | 3.5 - 11.1 |
| Expected rate of return on assets | 0.0 – 6.3 | 0.0 - 7.2 |
| Future salary increases | 2.0 – 10.0 | 4.0 -10.0 |
| Future pension increases | 0.0 – 3.4 | 0.0 - 3.4 |

The overall expected rate of return on assets is determined based on the market prices prevailing on the date, applicable to the period over which the obligation is to be settled.

## 32. AUDITORS' REMUNERATION

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Amounts received or due and receivable by the Auditors for: | | |
| Audit of financial statements | 1,932,922 | 1,979,033 |
| Other audit related services | 309,339 | 244,606 |
| Total audit | 2,242,261 | 2,223,639 |
| Other services | | |
| Taxation | 931,821 | 555,446 |
| Other | 182,474 | 162,694 |
| Total Other Services | 1,114,295 | 718,140 |
| | 3,356,556 | 2,941,779 |

## 33. BORROWINGS

### Terms and Conditions

### i. Senior Debt Facility and Working Capital Facility

On 20 November 2007 the Ramsay Group entered into a Syndicated Facility Agreement (SFA). The SFA has three A$ tranches with a total commitment of A$1,385,000,000 and a separate pounds sterling tranche with a commitment of £260,000,000. The SFA matures in November 2012.

The total amounts drawn down under the SFA as at 30 June 2010 were A$760,000,000 (2009: A$913,370,000) and £219,000,000 (2009: £232,000,000).

Apart from guarantees given by the Company and its wholly owned subsidiaries (excluding dormant subsidiaries and certain other subsidiaries) the SFA is unsecured. The SFA is a revolving facility.

As at 30 June 2010, the undrawn commitment was A$625,000,000 (2009: A$471,630,000) and £41,000,000 (2009: £28,000,000).

## 33. BORROWINGS (CONTINUED)

**Terms and Conditions (continued)**

### ii. Bilateral Facilities

The commitment limit under the ANZ facility for working capital is comprised of an A$6,500,000 facility limit and a separate sterling facility limit of £3,100,000. The ANZ bilateral facility currently consists of a cash advance facility, overdraft facility and indemnity/guarantee facility (in both A$ and £). A further transactional encashment facility is also provided which permits the encashment of payroll and other cheques at any ANZ bank.

The limit on the NAB facility for working capital also has 2 components, an A$25,000,000 facility limit and a further £10,000,000 facility limit and includes a cash advance facility, overdraft facility and indemnity/guarantee facility (in both A$ and £) together with certain transactional facilities.

Under the bilateral facilities as at 30 June 2010 the total outstanding was A$8,187,556 (2009: A$25,783,122) and £8,973,280 (2009: £12,656,936). The undrawn commitment across the 2 bilateral facilities as at 30 June 2010 was together A$23,312,444 (2009: A$24,216,878) and £4,126,720 (2009: £7,343,064).

The Ramsay Group also has other bilateral facilities (including group overdraft and set-off, corporate card and lease line facilities) with Westpac and others.

### iii. Indonesian Bank Loan

On 8 February 2010, PT Affinity Health Indonesia repaid the total monies outstanding under the bank loan with PT ANZ Panin Bank of IDR 68,134,924,900 (comprising principal of IDR Rp 67,596,500,000 and interest of IDR 538,424,900) and the loan facility terminated on this date. No further liabilities and/or obligations are outstanding under this facility.

On 8 February 2010 PT Affinity Health Indonesia entered into a one-year revolving credit facility with PT ANZ Panin Bank. The total facility is IDR 81,610,000,000 and as at 30 June 2010 and amount of IDR 67,596,500,000 was draw under this facility. The interest rate is JIBOR plus 2.35%.

On 8 February 2010 PT Affinity Health Indonesia entered into a three-year revolving credit facility with ANZ Panin Bank. The total facility limit is IDR 163,220,000,000 and as at 30 June 2010 an amount of IDR 158,315,239,000 was drawn under this facility. The interest rate is JIBOR plus mandatory costs plus 2.5%.

Ramsay Health Care Limited and Affinity Health Pty Ltd have provided a corporate guarantee and indemnity in respect of all amounts payable under both of the above loans.

### iv. Ramsay Santé Bank Loan

Ramsay Santé has a core term debt facility and the amortised value of the loan as at 30 June 2010 was €22,242,705 and this debt is secured against certain assets.

Ramsay Santé and its controlled entities have bilateral capex facilities and other term debt facilities and the amortised value of these loans as at 30 June 2010 was €18,820,701.

A termsheet was executed on 30 June 2010 to refinance the above loans under a new club facility arrangement to be provided by five major French banks. This club facility will provide €40 million worth of core debt facilities and €40 million worth of debt facilities to fund future acquisitions and / or expansionary capital expenditure. These new debt facilities will be executed on or before 30 September 2010. These new debt facilities will have a maturity of five years and 50% of the loans are term loans with the remainder being repayable as a bullet on maturity. The new debt facilities will be secured against certain assets of the Ramsay Santé group.

**33. BORROWINGS (CONTINUED)**

**Terms and Conditions (continued)**

**v. Ramsay Sante subordinated bonds**

Ramsay Sante issued to its shareholders a securitised loan in the form of bonds amounting to €11,458,036 on 15 December 2005, €11,247,717 on 14 June 2007, €13,908,483 on 23 July 2009 and €18 million on 2 October 2009.

The terms and conditions of the bonds are the same for all bond issues.

The bonds accrue interest at a rate of 8% per annum, capitalised annually. The interest is payable at the end of the term.

The bonds are due to mature 9 years following their respective subscription dates.

The bonds are reimbursable upon maturity at their normal value, namely 1 euro per bond.

As at 30 June 2010 an amount of €64,582,696 including accrued interest of €9,968,460 was outstanding in respect of these bonds. As at 30 June 2010, Predica, the non-controlling interest held €26,477,000 worth of bonds and the interest accrued in respect of these bonds was €3,186,354.

**vi. Other Interest Bearing Loans**

At 30 June 2010 a loan to bondholders of $29,170,666 (2009: $31,654,948) was outstanding. This loan arose as a result of the securitisation of the Joondalup leases between Joondalup Hospital Pty Limited and Joondalup Health Campus Finance Limited. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge, being the receivable from the Government (refer note 20).

**34. RELATED PARTY TRANSACTIONS**

**Subsidiaries of Ramsay Health Care Limited**

The consolidated financial statements include the financial statements of Ramsay Health Care Pty Limited and the subsidiaries listed in the following table.

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Country of Incorporation | Beneficial Percentage Held 2010 % | 2009 % |
|---|---|---|---|
| Ramsay Health Care Limited has the following investments in controlled entities: | | | |
| RHC Nominees Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Health Care Developments Unit Trust | - | 100% | 100% |
| RHC Developments Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Investments Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by Ramsay Health Care Investments Pty Limited:** | | | |
| Ramsay Hospital Holdings Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Hospital Holdings (Queensland) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Finance Pty Limited ^ | Australia | 100% | 100% |
| RHC Finance Limited | Cayman Islands | 100% | - |
| Ramsay Aged Care Holdings Pty Limited and its controlled entity ^: | Australia | 100% | 100% |
| Ramsay Aged Care Properties Pty Limited ^ | Australia | 100% | 100% |
| RHC Ancillary Services Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Linear Medical Pty Limited and its controlled entity: | Australia | 100% | 100% |
| Outcome Medical Pty Limited | Australia | 70% | 70% |
| Newco Enterprises Pty Limited and its controlled entity: | Australia | 100% | 91% |
| Sydney & Central Coast Linen Services Pty Limited | Australia | 100% | 91% |
| Benchmark Healthcare Holdings Pty Limited and its controlled entity:^ | Australia | 100% | 100% |
| Benchmark Healthcare Pty Limited ^ | | | |
| AHH Holdings Health Care Pty Limited ^ | Australia | 100% | 100% |
| AH Holdings Health Care Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Centauri Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Alpha Healthcare Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Australia Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (UK) Limited # | UK | 100% | 100% |
| **Directly controlled by Benchmark Healthcare Pty Limited** | | | |
| Donvale Private Hospital Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Donvale Private Hospital Unit Trust | - | 100% | 100% |
| The Benchmark Hospital Group Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Beleura Holdings Unit Trust | - | 100% | 100% |
| Dandenong Valley Private Hospital Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Dandenong Valley Private Hospital Unit Trust | - | 100% | 100% |
| Benchmark – Surrey Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Surrey Hospital Unit Trust | - | 100% | 100% |
| Benchmark – Peninsula Pty Limited and its controlled entity:^ | Australia | 100% | 100% |
| Peninsula Hospital Unit Trust | - | 100% | 100% |
| Benchmark – Donvale Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Chelsea Hospital Unit Trust | - | 100% | 100% |
| Benchmark – Windermere Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Windermere Hospital Unit Trust | - | 100% | 100% |
| Benchmark – Beleura Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Beleura Hospital Unit Trust | - | 100% | 100% |
| Beleura Properties Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Beleura Properties Unit Trust | - | 100% | 100% |

\# *Audited by other member firms of Ernst & Young, and other audit firms*
^ *Entities included in the deed of cross guarantee as required for the Class Order*

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Country of Incorporation | Beneficial Percentage Held 2010 % | 2009 % |
|---|---|---|---|
| **Directly controlled by AH Holdings Health Care Pty Limited:** | | | |
| Affinity Health Care Holdings Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| PT Affinity Health Indonesia # | Indonesia | 92% | 92% |
| Affinity Health Holdings Australia Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Affinity Health Finance Australia Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by Affinity Health Pty Limited:** | | | |
| Affinity Health Foundation Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Holdings Indonesia Pty Limited ^ | Australia | 100% | 100% |
| Hospitals of Australia Pty Limited ^ | Australia | 100% | 100% |
| Relkban Pty Limited ^ | Australia | 100% | 100% |
| Relkmet Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Glenferrie Private Hospital Pty Limited | Australia | 50% | 50% |
| Votraint No. 664 Pty Limited ^ | Australia | 100% | 100% |
| Votraint No. 665 Pty Limited ^ | Australia | 100% | 100% |
| Australian Medical Enterprises Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| AME Hospitals Pty Limited ^ | Australia | 100% | 100% |
| Victoria House Holdings Pty Limited ^ | Australia | 100% | 100% |
| C&P Hospitals Holdings Pty Limited ^ | Australia | 100% | 100% |
| HCoA Hospital Holdings (Australia) Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by AME Hospitals Pty Limited:** | | | |
| AME Trust | - | 100% | 100% |
| AME Trading Trust | - | 100% | 100% |
| AME Properties Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| AME Property Trust | - | 100% | 100% |
| AME Superannuation Pty Limited ^ | Australia | 100% | 100% |
| Attadale Hospital Property Pty Limited ^ | Australia | 100% | 100% |
| Glengarry Hospital Property Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Glengarry Hospital Unit Trust No.1 | - | 100% | 100% |
| Glengarry Hospital Unit Trust No.2 | - | 100% | 100% |
| Hadassah Pty Limited ^ | Australia | 100% | 100% |
| Rannes Pty Limited ^ | Australia | 100% | 100% |
| Hallcraft Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Hallcraft Unit Trust | - | 100% | 100% |
| Jamison Private Hospital Property Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by C&P Hospitals Holdings Pty Limited:** | | | |
| Affinity Health (FP) Pty Limited ^ | Australia | 100% | 100% |
| Armidale Hospital Pty Limited ^ | Australia | 100% | 100% |
| Caboolture Hospital Pty Limited ^ | Australia | 100% | 100% |

\# *Audited by other member firms of Ernst & Young, and other audit firms*
^ *Entities included in the deed of cross guarantee as required for the Class Order*

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Country of Incorporation | Beneficial Percentage Held 2010 % | 2009 % |
|---|---|---|---|
| **Directly controlled by C&P Hospitals Holdings Pty Limited (continued):** | | | |
| Joondalup Hospital Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Joondalup Health Campus Finance Limited | Australia | 100% | 100% |
| Health Care Trust No. 1 | Australia | 90% | 90% |
| Logan Hospital Pty Limited ^ | Australia | 100% | 100% |
| Noosa Privatised Hospital Pty Limited and its controlled entities:^ | Australia | 100% | 100% |
| AMNL Pty Limited ^ | Australia | 100% | 100% |
| Mayne Properties Pty Limited ^ | Australia | 100% | 100% |
| Port Macquarie Hospital Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by HCoA Hospital Holdings (Australia) Pty Limited:** | | | |
| HCoA Operations (Australia) Pty Limited ^ | Australia | 100% | 100% |
| Hospital Corporation Australia Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Dabuvu Pty Limited ^ | Australia | 100% | 100% |
| HOAIF Pty Limited ^ | Australia | 100% | 100% |
| HCA Management Pty Limited ^ | Australia | 100% | 100% |
| Malahini Pty Limited ^ | Australia | 100% | 100% |
| Tilemo Pty Limited ^ | Australia | 100% | 100% |
| Hospital Affiliates of Australia Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| C.R.P.H Pty Limited ^ | Australia | 100% | 100% |
| Hospital Developments Pty Limited ^ | Australia | 100% | 100% |
| P.M.P.H Pty Limited ^ | Australia | 100% | 100% |
| Pruinosa Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by Australian Hospital Care Pty Limited:** | | | |
| Australian Hospital Care (Allamanda) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Latrobe) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care 1998 Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| AHC Foundation Pty Limited ^ | Australia | 100% | 100% |
| AHC Tilbox Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Masada) Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Masada Private Hospital Unit Trust | - | 100% | 100% |
| Australian Hospital Care Investments Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (MPH) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (MSH) Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Australian Hospital Unit Trust | - | 100% | 100% |
| Australian Hospital Care (Pindara) Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Pindara Private Hospital Unit Trust | - | 100% | 100% |
| Australian Hospital Care (The Avenue) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care Retirement Plan Pty Limited ^ | Australia | 100% | 100% |
| eHealth Technologies Pty Limited | Australia | 100% | 100% |
| Health Technologies Pty Limited ^ | Australia | 100% | 100% |
| Rehabilitation Holdings Pty Limited ^ | Australia | 100% | 100% |

\# *Audited by other member firms of Ernst & Young, and other audit firms*
^ *Entities included in the deed of cross guarantee as required for the Class Order*

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

| | | **Beneficial Percentage Held** | |
|---|---|---|---|
| | **Country of Incorporation** | **2010 %** | **2009 %** |
| **Directly controlled by Alpha Healthcare Pty Limited:** | | | |
| Bowral Management Company Pty Limited ^ | Australia | 100% | 100% |
| Simpak Services Pty Limited ^ | Australia | 100% | 100% |
| APL Hospital Holdings Pty Limited and its controlled entity: ^ | Australia | 100% | 100% |
| Alpha Pacific Hospitals Pty Limited ^ | Australia | 100% | 100% |
| Health Care Corporation Pty Limited and its controlled entities: ^ | Australia | 100% | 100% |
| Alpha Westmead Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Illawarra Private Hospital Holdings Pty Limited ^ | Australia | 100% | 100% |
| Northern Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Westmead Medical Supplies Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by Alpha Pacific Hospitals Pty Limited:** | | | |
| Herglen Pty Limited ^ | Australia | 100% | 100% |
| Mt Wilga Pty Limited ^ | Australia | 100% | 100% |
| Sibdeal Pty Limited ^ | Australia | 100% | 100% |
| Workright Pty Limited ^ | Australia | 100% | 100% |
| **Directly controlled by Ramsay Health Care Australia Pty Limited:** | | | |
| Adelaide Clinic Holdings Pty Limited ^ | Australia | 100% | 100% |
| eHospital Pty Limited ^ | Australia | 100% | 100% |
| New Farm Hospitals Pty Limited ^ | Australia | 100% | 100% |
| North Shore Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Phiroan Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (Asia Pacific) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (South Australia) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (Victoria) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (QLD) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (VIC) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (WA) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Professional Services Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Diagnostics (No. 1) Pty Limited | Australia | 100% | 100% |
| Ramsay Diagnostics (No. 2) Pty Limited | Australia | 100% | 100% |
| **Directly controlled by Ramsay Health Care (UK) Limited:** | | | |
| GHG 2008 10A (BVI Property Holdings) Limited and its controlled entity: | British Virgin Islands | 100% | 100% |
| GHG 2008 10A Propco Limited | UK | 100% | 100% |
| Ramsay Health Care Holdings UK Limited # | UK | 100% | 100% |
| Ramsay Santé SA# | France | 57% | - |
| **Directly controlled by Ramsay Health Care Holdings UK Limited: #** | | | |
| Independent British Healthcare (Doncaster) Limited # | UK | 100% | 100% |
| Ramsay Diagnostics UK Limited # | UK | 100% | 100% |
| Ramsay Health Care UK Operations Limited # and its controlled entity: | UK | 100% | 100% |
| Ramsay Health Care Leasing UK Limited # | Guernsey | 100% | 100% |

\# *Audited by other member firms of Ernst & Young, and other audit firms*
^ *Entities included in the deed of cross guarantee as required for the Class Order*

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Country of Incorporation | Beneficial Percentage Held 2010 % | 2009 % |
|---|---|---|---|
| **Directly controlled by Ramsay Santé SA:** | | | |
| Centre Médico-Chirurgical du Val de Norte Dame SA# | France | 55% | - |
| Centre Médico-Chirurgical et Obstetrical d'Evry SAS# and its controlled entities: | France | 57% | - |
| La Clinique du Mousseau SAS# | France | 31% | - |
| Polyclinique de Villeneuve Saint Georges SA# | France | 57% | - |
| SCI de la Polyclinque de Villeneuve Saint Georges# | France | 57% | - |
| Clinque de la Muette SAS# | France | 57% | - |
| Clinque Lambert SAS# | France | 57% | - |
| Hôpital Privé de Versailles SAS# | France | 57% | - |
| SA Clinque de la Montagne# | France | 57% | - |
| Société Civile Immobiliéré la Garenne Lambert# | France | 57% | - |
| GIE Santé Finance et Pilotage# | France | 57% | - |

\# *Audited by other member firms of Ernst & Young, and other audit firms*
^ *Entities included in the deed of cross guarantee as required for the Class Order*

### 34. RELATED PARTY TRANSACTIONS (CONTINUED)

**Equity Instruments of Directors**

The beneficial and direct interest of each director in the equity of the Company as at 30 June 2010 was as follows:

| Director | Ordinary Shares | | | | Convertible Adjustable Rate Equity Securities (CARES) | | | | Performance Rights[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | | 2009 | | 2010 | 2009 |
| | Direct | Indirect[1] | Direct | Indirect[1] | Direct | Indirect[1] | Direct | Indirect[1] | Direct | Direct |
| P.J. Ramsay | - | 73,149,269 | - | 73,148,372 | - | - | - | - | - | - |
| M.S. Siddle | 152,564 | - | 151,667 | - | - | - | - | - | - | - |
| C.P. Rex | 270,607 | 2,196 | 195,955 | 2,153 | - | 5,334 | - | 5,334 | 92,306 | 140,693 |
| B.R. Soden | 68,958 | 4,133 | 37,276 | 3,236 | - | 3,335 | - | 3,335 | 72,700 | 104,382 |
| A.J. Clark | 82,000 | - | 80,000 | - | - | 1,200 | - | 1,200 | - | - |
| P.J. Evans | 7,209 | - | 6,312 | - | - | - | - | - | - | - |
| I.P.S. Grier | 133,116 | - | 293,116 | - | - | - | - | - | - | - |
| R.H. McGeoch | - | 74,231 | - | 73,334 | - | 257 | - | 257 | - | - |
| K.C.D. Roxburgh | 57,676 | 21,738 | 55,952 | 21,439 | - | - | - | - | - | - |

[1] Shares in which the director does not have a direct interest including shares held in director related entities and shares held by family members.

[2] The terms and vesting conditions over these rights are as disclosed in note 27.

Mr Ramsay has a relevant interest in 73,149,269 (2009: 73,148,372) shares held by Paul Ramsay Holdings Pty Limited and is a director of that Company. Mr Siddle, Mr Clark and Mr Evans are also directors of Paul Ramsay Holdings Pty Limited.

The Managing Director, Mr Rex, is employed under a five year Executive Service Agreement (ESA) which commenced on 1 July 2008. In accordance with the terms of the ESA, Mr Rex has been granted equity based retention rights to receive 600,000 ordinary shares, subject to his continuing in employment as Managing Director until 1 July 2013.

In accordance with the terms of his ESA the company will withhold 50% of Mr Rex's STI bonus (after applicable tax) to purchase shares in the company on market. These shares will be purchased within 5 business days of the cash bonuses being paid (2009:15 September 2009). These shares may not be sold or transferred before the earlier of termination or 3 years.

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

**Movements in Directors' equity holdings**

During the year until the date of this report:

- Mr Ramsay indirectly acquired 897 ordinary shares through the participation of Paul Ramsay Holdings Pty Limited in the Shares Purchase Plan.
- Mr Siddle acquired 897 ordinary shares through the Share Purchase Plan.
- Mr Rex acquired 26,265 ordinary shares on market in respect of the STI bonus and 48,387 ordinary shares through the Executive Performance Rights Plan. Mr Rex also indirectly acquired 43 ordinary shares through the Dividend Reinvestment Plan.
- Mr Soden acquired 31,682 ordinary shares through the Executive Performance Rights Plan. Mr Soden also indirectly acquired 897 ordinary shares through the Share Purchase Plan.
- Mr Clark acquired 1,103 ordinary shares on market and 897 ordinary shares through the Share Purchase Plan.
- Mr Evans acquired 897 ordinary shares through the Share Purchase Plan.
- Mr Grier sold 160,000 ordinary shares on market.
- Mr McGeoch indirectly acquired 897 ordinary shares through the Share Purchase Plan.
- Mr Roxburgh acquired 1,126 ordinary shares through the Dividend Reinvestment Plan and 598 ordinary shares through the Share Purchase Plan. Mr Roxburgh also indirectly acquired 299 ordinary shares through the Share Purchase Plan.

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

*Transactions with Directors of Ramsay Health Care Limited and the Group*

- Entities associated with Mr Ramsay, Mr Siddle, Mr Clark and Mr Evans:

Paul Ramsay Holdings Pty Limited has a licence from the economic entity to occupy office space at a commercial arms length licence fee. In addition, any expenditure incurred on behalf of Paul Ramsay Holdings Pty Limited is charged at cost recovery plus a 5% margin.

During the year costs of $57,540 (2009: $24,586) were charged by and an amount of $62,675 (2009: $19,452) was paid to Paul Ramsay Holdings Pty Limited for services rendered to the Group.

- Entities associated with Mr Grier

During the year costs of $120,000 (2009:$120,000) were charged by and an amount of $110,000 (2009:$120,000) was paid to a company related to Mr Grier for services rendered to the Group.

## 35. SUBSEQUENT EVENTS

On 26 August 2010, Ramsay announced that it will not convert or redeem CARES on 20 October 2010 and, as a result, the margin will "step-up" by 2% to 4.85% with effect from the dividend payable on 20 April 2011. Management have taken this decision having regard to the ongoing best interest of Ramsay as a whole. Ramsay retains the ability to redeem or convert CARES at subsequent CARES dividend payment dates.

There have been no other significant events after the reporting date that may significantly affect the Group's operations in future years, the results of these operations in future years or the Group's state of affairs in future years.

## 36. CLOSED GROUP

**Entities subject to class order**
Pursuant to Class Order 98/1418, relief has been granted to the entities in the table of subsidiaries in Note 34, (identified by ^) from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, these entities entered into a Deed of Cross Guarantee on 22 June 2006. The effect of the deed is that Ramsay Health Care Limited has guaranteed to pay any deficiency in the event of winding up of a controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Ramsay Health Care Limited is wound up or if it does not meet its obligation under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

**36. CLOSED GROUP (CONTINUED)**

The consolidated income statement and Statement of Financial Position of the entities that are members of the Closed Group are as follows:

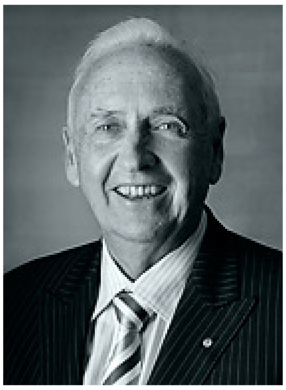
| | Closed Group | |
|---|---|---|
| | 2010 | 2009 |
| **Consolidated Income Statement** | $000 | $000 |
| Profit from operations before income tax | 209,565 | 155,602 |
| Income tax expense | (62,687) | (48,176) |
| Net profit for the year | 146,878 | 107,426 |
| Retained earnings at the beginning of the year | 200,510 | 169,937 |
| Actuarial gain/(loss) on defined benefit plan | 193 | (313) |
| Retained earnings adjustments for addition of entities into the class order | 51,814 | - |
| Dividends provided for or paid | (91,655) | (76,540) |
| Retained earnings at the end of the year | 307,740 | 200,510 |
| **Consolidated Statement of Financial Position** | | |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 95,801 | 64,129 |
| Trade receivables | 331,392 | 360,226 |
| Inventories | 69,381 | 44,150 |
| Derivative financial instruments | 1,313 | - |
| Other current assets | 20,560 | 20,721 |
| | 518,447 | 489,226 |
| Assets classified as held for sale | 4,350 | 3,200 |
| **Total Current Assets** | 522,797 | 492,426 |
| **Non-current Assets** | | |
| Other financial assets | 423,640 | 270,925 |
| Goodwill and intangibles | 591,627 | 566,245 |
| Deferred tax asset | 28,522 | 30,258 |
| Property, plant and equipment | 1,355,924 | 1,288,144 |
| Other non-current assets | 14,556 | - |
| **Total Non-current Assets** | 2,414,269 | 2,155,572 |
| **TOTAL ASSETS** | 2,937,066 | 2,647,998 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Trade and other payables | 395,289 | 382,566 |
| Interest-bearing loans and borrowings | 2,727 | 503 |
| Provisions | 117,335 | 105,671 |
| Derivative financial instruments | 15,719 | 23,438 |
| Income tax payable | 36,206 | 16,866 |
| **Total Current Liabilities** | 567,276 | 529,044 |
| **Non-current Liabilities** | | |
| Interest-bearing loans and borrowings | 958,207 | 1,139,360 |
| Other creditors | 1,000 | - |
| Pension liability | 37 | 229 |
| Derivative financial instruments | 17,472 | 14,129 |
| Provisions | 87,508 | 78,254 |
| **Total Non-current Liabilities** | 1,064,224 | 1,231,972 |
| **TOTAL LIABILITIES** | 1,631,500 | 1,761,016 |
| **NET ASSETS** | 1,305,566 | 886,982 |
| **EQUITY** | | |
| Issued capital | 713,523 | 437,228 |
| Treasury shares | (8,082) | (10,210) |
| CARES (convertibles Adjustable Rate Equity Securities) | 252,165 | 252,165 |
| Retained earnings | 307,740 | 200,510 |
| Other reserves | 40,220 | 7,289 |
| **TOTAL EQUITY** | 1,305,566 | 886,982 |

## 37. PARENT ENTITY INFORMATION

| Information relating to Ramsay Health Care Limited | 2010 $000 | 2009 $000 |
|---|---|---|
| Current assets | 1,118,700 | 593,187 |
| Total assets | 1,262,366 | 734,301 |
| Current liabilities | (39,225) | (19,751) |
| Total liabilities | (39,225) | (19,751) |
| | | |
| Issued capital | (713,523) | (447,774) |
| Reserves | (509,618) | (266,776) |
| Total shareholders' equity | (1,223,141) | (714,550) |
| | | |
| Net profit/(loss) for the year after tax | 327,870 | (3,215) |

As a condition of the class order (set out in note 36), Ramsay Health Care Limited has guaranteed to pay any deficiency in the event of winding up of a controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to guarantee. Refer to note 36 for further information.

# Ramsay Health Care Board Members



### Paul Ramsay, AO
### Chairman – Appointed 26/05/75

Mr Paul Ramsay is Chairman of the Paul Ramsay Group of Companies.

Mr Ramsay has been involved in health care since 1964 when he developed and managed one of the first private psychiatric hospitals in Sydney. As Chairman and major shareholder of Ramsay Health Care Limited, he has developed Ramsay Health Care into the largest Australian private hospital owner with extensive operations overseas. In 2002, Mr Ramsay was conferred an Officer of the Order of Australia for services to the community through the establishment of private health care facilities, expanding regional television services and as a benefactor to a range of educational, cultural, artistic and sporting organizations. In 2009, Mr Ramsay was appointed Chairman of Sydney Football Club.

During the last three years Mr Ramsay has also served as a director of the following listed companies:

- Prime Media Group Limited (Appointed April 1985) (Currently Chairman)
- Broadcast Production Services Limited (Resigned May 2008)

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### Michael S Siddle
### Deputy Chairman – Appointed 26/05/75

Mr Michael Siddle is Deputy Chairman of Ramsay Health Care Limited, having formerly been Chief Executive. He has extensive experience in the management of private hospitals as well as having been closely involved in the Company's expansion through construction, mergers and acquisitions.

He is Deputy Chairman of Prime Media Group Limited, one of Australia's largest regional television and radio operators, with media experience in Australia, New Zealand and overseas.

Mr Siddle has also been Deputy Chairman of The Paul Ramsay Group of Companies for over 30 years and has extensive experience in property development.

During the last three years Mr Siddle has also served as a director of the following listed company:

- Prime Media Group Limited (Appointed April 1985) (Currently Deputy Chairman)

## Christopher P Rex
## Managing Director – Appointed 01/07/08

Mr Chris Rex is Managing Director and Chief Executive Officer of Ramsay Health Care having assumed this role on 1 July 2008 after 13 years as Chief Operating Officer of the Company.

Mr Rex has played a key role in developing the Company's excellent record in hospital management and his ability to run hospitals efficiently and effectively is widely acknowledged. Chris has been instrumental in setting Ramsay's growth strategy, a strategy which has seen the Company's revenues expand more than 10 fold over the past decade and included the transforming acquisitions of Affinity Healthcare and Ramsay's first major offshore acquisition of Capio UK, the UK's fourth largest independent hospital provider.

Prior to joining Ramsay Health Care in 1995, Chris worked as a manager in the public health service in the United Kingdom and subsequently moved into the private sector where he worked for BUPA, the UK's largest Health Insurer. In 1988, he moved to Australia, as General Manager of Macquarie Hospital Services.

Mr Rex is the current President of the Australian Private Hospitals Association (APHA), the peak body representing private hospitals in Australia. Until recently, he was a Board member of the Schizophrenia Research Institute, a non-profit, National Health and Medical Research Council accredited, independent research institute undertaking world-class studies to understand the causes of schizophrenia. He is also a Director of Sydney Football Club.

## Bruce R Soden B.Comm CA MAICD
## Finance Director – Appointed 02/01/97

As Group Finance Director, Mr Soden is responsible for the capital management, financial reporting, tax, treasury, and investor relations activities of Ramsay Health Care. Mr Soden's 30 years of finance experience includes a number of years with a major global accounting firm and over 20 years in the private health care industry at an executive level. He has guided Ramsay Health Care's capital management strategy through its IPO, all of its acquisitions, as well as its debt and equity raisings. Mr Soden was appointed Finance Director of Ramsay Health Care's operating entities in 1994 leading up to the float of Ramsay Health Care in 1997 and his appointment as Group Finance Director. Prior to this, he spent four years based in New Orleans as Senior Vice President and Director of Ramsay Health Care, Inc. a listed United States health care company.

## Anthony J Clark AM FCA FAICD
## Non-Executive Director – Appointed 06/10/98

Mr Tony Clark is a Chartered Accountant and was formerly Managing Partner of KPMG NSW. In 1995 Mr Clark was awarded membership of the Order of Australia for services to Business, Commerce and Community.

During the last three years Mr Clark has also served as a director of the following listed companies:

- Carlton Investments Limited (Appointed June 2000)
- Amalgamated Holdings Limited (Appointed October 1998)
- Resource Pacific Holdings Limited (Resigned May 2008)
- Cumnock Coal Limited (Resigned September 2007)

## Peter J Evans FCA
## Non-Executive Director – Appointed 29/12/90

Mr Peter Evans is a Chartered Accountant who was in public practice for over 20 years with predecessor firms of KPMG. He has specialised in the financial management of hospitals and has had extensive experience in the health care field for over 40 years.

During the last three years Mr Evans has also served as a director of the following listed companies:

- Prime Media Group Limited (Appointed March 1991)
- Broadcast Production Services Limited (Appointed July 2007)
- Destra Corporation Limited (Appointed April 2008)

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## I Patrick S Grier AM MAICD
## Non-Executive Director – Appointed 01/07/08

Mr Pat Grier has been employed as an executive in the private health care industry for more than 20 years. In June 2008, he retired as Chief Executive Officer of Ramsay Health Care Limited after joining the Company in 1988 and serving at the helm since 1994. During this time, he oversaw the successful float of Ramsay Health Care Limited on the Australian Stock Exchange in 1997 and growth in annual revenues from approximately $200 million to more than $3 billion (2008 financial year). He oversaw a series of successful transforming acquisitions which saw Ramsay Health Care Limited grow to become one of Australia's most respected and largest private hospital operators.

Prior to joining Ramsay, he was with Hospital Corporation Australia.

He has served as both President and Chairman of the Australian Private Hospitals Association for over 10 years and sits on a number of industry committees. He has been one of the main architects of the balanced health care system in Australia and for his contribution to the health care sector was awarded the Order of Australia. Mr Grier served as an Executive Director on the Ramsay Health Care Board for 12 years and from 1 July 2008 continues as a non-executive Director of the Ramsay Health Care Board. In July 2008, Mr Grier was appointed as a director of Careers Australia Group Limited.

On 23 April 2010, Mr Grier was appointed as Chairman of Relevare Pharmaceuticals Limited. He is also the Chairman of the Australian Health Workforce Institute and Chairman of the Southern Cross University Foundation.

During the last three years Mr Grier has also served as a director of the following listed company:

- Prime Media Group Limited (Appointed June 2008)

## Rod H McGeoch AM LLB MAICD
## Non-Executive Director – Appointed 03/07/97

Mr Rod McGeoch is a past Chairman of Corrs Chambers Westgarth, a leading Australian law firm and has been a solicitor for 40 years. He was Chief Executive of Sydney's successful bid for the 2000 Olympic Games and served on the Sydney Organising Committee for the Olympic Games until November 1998. Currently, Mr McGeoch is Chairman of Vantage Private Equity Group Limited and a Trustee of the Sydney Cricket & Sports Ground Trust. Mr McGeoch also holds a number of honorary positions and in 1990 was awarded membership of the Order of Australia for services to Law and the Community. Mr McGeoch is Co-Chairman of the Australian New Zealand Leadership Forum.

During the last three years Mr McGeoch has also served as a director of the following listed companies:

- Sky City Entertainment Group Limited (Appointed September 2002) (Currently Chairman)
- Telecom Corporation of New Zealand Limited (Appointed April 2001)
- Lipa Pharmaceuticals Limited (Resigned November 2007)
- BGP Holdings Plc. Malta and BGP Investment S.a.r.l Luxembourg (Appointed November 2009)

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## Kerry C D Roxburgh B.Comm MBA MESAA
## Non-Executive Director – Appointed 03/07/97

Mr Kerry Roxburgh is a Stockbrokers Association of Australia - Practitioner Member. In 2000 he completed a term as CEO of E*TRADE Australia becoming non-executive Chairman until June 2007, when the company was acquired by the ANZ Bank. Prior to this appointment he was an Executive Director of Hong Kong Bank of Australia Group where for 10 years he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. He is also non-executive chairman of Charter Hall Limited, of Money Switch Limited and of Tasman Cargo Airlines Pty Limited. He is a non-executive director of The Medical Indemnity Protection Society Group and also LawCover Insurance Pty Limited. Until 1986 Mr Roxburgh was in practice for more than 20 years as a Chartered Accountant.

In addition to Ramsay Health Care Limited, during the last three years Mr Roxburgh has also served as a director of the following listed companies:

- Charter Hall Limited (Appointed April 2005) (Currently Chairman)
- Eircom Holdings Limited (Resigned January 2010)
- Everest Financial Group Limited (Resigned May 2009)

## John D C O'Grady LLB FAICD
## Group General Counsel & Company Secretary – Appointed 23/01/07

Mr John O'Grady has a background as a corporate and commercial lawyer and is admitted to practice in New South Wales. He is a Fellow of the Australian Institute of Company Directors (AICD) and is a facilitator with the AICD 's education programme. He has served as a non-executive director of a number of boards, including the Defence Housing Authority and the Major Events Board in South Australia. Prior to joining Ramsay, he was in private practice with a strong corporate governance focus and experience in contract negotiation, finance and corporate law.

Mr O'Grady heads up the Legal Services team within the Group and has responsibility for coordinating the Risk Management Strategy. He also provides input into all major acquisitions of the Ramsay Group and advises the Board and Executive on corporate governance.

Mr O'Grady also has Group responsibility for all company secretarial functions, including liaising with the ASX, ASIC and other regulatory bodies.