

RAMSAY HEALTH CARE LIMITED  
AND CONTROLLED ENTITIES

A.B.N. 57 001 288 768

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

RAMSAY HEALTH CARE LIMITED  
AND CONTROLLED ENTITIES  
A.B.N. 57 001 288 768  
FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2012

<b>CONTENTS</b>	<b>PAGE</b>
Directors' Report	3
Independent Audit Report	46
Directors' Declaration	48
Consolidated Income Statement	49
Consolidated Statement of Comprehensive Income	50
Consolidated Statement of Financial Position	51
Consolidated Statement of Changes in Equity	52
Consolidated Statement of Cash Flows	54
Notes to the Consolidated Financial Statements	55
Attachment 1 - Ramsay Health Care Limited Directors & Company Secretary	127

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2012.

### 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 (CARES)	Rights over Ordinary Shares
P.J. Ramsay	73,149,269	-	-
M.S. Siddle	152,564	-	-
C.P. Rex	442,015	5,334	360,000
B.R. Soden	195,791	2,000	160,000
A.J. Clark	82,000	1,600	-
P.J. Evans	7,209	-	-
I.P.S. Grier	-	-	-
R.H. McGeoch	74,231	257	-
K.C.D. Roxburgh	79,500	-	-

Mr Paul Ramsay has a relevant interest in 73,149,269 (2011: 73,149,269) 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.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW

#### Principal activities

The principal activities of Ramsay Health Care Limited (Ramsay) during the year were the owning and operating of 117 hospitals and day surgery facilities across Australia, the United Kingdom, France and Indonesia. There have been no significant changes in the nature of these activities during the year. Ramsay is well-respected in the health care industry for operating quality private hospitals and for its excellent record in hospital management and patient care.

Ramsay facilities cater for a broad range of health care needs from day surgery procedures to highly complex surgery, as well as psychiatric care and rehabilitation. With circa 10,000 beds, the Company employs over 30,000 staff across three continents, and treats over 1 million patients per annum.

#### Review of operations

A summary of the audited consolidated statutory revenue and earnings is set out below:

	<b>2012</b>	<b>2011</b>	<b>% Change</b>
	<b>\$000</b>	<b>\$000</b>	
Revenue from services	3,956,476	3,719,691	6.4%
Statutory earnings before interest, tax, depreciation and amortisation (EBITDA)	562,355	500,938	12.3%
Statutory earnings before interest and tax (EBIT)	415,461	365,863	13.6%
Net profit attributable to owners of the parent	244,105	198,375	23.0%

#### *Statutory earnings per share*

	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Basic earnings per share	112.7c	90.8c	24.1%
Diluted earnings per share	111.8c	90.2c	23.9%

#### *Financial Highlights*

Ramsay's statutory net profit attributable to the owners of the parent for the year ended 30 June 2012 was \$244.1 million, a 23.0% increase on the previous corresponding period. Statutory earnings per share was 112.7 cents for the year, a 24.1% increase.

## **RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (CONTINUED)**

### **OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **Review of operations (continued)**

The result was driven mainly by a strong performance across Ramsay's Australian hospitals and an increased contribution from completed brownfield developments.

In Australia, Ramsay recorded a significant increase in EBIT at the hospital level as a result of strong organic growth and increasing contribution from the brownfield development programme. Ramsay achieved revenue growth of 7.7% during the year in Australia and Indonesia which helped drive EBIT 16.4% higher.

The UK business is performing well in a difficult environment. Revenue rose 3.0% during the year and EBITDAR increased by 2.1%. Ramsay UK hospital's recorded an 11.3% rise in NHS admissions. With self pay and private medical insurance volumes still recovering, NHS admissions now exceed 65% of the total admissions to Ramsay UK facilities. UK operating margins before rent (EBITDAR) remain strong at approximately 25% despite the majority of growth coming from NHS patients.

Overall EBITDAR for Ramsay Santé increased by 14.9%. Excluding Clinique Convert acquired in May 2011, Ramsay Santé showed modest growth with EBITDAR increasing by 1.2%. In France, market conditions are expected to remain challenging in the short-term, however Ramsay remains positive about this marketplace which boasts a well-regarded health system and positive demographics.

#### **Balance sheet, cash flow and refinancing**

Strong operating cash flow has resulted in a further reduction in leverage. Furthermore, effective working capital management delivered a high cash conversion rate for the Group of more than 100% of earnings before interest, tax, depreciation, amortisation and non-core items (EBITDA) to gross operating cash flow.

In November 2011, Ramsay executed a new underwritten AUD \$2billion (equivalent) debt facility which subsequently was successfully syndicated, primarily to banks for Australia, Japan, UK and Asia. This new debt facility allowed for the refinancing of the existing debt facility and provides significant debt headroom for Ramsay's continuing brownfields programme and developments, future acquisitions and working capital. The first draw down under this new facility was made on 30 April 2012 and the maturity date of the three-year and five-year tranches of this debt facility commence from the date of the first draw down.

#### **Business strategies and prospects for future years**

The brownfield development programme remains an integral part of Ramsay's growth strategy and continues to contribute significantly to earnings.

Ramsay expects ongoing investment of at least \$100 million annually and, during FY12, \$103 million was approved for new brownfield developments both in Australia and overseas.

Ramsay remains positive about opportunities for expansion overseas. The UK business is well placed to capture further growth in NHS volumes. Market conditions in France are still challenging but the healthcare sector remains an attractive proposition. There is also significant growth in healthcare spending expected in emerging markets in which Ramsay continues to monitor and investigate opportunities in these markets and other regions where there is a strategic fit and which meets the Company's investment hurdles.

# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **Dividends**

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

Final dividend recommended @ 34.5 cents per share (2011: 29.5 cents)	\$69,718,000 (2011: \$59,614,000)
Interim dividend paid during the year @ 25.5 cents per share (2011: 22.5 cents)	\$51,531,000 (2011: \$45,468,000)

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

Final dividend recommended @ \$3.20 per security (2011: \$3.45)	\$8,318,000 (2011: \$8,982,000)
Interim dividend paid during the year @ \$3.34 per security (2011: \$3.44)	\$8,694,000 (2011: \$8,945,000)

#### **CORPORATE INFORMATION**

This financial 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 presentational 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 2012 was authorised for issue on 7 September 2012 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 1,221,000 (2011: 922,000) ordinary shares under the Executive Performance Rights Plan that are yet to vest. Refer to note 23 of the financial statements for further details of any rights outstanding as at 30 June 2012.

#### **SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

There have been no 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.

## RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

*Dear Shareholders*

*The Board is pleased to present you with a Remuneration Report that provides a transparent summary of the Company's remuneration arrangements, including the details of the value that Ramsay's Directors and key executives derived from their various remuneration components during FY2012. A focus of the Report is to demonstrate how our remuneration arrangements are linked to the Company's performance, not just from a design perspective but in terms of the outcomes they deliver in practice.*

*The Board is particularly pleased to present this Report to you on the back of yet another very strong financial performance for the Ramsay Group. The total shareholder return delivered by the Group over the past three years is graphically depicted on page 22.*

*Our remuneration framework aligns executive remuneration outcomes with shareholder interests by rewarding executives who deliver sustained performance and growth. The remuneration outcomes for Ramsay's executives for FY2012 reflects the Company's continued strong performance.*

*Non-Executive Directors' fees are set having regard to various relevant factors discussed later in this Report, including responsibilities and risks of each Non-Executive Director and market competitiveness. Any increase in the level of these fees is only ever implemented where, following a considered review of the overall framework for Non-Executive Director remuneration, an increase is found to be warranted.*

*This Report has been structured so as to provide you with all the information you need to properly understand Ramsay's remuneration framework and the way in which it operates to drive shareholder returns.*

*This Report is presented in five sections:*

- 1. **2012 Essentials** – this section provides a concise summary of the information that is likely to be of most interest to shareholders.*
- 2. **Remuneration governance** – this section explains how remuneration decisions are made within the Group and outlines the measures in place to guard against conflicts of interest.*
- 3. **Executive Remuneration Policy** – this section summarises the guiding principles and objectives that underpin the Group's executive remuneration arrangements.*
- 4. **Executive Remuneration: In Detail** – this section provides more information regarding remuneration arrangements for the Company's key executives, including the Managing Director. This section includes the detailed statutory disclosures required by the Corporations Act 2001 (Act).*
- 5. **Non-Executive Director remuneration** – this section outlines the remuneration arrangements in place for Non-Executive Directors.*

*On behalf of the Remuneration Committee and the Board, I commend this Remuneration Report to you.*

*Yours sincerely*



**Rod H McGeoch AM**  
Chairman  
Remuneration Committee

The Directors of the Company present this Remuneration Report prepared in accordance with section 300A of the Act for the Company and its controlled entities (**the Group**) for the year ended 30 June 2012. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Act.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

The table below provides a content guide for the 2012 Report and outlines the particular information included in each section.

*Table 1 – 2012 Remuneration Report: Content Guide*

Section	Subsection	What it covers	Page(s)
<b>1. 2012 ESSENTIALS</b>	Who's who	The names and roles of key management personnel whose remuneration details are disclosed in this Report.	9
	Remuneration initiatives	A summary of the primary remuneration initiatives implemented by the Company in FY2012.	9 - 10
	Remuneration outcomes	The actual remuneration received by executive members of the key management personnel ( <b>Executives</b> ) for FY2012.	10 - 12
<b>2. REMUNERATION GOVERNANCE</b>	How we make decisions	Explains how the Board and Remuneration Committee make remuneration decisions, including the use of external remuneration consultants.	13
	Maintaining independence	Explains how the Remuneration Committee composition and Board processes ensure that executive remuneration decisions are made free of undue influence from Management.	14 - 15
<b>3. EXECUTIVE REMUNERATION POLICY</b>	Guiding principles	The guiding principles adopted by the Board which underpin all executive remuneration decisions.	16 - 17
	Supporting business objectives	Shows how remuneration is structured to support business objectives and how it aligns outcomes with the Group's performance and shareholder value.	17 - 23
<b>4. EXECUTIVE REMUNERATION:IN DETAIL</b>	Remuneration components	Provides a breakdown of the various components of Executive remuneration, and summarises the key terms and performance conditions for the 'at risk' components (short-term incentives and long-term incentives).	24 - 36
	Total remuneration	The total remuneration provided to Executives (calculated pursuant to accounting standards) for FY2012 and FY2011.	37
	Service agreements	The key contract terms governing Executives' employment with the Group.	38
<b>5. NON-EXECUTIVE DIRECTOR REMUNERATION</b>	Guiding principles	The guiding principles which govern the process and basis for setting Non-Executive Director remuneration.	39
	Board & committee fees	Board and Committee fees for FY2012.	40 - 41
	Total remuneration	The total remuneration provided to Non-Executive Directors (calculated pursuant to accounting standards) for FY2012 and FY2011.	42



# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### 1. 2012 ESSENTIALS

##### Who's who

This Remuneration Report sets out the compensation arrangements in place for the key management personnel (**KMP**) of the Company and the Group for the purposes of the Act and the Accounting Standards (see table 2 below). KMP are those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly. This includes the Directors of the Company.

Table 2: Key Management Personnel for FY2012

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

##### Remuneration initiatives

###### *Enhancements to remuneration governance*

In the previous year (i.e. FY2011), the Company undertook a number of initiatives to re-affirm that its remuneration arrangements reflected best practice and were consistent with various changes to the law and the ASX Listing Rules, including the development of formal protocols governing the use and engagement of external remuneration consultants, the adoption of formal criteria for the appointment of remuneration consultants and the review and update of the Company's Remuneration Committee Charter.

These enhancements to the Company's remuneration governance framework were implemented during FY2012.

###### *Review of executive remuneration arrangements*

This year the Company has focused on ensuring that the remuneration arrangements are in accordance with its remuneration framework and also that the remuneration structure and levels of its Executives remain market competitive and provide meaningful incentives for sustained Group performance and growth.

Prior to the commencement of FY2012, the Board engaged external advisor, Godfrey Remuneration Group, to provide guidance in this regard, including in relation to the continuing appropriateness of:

- the Managing Director's remuneration package;
- remuneration components and levels for other Executives; and
- the remuneration arrangements for the Non-Executive Directors.

# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **Remuneration initiatives (continued)**

As a result of this review and on the recommendation of the Remuneration Committee, the Board approved a significant increase to the Managing Director's fixed salary and STI opportunity to recalibrate his remuneration package with market levels in light of the Group's performance and growth. Full details of the Managing Director's remuneration arrangements for FY2012 are set out on pages 11, 25 and 37 of this report.

#### *Components of Executive remuneration*

Having considered the benchmarking data provided, the Group's overall performance and the Board's high level of satisfaction with the performance of the Executives, the Board is confident that its existing remuneration framework and the level at which remuneration is set for its Executives continue to be appropriate.

The Board continues to monitor shifts in the market to ensure that Executives remain appropriately rewarded for the role that they perform in delivering Ramsay's growth strategy.

#### *Increase in Non-Executive Director fees*

Based on the benchmarking data provided to the Remuneration Committee, a recommendation was also made (and accepted by the Board) to increase Non-Executive Director fees by 5% for FY2012.

Again, this increase was considered to be appropriate and reasonable to ensure that the compensation of the Company's Non-Executive Directors remains appropriate for a company of Ramsay's size and scope of operations, and the increased responsibilities of Directors that have resulted from recent growth.

#### **Remuneration outcomes**

Details of the remuneration of Executives, prepared in accordance with statutory obligations and accounting standards, are set out in table 19 on page 37 of this Report. However, the Board recognises that the statutory tables do not provide a clear indication of the actual value of remuneration earned by the Executives during the year.

To assist with this, table 3 below summarises the actual reward outcomes for the Executives, by setting out the actual 'dollar value' of remuneration earned during FY2012 (i.e. amounts they became entitled to in FY2012, having satisfied any applicable performance hurdles). This includes their fixed remuneration for FY2012, the short term incentives (**STIs**) that they earned based on FY2012 performance, the long term incentives (**LTIs**) that vested in FY2012 based on performance up to and including 30 June 2011, and any other payments received by them during the year.

The key difference between the actual reward outcomes shown in the table below and the figures provided in table 19 is that the statutory table requires the value of equity grants to be estimated and apportioned over the relevant vesting period, including where awards may not vest to the Executive. By contrast, the actual reward outcomes table below only captures equity grants that vest and deliver value to the Executive.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Remuneration outcomes (continued)

Table 3: Actual remuneration of the Executives for FY2012

	Cash salary	STI <sup>1</sup>	LTI <sup>2</sup>	Superannuation	Other <sup>3</sup>	Total
C.P. Rex	\$2,000,000	<b>\$1,752,595</b>	\$1,354,503 <sup>4</sup>	\$15,775	\$10,818	<b>\$5,133,691</b>
B.R. Soden	\$1,250,000	<b>\$625,000</b>	\$794,768	\$15,775	\$34,773	<b>\$2,720,316</b>
C.R. McNally	\$735,000	<b>\$367,000</b>	\$441,538	\$15,775	\$16,938	<b>\$1,576,251</b>
D.A. Sims	\$735,000	<b>\$367,000</b>	\$618,153	\$15,775	\$29,276	<b>\$1,765,204</b>

1. This figure represents the actual STI earned for performance in FY2012 (to be paid in FY2013). For Executives other than the Managing Director, the full amount is paid in cash only after the Auditors have signed the statutory financial statements in September 2012. The Managing Director is obliged to accept half of his STI in cash (paid at the same time as for other Executives); the remaining amount of his STI earned is required to be invested in Company shares, which are subject to disposal restrictions for 3 years. For further details of the Company's STI Programme, please see table 10 of this Report.
2. This figure represents the value of the performance rights that vested during FY2012, based on performance up to and including 30 June 2011. The value is calculated by multiplying the number of vested rights by the 5-day volume weighted average share price (VWAP) on the date of vesting. Shares that are allocated on the exercise of vested rights are held in trust, subject to disposal restrictions. Performance Rights, including those granted in FY2012, that remained unvested as at 30 June 2012 do not appear in this table, as no actual value was realised by Executives from these Performance Rights during FY2012. For further details of the Company's LTI Plan, please see table 14 of this Report.
3. This figure represents non-monetary benefits such as health insurance cover and motor vehicle running costs that do not form part of the Executive's cash salary.
4. This figure includes the value of shares (refer to note 2 above) allocated to Mr Rex on the exercise of his vested performance rights during the financial year (\$883,075) and the value of dividends paid in respect of the 600,000 underlying shares for Mr Rex's Equity Based Retention Rights (\$471,428). Mr Rex is entitled to a dividend equivalent payment in respect of his equity based retention rights pursuant to his Executive Service Agreement - the terms of which are set out in footnote 4 to table 19 of this Report.

## **RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **Remuneration outcomes (continued)**

The remuneration outcomes for the Executives, as detailed in the actual remuneration figures for FY2012 in the above table, continue to align with the overall performance of the Group, which has remained strong throughout FY2012. Over the 3-year period ended 30 June 2012, only 7 companies out-ranked Ramsay in its ASX comparator group for relative TSR performance.

The high levels of at-risk rewards earned in FY2012 reflect the Group's continuing strong performance, both in absolute terms and relative to its peers. In particular:

- The Managing Director received 87.63% of his maximum STI bonus opportunity for FY2012, being:
  - 100% of his possible target component (for performance against target KPIs worth 60% of the maximum STI payable); and
  - 69.07% of his possible stretch component (for performance against stretch KPIs, worth the remaining 40% of the maximum STI payable).
- Other Executives received their maximum STI opportunities based on performance against challenging target KPIs.
- All of the Performance Rights granted to Executives in 2009 vested on 30 August 2012, based on Ramsay's strong performance over the three-year performance period up to and including 30 June 2012. Specifically:
  - based upon the analysis conducted by Orient Capital, the Company was ranked 8<sup>th</sup> in its relative TSR comparator group (described on page 31) with a percentile ranking of 88.89% which was above the percentile ranking of 75% required for vesting of the TSR component in full; and
  - the aggregate three-year EPS of 301.7 cents exceeded the target of 283.4 cents required for full vesting of the EPS component.

Further details of the terms of the STI and LTI programmes are set out in tables 10 and 14 in the 'Executive Remuneration: In Detail' section of this Report. In addition, the 'Supporting Business Objectives' section on pages 17-23, includes an analysis of the links between Company performance and 'at-risk' remuneration outcomes for Executives over a 5 year horizon.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

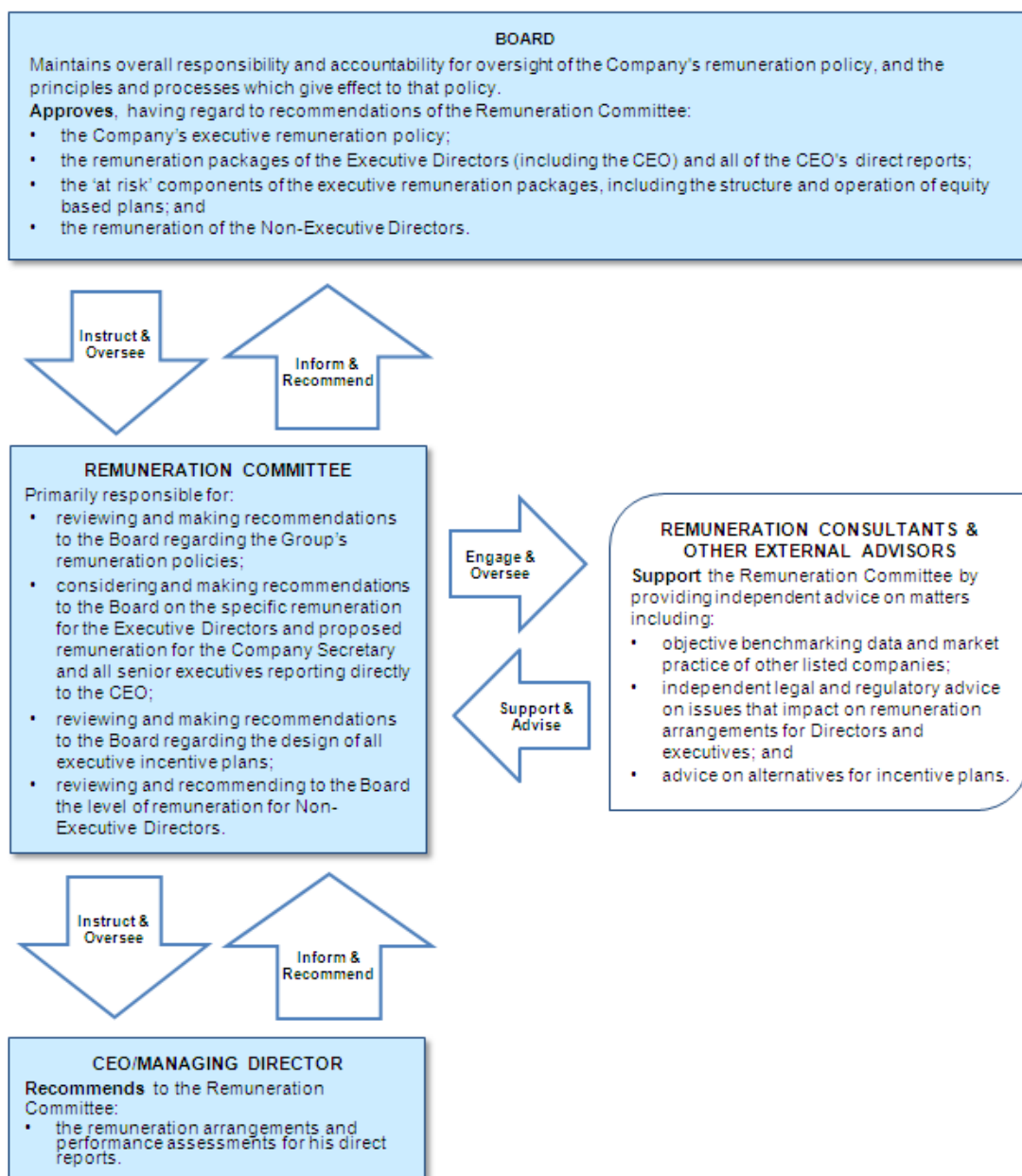
### REMUNERATION REPORT – Audited

## 2. REMUNERATION GOVERNANCE

### How we make decisions

This diagram provides an overview of the process the Company follows in setting Non-Executive Director and Executive remuneration:

Diagram 1 – Remuneration Processes



## **RAMSAY HEALTH CARE LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **REMUNERATION REPORT – Audited**

##### **Maintaining independence**

It is critical that the Board is fully informed and acts independently of management when making decisions affecting employee remuneration. The Board has put in place the following measures to ensure decisions regarding executive remuneration are made on an informed and independent basis:

- a Remuneration Committee, comprised solely of Non-Executive Directors, has primary responsibility for making recommendations to the Board on executive remuneration;
- the Remuneration Committee has access to both management and external advisors in developing its remuneration recommendations for the Board; and
- when considering the recommendations of the Remuneration Committee, the Board applies a policy prohibiting the Executive Directors and the Company Secretary from being present and participating in discussions affecting their own 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 of the 3 members of the Ramsay Remuneration Committee are Non-Executive Directors who are independent of management.

In line with the broader independence test applied under the ASX Corporate Governance Principles and Recommendations, the Chairman of the Remuneration Committee (Mr McGeoch AM) is an independent Director. The Board is also of the view that, for the reasons set out in the Corporate Governance Statement of this 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.

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

##### ***Engagement of remuneration consultant and other external advisors***

To ensure that it has all relevant information at its disposal (including in respect of market practice and legal parameters), the Board seeks and considers advice from independent remuneration consultants and other external advisors where appropriate.

The Company recognises the importance of establishing appropriate parameters and guidelines for the engagement and utilisation of remuneration consultants (as that term is defined under the Act). The Board has developed protocols to formalise the arrangements for the engagement of remuneration consultants and the parameters around the interaction between management and remuneration consultants (**Protocols**).

Under the Protocols:

- Remuneration consultants are engaged by and report directly to the Remuneration Committee.
- In appointing the Company's remuneration consultants, the Remuneration Committee has formal selection criteria which include specialist remuneration expertise, independence, scope for conflicts of interest, understanding of the business and experience in providing remuneration advice to S&P/ASX 100 companies.
- While recognising the importance for remuneration consultants to have access to management in formulating their advice (as this ensures that the consultants understand the Company's circumstances and can tailor their advice to its objectives), anyone communicating or otherwise interacting with the consultant must take care to avoid any actions which may place pressure on the consultant to deliver a particular recommendation.
- The Remuneration Committee is responsible for overseeing any direct interaction between remuneration consultants and a member of the Company's KMP.
- Any remuneration recommendation received from a remuneration consultant (whether draft or in final form) must be:
  - provided to the Remuneration Committee Chairman or to a Non-Executive Director (as appropriate); and
  - accompanied by a declaration from the consultant as to whether their remuneration recommendations have been made free from undue influence by any members of the KMP that will or may be affected by the advice.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Maintaining independence (continued)

It is emphasised that the advice and recommendations of remuneration consultants and other external advisors 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 performance.

Details of the remuneration consultant and external advisors used by the Company during FY2012, and the work undertaken by them, are set out in table 4.

*Table 4 – Remuneration Consultant and External Advisors*

<b>A. Remuneration Consultant</b>	<b>Major items of work</b>
Godfrey Remuneration Group	<ul style="list-style-type: none"> <li>• Advice on the continuing appropriateness of the 'at-risk' components of Executive remuneration (including the Managing Director's stretch STI opportunity).</li> <li>• Benchmarking analysis for Non-Executive Director fees.</li> </ul>
<b>B. External Advisors</b>	<b>Major items of work</b>
1. Freehills	Legal advice and market practice guidance on Remuneration Report, remuneration governance arrangements and remuneration related approvals at the AGM
2. Ernst & Young	Market practice information regarding executive remuneration arrangements, advice on equity incentive awards and advice on the Remuneration Report
3. Orient Capital	Relative TSR ranking analysis
4. PricewaterhouseCoopers	Equity valuations for LTI grants

Of these advisors, only Godfrey Remuneration Group provided the Company with remuneration recommendations in relation to the quantum or elements of the remuneration packages of the Company's KMP and is therefore deemed to be a remuneration consultant under the Act. During FY2012, the Company incurred fees of approximately \$23,892 (including GST) to Godfrey Remuneration Group for providing these remuneration recommendations. Godfrey Remuneration Group did not provide any other advice to Ramsay during FY2012 and accordingly the Company did not make any payments to Godfrey Remuneration Group other than those disclosed above.

The recommendations that were provided by the Godfrey Remuneration Group in FY2012 were accompanied by a declaration that no undue influence had been applied by the members of the KMP to whom the recommendations related.

The Board is satisfied that, in receiving the remuneration recommendations from Godfrey Remuneration Group, the Protocols were complied with in all respects, and is therefore satisfied that the remuneration recommendations it received were free from undue influence by any members of the KMP to whom the recommendations related.

# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **3. EXECUTIVE REMUNERATION POLICY**

##### **Guiding principles**

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

##### ***Talent management & succession planning***

The success of the Group depends on the quality and the capabilities of its Directors and executives who manage the business and implement the strategies of the Board. 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. The Company's remuneration structures are set with these objectives in mind.

The Board believes that people who have developed their career within the Company are often 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 the Group's performance. Accordingly, while remuneration is structured to attract, motivate and retain high-performing individuals, the amount of remuneration ultimately earned by any individual is dependent on superior performance and generating value for shareholders. This is mainly achieved through the 'at-risk' components of executive remuneration (i.e., the STI and LTI).

##### ***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 activities necessary to build competitive advantages for the Group's business, without creating excessive risk for the Group.

To ensure that Executives remain focused on long term Company outcomes:

- under the STI Plan, the Managing Director is required to take 50% of his total STI bonus earned (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 the end of a 3-year period or cessation of employment;
- under the LTI Plan, 'vesting' of the LTI (which is the point at which the executive can derive value from their LTI award) cannot occur before three years; and
- consistent with the objective of creating a meaningful alignment of interests and in accordance with the Act, Executives are not permitted to hedge any unvested LTI or other equity awards. Any shares acquired under the LTI Plan that remain in the trust are subject to disposal and other dealing restrictions. An Executive may not sell, transfer, pledge as security or otherwise deal in his or her shares held in the trust without first applying for and receiving Board approval for release of the shares from the trust. Where the Board has approved an application to release shares acquired under the LTI Plan from the trust, 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. Breaches of the Company's Securities Trading Policy are taken seriously and failure to comply may result in disciplinary action being taken, which may include dismissal.



# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **3. EXECUTIVE REMUNERATION POLICY**

##### ***Long-term value for shareholders (continued)***

To further enhance the alignment of remuneration with long-term shareholder interests, LTI grants to Executives are tested against two performance hurdles, being a relative TSR measure and an Earnings Per Share (**EPS**) growth hurdle. LTI grants to other senior employees, including division and business unit heads, may be subject to a third performance hurdle specific to their business unit's performance (**Business Unit Performance hurdle**) in addition to the TSR and EPS growth hurdles. This combination of measures ensures that rewards to participants under the LTI programme are reflective of the Group's overall business performance and, where appropriate, the performance of individual business units over which participants have a degree of control.

##### ***Communication & engagement of stakeholders***

The Board is committed to clear disclosure and explanation of the Company's remuneration structures. The Board has endeavoured to ensure that its Remuneration Report for each year provides clarity and transparency regarding the key issues of concern to shareholders and other users of the Report.

In addition, the Board has had, and will continue to have, regard to the interests and views of shareholders and other stakeholders when considering remuneration issues.

The Board, where appropriate, seeks the views of shareholder representative bodies in designing and implementing changes to the Company's remuneration structures, and invites questions from shareholders on the Remuneration Report either prior to, or at, the 2012 Annual General Meeting (**AGM**).

##### **Supporting business objectives**

##### ***Remuneration structures support the Group's strategy and business objectives***

Sustained performance over the long-term is the key focus of the Group and this sustained performance is achieved through the efforts of employees, under the stewardship of the Board and leadership of the Managing Director and senior executives.

In setting remuneration arrangements, the Board and Remuneration Committee have regard to the actions and outcomes required to support business objectives, and structure the 'at risk' components of Executive remuneration to align with these actions and outcomes. The diagram below illustrates how the Company's executive remuneration arrangements support the achievement of the Group's corporate strategy and core business objectives.

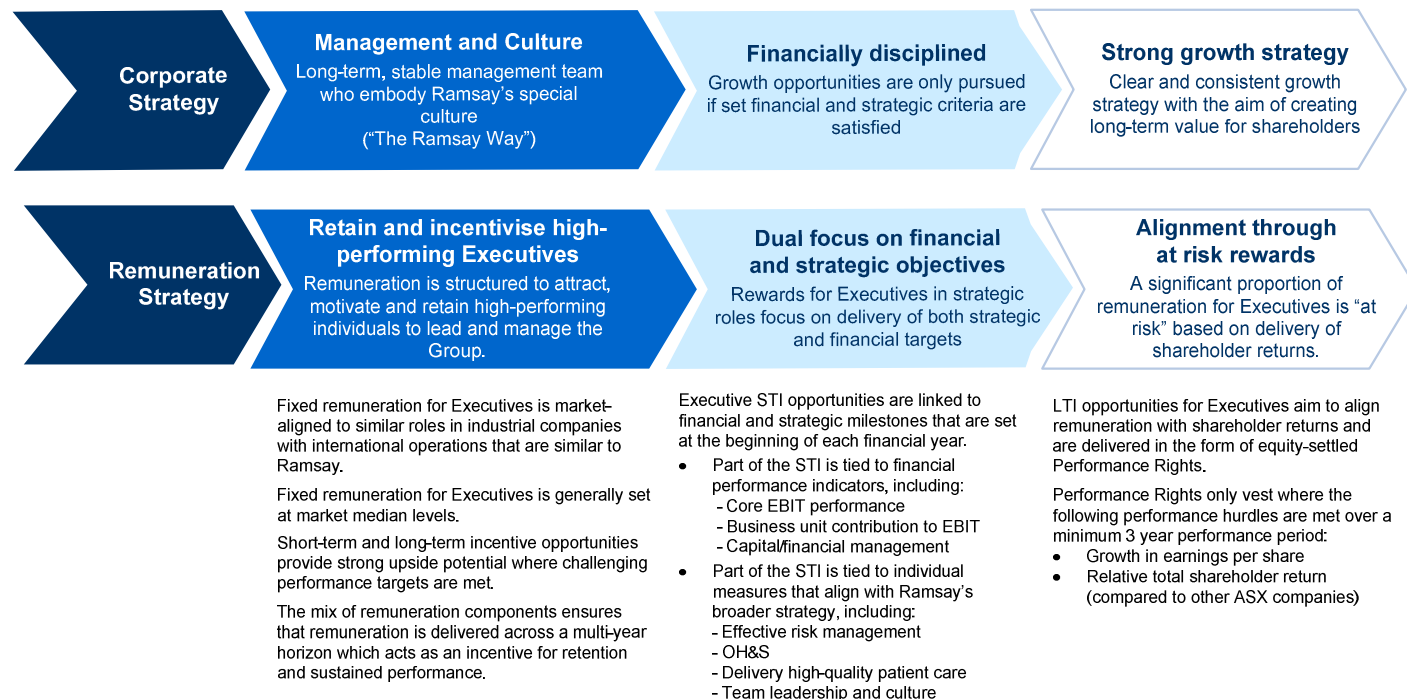
# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

### 3. EXECUTIVE REMUNERATION POLICY

Diagram 2 - Aligning Remuneration Structures to Corporate Strategy and Objectives



#### Remuneration cycle encourages sustained performance

For the Executives, the components of remuneration are structured to create a mix of short-term and long-term incentives that motivate them to deliver sustained returns. Diagram 3 illustrates the remuneration cycle for Executives. The remuneration components are explained in further detail in the 'Remuneration Components' section below.

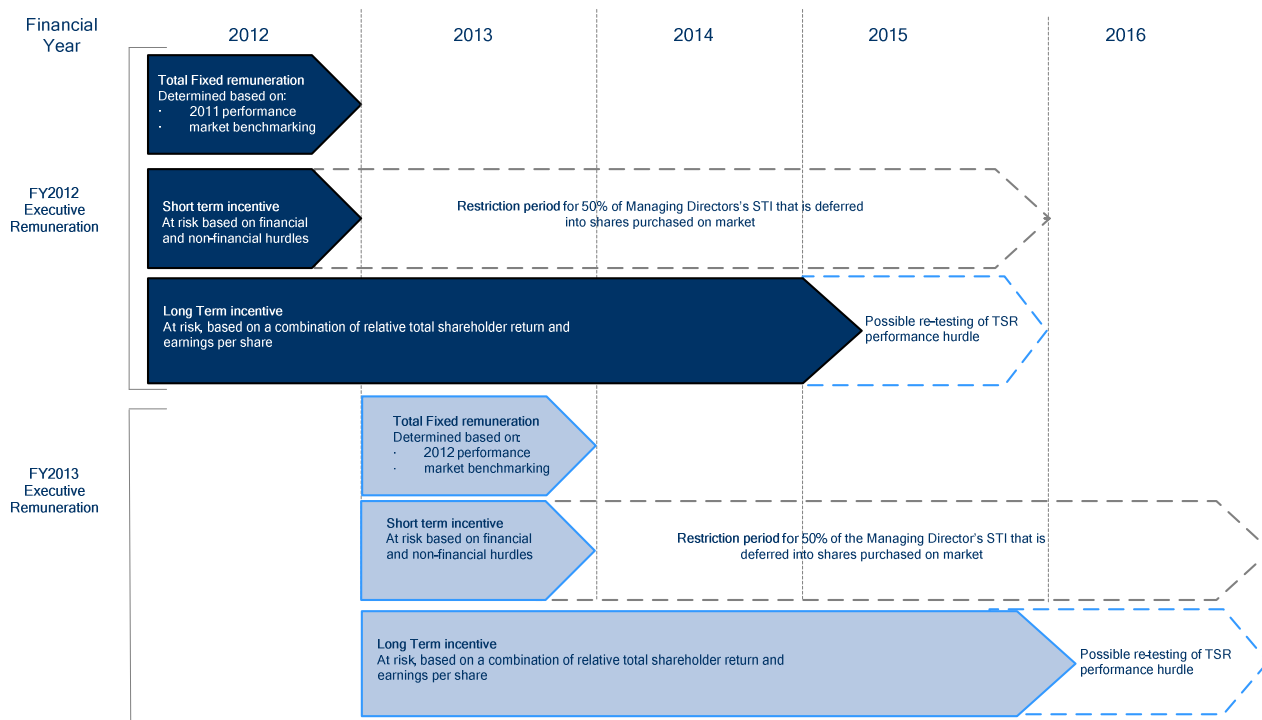
# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

### 3. EXECUTIVE REMUNERATION POLICY

Diagram 3 – Remuneration cycle for Executives



By staggering the delivery of benefits over a multi-year horizon, the Company ensures that Executives are retained and rewarded for delivering ongoing improvements in Group performance and are not focused on short term results at the expense of longer term Group performance. Staggering the point at which rewards deliver value also supports the retention of high-performing Executives.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

### 3. EXECUTIVE REMUNERATION POLICY

#### *Remuneration outcomes demonstrate alignment with performance objectives*

The success of our remuneration structures in aligning shareholder and executive rewards is demonstrated by the Company's performance and the value derived by 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.

*Table 5: Year-on-year performance snapshot*

Financial Year	Share Performance				Earnings Performance (A\$m)		Enterprise Value <sup>3</sup> (A\$m)
	Closing share price (A\$)	Dividend (cents/share)	TSR Percentile Ranking <sup>1</sup> (%)	Core EPS <sup>2</sup> (cents/share)	Core EBIT	Core NPAT	
2012	\$22.61	60.0¢	88.89%	116.1¢	\$438.8	\$252.6	\$5,725
2011	\$18.18	52.0¢	95.83%	101.1¢	\$395.5	\$220.6	\$4,948
2010	\$14.05	43.5¢	95.59%	84.5¢	\$333.8	\$178.5	\$4,254
2009	\$11.54	38.0¢	89.39%	74.1¢	\$303.3	\$146.4	\$3,626
2008	\$8.71	32.5¢	67.14%	60.7¢	\$255.6	\$123.1	\$3,051

1. *TSR percentile ranking against the comparator group comprising the last 100 companies in the ASX 200 index over the 3-year performance period up to the close of each relevant Financial Year, with exclusions and adjustments described in table 7 below.*
2. *Core EPS is calculated using earnings from continuing operations before specific items and amortisation of intangibles, as represented by non-core items (set out in note 2(a) of the Financial Report). Since the introduction of Core EPS as an additional STI hurdle in FY2008/09, there have been no material divested operations for accounting purposes.*
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.*

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### 3. EXECUTIVE REMUNERATION POLICY

The Company's strong year-on-year performance has resulted in Executives receiving a substantial proportion of their available STI bonuses for FY2012 and the four preceding financial years. Table 6 below sets out the average proportion of the maximum bonuses that Executives received for each of the past five financial years.

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

Table 6: Average proportion of STI awarded, FY2008-FY2012

Financial Year	2008	2009	2010	2011	2012
% of maximum STI awarded (average for Executives)	98%	92%	96%	100%	93%

##### (a) Performance Rights subject to the relative TSR performance condition

Strong year-on-year performance has enabled the Company to outperform its peers over a long-term time horizon. Executives have derived significant value from their LTI grants over the past five years, consistent with the strong relative performance of the Company compared to its comparator group (which for each of the years listed in the table below has consisted of the companies in the bottom half of the S&P ASX 200, excluding companies in the metals and mining sectors).

Table 7: Vesting levels achieved under the LTI Performance Rights Plan over the last 4 years

Testing date (30 June) <sup>1</sup>	TSR Percentile Ranking for Vesting to Commence	TSR Percentile Ranking for Full Vesting	Actual TSR Percentile Ranking Achieved	TSR Component Vesting under LTI Plan
2012	50%	75%	88.89%	100%
2011	50%	75%	95.83%	100%
2010	50%	75%	95.59%	100%
2009	50%	75%	89.39%	100%

1. TSR measured over the 3-year performance period up to the close of each relevant Financial Year

# RAMSAY HEALTH CARE LIMITED

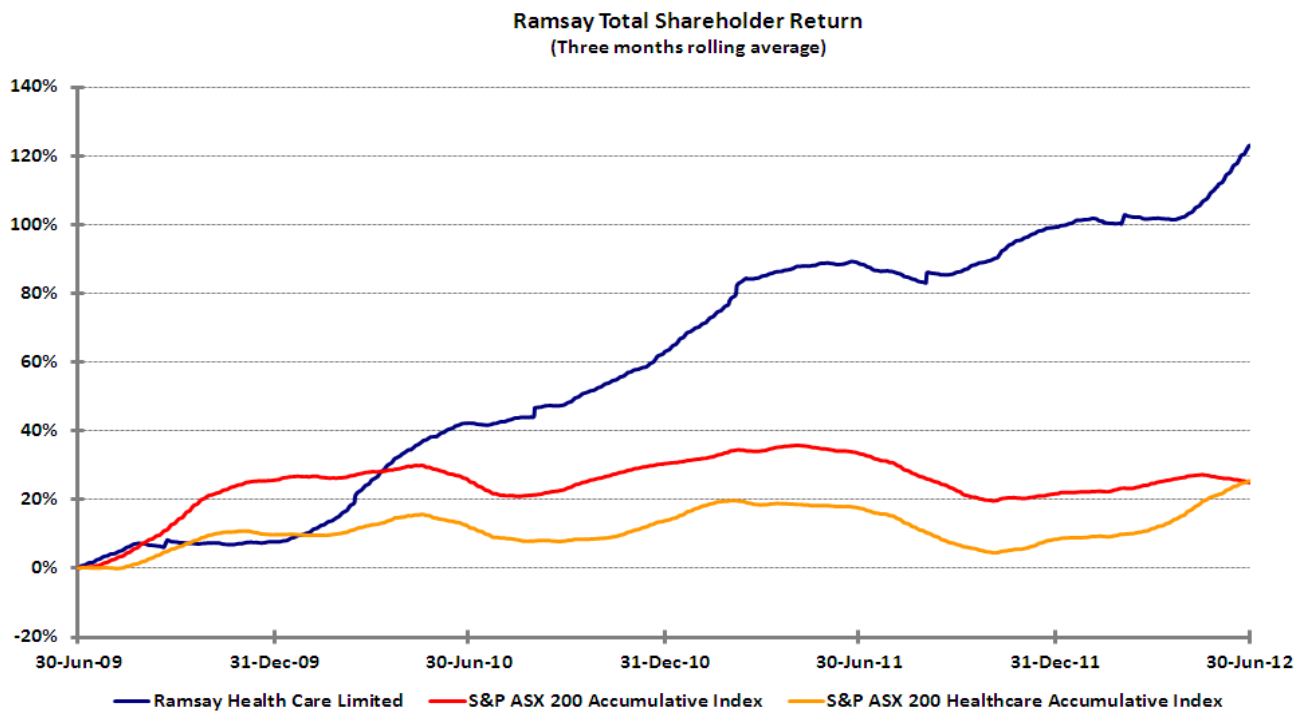
## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### 3. EXECUTIVE REMUNERATION POLICY

The graph below shows the Company's TSR performance over the past three financial years, compared to the broader S&P/ASX 200 Accumulative Index and the S&P/ASX 200 Healthcare Accumulative Index.

*Graph 1: The Company's TSR performance against the broader market*



*Source: Orient Capital Pty Limited*

Note: TSR is measured over the three years to 30 June 2012.

This graph demonstrates that there has been a strong correlation between the returns delivered by the Company to its shareholders and the level of vesting of LTI grants, and that the intended alignment between shareholder and executive interests is actually being achieved in practice. The use of multiple separate performance hurdles under the LTI Plan further reinforces and strengthens this alignment and helps to ensure that it continues to operate effectively in changing market conditions.

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

**3. EXECUTIVE REMUNERATION POLICY**

*(b) Performance Rights subject to the EPS performance condition*

The EPS performance hurdle was first introduced as a performance measure in FY2009. The first Performance Rights awarded subject to the EPS performance hurdle fell due for testing on 30 June 2011.

LTIs with an EPS hurdle first became eligible to vest in August 2011 and fully vested, based on the Company's strong earnings performance.

*Table 8: EPS Performance*

Financial Year	Aggregate 3-year <sup>1</sup> Minimum EPS Threshold (cents per share)	Aggregate 3-year <sup>1</sup> Maximum EPS Target (cents per share)	Actual Aggregate 3- year <sup>1</sup> EPS Achieved (cents per share)	EPS component Vesting under LTI Plan
2012	255.0	283.4	301.7	100%
2011	218.0	237.7	259.7	100%

*1. EPS aggregated over the 3-year performance period.*

*(c) Performance Rights subject to the business unit performance condition*

The Business Unit Performance hurdle was first introduced as a performance measure for LTI awards granted during FY2009. The first Performance Rights awarded subject to the Business Unit Performance hurdle fell due for testing on 30 June 2011.

The Business Unit Performance hurdle only applies to grants made to senior employees who have direct responsibility and control over a specific business unit (e.g. State Managers in Australia). No Executives receive LTI grants that are subject to the Business Unit Performance hurdle. Despite this, some detail around the operation of the Business Unit Performance hurdle is included in this Report for completeness.

Based on the performance of each relevant business unit, 100% of the performance rights awarded in FY2010 of this component vested on 31 August 2012.

Further details of the terms of the STI and LTI programmes are set out in the 'Executive Remuneration: In Detail' section below.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### 4. EXECUTIVE REMUNERATION: IN DETAIL

##### Remuneration components

##### *Remuneration components & their relative weightings*

Total remuneration for the Managing Director and other 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 mix of the three remuneration components are determined by the Board on the recommendation of the Remuneration Committee and are set out in the table below:

*Table 9: Relative mix of remuneration components for Executives for FY2012*

	% of total remuneration (annualised)		
	Fixed remuneration	Performance-based remuneration	
		Maximum STI Opportunity <sup>1</sup>	LTI Opportunity <sup>2</sup>
C.P. Rex	27%	27%	46%
B.R. Soden	39%	19%	42%
D.A. Sims	37%	19%	44%
C.R. McNally	37%	19%	44%

1. Assumes all applicable KPIs are achieved in full.

2. Assumes all applicable hurdles are achieved in full.

##### **Fixed remuneration**

The remuneration for all Executives includes a fixed component comprised of base salary and employer superannuation contributions. Executives may elect to receive 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 Executive's individual performance; and
- relevant comparative compensation in the market.

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

Generally, the Board and Remuneration Committee's practice is to set fixed remuneration for Executives at median market levels.



# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **4. EXECUTIVE REMUNERATION: IN DETAIL**

##### *Fixed remuneration (continued)*

The independent consultant engaged by the Remuneration Committee to provide the benchmarking data for purposes of the FY2012 remuneration review process was Godfrey Remuneration Group. Godfrey Remuneration Group has no link to the Company, its Directors, or any non-director Executives other than as a professional service provider. Details of Godfrey Remuneration Group's engagement by the Company are set out on page 15.

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 Executives is fair and reasonable.

##### *Recalibration of Managing Director's remuneration*

After due consideration of:

- the external advice received from Godfrey Remuneration Group, including benchmarking data provided;
- the outstanding performance of the Managing Director and the Board's desire to ensure he is appropriately rewarded;
- the growth of the Group in terms of size and complexity; and
- the industry leadership demonstrated by the Managing Director, exemplified by his Presidency of the Australian Private Hospitals Association,

the Board resolved to increase the Managing Director's fixed remuneration from \$1.5 million to \$2.0 million for FY2012.

The Board formed the view that a significant increase in the Managing Director's remuneration package from FY2011 to FY2012 was necessary in order to recalibrate the Managing Director's remuneration in light of the increased size and scope of the Company's operations and market remuneration levels generally. In particular:

- the increase in the Company's market capitalisation by approximately 29.4% between 30 June 2010 and 30 June 2011 (with its share price growing from \$14.05 to \$18.18), and its admission to the S&P/ASX100;
- the expansion of Ramsay's business into new geographical markets (e.g. through the acquisition of Ramsay Santé); and
- recognition of the Managing Director's critical role in overseeing the successful execution of Ramsay's growth strategy, not just by the Board but by external commentators (who consistently rate Mr Rex as one of the top performing and most effective CEOs in Australia).

In deciding the quantum of the increase in the Managing Director's fixed remuneration, the Board was mindful of the fact that any increase in fixed remuneration would result in a corresponding increase in the Managing Director's maximum STI opportunity (which is set at 100% of his fixed remuneration). The maximum STI opportunity will only be achieved where the Managing Director achieves outstanding performance against the stretch STIs set by the Board. The revised level of fixed remuneration for the Managing Director and the corresponding increase in the value of his STI opportunity bring his total remuneration package into line with Ramsay's stated remuneration positioning (outlined above), having regard to the Company's current market capitalisation and remuneration levels among appropriate peer companies.

Given the continuing strong performance of the company since the increase in the Managing Director's fixed remuneration was implemented, the Board remains of the view that the increase was entirely appropriate.

Following this recalibration of the Managing Director's remuneration for FY2012, the Board is of the view that, there is unlikely to be a case for further significant increases to the Managing Director's remuneration in the immediate future. Indeed, following the recent annual review of the Managing Director's remuneration at the end of FY2012, the Board determined that his fixed remuneration (and consequently his maximum STI opportunity) be increased by a modest 5% for FY2013.

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Short-term Incentive (STI)*

*Table 10 – Summary of STI Programme*

<b>What is the STI programme?</b>	<p>An incentive plan under which participants are eligible to receive an annual award if they satisfy pre-determined and challenging operational, strategic and individual performance targets.</p> <p>Formal KPIs are set at the beginning of each year for each of the Executives, including the Managing Director.</p>															
<b>Who participates in the STI programme?</b>	<p>The Executives (including the Managing Director) as well as other key executives on a discretionary basis (<b>STI Participants</b>).</p>															
<b>Why does the Board consider the STI programme an appropriate incentive?</b>	<p>The STI programme and the performance conditions set under the programme are designed to motivate and reward high performance.</p> <p>The STI programme puts a significant proportion of STI Participants' 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 Company's management principles and cultural values.</p> <p>The total potential STI available is set at a level designed to provide sufficient incentive to the STI participants to achieve the operational targets at a cost to the Company that is appropriate in the circumstances.</p>															
<b>Are both target and stretch performance conditions imposed?</b>	<p><i>Managing Director</i></p> <p>Stretch targets apply to the Managing Director's STI bonus so that if his performance exceeds the already challenging targets, the STI programme will deliver higher rewards. The Managing Director's STI bonus is determined on the basis of agreed key performance indicators (<b>KPIs</b>), with:</p> <ul style="list-style-type: none"><li>• 60% of the total maximum award available where target performance levels are achieved; and</li><li>• a further 40% of the total maximum award available where 'stretch' levels of performance are achieved. The stretch KPIs are designed to only be met where outstanding performance is achieved.</li></ul> <p>The maximum annual STI opportunity is set at 100% of the Managing Director's total fixed remuneration.</p> <p><i>Other Executives</i></p> <p>For the other Executives and all other STI Participants, a single set of challenging KPIs apply to the entire STI bonus (although the specific targets vary between individual Executives, as explained below).</p>															
<b>Are both financial and non-financial performance considered?</b>	<p><i>Managing Director</i></p> <p>As noted above, the Managing Directors' STI awards are linked to both target and stretch KPIs. Both components are divided between financial and non-financial measures.</p> <p><i>Other Executives</i></p> <p>A combination of financial and non-financial KPIs are also applied for other Executives. Depending on the Executive's responsibilities, the emphasis upon financial and non-financial measurements can vary significantly.</p> <p>The table below reflects the weightings given to financial and non-financial KPIs for each Executive.</p> <p><i>Table 11 – Financial and Non-Financial KPIs for Executives FY2012</i></p> <table><tr><th></th><th><b>% Financial KPIs</b></th><th><b>% Non-financial KPIs</b></th></tr><tr><td>C.P. Rex</td><td>50%</td><td>50%</td></tr><tr><td>B.R. Soden</td><td>50%</td><td>50%</td></tr><tr><td>C.R. McNally</td><td>70%</td><td>30%</td></tr><tr><td>D.A. Sims</td><td>50%</td><td>50%</td></tr></table>		<b>% Financial KPIs</b>	<b>% Non-financial KPIs</b>	C.P. Rex	50%	50%	B.R. Soden	50%	50%	C.R. McNally	70%	30%	D.A. Sims	50%	50%
	<b>% Financial KPIs</b>	<b>% Non-financial KPIs</b>														
C.P. Rex	50%	50%														
B.R. Soden	50%	50%														
C.R. McNally	70%	30%														
D.A. Sims	50%	50%														

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Short-term Incentive (STI) (continued)*

*Table 10 – Summary of STI Programme*

What are the key performance indicators (KPIs)?	Managing Director									
	The KPIs for the Managing Director’s FY2012 STI are set out in the table below.									
	Table 12 – FY2012 KPIs for the Managing Director									
	<table><tr><th></th><th>Target KPIs (60% of total STI opportunity)</th><th>Stretch KPIs (40% of total STI opportunity)</th></tr><tr><td>Financial</td><td><ul style="list-style-type: none"><li>Financial performance to budget *(30%)</li></ul></td><td><ul style="list-style-type: none"><li>Core NPAT above FY2012 budget** (20%)</li></ul></td></tr><tr><td>Non-financial</td><td><ul style="list-style-type: none"><li>Strategy, leadership &amp; culture (18%)</li><li>European operations (6%)</li><li>Discretionary criteria (6%)</li></ul></td><td><p>Discretionary criteria (20%) including (but not limited to):</p><ul style="list-style-type: none"><li>long term planning strategies;</li><li>workplace health &amp; safety</li><li>succession planning;</li><li>risk management;</li><li>stakeholder management; and</li><li>promotion of the Ramsay Way and culture.</li></ul></td></tr></table>		Target KPIs (60% of total STI opportunity)	Stretch KPIs (40% of total STI opportunity)	Financial	<ul style="list-style-type: none"><li>Financial performance to budget *(30%)</li></ul>	<ul style="list-style-type: none"><li>Core NPAT above FY2012 budget** (20%)</li></ul>	Non-financial	<ul style="list-style-type: none"><li>Strategy, leadership &amp; culture (18%)</li><li>European operations (6%)</li><li>Discretionary criteria (6%)</li></ul>	<p>Discretionary criteria (20%) including (but not limited to):</p> <ul style="list-style-type: none"><li>long term planning strategies;</li><li>workplace health &amp; safety</li><li>succession planning;</li><li>risk management;</li><li>stakeholder management; and</li><li>promotion of the Ramsay Way and culture.</li></ul>
		Target KPIs (60% of total STI opportunity)	Stretch KPIs (40% of total STI opportunity)							
	Financial	<ul style="list-style-type: none"><li>Financial performance to budget *(30%)</li></ul>	<ul style="list-style-type: none"><li>Core NPAT above FY2012 budget** (20%)</li></ul>							
	Non-financial	<ul style="list-style-type: none"><li>Strategy, leadership &amp; culture (18%)</li><li>European operations (6%)</li><li>Discretionary criteria (6%)</li></ul>	<p>Discretionary criteria (20%) including (but not limited to):</p> <ul style="list-style-type: none"><li>long term planning strategies;</li><li>workplace health &amp; safety</li><li>succession planning;</li><li>risk management;</li><li>stakeholder management; and</li><li>promotion of the Ramsay Way and culture.</li></ul>							
	* Further details of the financial performance measures used to assess this component of the Managing Director’s STI are set out on page 29.									
	** Full vesting of the financial component of the Managing Director’s stretch KPIs will only occur where Core NPAT exceeds the FY2012 budget by 6% or more.									
	Other Executives									
The KPIs for other Executives vary depending on their role and areas of responsibility.										
Examples of the FY2012 financial KPIs used for Executives other than the Managing Director include:										
<ul style="list-style-type: none"><li>Core EBIT performance to budget</li><li>Business unit contribution to EBIT</li><li>Capital and Financial Management</li></ul>										

What are the key performance indicators (KPIs)?	Examples of the FY2012 non-financial KPIs used for Executives other than the Managing Director include:
	<ul style="list-style-type: none"><li>Strategy, leadership and culture KPIs such as:<ul style="list-style-type: none"><li>Delivery of safe patient care;</li><li>Sustainable workforce planning;</li><li>Succession planning;</li><li>Implementation of 5 year strategic plans; and</li><li>Promotion of the “Ramsay Way” culture.</li></ul></li><li>Functional KPIs such as:<ul style="list-style-type: none"><li>Search for strategic acquisitions;</li><li>Management of Brownfield opportunities;</li><li>New Business Initiatives;</li><li>Investor Relations; and</li><li>Effective communication.</li></ul></li></ul>

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Short-term Incentive (STI) (continued)*

*Table 10 – Summary of STI Programme*

<b>Why were the KPIs chosen?</b>	<p>Underpinning the KPIs are the Company's commitment to the twin objectives of:</p> <ul style="list-style-type: none"> <li>• delivering safe, high quality clinical care for our patients; and</li> <li>• providing a safe working environment for all our people.</li> </ul> <p>A combination of financial and non-financial KPIs have been chosen because the Board believes that there should be a balance between short term financial measures and more strategic non-financial measures which in the medium to longer term will ultimately drive future growth and returns for shareholders.</p> <p>The financial KPIs were chosen to provide measureable financial performance criteria strongly linked to year-on-year shareholder returns.</p> <p>Non-financial KPIs were chosen to encourage the achievement of personal business goals consistent with the Group's overall objectives including the delivery of safe, high quality patient care, safe working environment, strategic growth, the retention of a professional workforce and the development of new business initiatives.</p>
<b>How are the KPIs measured?</b>	<p>Performance against the relevant operational targets is assessed 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. For example, the OH&amp;S KPI for the Managing Director is assessed based on the year-on-year change in the Lost Time Injury Frequency Rate.</p> <p>Where quantitative assessment is not practicable, qualitative performance appraisals are used.</p> <p>Qualitative assessments are undertaken by the Board. Where available, the Board draws on the outcomes of 360-degree feedback reviews in making these assessments, which are periodically conducted by Ramsay in conjunction with an external consultant.</p> <p>Any 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.</p>
<b>Who assesses the performance of the Executives?</b>	<p>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.</p> <p>The Managing Director assesses the performance of all other Executives and makes recommendations to the Remuneration Committee for consideration, which in turn makes recommendations to the Board for final determination.</p>
<b>In what form is the STI delivered?</b>	<p>All STI awards are delivered as a cash payment to Executives, with the exception of the Managing Director.</p> <p>Under the Managing Director's Executive Service Agreement, half of his STI payment is paid in cash.</p> <p>The Company must withhold the remaining 50% of the STI earned, less applicable tax, and use the amount to purchase on-market ordinary shares in the Company at market price. The purchased shares do not form part of the share-based payments for the purposes of note 23 of the Financial Report. 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 the shares are acquired. The restrictions on trading these shares have been imposed to further strengthen the link between the Managing Director's remuneration and shareholder interests, as it provides an additional incentive for the Managing Director to focus on the Company's long-term, sustainable growth. Shares purchased as part of the Managing Director's STI payment are only ever acquired on-market during the trading windows in accordance with the Company's Securities Trading Policy.</p>

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Short-term Incentive (STI) (continued)

Table 10 – Summary of STI Programme

<b>What if an Executive ceases employment?</b>	If an Executive ceases employment with the Company before STI targets are achieved, then they will generally not be entitled to receive any STI bonus.  However, if cessation of employment is due to illness, disability or death or is a Company-initiated termination other than for cause (for example redundancy), the Executive may receive a pro-rata STI payment for the portion of the performance period they were employed by the Company based on their performance over that period.
<b>What STI awards did Management earn in FY2012?</b>	STI payments for FY2012 are set out in table 13 below. These are only paid after the auditors have signed off on the statutory financial accounts for the full year.

A review was undertaken by the Remuneration Committee of the Managing Director's performance against his target KPIs and his 'stretch' KPIs for FY2012. The Group's financial performance against the FY2012 was outstanding, with Core EPS and Core NPAT exceeding the previous year by 14.8% and 14.5% respectively. As a result, the Managing Director's target KPIs (both financial and non-financial) were satisfied in full. In relation to the financial component of the Managing Director's 'stretch' KPIs, Core NPAT was above the threshold set for vesting, but was less than the level required for full vesting (being 6% above the budgeted Core NPAT for FY2012). For the non-financial target and 'stretch' KPIs (set out in table 12 above), the Remuneration Committee determined that these had all been met in full. As a result, the Remuneration Committee recommended that the Managing Director receive 87.63% of his total STI opportunity. The recommendations of the Remuneration Committee were accepted and approved by the Board.

The Managing Director conducted an evaluation of the performance of each of the Executives against their individual FY2012 KPIs and discussed the results of these evaluations with the Remuneration Committee. As each of the Executives either met or exceeded their individual KPIs for FY2012, the Remuneration Committee recommended to the Board that each of the Executives receive 100% of their STIs for FY2012. This recommendation was accepted and approved by the Board.

Table 13 shows the actual STI bonus amounts to be paid to the Executives for their performance in FY2012.

Table 13 – STI bonuses for Executives FY2012 – to be paid in FY2013 <sup>1</sup>

Executive	Minimum potential STI Bonus	Maximum potential STI bonus <sup>2</sup>	Actual STI awarded to be paid in FY2013 subject to target KPIs	Actual STI awarded to be paid in FY2013 subject to 'stretch' KPIs	Actual STI awarded as % of Maximum STI
C.P. Rex <sup>3, 4</sup>	Nil	\$2,000,000	\$1,200,000	\$552,595	87.63%
B.R. Soden	Nil	\$625,000	\$625,000	Not applicable	100%
D.A. Sims	Nil	\$367,000	\$367,000	Not applicable	100%
C.R. McNally	Nil	\$367,000	\$367,000	Not applicable	100%

- The STI awards for FY2011 that were paid in FY2012 are set out in the Company's Remuneration Report for FY2011.*
- The maximum potential value of the FY2012 STI awards for all Executives except Mr Rex (i.e. all other Executives who receive STI awards are paid only in cash) is the amount disclosed in Table 13. As a minimum level of performance must be achieved before any STI is awarded, the minimum potential value of the STI for all participants in FY2012 was nil.  
Mr Rex's FY2012 STI award is comprised of a cash payment (50%) and a portion (50%, less taxes) used to purchase restricted shares. The shares cannot be disposed of for three years unless Mr Rex's employment with the Company ceases earlier. Therefore, the maximum potential value of Mr Rex's FY2012 STI award depends on movements in the Company's share price over the period for which the shares will be restricted.*
- For Mr Rex, 60% of his maximum bonus is awarded where target KPI performance levels are achieved. The remaining 40% of his maximum bonus only becomes available where performance meets or exceeds stretch KPI levels, in which case some or all of the remaining 40% of the STI may be awarded based on performance against stretch KPI levels.*
- As Mr Rex exceeded target performance levels for FY2012 and also partially succeeded in meeting the 'stretch' targets, his total FY2012 STI award is 87.63% of the total maximum STI available for the financial year.*

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Long-term Incentive (LTI)*

*Table 14 – Summary of LTI Programme*

<b>What is the purpose of the LTI programme?</b>	The purpose of the LTI programme is to align executive reward with shareholder wealth by tying this component of remuneration to the achievement of performance conditions which underpin sustainable long-term growth.
<b>Who participates in the LTI programme?</b>	Participation in the LTI programme is only offered to a small number of executives who are able to significantly contribute to the generation and preservation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles (including the Executives as well as other key executives on a discretionary basis) ( <b>LTI Participants</b> ).
<b>What proportion of total remuneration does the LTI programme represent for Key Management Personnel?</b>	For FY2012 LTI grants, the award value was not set as a percentage of fixed remuneration but was instead based on the intended total remuneration value for the Executive. This resulted in grants being made that represented between 40-50% of the Executive's total remuneration package for FY2012.  However, Executives will not derive actual value from their LTI grants unless the applicable challenging performance hurdles are achieved.
<b>How is reward delivered under the LTI programme?</b>	LTI grants are delivered to LTI Participants 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 minimum 3 year period.  If the applicable service and performance conditions are satisfied, the Performance Rights will vest, and Company shares will be delivered to the LTI Participants.
<b>Do participants pay for the Performance Rights?</b>	Performance Rights are offered at no cost to the LTI Participants.
<b>What rights are attached to the Performance Rights?</b>	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.
<b>What restrictions apply?</b>	The Company prohibits hedging of Performance Rights.  Shares received upon vesting of awards that are held in trust under the LTI Plan are subject to disposal and dealing restrictions as long as they remain in the trust. While they remain in the trust, the shares cannot be sold, transferred or otherwise dealt with without prior Board approval. If the Board approves an application for the restrictions to be lifted on shares acquired under the LTI Plan, the shares may be released from the trust and may only be sold within one of the 'trading windows' and otherwise in accordance with the Company's Securities Trading Policy.
<b>What are the performance hurdles?</b>	For Performance Rights granted to Executives, grants are split into two equally weighted components with vesting linked to two independently-applied performance conditions: <ul style="list-style-type: none"> <li>• one component is tested against a relative Total Shareholder Return (<b>TSR</b>) hurdle; and</li> <li>• the remaining component is tested against an Earning Per Share growth (<b>EPS</b>) hurdle.</li> </ul> For certain other LTI Participants (but none of the Executives), grants of performance rights may be subject to a third Business Unit Performance hurdle. This additional hurdle only applies for LTI Participants who have direct responsibility and control over a discrete business unit (e.g divisional and business unit heads).  Where an LTI grant is subject to a Business Unit Performance hurdle, the grant is split into three, equally weighted components: <ul style="list-style-type: none"> <li>• One component is tested against the relative TSR hurdle;</li> <li>• Another component is tested against the EPS hurdle; and</li> <li>• The remaining component is tested against the Business Unit Performance hurdle.</li> </ul> Diagram 4 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.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Long-term Incentive (LTI) (continued)

Table 14 – Summary of LTI Programme

<p><b>How is the relative TSR hurdle measured?</b></p>	<p><b>Relative TSR hurdle</b></p> <p>The relative TSR hurdle is determined by measuring and ranking the Company's TSR relative to the TSRs of a comparator group of companies. On the recommendation of the Remuneration Committee, the Board has determined that, for LTI grants made on or after 1 July 2011, the most appropriate comparator group is comprised of companies in the S&amp;P/ASX 200 index as at the start of the performance period, excluding companies in sectors having different drivers of operating performance being those in the real estate, financial and resources industries.</p> <p>For the FY2009 LTI grant (which vested in FY2012), the comparator group was comprised of S&amp;P/ASX 200 index companies ranked 101 to 200 at the start of the 3-year performance period, excluding companies in the metals and mining sectors, adjusted for companies which have undergone mergers, takeovers or insolvency during the performance period.</p> <p>Broad industry groups are used for the purposes of assessing relative TSR performance because there are too few Australian healthcare companies of similar size to Ramsay for TSR comparison purposes. Comparator groups are only adjusted where appropriate as a result of mergers, takeovers or other corporate reconstructions during the performance period.</p> <p>Performance Rights tested against the relative TSR hurdle vest on a sliding scale in accordance with the vesting schedule for Performance Rights set out in the table below:</p> <p><i>Table 15 – TSR vesting schedule</i></p> <table data-bbox="531 1041 1401 1319"> <tr> <th>Company's TSR ranking against the comparator group</th><th>% of Performance Rights subject to the TSR hurdles that vest</th></tr> <tr> <td>TSR below 50<sup>th</sup> percentile</td><td>Nil</td></tr> <tr> <td>TSR at 50<sup>th</sup> percentile</td><td>50%</td></tr> <tr> <td>TSR between 50<sup>th</sup> and 75<sup>th</sup> percentile</td><td>Between 50% and 100% increasing on a straight line basis</td></tr> <tr> <td>TSR above 75<sup>th</sup> percentile</td><td>100%</td></tr> </table> <p>If the TSR hurdle is not achieved on the first test date then unvested Performance Rights will be re-tested on two more occasions (at six and 12 months following the original testing date) for performance over the extended period.</p> <p>As the comparator group used for assessing the Company's TSR is comprised of companies from a broad 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. For example, the Company's share price may be significantly impacted by unexpected market forces external to the Company. Accordingly, the Board adopts the approach that re-testing on two further occasions (if necessary) will afford a fairer opportunity for assessing the Company's TSR performance over a multi-year period.</p> <p>If the TSR hurdle is not satisfied on the second and final re-test, all unvested Performance Rights will immediately lapse.</p>	Company's TSR ranking against the comparator group	% of Performance Rights subject to the TSR hurdles that vest	TSR below 50 <sup>th</sup> percentile	Nil	TSR at 50 <sup>th</sup> percentile	50%	TSR between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	Between 50% and 100% increasing on a straight line basis	TSR above 75 <sup>th</sup> percentile	100%
Company's TSR ranking against the comparator group	% of Performance Rights subject to the TSR hurdles that vest										
TSR below 50 <sup>th</sup> percentile	Nil										
TSR at 50 <sup>th</sup> percentile	50%										
TSR between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	Between 50% and 100% increasing on a straight line basis										
TSR above 75 <sup>th</sup> percentile	100%										

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Long-term Incentive (LTI) (continued)*

*Table 14 – Summary of LTI Programme*

<p><b>How is the EPS hurdle measured?</b></p>	<p><b>EPS hurdle</b></p> <p>'EPS' is defined as core earnings per share from continuing operations before specific items and amortisation of intangibles, as represented by non-core items (set out in note 2(a) of the Financial Report). This definition has remained consistent from year to year. Since the introduction of the core EPS hurdle, there have been no material discontinued or divested operations under the applicable accounting standards.</p> <p>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.</p> <p>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, as well as the performance achieved for the prior financial year. In setting EPS targets, the Board aims to strike an appropriate balance between making the targets achievable for Executives and driving them to achieve exceptional performance.</p> <p>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.</p> <p>Performance Rights vest on a sliding scale as described below.</p> <p>No re-testing of the EPS hurdle is permitted.</p>										
<p><b>What are the EPS Targets and Thresholds?</b></p>	<p>The following table outlines the vesting schedule for the Performance Rights that are tested against the EPS hurdle.</p> <p><i>Table 16 – EPS hurdle vesting schedule</i></p> <table data-bbox="528 1167 1361 1559"> <tr> <th>Aggregate EPS performance</th><th>% of Performance Rights subject to the EPS hurdles that vest</th></tr> <tr> <td>Less than aggregate threshold EPS target</td><td>Nil</td></tr> <tr> <td>Equal to aggregate threshold EPS target</td><td>50%</td></tr> <tr> <td>Greater than aggregate threshold EPS target up to the aggregate maximum EPS target</td><td>Between 50% and 100% increasing on a straight line basis</td></tr> <tr> <td>Greater than aggregate maximum EPS target</td><td>100%</td></tr> </table> <p>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 2012 the maximum EPS target was set at 112.7 cents per share and the threshold EPS target was 90% of the maximum target (101.4 cents per share). This threshold was higher than the previous year's actual EPS result of 101.1 cents per share.</p> <p>The FY2012 accounts indicate that the EPS achieved was 116.1 cents per share. Over the 3 year period to June 2012, 100% of the Performance Rights subject to the EPS hurdles vested.</p>	Aggregate EPS performance	% of Performance Rights subject to the EPS hurdles 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%
Aggregate EPS performance	% of Performance Rights subject to the EPS hurdles 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%										



**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Long-term Incentive (LTI) (continued)*

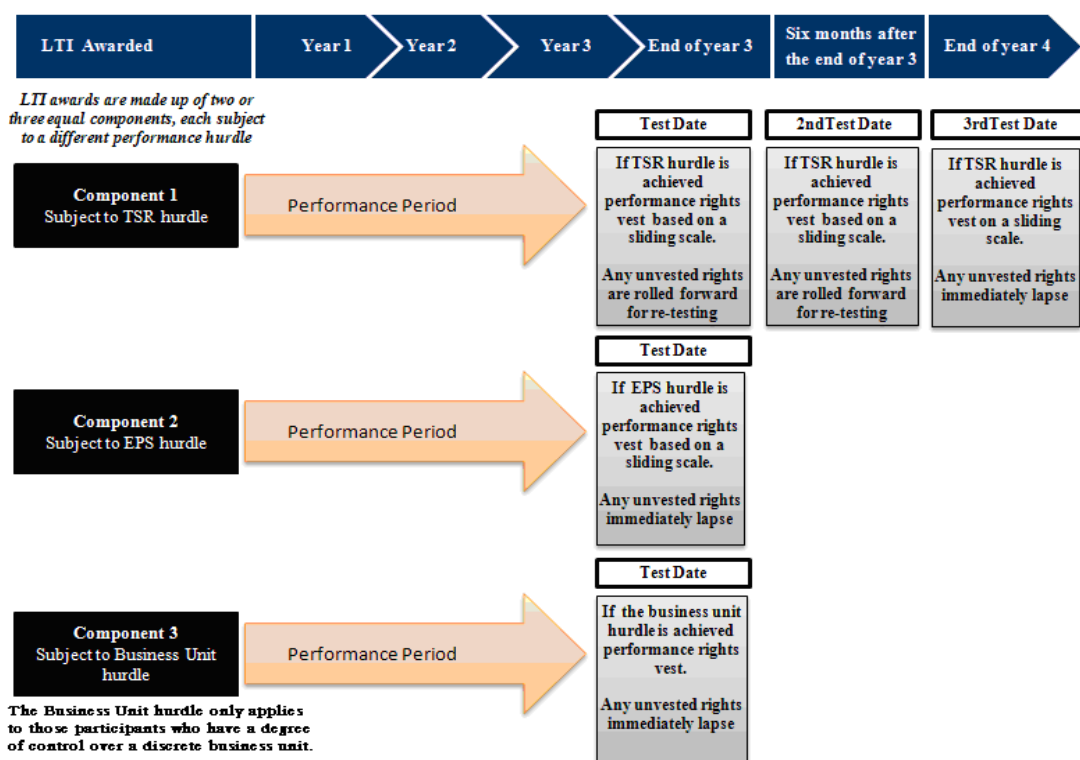
*Table 14 – Summary of LTI Programme*

<p><b>Why have the performance hurdles been chosen?</b></p>	<p>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 FY2012 unless the Company's performance is at least at the median of the comparator group for the performance period.</p> <p>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.</p> <p>The business unit performance measure is an additional hurdle chosen only for those LTI Participants who have direct responsibility and control over the performance of discrete parts of the Group's business. No Executives have a business unit hurdle as part of their LTI grants. The purpose of this additional hurdle for these LTI Participants is to help focus their efforts towards continually improved performance of the business unit for which they are responsible.</p> <p>Diagram 4 below demonstrates the operation of the performance hurdles noted above.</p>
<p><b>What if an LTI Participant ceases employment?</b></p>	<p>Under the terms of issue of the LTI grants and the LTI Plan Rules, if an LTI Participant ceases employment with the Company before the performance conditions are tested, then the unvested Performance Rights will generally lapse.</p> <p>If the LTI Participant's cessation of employment is due to death, illness, disability or redundancy, or where the Board consents, some or all of the unvested Performance Rights held by the LTI Participant at the time his or her employment ceases may vest at the Board's discretion, having regard to pro-rata performance and the particular circumstances of the LTI Participant. All rights will lapse immediately if a participant ceases employment within one year after the award date.</p> <p>Where an LTI Participant 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.</p> <p>Any Performance Rights that vest upon cessation of employment will remain subject to the trading restrictions set out above.</p>
<p><b>What happens in the event of a change in control?</b></p>	<p>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 and the circumstances leading to the change of control.</p>
<p><b>What Performance Rights were granted in FY2012?</b></p>	<p>The grants made to the Executives are summarised in table 17 below.</p> <p>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 2012 AGM.</p>
<p><b>What was the movement in the number and value of Performance Rights held by Key Management Personnel during FY2012?</b></p>	<p>These are summarised in table 18 below.</p>

# RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT – Audited

Diagram 4 – Operation of LTI hurdles



Note: Re-testing of TSR performance is done over the extended performance period, i.e. at 3.5 and 4 years.

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Table 17 – Performance Rights granted to Executives in FY2012*

Executive	Performance Condition <sup>1</sup>	Number of Performance Rights Granted <sup>2</sup>	Fair value per Performance Right <sup>3</sup>	Maximum value of grant <sup>4</sup>
<b>C.R. Rex</b>	TSR	105,000	\$13.86	\$1,455,300
	Core EPS	105,000	\$17.51	\$1,838,550
		<b>210,000</b>		<b>\$3,293,850</b>
<b>B.R. Soden</b>	TSR	42,500	\$13.86	\$589,050
	Core EPS	42,500	\$17.51	\$744,175
		<b>85,000</b>		<b>\$1,333,225</b>
<b>C.R. McNally</b>	TSR	27,500	\$13.86	\$381,150
	Core EPS	27,500	\$17.51	\$481,525
		<b>55,000</b>		<b>\$862,675</b>
<b>D.A. Sims</b>	TSR	27,500	\$13.86	\$381,150
	Core EPS	27,500	\$17.51	\$481,525
		<b>55,000</b>		<b>\$862,675</b>

- Performance Rights are subject to performance over a 3-year period from 1 July 2011 to 30 June 2014. Performance Rights lapse where the applicable 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, FY2012 Performance Rights have not yet been forfeited or vested.*
- The grants made to Executives constituted their full LTI entitlement for FY2012 and were made on 17 November 2011 subject to the terms summarised in Table 14.*
- The fair value per Performance Right was calculated by independent consultants PricewaterhouseCoopers as at the grant date of 17 November 2011. An explanation of the pricing model used to calculate these values is set out in note 23.2 to the Financial Report.*
- The maximum value of the grant has been estimated based on the fair value per instrument. The minimum total value of the grant is nil (this assumes none of the applicable performance conditions are met).*

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

*Table 18 – Movement in Performance Rights held by Executives to the date of this Report*

	Date of grant	Number of rights granted	Vesting date <sup>1</sup>	Number of rights vested <sup>2</sup>	Value of rights vested <sup>3</sup> \$	Number of rights forfeited / lapsed <sup>4</sup>	Value of rights forfeited / lapsed \$
<b>C.P. Rex</b>							
Equity Settled Performance Rights	30-Dec-08	50,000	31-Aug-11	50,000	883,075	-	-
	20-Oct-09	55,000	31-Aug-12	55,000	1,373,873	-	-
	17-Nov-10	150,000	30-Aug-13	-	-	-	-
	17-Nov-11	210,000	29-Aug-14	-	-	-	-
Equity Based Retention Rights	1-Jul-08	600,000	1-Jul-13	-	-	-	-
<b>B.R. Soden</b>							
Equity Settled Performance Rights	30-Dec-08	45,000	31-Aug-11	45,000	794,768	-	-
	20-Oct-09	50,000	31-Aug-12	50,000	1,248,975	-	-
	17-Nov-10	75,000	30-Aug-13	-	-	-	-
	17-Nov-11	85,000	29-Aug-14	-	-	-	-
<b>C.R. McNally</b>							
Equity Settled Performance Rights	30-Dec-08	25,000	31-Aug-11	25,000	441,538	-	-
	20-Oct-09	35,000	31-Aug-12	35,000	874,283	-	-
	17-Nov-10	55,000	30-Aug-13	-	-	-	-
	17-Nov-11	55,000	29-Aug-14	-	-	-	-
<b>D.A. Sims</b>							
Equity Settled Performance Rights	30-Dec-08	35,000	31-Aug-11	35,000	618,153	-	-
	20-Oct-09	40,000	31-Aug-12	40,000	999,180	-	-
	17-Nov-10	55,000	30-Aug-13	-	-	-	-
	17-Nov-11	55,000	29-Aug-14	-	-	-	-

- This vesting date is an indicative date only. Vesting will occur once the Board has determined the extent to which the applicable performance hurdles have been met. The timing of vesting is likely to coincide with the announcement of the release of Ramsay's full year results for the relevant financial period.*
- On vesting of each Performance Right, the holder received one fully-paid share in the Company, subject to disposal and other dealing restrictions, if held in the trust (refer page 30).*
- The amount is based on the Company's 5-day 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:*
  - \$17.6615 on 31 August 2011 (updated from additional volume information)*
  - \$24.9795 on 31 August 2012*
- The performance conditions applicable to Performance Rights which vested on 31 August 2011 and 31 August 2012 were fully satisfied, and no Performance Rights lapsed or were forfeited for the respective performance periods.*

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Total remuneration

Details of each Executive's remuneration for FY2012 (calculated in accordance with applicable accounting standards) are set out in table 19. All values are in A\$ unless otherwise stated.

Table 19 – Executive remuneration (calculated in accordance with accounting standards) for FY2012 and FY2011

Name	Short term				Post employment		Shared based payment rights <sup>4</sup>			Total \$	Total performance related %
	Salary & fees \$	Non monetary <sup>1</sup> \$	Leave entitlements \$	Accrued Cash Bonus <sup>2, 3</sup> \$	Superannuation \$	Accrued termination benefits \$	Amortised cost of incentive share based rights \$	Equity based retention rights <sup>5</sup> \$	Percentage of remuneration %		
<b>C.P. Rex</b>											
FY2012	2,000,000	10,818	269,553	1,752,595	15,775	-	1,880,417	1,060,800	42%	6,989,958	67%
FY2011	1,500,000	15,361	46,023	1,500,000	15,199	-	934,133	1,060,800	39%	5,071,516	69%
<b>B.R. Soden</b>											
FY2012	1,250,000	34,773	180,244	625,000	15,775	-	900,367	-	30%	3,006,159	51%
FY2011	1,100,000	51,009	278,747	550,000	15,199	-	592,458	-	23%	2,587,413	44%
<b>C.R. McNally</b>											
FY2012	735,000	16,938	84,657	367,000	15,775	-	617,133	-	34%	1,836,503	54%
FY2011	700,000	25,812	141,116	350,000	15,199	-	405,408	-	25%	1,637,535	46%
<b>D.A. Sims</b>											
FY2012	735,000	29,276	42,041	367,000	15,775	-	631,517	-	35%	1,820,609	55%
FY2011	700,000	29,909	42,974	350,000	15,199	-	450,125	-	28%	1,588,207	50%
<b>Totals</b>											
<b>FY2012</b>	<b>4,720,000</b>	<b>91,805</b>	<b>576,495</b>	<b>3,111,595</b>	<b>63,100</b>	<b>-</b>	<b>4,029,434</b>	<b>1,060,800</b>	<b>37%</b>	<b>13,653,229</b>	<b>60%</b>
<b>FY2011</b>	<b>4,000,000</b>	<b>122,091</b>	<b>508,860</b>	<b>2,750,000</b>	<b>60,796</b>	<b>-</b>	<b>2,382,124</b>	<b>1,060,800</b>	<b>32%</b>	<b>10,884,671</b>	<b>57%</b>

1. This figure represents non-monetary benefits such as health insurance cover and motor vehicle running costs that do not form part of the Executive's cash salary.

2. Accrued STI bonuses payable to Mr Rex are delivered 50% in cash 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.

3. The FY2012 amounts represent the Executives' accrued STI for the year.

4. In accordance with the requirements of the Accounting Standards, the remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year (i.e. Performance Rights awarded under the LTI Plan and equity-based retention grants made that remained unvested as at 1 July 2011). 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 Executives may ultimately realise should the equity instruments vest. The fair value of the Performance Rights at the date of their grant has been determined in accordance with AASB 2 applying the Black-Scholes and Monte Carlo Simulation models. The assumption underpinning these valuations are set out in note 23 to the financial statements. The value of the deferred equity component of LTI awarded for FY2012 for the Managing Director has been included as a share-based payment in accordance with AASB 2.

5. 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.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Service agreement

#### *Mr Christopher Rex*

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

*Table 20 – Key terms of Executive Service Agreement for C. Rex*

<b>Duration</b>	From 1 July 2008 to 30 June 2013 (5 years). 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.
<b>Termination by Managing Director</b>	12 months' notice. Company may elect to make payment in lieu of notice. No further STI entitlement. All unvested equity instruments (under the Company's LTI Plan and the Retention Benefit) will lapse.
<b>Termination for illness / disability</b>	6 months' notice. Company may elect to make payment in lieu of notice. Pro-rata STI entitlement. Full vesting of Retention Benefit. Unvested entitlements under the LTI Plan will lapse.
<b>Termination upon death</b>	Pro-rata STI entitlement. Full vesting of Retention Benefit and LTI Plan entitlements (subject to satisfaction of performance hurdles).
<b>Termination for cause</b>	No notice required. No further STI entitlement. All unvested equity instruments will lapse.
<b>Other Company-initiated termination</b>	12 months' notice. Company may elect to make payment in lieu of notice. Pro-rata STI entitlement. Full vesting of Retention Benefit. Unvested entitlements under the LTI Plan will lapse.

Upon his appointment on 1 July 2008, the Managing Director was granted 600,000 equity based retention rights in the Company that vest on 1 July 2013 (or earlier, 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 Executives*

No other Executives have written employment/service contracts and therefore their employment continues until a termination of employment by either the individual executive or the Company occurs. 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 the Company's policies.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### 5. 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.

*Table 21 – Non-Executive Director remuneration – Guiding Principles*

Principle	Explanation
<b>Aggregate Board and Committee fees are approved by shareholders</b>	The current aggregate fee pool for Non-Executive Directors of \$2,000,000 (including the superannuation guarantee levy) was approved by shareholders at the 2011 AGM.
<b>Fees are set by reference to key considerations</b>	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: <ul style="list-style-type: none"> <li>the responsibilities and risks of each Non-Executive Director role;</li> <li>the time commitment expected of Non-Executive Directors;</li> <li>the fees paid by peer companies to Non-Executive Directors; and</li> <li>the independent advice received from external advisors.</li> </ul>
<b>Remuneration is structured to preserve independence whilst creating alignment</b>	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. However, to create alignment between Non-Executive Directors and Shareholders, Non-Executive Directors are encouraged to hold shares in the Company (purchased by the Non-Executive Director on-market). The majority of Non-Executive Directors have acquired shares in the Company and hold them in their own right.
<b>Reviews of remuneration</b>	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.  The Board also reviews the market competitiveness of fee levels and assesses whether they are appropriate in the Company's circumstances. Details of the most recent review of Non-Executive Director fees are provided below.

##### *Review of Non-Executive Director Fees*

The comparator group used to benchmark Non-Executive Director fees was the same comparator group used to benchmark fixed remuneration for key executives, being similarly-sized ASX-listed companies with international operations (refer to page 31 for details).

The Board is of the view that a 5% increase in the fees for Non-Executive Directors for FY2012 was reasonable, in light of market practice and the continuing strong performance of the Group.

The Remuneration Committee engaged the services of an independent consultant, Godfrey Remuneration Group, who confirmed the view that a 5% increase in fees was reasonable from the points of view of both the Company and the Directors.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – Audited

#### Board & committee fees

Table 22 – Components of Non-Executive Director Remuneration

Component	Explanation
<b>Board fees/Committee fees</b>	<p>Fees, per annum, for FY2012:</p> <ul style="list-style-type: none"> <li>• <b>Board:</b> <ul style="list-style-type: none"> <li>– Chairman - \$315,000</li> <li>– Deputy Chairman - \$157,500</li> <li>– Members - \$126,000</li> </ul> </li> <li>• <b>Audit Committee:</b> <ul style="list-style-type: none"> <li>– Chairman - \$36,750</li> <li>– Members - \$23,625</li> </ul> </li> <li>• <b>Risk Management Committee:</b> <ul style="list-style-type: none"> <li>– Chairman - \$31,500</li> <li>– Members - \$21,000</li> </ul> </li> <li>• <b>Remuneration Committee:</b> <ul style="list-style-type: none"> <li>– Chairman - \$18,375</li> <li>– Members - \$13,125</li> </ul> </li> <li>• <b>Nomination Committee:</b> <ul style="list-style-type: none"> <li>– Chairman – Nil</li> <li>– Members – Nil</li> </ul> </li> </ul> <p>These fees are within the current approved Directors' Fee Pool. The Company has no immediate plans to further increase the Directors' Fee Pool.</p>
<b>Other fees/benefits</b>	<p>No additional fees for special duties or exertions were paid during FY2012.</p> <p>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.</p>
<b>Post-employment benefits</b>	<p>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 \$15,775 per Director for FY2012.</p> <p>Certain Non-Executive Directors are entitled to retirement benefits under the Directors Retirement Benefits Plan. Further details are provided below.</p>



# **RAMSAY HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT – Audited**

#### **Suspension of Non-Executive Directors Retirement Benefit Plan**

##### ***Background***

Non-Executive Directors appointed prior to October 2003 remain entitled to retirement benefits under the (now frozen) Directors' Retirement Benefit Plan. Under the Plan, retirement benefits previously accrued on a pro-rata basis over a period of nine years, commencing after a minimum service period of three years.

Following a resolution passed by Company shareholders at the 2010 Annual General Meeting:

1. The operation of the Directors' Retirement Benefit Plan was frozen with effect from 31 December 2009. This severed the previous nexus between increases in Non-Executive Directors' fees and increases in their retirement benefits;
2. Frozen entitlements as at 31 December 2009, are indexed in line with the one-year Commonwealth Government Bond Rate (adjusted twice a year). No other adjustments are 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
3. The indexed value of the frozen entitlement will be paid to each affected Non-Executive Director, upon the Director's retirement, in accordance with sections 200B and 200E of the Act.

##### ***Accrued benefits***

The value of the frozen benefits as at 30 June 2012, to which participating Non-Executive Directors are entitled upon retirement are set out below:

*Table 23 – Frozen Non-Executive Directors' Retirement Benefits*

<b>Total Frozen Benefit 31 December 2009</b>	<b>Total Provision 30 June 2011</b>	<b>Total Bond Rate Adjustment</b>	<b>Total Provision 30 June 2012</b>
\$2,879,813	\$3,081,251	\$129,923 <sup>1</sup>	\$3,211,174 <sup>1</sup>

1. Cumulatively an amount of \$3,211,174 (2011: \$3,081,251) has been provided as at 30 June 2012 and \$129,923 (2011: \$139,442) expensed in the current year.

No retirement benefits were paid out in FY2012 or FY2011.

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT – Audited**

**Total remuneration**

Details of Non-Executive Directors' remuneration for FY2012 and FY2011 (calculated in accordance with applicable accounting standards) are set out in table 24.

*Table 24 – Non-Executive Director Remuneration for FY2012 and FY2011*

Director	Short-term benefits (\$)		Post-employment benefits (\$)		Total Fees \$
	Fees	Non-monetary Benefits	Superannuation Contributions <sup>1</sup>	Retirement Benefits <sup>2</sup>	
P.J. Ramsay AO (Chairman)					
FY2012	315,000	-	15,775	34,597	365,372
FY2011	300,000	-	15,199	37,133	352,332
M.S. Siddle (Deputy Chairman)					
FY2012	170,625	-	15,356	18,991	204,972
FY2011	162,500	-	14,625	20,382	197,507
A.J. Clark AM					
FY2012	149,625	-	13,466	16,715	179,806
FY2011	142,500	-	12,825	17,940	173,265
P.J. Evans					
FY2012	207,375	-	15,775	23,990	247,140
FY2011	197,500	-	15,199	25,747	238,446
I.P.S. Grier AM					
FY2012	147,000	-	13,230	-	160,230
FY2011	140,000	-	12,600	-	152,600
R.H. McGeoch AM					
FY2012	144,375	-	12,994	16,208	173,577
FY2011	137,500	-	12,375	17,395	167,270
K.C.D. Roxburgh					
FY2012	170,625	-	15,356	19,422	205,403
FY2011	162,500	-	14,625	20,845	197,970
Totals					
FY2012	1,304,625	-	101,952	129,923	1,536,500
FY2011	1,242,500	-	97,448	139,442	1,479,390

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. These amounts represent the bond rate adjustment for the year as set out in table 23.

# RAMSAY HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' MEETINGS

The number 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
<b>Number of Meetings held:</b>	<b>9</b>	<b>1</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>4</b>
Number of Meetings attended:						
P. J. Ramsay	9	1	-	-	-	4
M. S. Siddle	9	1	-	-	4	-
C. P. Rex	9	1	-	5	-	-
B. R. Soden	9	1	-	5	-	-
A. J. Clark	8	1	6	-	-	-
P. J. Evans	9	1	6	5	4	-
I. P. S. Grier	8	1	-	4	-	-
R. H. McGeoch	8	1	-	-	4	4
K. C. D. Roxburgh	9	1	6	5	-	4

### 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

### AUDITORS' INDEPENDENCE DECLARATION

The written Auditors' Independence Declaration in relation to the audit of the financial report has been included at page 45 and forms part of this 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.

**RAMSAY HEALTH CARE LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**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.

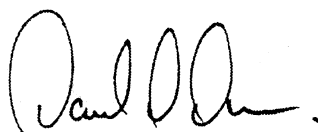
**NON-AUDIT SERVICES**

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.

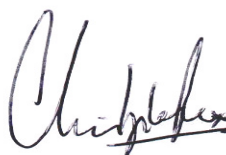
Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax services	\$	1,430,000
Other services	\$	312,000

Signed in accordance with a resolution of the Directors.



**P.J. RAMSAY**  
**Chairman**

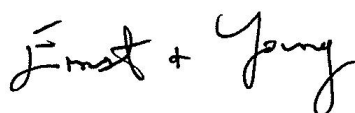


**C.P. REX**  
**Managing Director**

Sydney, 7 September 2012

## 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 2012, 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.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to be 'D. Simmonds', written in a cursive style.

David Simmonds  
Partner  
Sydney  
7 September 2012

## 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 consolidated statement of financial position as at 30 June 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with 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.

### *Opinion*

In our opinion:

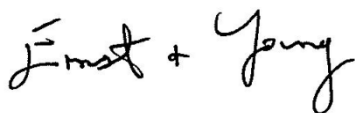
- a. the financial report of Ramsay Health Care Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

### Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of Ramsay Health Care Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be 'D. Simmonds'.

David Simmonds  
Partner  
Sydney  
7 September 2012

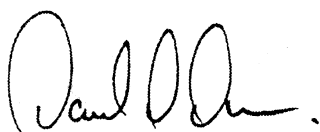
## **RAMSAY HEALTH CARE LIMITED DIRECTORS' DECLARATION**

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

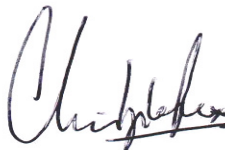
In the opinion of the Directors:

- (a) the financial statements and notes of Ramsay Health Care Limited are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of its financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with 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 Company 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 2012.
- (e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 32 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**  
**Chairman**



**C.P. REX**  
**Managing Director**

Sydney, 7 September 2012



**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$000	2011 \$000
<b>Revenue and other income</b>			
Revenue from services		3,956,476	3,719,691
Interest income		4,625	5,182
Revenue - income from the sale of development assets		4,976	15,011
Other income - profit on sale of assets		7,406	5,261
<b>Total revenue and other income</b>	4	<b>3,973,483</b>	<b>3,745,145</b>
Employee benefits costs	5	(1,948,344)	(1,825,074)
Occupancy costs	5	(254,818)	(248,273)
Service costs		(211,975)	(204,742)
Medical consumables and supplies		(987,012)	(950,375)
Cost of goods sold - book value of development assets sold		(4,355)	(10,561)
Depreciation, amortisation and impairment	5	(146,894)	(135,075)
<b>Total expenses, excluding finance costs</b>		<b>(3,553,398)</b>	<b>(3,374,100)</b>
<b>Profit from continuing operations before tax and finance costs</b>		<b>420,085</b>	<b>371,045</b>
Finance costs	5	(83,507)	(76,924)
<b>Profit before income tax from continuing operations</b>		<b>336,578</b>	<b>294,121</b>
Income tax	6	(90,720)	(93,755)
<b>Profit after tax from continuing operations</b>		<b>245,858</b>	<b>200,366</b>
<b>Net profit for the year</b>		<b>245,858</b>	<b>200,366</b>
Attributable to non-controlling interest		1,753	1,991
Attributable to owners of the parent		244,105	198,375
		<b>245,858</b>	<b>200,366</b>
<b>Earnings per share (cents per share)</b>			
Basic earnings per share			
Profit (after CARES dividend)	7	112.7	90.8
Profit (after CARES dividend) from continuing operations	7	112.7	90.8
Diluted earnings per share			
Profit (after CARES dividend)	7	111.8	90.2
Profit (after CARES dividend) from continuing operations	7	111.8	90.2

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

	<b>Note</b>	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>Net profit for the year</b>		245,858	200,366
<b>Other comprehensive income/(expense)</b>			
Cash flow hedges			
(Loss)/gain taken to equity	22	(18,031)	36,609
Transferred to income statement	22	9,802	(25,519)
Actuarial (loss) on defined benefit plans	27	(1,045)	(885)
Net (loss)/gain on bank loan designated as a hedge of a net investment		(4,439)	34,372
Foreign currency translation		(6,423)	(44,328)
Income tax on items of other comprehensive income	6	2,469	(3,327)
<b>Other comprehensive (expense) for the year net of tax</b>		<b>(17,667)</b>	<b>(3,078)</b>
<b>Total comprehensive income for the year</b>		<b>228,191</b>	<b>197,288</b>
Attributable to non-controlling interest		1,753	1,991
Attributable to owners of the parent		226,438	195,297
		<u>228,191</u>	<u>197,288</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2012**

	<b>Note</b>	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	173,418	226,545
Trade receivables	12	422,167	424,517
Inventories	13	105,035	87,801
Derivative financial instruments	22	-	823
Other current assets	14	47,440	46,167
		<b>748,060</b>	<b>785,853</b>
Assets classified as held for sale		1,150	1,150
<b>Total current assets</b>		<b>749,210</b>	<b>787,003</b>
<b>Non-current assets</b>			
Other financial assets		2,445	1,943
Property, plant and equipment	15	1,846,459	1,786,496
Goodwill and intangible assets	16	870,643	886,196
Deferred tax asset	6	81,089	48,892
Non-current prepayments		10,748	10,999
Derivatives financial instruments	22	-	635
Non-current receivables	12	25,355	29,287
<b>Total non-current assets</b>		<b>2,836,739</b>	<b>2,764,448</b>
<b>TOTAL ASSETS</b>		<b>3,585,949</b>	<b>3,551,451</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	18	579,342	537,317
Interest-bearing loans and borrowings	20	31,483	13,903
Derivative financial instruments	22	14,521	9,182
Provisions	19	147,162	135,455
Income tax payable	6	37,512	31,891
<b>Total current liabilities</b>		<b>810,020</b>	<b>727,748</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	20	1,037,575	1,227,226
Provisions	19	264,342	230,599
Pension liability	27	18,142	18,841
Derivative financial instruments	22	14,519	13,029
Other creditors		5,297	7,293
Deferred tax liability	6	29,853	22,852
<b>Total non-current liabilities</b>		<b>1,369,728</b>	<b>1,519,840</b>
<b>TOTAL LIABILITIES</b>		<b>2,179,748</b>	<b>2,247,588</b>
<b>NET ASSETS</b>		<b>1,406,201</b>	<b>1,303,863</b>
<b>EQUITY</b>			
Issued capital	21.1	713,523	713,523
Treasury shares	21.6	(23,259)	(18,474)
Convertible Adjustable Rate Equity Securities (CARES)	21.5	252,165	252,165
Cash flow hedges	22	(20,249)	(14,489)
Share based payment reserve		23,101	13,867
Vested employee equity		(9,384)	(7,502)
Other reserves		(29,759)	(18,897)
Retained earnings		507,868	393,228
<b>Parent interests</b>		<b>1,414,006</b>	<b>1,313,421</b>
<b>Non-controlling interests</b>		<b>(7,805)</b>	<b>(9,558)</b>
<b>TOTAL EQUITY</b>		<b>1,406,201</b>	<b>1,303,863</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

	Changes in Equity for the Year to 30 June 2012						
	Balance at 1 July 2011 \$000	Dividends \$000	Shares purchased for executive performance share plan \$000	Treasury shares vesting to employees in the year \$000	Share based payment reserve \$000	Total comprehensive income for the year, net of tax \$000	Balance at 30 June 2012 \$000
Issued capital	713,523	-	-	-	-	-	713,523
Treasury shares	(18,474)	-	(9,642)	4,857	-	-	(23,259)
Convertible preference shares - CARES	252,165	-	-	-	-	-	252,165
Share based payment reserve	13,867	-	-	(2,975)	12,209	-	23,101
Cash flow hedges	(14,489)	-	-	-	-	(5,760)	(20,249)
Bank loan designated as a hedge of a net investment	93,174	-	-	-	-	(4,439)	88,735
Foreign currency translation	(112,071)	-	-	-	-	(6,423)	(118,494)
Actuarial loss on pension fund	(3,223)	-	-	-	-	(1,045)	(4,268)
Retained earnings	396,451	(128,420)	-	-	-	244,105	512,136
Vested employee equity	(7,502)	-	-	(1,882)	-	-	(9,384)
<b>Owners of the parent</b>	<b>1,313,421</b>	<b>(128,420)</b>	<b>(9,642)</b>	<b>-</b>	<b>12,209</b>	<b>226,438</b>	<b>1,414,006</b>
<b>Non-controlling interests</b>	<b>(9,558)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,753</b>	<b>(7,805)</b>
<b>Total equity</b>	<b>1,303,863</b>	<b>(128,420)</b>	<b>(9,642)</b>	<b>-</b>	<b>12,209</b>	<b>228,191</b>	<b>1,406,201</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

	Changes in Equity for the Year to 30 June 2011							
	Balance at 1 July 2010 \$000	Dividends \$000	Shares purchased for executive performance share plan \$000	Treasury shares vesting to employees in the year \$000	Share based payment reserve \$000	Disposal of Non- controlling Interest \$000	Total comprehensive income for the year, net of tax \$000	Balance at 30 June 2011 \$000
Issued capital	713,523	-	-	-	-	-	-	713,523
Treasury shares	(8,081)	-	(12,188)	1,795	-	-	-	(18,474)
Convertible preference shares - CARES	252,165	-	-	-	-	-	-	252,165
Share based payment reserve	9,228	-	-	(1,143)	5,782	-	-	13,867
Cash flow hedges	(22,252)	-	-	-	-	-	7,763	(14,489)
Bank loan designated as a hedge of a net investment	58,802	-	-	-	-	-	34,372	93,174
Foreign currency translation	(67,743)	-	-	-	-	-	(44,328)	(112,071)
Actuarial loss on pension fund	(2,338)	-	-	-	-	-	(885)	(3,223)
Retained earnings	308,823	(110,747)	-	-	-	-	198,375	396,451
Vested employee equity	(6,850)	-	-	(652)	-	-	-	(7,502)
<b>Owners of the parent</b>	<b>1,235,277</b>	<b>(110,747)</b>	<b>(12,188)</b>	<b>-</b>	<b>5,782</b>	<b>-</b>	<b>195,297</b>	<b>1,313,421</b>
<b>Non-controlling interests</b>	<b>(11,420)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(129)</b>	<b>1,991</b>	<b>(9,558)</b>
<b>Total equity</b>	<b>1,223,857</b>	<b>(110,747)</b>	<b>(12,188)</b>	<b>-</b>	<b>5,782</b>	<b>(129)</b>	<b>197,288</b>	<b>1,303,863</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$000	2011 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		3,952,668	3,750,915
Payments to suppliers and employees		(3,323,717)	(3,152,254)
Income tax paid		(108,274)	(87,537)
Income tax refund		17,051	-
Finance costs		(103,835)	(80,533)
<b>Net cash flows from operating activities</b>	9	<b>433,893</b>	<b>430,591</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(222,213)	(214,957)
Proceeds from sale of property, plant and equipment		38,145	4,935
Interest received		4,625	5,182
Acquisition of subsidiary, net of cash received	10	-	(18,069)
<b>Net cash flows used in investing activities</b>		<b>(179,443)</b>	<b>(222,909)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(128,420)	(110,747)
Repayment of principal to Bondholders		(2,916)	(2,692)
Repayment of finance lease - principal		(5,346)	(4,686)
Purchase of ordinary shares		(9,642)	(12,188)
Draw down of borrowings		993,608	-
Repayments of borrowings		(1,151,421)	(28,856)
<b>Net cash flows used in financing activities</b>		<b>(304,137)</b>	<b>(159,169)</b>
Net (decrease)/increase in cash and cash equivalents		(49,687)	48,513
Net foreign exchange differences on cash held		(3,440)	(7,657)
Cash and cash equivalents at beginning of year		226,545	185,689
<b>Cash and cash equivalents at end of year</b>	9	<b>173,418</b>	<b>226,545</b>

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

## **1. CORPORATE INFORMATION**

The financial report of Ramsay Health Care Limited ('The Company') for the year ended 30 June 2012 was authorised for issue on 7 September 2012 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*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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 2011.

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 profit (segment result) after tax from continuing operations, and the core earnings per share from continuing operations measures, provides additional information which is used for internal segment reporting and therefore would be useful for shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>(i) Reconciliation of net profit attributable to owners of the parent to core profit (segment result)</b>		
Net profit attributable to owners of the parent	244,105	198,375
Add/(less) non-core items:		
- Non-cash rent expense relating to UK leased hospitals	23,693	26,976
- Amortisation - service concession assets	2,186	2,224
- Profit on sale of assets	(7,406)	(5,261)
- Income from the sale of development assets	(4,976)	(15,011)
- Book value of development assets sold	4,355	10,561
- Acquisition, disposal, and development costs	5,466	4,683
- Impairment of non-current assets	-	2,014
- Defined benefit pension plan costs	-	3,444
- Loss on interest rate hedge	67	76
- Charge for expired debt facility costs due to early refinancing	5,924	-
Income tax on non-core items	(3,153)	(7,054)
Income tax refund received relating to changes to tax consolidation legislation	(17,051)	-
Non-controlling interest in non-core items (net of tax)	(564)	(441)
	<u>8,541</u>	<u>22,211</u>
Core profit (segment result) after tax from continuing operations	252,646	220,586
<b>Core earnings per share from continuing operations</b>		
Core profit after tax from continuing operations (above)	252,646	220,586
Less: CARES Dividend	(17,676)	(15,847)
Core profit after tax from continuing operations used to calculate core earnings per share from continuing operations	<u>234,970</u>	<u>204,739</u>
Weighted average number of ordinary shares adjusted for effect of dilution	202,443,435	202,457,705
Core earnings per share from continuing operations	116.1c	101.1c



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

#### (ii) Reconciliation of statutory income statement to core (segment) income statement

The table below reconciles the statutory consolidated income statement to the core (segment) consolidated income statement. The non-core items listed at 2(a)(i) are excluded from the relevant line items in the consolidated statutory income statement to ascertain the core (segment) consolidated income statement.

	2012 \$000	2012 \$000	2012 \$000 Core (segment) consolidated income statement
	Statutory consolidated income statement	Non-core items as listed at 2(a)(i)	
<b>Revenue and other income</b>			
Revenue from services	3,956,476	-	3,956,476
Interest income	4,625	-	4,625
Revenue - income from the sale of development assets	4,976	(4,976)	-
Other income - profit on sale of assets	7,406	(7,406)	-
<b>Total revenue and other income</b>	<b>3,973,483</b>	<b>(12,382)</b>	<b>3,961,101</b>
Employee benefits costs	(1,948,344)	-	(1,948,344)
Occupancy costs	(254,818)	23,693	(231,125)
Service costs	(211,975)	5,466	(206,509)
Medical consumables and supplies	(987,012)	-	(987,012)
Cost of goods sold - book value development assets sold	(4,355)	4,355	-
Depreciation and amortisation	(146,894)	2,186	(144,708)
<b>Total expenses, excluding finance costs</b>	<b>(3,553,398)</b>	<b>35,700</b>	<b>(3,517,698)</b>
<b>Profit from continuing operations before tax and finance costs</b>	<b>420,085</b>	<b>23,318</b>	<b>443,403</b>
Finance costs	(83,507)	5,991	(77,516)
<b>Profit before income tax from continuing operations</b>	<b>336,578</b>	<b>29,309</b>	<b>365,887</b>
Income tax	(90,720)	(20,204)	(110,924)
<b>Profit after tax from continuing operations</b>	<b>245,858</b>	<b>9,105</b>	<b>254,963</b>
<b>Net profit for the year</b>	<b>245,858</b>	<b>9,105</b>	<b>254,963</b>
Attributable to non-controlling interest	1,753	564	2,317
Attributable to owners of the parent	244,105	8,541	252,646
	<b>245,858</b>	<b>9,105</b>	<b>254,963</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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

**(a) Basis of preparation (continued)**

**(ii) Reconciliation of statutory income statement to core (segment) income statement (continued)**

	2011 \$000	2011 \$000	2011 \$000 Core (segment)
	Statutory consolidated income statement	Non-core items as listed at 2(a)(i)	consolidated income statement
<b><i>Revenue and other income</i></b>			
Revenue from services	3,719,691	-	3,719,691
Interest income	5,182	-	5,182
Revenue - income from the sale of development assets	15,011	(15,011)	-
Other income - profit on sale of assets	5,261	(5,261)	-
<b>Total revenue and other income</b>	<b>3,745,145</b>	<b>(20,272)</b>	<b>3,724,873</b>
Employee benefits costs	(1,825,074)	3,444	(1,821,630)
Occupancy costs	(248,273)	26,976	(221,297)
Service costs	(204,742)	4,683	(200,059)
Medical consumables and supplies	(950,375)	-	(950,375)
Cost of goods sold - book value development assets sold	(10,561)	10,561	-
Depreciation and amortisation	(135,075)	4,238	(130,837)
<b>Total expenses, excluding finance costs</b>	<b>(3,374,100)</b>	<b>49,902</b>	<b>(3,324,198)</b>
<b>Profit from continuing operations before tax and finance costs</b>	<b>371,045</b>	<b>29,630</b>	<b>400,675</b>
Finance costs	(76,924)	76	(76,848)
<b>Profit before income tax from continuing operations</b>	<b>294,121</b>	<b>29,706</b>	<b>323,827</b>
Income tax	(93,755)	(7,054)	(100,809)
<b>Profit after tax from continuing operations</b>	<b>200,366</b>	<b>22,652</b>	<b>223,018</b>
<b>Net profit for the year</b>	<b>200,366</b>	<b>22,652</b>	<b>223,018</b>
Attributable to non-controlling interest	1,991	441	2,432
Attributable to owners of the parent	198,375	22,211	220,586
	<b>200,366</b>	<b>22,652</b>	<b>223,018</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### (b) Compliance with IFRS

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

### (c) New Accounting Standards and Interpretations

#### (i) *Change in accounting policy*

The accounting policies adopted are consistent with those of the previous financial year except as discussed below.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

- AASB 124 *Related Party Disclosures (amendment)* effective 1 January 2011
- AASB Int 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- AASB 2009 – 12 *Amendments to Australian Accounting Standards* (AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and interpretations 2, 4, 16, 1039 & 1052)
- AASB 2010 – 5 *Amendments to Australian Accounting Standards* (AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and interpretations 112, 115, 127, 132 & 1042)
- AASB 2010 – 6 *Amendments to Australian Accounting Standards* (AASB 1 & AASB 7)

The adoption of the standards or interpretations is described below:

#### ***AASB 124 Related Party Transactions (Amendment)***

The AASB issued an amendment to AASB 124 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### ***AASB Int 14 Prepayments of a Minimum Funding Requirement (Amendment)***

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation has no effect on the financial position nor performance of the Group.

#### ***AASB 2009 – 12 Amendments to Australian Accounting Standards***

This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. All the other amendments principally arise from editorial corrections made by the IASB to its Standards and Interpretations and by the AASB to its pronouncements. The amendments have had no effect on the financial position or performance of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

#### (i) *Change in accounting policy (continued)*

##### **AASB 2010 – 5 Amendments to Australian Accounting Standards**

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.

These amendments have no major impact on the requirements of the amended pronouncements. The amendments have had no effect on the financial position or performance of the Group.

##### **AASB 2010 – 6 Amendments to Australian Accounting Standards**

This Standard adds and amends disclosure requirements about transfers of financial assets, including the nature of the financial assets involved and the risks associated with them. The amendments have had no effect on the financial position or performance of the Group.

#### (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 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income  [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The adoption of this new amendment will not have any impact on the financial position or performance of the Group.	1 July 2012

\* Designates the beginning of the applicable annual reporting period unless otherwise stated

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>► The remaining change is presented in profit or loss</li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	1 January 2013**	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p>	1 January 2013	The adoption of this new standard will not have any impact on the financial position or performance of the Group.	1 July 2013

\* Designates the beginning of the applicable annual reporting period unless otherwise stated

\*\* AASB ED 215 Mandatory effective date of IFRS 9 proposes to defer the mandatory effective date of AASB 9 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.	1 January 2013	The adoption of this new standard will not have any impact on the financial position or performance of the Group.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.  AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.  Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013

\* Designates the beginning of the applicable annual reporting period unless otherwise stated

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 119	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p>	1 January 2013	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013
Annual Improvements 2009-2011 Cycle ***	Annual Improvements to IFRSs 2009-2011 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <p>IFRS 1 First-time Adoption of International Financial Reporting Standards</p> <ul style="list-style-type: none"> <li>Repeated application of IFRS 1</li> <li>Borrowing costs</li> </ul> <p>IAS 1 Presentation of Financial Statements</p> <ul style="list-style-type: none"> <li>Clarification of the requirements for comparative information</li> </ul> <p>IAS 16 Property, Plant and Equipment</p> <ul style="list-style-type: none"> <li>Classification of servicing equipment</li> </ul> <p>IAS 32 Financial Instruments: Presentation</p> <ul style="list-style-type: none"> <li>Tax effect of distribution to holders of equity instruments</li> </ul> <p>IAS 34 Interim Financial Reporting</p> <ul style="list-style-type: none"> <li>Interim financial reporting and segment information for total assets and liabilities</li> </ul>	1 January 2013	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2013

\* Designates the beginning of the applicable annual reporting period unless otherwise stated

\*\*\* IFRS amendments have not yet been adopted by the AASB.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

#### **(d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Ramsay Health Care Limited and its subsidiaries and special purpose entities ('the Group') as at and for the period ended 30 June each year. 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, 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (e) Significant accounting judgements, estimates & 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 forms 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.

##### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

##### *(ii) Significant accounting estimates & assumptions*

##### *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 17.

##### *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 and Black Scholes model, using the assumptions detailed in note 23.

##### *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.

#### (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 currencies of the overseas subsidiaries are: Indonesian Rupiah for Affinity Health Indonesia; British pounds for Ramsay Health Care (UK) Limited; and Euro for Ramsay Santé SA. As at the reporting date the assets and liabilities of the overseas subsidiaries 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (f) Foreign currency translation (continued)

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 & 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.

#### (i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the 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 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.

#### (ii) Derecognition & 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (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 such that:

- It represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

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) Investments & 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 transaction 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 & derecognition*

All regular way purchases and sales of financial assets are recognised on the trade date, that is 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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

#### **(j) Investments & other financial assets (continued)**

##### *Loans & 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 the Income Statement 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 reporting date, which are classified as non-current.

#### **(k) 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 development assets, including medical suites to be sold, that are currently under construction.

#### **(l) Trade & 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.

#### **(m) Cash & 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.

#### **(n) Interest-bearing loans & 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.

#### **(o) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (p) 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 date at which they were granted. The fair value is determined by an external valuer using the Monte Carlo and the Black Scholes models.

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 (Share Based Payment Reserve), 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 reporting 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.

#### *Share Based Payment Reserve*

This reserve is used to record the value of the share based payments provided to employees.

#### *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.

#### (q) 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (q) Leases (continued)

##### *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.

#### (r) 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 patients 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 development assets*

Income from sale of development assets is recognised when the payment is received.

#### (s) 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.

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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

#### **(s) Income tax (continued)**

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.

#### **(t) 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (u) Derivative financial instruments & 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) Bank loan designated as a hedge of a net investment*

The bank loan designated as a hedge of a net investment in a foreign operation, is accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument (Bank Loan) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### (v) Interest in a joint venture

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

### (w) 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:

	<b>Service Concessions Assets</b>	<b>Development Costs</b>
<b>Useful lives</b>	Finite	Finite
<b>Amortisation method used</b>	Amortised over the period of the lease (up to 40 years)	Amortised over the period of expected future benefit from the related project on a straight line basis
<b>Internally generated or acquired</b>	Acquired	Internally generated
<b>Impairment testing</b>	When an indication of impairment exists. The amortisation method is reviewed at each financial year end.	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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

#### **(x) 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.

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'.

#### **(y) Trade & 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.

#### **(z) Employee leave benefits**

##### *(i) Wages, salaries, annual leave & 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.

#### **(aa) 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.

#### **(ab) 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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

#### **(ac) Business combinations**

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.

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.

#### **(ad) 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.

#### **(ae) Pensions & 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### (ae) Pensions & 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.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES & 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 & 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.

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 29.

At reporting 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:

	2012 \$000	2011 \$000
<b>Financial Assets</b>		
Cash and cash equivalents	173,418	226,545
<b>Financial Liabilities</b>		
Bank Loans	(264,389)	(274,562)
Net exposure	(90,971)	(48,017)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures & Responses (continued)

#### (a) Interest rate risk (continued)

Interest rate derivatives contracts are outlined in note 22, with a net negative fair value of \$29,040,000 (2011: negative: \$20,753,000) which 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 2012, after taking into account the effect of interest rate swaps, approximately 73% (2011: 76%) 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 has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, as specified in the following table, if the interest rates had been higher or lower than the year end rates and all other variables were held constant, the consolidated entity's post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
<b>AUD</b>				
+ 200 basis points (2011: + 100 basis points)	(1,153)	(1,060)	27,960	2,159
- 200 basis points (2011: - 100 basis points)	1,150	1,052	(29,974)	(2,189)
<b>GBP</b>				
+ 100 basis points (2011: + 100 basis points)	(445)	(353)	3,704	4,325
- 100 basis points (2011: - 100 basis points)	276	48	(3,617)	(3,966)
<b>IDR</b>				
+ 100 basis points (2011: + 100 basis points)	(120)	(136)	-	-
- 100 basis points (2011: - 100 basis points)	123	137	-	-
<b>EUR</b>				
+ 100 basis points (2011: + 100 basis points)	(19)	(22)	751	1,134
- 100 basis points (2011: - 100 basis points)	22	22	(741)	(1,189)

The assumed movement in basis points for the interest rate sensitivity analysis is considered reasonable, given the market forecasts available at the reporting date and the current economic environment in which the consolidated entity operates.

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 2012, comparing to 2011 is due to the decrease in hedging from 76% in 2011 to 73% in 2012 and the increased interest rate volatility in 2012.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures & Responses (continued)

#### *(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 reporting date, the Group had the GBP exposure of £83,420,000 (2011: £18,898,000) that is not designated in a net investment hedge.

The Group has a GBP borrowing of £117,000,000 (2011: £117,000,000) that is designated as a hedge of the net investment in the UK operation. Further information on the hedge is set out in note 22.

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

At reporting date, 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 other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income* Higher/(Lower)	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
AUD/GBP +10%	(22)	(290)	(11,617)	(2,283)
AUD/GBP -10%	24	319	12,782	2,511

A sensitivity of 10% has been used as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movements.

The movements in profit are due to an increase or decrease in the fair value of the GBP denominated 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 France, the Group's Statement of Financial Position can be affected significantly by movements in the AUD/EUR exchange rates.

At reporting date, the Group had the Euro exposure of €39,414,000 (2011: €39,116,000) that is not designated in net investment hedges.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures & Responses (continued)

#### (b) Foreign currency risk (continued)

At reporting date, 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 other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
AUD/EUR +10%	(70)	(67)	(4,362)	(4,742)
AUD/EUR -10%	77	74	4,801	5,218

A sensitivity of 10% has been used as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movements.

The movements in profit are due to an increase or decrease in the fair value of the Euro denominated financial instruments not designated in the net investment hedges.

#### (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 reporting 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 Governments 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 spread across a number of Health Funds and Governments. Whilst the Group does have significant credit risk exposure to a single debtor or group of related debtors, the credit quality of these debtors is considered high, as they are either Health Funds, governed by APRA prudential requirements, or Governments.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures & Responses (continued)

#### (d) Liquidity risk (continued)

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's 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.

#### A. Non-derivative financial liabilities

The following liquidity risk disclosures reflect 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 is 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 2012	≤ 1 year \$000	1-2 years \$000	2-5 years \$000	>5years \$000	Total \$000
<b>Liquid financial assets</b>					
Cash and cash equivalents	173,418	-	-	-	173,418
Trade and other receivables	430,352	10,193	12,577	2,585	455,707
	603,770	10,193	12,577	2,585	629,125
<b>Financial liabilities</b>					
Trade and other payables	(575,154)	-	-	-	(575,154)
Interest-bearing loans and borrowings	(67,578)	(51,686)	(1,132,832)	(5,203)	(1,257,299)
Sub-ordinated bonds	-	-	(57,642)	-	(57,642)
	(642,732)	(51,686)	(1,190,474)	(5,203)	(1,890,095)
<b>Net outflow</b>	(38,962)	(41,493)	(1,177,897)	(2,618)	(1,260,970)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures & Responses (continued)

#### (d) Liquidity risk (continued)

Year ended 30 June 2011	≤ 1 year \$000	1-2 years \$000	2-5 years \$000	>5years \$000	Total \$000
<b>Liquid financial assets</b>					
Cash and cash equivalents	226,545	-	-	-	226,545
Trade and other receivables	426,333	3,289	11,608	7,117	448,347
	652,878	3,289	11,608	7,117	674,892
<b>Financial liabilities</b>					
Trade and other payables	(533,357)	-	-	-	(533,357)
Interest-bearing loans and borrowings	(123,684)	(1,138,187)	(40,911)	-	(1,302,782)
Sub-ordinated bonds	-	-	(55,884)	-	(55,884)
	(657,041)	(1,138,187)	(96,795)	-	(1,892,023)
<b>Net (outflow)/inflow</b>	<b>(4,163)</b>	<b>(1,134,898)</b>	<b>(85,187)</b>	<b>7,117</b>	<b>(1,217,131)</b>

### 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.

The table below details the liquidity risk arising from the derivative liabilities held by the Group at reporting date. Net settled derivative liabilities comprise forward interest rate swap contracts that are used as economic hedges of interest payable.

	< 6 months \$000	6 – 12 months \$000	1 – 5 years \$000	>5 years \$000	Total \$000
<b>Year ended 30 June 2012</b>					
Derivatives liabilities – net settled	(8,217)	(7,316)	(13,671)	-	(29,204)
Net maturity	(8,217)	(7,316)	(13,671)	-	(29,204)
<b>Year ended 30 June 2011</b>					
Derivatives liabilities – net settled	(6,308)	(6,109)	(11,433)	-	(23,850)
Net maturity	(6,308)	(6,109)	(11,433)	-	(23,850)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### Risk Exposures and Responses (continued)

#### *(e) Fair value*

The Group has available to it 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 was estimated using the level 2 method valuation technique and is summarised in the table below.

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>Financial assets</b>		
Derivative instruments – interest rate swaps	-	1,458
<b>Financial liabilities</b>		
Derivative instruments – interest rate swaps	(29,040)	(22,211)

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, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 4. REVENUE

### *Revenue and Other Income*

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Revenue from patients	3,871,505	3,652,194
Rental income - Other persons/corporations	37,304	26,689
Income from ancillary services	47,667	40,808
Interest - Other persons/corporations	4,625	5,182
Revenue and other income from continuing operations	3,961,101	3,724,873
Income from sale of development assets	4,976	15,011
Profit on sale of assets	7,406	5,261
	<u>3,973,483</u>	<u>3,745,145</u>

## 5. EXPENSES

### *Expenses from Continuing Operations*

#### **(a) Depreciation and impairment included in income statement**

Depreciation - Plant and equipment	103,655	90,675
Depreciation - Buildings	31,860	31,133
Impairment - Plant and equipment	-	2,014
Total depreciation and impairment	<u>135,515</u>	<u>123,822</u>

#### **(b) Amortisation included in income statement**

Service concession assets	2,186	2,224
Development cost	9,193	9,029
Total amortisation	<u>11,379</u>	<u>11,253</u>

#### **(c) Operating lease costs and incentive**

Lease costs included in occupancy costs expenses in the income statement	<u>106,693</u>	<u>105,298</u>
--	----------------	----------------

The amount charged to the income statement in respect of operating lease costs for the Group under IFRS 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:

Reduction in operating profit resulting from accounting in accordance with AASB 117 *Leases* and UIG 115 *Operating leases – incentives*

<u>(23,693)</u>	<u>(26,976)</u>
-----------------	-----------------

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. 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 2012 was lower than the rent expensed by \$23,693,000 (2011: \$26,976,000). The ongoing effect of the difference between cash rent paid and rent expense will be separately identified at each period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**5. EXPENSES (CONTINUED)**

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>(d) Employee benefits cost</b>		
Wages and salaries	1,760,807	1,654,262
Workers' compensation	16,166	11,244
Superannuation	100,738	94,188
Termination benefits	3,526	1,566
Other employment	59,375	54,650
Share-based payments (including expense arising from transactions accounted for as equity-settled share-based payment transactions)	7,732	5,720
Defined benefit pension plan	-	3,444
	<u>1,948,344</u>	<u>1,825,074</u>
<b>(e) Finance costs</b>		
Interest expense - Other persons/corporations	80,144	78,652
Finance charges - Lease liability	1,734	2,215
Finance charges - Charge for expired debt facility costs due to early refinancing	5,924	-
Finance charges - Loss on interested rate hedge	67	76
	<u>87,869</u>	<u>80,943</u>
Less: Finance costs capitalised	<u>(4,362)</u>	<u>(4,019)</u>
	<u><u>83,507</u></u>	<u><u>76,924</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**6. INCOME TAX**

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>(a) Income tax expense</b>		
The major components of income tax expense are:		
<b>Income Statement</b>		
<b>Continuing operations:</b>		
<i>Current income tax</i>		
Current income tax charge	111,209	86,650
Adjustments in respect of previous years	(15,074)	(1,648)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(48)	3,013
Adjustments in respect of deferred income tax of previous years	(5,367)	5,740
Income tax expense reported in the income statement	<u>90,720</u>	<u>93,755</u>
<b>(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate</b>		
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:		
Accounting profit before tax from continuing operations	<u>336,578</u>	<u>294,121</u>
At the Parent Entity's statutory income tax rate of 30% (2011: 30%)	100,973	88,236
Expenditure not allowable for income tax purposes	5,695	3,962
Income tax refund received relating to changes to tax consolidation legislation	(17,051)	-
Foreign tax rate adjustment	(30)	(295)
Other	1,133	1,852
	<u>90,720</u>	<u>93,755</u>
Income tax expense reported in the consolidated income statement attributable to continuing operations	<u>90,720</u>	<u>93,755</u>
<b>(c) Amounts charged or credited directly to equity</b>		
Deferred income tax related to items charged or credited directly to equity		
Net unrealised gains	(2,544)	3,260
Actuarial gain/loss on defined benefit plans	(302)	-
Treasury shares	(4,454)	(244)
	<u>(7,300)</u>	<u>3,016</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**6. INCOME TAX (CONTINUED)**

**(d) Recognised deferred tax assets and liabilities**

	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
	<b>Current</b>	<b>Deferred</b>	<b>Current</b>	<b>Deferred</b>
	<b>income</b>	<b>income</b>	<b>income</b>	<b>income</b>
	<b>tax</b>	<b>tax</b>	<b>tax</b>	<b>tax</b>
Opening balance	(31,891)	26,040	(35,819)	39,094
(Charged)/ credited to income	(96,135)	5,415	(85,002)	(8,753)
(Charged)/ credited to equity	-	7,300	-	(3,016)
Reclassification	-	11,656	-	-
Payments/(Refunds)	90,667	-	89,252	-
Exchange differences	(153)	825	(322)	(1,765)
Acquisition of subsidiary	-	-	-	480
Closing balance	(37,512)	51,236	(31,891)	26,040

Tax expense in the income statement	(90,720)	(93,755)
-------------------------------------	----------	----------

*Amounts recognised in the statement of financial position*

Deferred tax asset	81,089	48,892
Deferred tax liability	(29,853)	(22,852)

**Statement of Financial Position**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
<i>Deferred income tax at 30 June relates to the following:</i>		
<b>(i) Deferred tax liabilities</b>		
Inventory	(10,704)	(11,451)
Recognition of revenue	(9,662)	(10,686)
Depreciable assets	(62,428)	(65,100)
Other	(2,314)	(10,162)
Other provisions and lease liabilities	(18,435)	(14,305)
<b>Gross deferred tax liabilities</b>	<b>(103,543)</b>	<b>(111,704)</b>
Set-off of deferred tax assets	73,690	88,852
<b>Net deferred tax liabilities</b>	<b>(29,853)</b>	<b>(22,852)</b>
<b>(ii) Deferred tax assets</b>		
Employee provisions	70,578	65,425
Other provisions and lease liabilities	55,564	41,404
Unearned income	7,287	5,497
Other	1,358	4,692
Losses	11,248	14,401
Derivatives	8,744	6,325
<b>Gross deferred tax assets</b>	<b>154,779</b>	<b>137,744</b>
Set-off of deferred tax assets	(73,690)	(88,852)
<b>Net deferred tax assets</b>	<b>81,089</b>	<b>48,892</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 6. INCOME TAX (CONTINUED)

### (e) Tax losses

At 30 June 2012, there is \$10,011,179 (2011: \$10,091,759) of unrecognised deferred income tax assets in relation to capital losses carried forward. As it is not probable they will be used in the foreseeable future, they have not been recognised.

### (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 \$42,487,000 (2011: increased \$38,502,000). This is included in the summarised information relating to Ramsay Health Care Limited. Refer to Note 33.

### (g) Tax relating to other comprehensive income

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Disclosure of tax effects relating to each component of other comprehensive income		
- Cashflow hedges taken to equity	5,409	(10,983)
- Cashflow hedges transferred to the income statement	(2,940)	7,656
	<u>2,469</u>	<u>(3,327)</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 7. 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.

	<b>2012 \$000</b>	<b>2011 \$000</b>
Net profit for the year attributable to the owners of the parent	244,105	198,375
Less: dividend paid on Convertible Adjustable Rate Equity Securities (CARES)	(17,676)	(15,847)
Profit used in calculating basic and diluted (after CARES dividend) earnings per share from continuing operations	<u>226,429</u>	<u>182,528</u>
	<b>2012 Number of Shares</b>	<b>2011 Number of Shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	200,828,094	201,106,486
Effect of dilution – share rights	<u>1,615,341</u>	<u>1,351,219</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>202,443,435</u>	<u>202,457,705</u>

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 23) have the potential to dilute earnings per share.

	<b>2012 Cents per Share</b>	<b>2011 Cents per Share</b>
Earnings per share		
- basic (after CARES dividend) for the year	112.7	90.8
- diluted (after CARES dividend) for the year	111.8	90.2
- basic (after CARES dividend) from continuing operations	112.7	90.8
- diluted (after CARES dividend) from continuing operations	111.8	90.2

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**8. DIVIDENDS PAID OR PROPOSED**

	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>(a) Dividend on ordinary shares paid during the year:</b>		
<i>(i) Interim dividend paid</i>		
Franked dividends – ordinary (25.5 cents per share) (2011: 22.5 cents per share)	51,531	45,468
<i>(ii) Previous year final dividend paid</i>		
Franked dividends – ordinary (29.5 cents per share) (2011: 25.0 cents per share)	59,614	50,520
	<u>111,145</u>	<u>95,988</u>
<b>(b) Dividend proposed and not recognised as a liability:</b>		
<i>Current year final dividend proposed</i>		
Franked dividends – ordinary (34.5 cents per share) (2011: 29.5 cents per share)	69,718	59,614
<b>(c) Dividends declared and paid during the period on CARES:</b>		
<i>Current year interim and previous year final dividend paid</i>		
Franked dividends - CARES	17,676	15,847
<b>(d) Dividends proposed and not recognised as a liability on CARES:</b>		
<i>Final dividend proposed</i>		
Franked dividends - CARES	8,318	8,982

**Parent**

	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>(e) Franking credit balance</b>		
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% (2011: 30%)	180,744	147,464
- franking credits that will arise from the payment of income tax payable as at the end of the financial year *	24,418	21,303
	<u>205,162</u>	<u>168,767</u>
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	(33,444)	(28,965)
	<u>171,718</u>	<u>139,802</u>

\* 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% (2011: 30%). \$78,036,000 (2011: \$68,596,000) of the proposed dividends will be franked at the rate of 30% (2011: 30%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 9. CASH AND CASH EQUIVALENTS

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Cash at bank and in hand	<u>173,418</u>	<u>226,545</u>

### Reconciliation to Statement of cash flows

For the purposes of the Statement of cash flows, cash and cash equivalents comprise the following at 30 June

Cash at bank and in hand	<u>173,418</u>	<u>226,545</u>
--------------------------	----------------	----------------

### Reconciliation of net profit after tax to net cash flows from operations

Net profit after tax for the year	245,858	200,366
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment	146,894	135,075
Interest received	(4,625)	(5,182)

### Changes in assets & liabilities

Deferred tax	(10,747)	10,214
Receivables	5,880	26,998
Other assets	(1,280)	2,136
Creditors and accruals	10,311	11,166
Provisions	52,208	53,003
Inventory	(16,094)	811
Tax provisions	5,488	(3,996)

Net cash from operating activities	<u>433,893</u>	<u>430,591</u>
------------------------------------	----------------	----------------

### Disclosure of financing facilities

Refer to note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 10. BUSINESS COMBINATIONS

### Acquisition of Clinique Convert - 2011

On 31 May 2011, Ramsay Santé acquired 99.77% of the share capital of Clinique Convert. Ramsay Santé has recognised the fair values of the identifiable assets and liabilities of the Clinique Convert as follows:

	<b>\$000</b>
Cash overdraft	(11)
Accounts Receivable	2,191
Inventory	762
Other current assets	1,351
Property, plant and equipment	7,647
Deferred income tax asset	480
Creditors and accruals	(5,658)
Intercompany loan	(4,196)
Provisions and other liabilities non-current	(2,187)
Fair value of identifiable net assets	379
Non-controlling interest in identifiable acquired net liabilities	(1)
Intercompany loan eliminated on consolidation	4,196
Goodwill arising on acquisition	13,484
	<u>18,058</u>
Acquisition date fair value of consideration transferred	
Cash paid	<u>18,058</u>
	<u>18,058</u>
Direct costs relating to the acquisition - included within acquisition, disposal, restructuring and integration costs.	599
The cash outflow on acquisition is as follows:	
Net cash acquired with the subsidiary	(11)
Cash paid	(18,058)
Net consolidated cash outflow	<u>(18,069)</u>

Ramsay Santé's non-controlling interest is 0.23%. The value of the non-controlling interest was calculated using the fair value of the identifiable net assets as at the acquisition date.

The primary reason for the business combination is the acquisition of an existing business.

Key factors contributing to the \$13,484,000 of goodwill are the synergies existing within the acquired business and the synergies expected to be achieved as a result of combining the Clinique Convert 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 benefits for the Group.

The results of Clinique Convert from acquisition to 30 June 2011 are not material and therefore have not been disclosed separately.

The revenue and results of the total Ramsay Group, for the year ended the 30 June 2011, as though Clinique Convert was acquired on 1 July 2010, 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 \$2,191,000 resulting from providing services to patients. Management expects these to be collected in full and converted to cash consistent with customer terms.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

### **11. 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 two reportable operating segments being Asia Pacific and Europe.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 11. SEGMENT INFORMATION (CONTINUED)

	Total and Continuing operations		
	Asia Pacific \$000	Europe \$000	Total \$000
<b>Year ended 30 June 2012</b>			
<b>Revenue</b>			
Revenue from services	3,178,788	777,688	3,956,476
Total revenue before intersegment revenue	3,178,788	777,688	3,956,476
Intersegment revenue	5,938	-	5,938
Total segment revenue	3,184,726	777,688	3,962,414
<b>Results</b>			
Segment net profit after tax	235,300	17,346	252,646
Finance costs	(44,593)	(38,914)	(83,507)
Interest income	4,325	300	4,625
Income tax expense	(81,101)	(9,619)	(90,720)
Depreciation and impairment	(98,438)	(37,077)	(135,515)
Amortisation - software	(8,474)	(719)	(9,193)
Amortisation - service concession assets	(2,186)	-	(2,186)
<b>Year ended 30 June 2011</b>			
<b>Revenue</b>			
Revenue from services	2,952,634	767,057	3,719,691
Total revenue before intersegment revenue	2,952,634	767,057	3,719,691
Intersegment revenue	3,400	-	3,400
Total segment revenue	2,956,034	767,057	3,723,091
<b>Results</b>			
Segment net profit after tax	199,052	21,534	220,586
Finance costs	(38,523)	(38,401)	(76,924)
Interest income	5,182	-	5,182
Income tax expense	(87,132)	(6,623)	(93,755)
Depreciation and impairment	(90,312)	(33,510)	(123,822)
Amortisation - software	(8,519)	(510)	(9,029)
Amortisation - service concession assets	(2,224)	-	(2,224)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 11. SEGMENT INFORMATION (CONTINUED)

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>(i) Segment revenue reconciliation to income statement</b>		
Total segment revenue	3,962,414	3,723,091
Inter segment sales elimination	(5,938)	(3,400)
Interest income	4,625	5,182
Revenue - income from the sale of development assets	4,976	15,011
Other income - Profit on sale of assets	7,406	5,261
Total revenue - income statement	<u>3,973,483</u>	<u>3,745,145</u>

### (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 non-core items. Refer to note 2(a) for the reconciliation of net profit attributable to owners of the parent to core profit (segment result) after tax.

## 12. RECEIVABLES

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>Current</b>		
Trade and other debtors	430,352	433,286
Allowances for impairment loss	(8,185)	(8,769)
	<u>422,167</u>	<u>424,517</u>
<b>Non-current</b>		
Receivable from the Government in respect of the availability charge for the operation of a privately operated public hospital	18,725	22,014
Receivable from the Government for plant and equipment	2,498	2,864
Rental property bonds receivables	3,169	1,983
Other	963	2,426
	<u>25,355</u>	<u>29,287</u>
Total	<u>447,522</u>	<u>453,804</u>

### (i) Allowances for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. An impairment loss of \$8,185,000 (2011: \$8,769,000) 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:

At 1 July	(8,769)	(8,852)
Charge for the year	(2,245)	(4,858)
Acquisition of subsidiary	-	(51)
Foreign exchange translation	157	555
Amounts written off (included in service costs)	2,672	4,437
At 30 June	<u>(8,185)</u>	<u>(8,769)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 12. RECEIVABLES (CONTINUED)

### (ii) Ageing analysis

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

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>0-30 Days PDNI*</b>	<b>31-60 Days PDNI*</b>	<b>61-90 Days PDNI*</b>	<b>91+ Days PDNI*</b>	<b>Considered Impaired</b>
2012	455,707	376,736	41,117	17,857	3,877	7,935	8,185
2011	462,573	339,477	58,436	25,803	12,321	17,767	8,769

\*PDNI – Past due not impaired

Receivables past due but not considered impaired are: \$70,786,000 (2011: \$114,327,000). 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.

### (iii) Related party receivables

For terms and conditions of related party receivables refer to note 30.

### (iv) Fair value

Due to the short term nature of the current receivables, the carrying value approximates fair value. The carrying values of the discounted non-current receivables approximates their fair values.

### (v) Credit risk

The maximum exposure to credit risk for current receivables is their fair value. 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

The maximum exposure to credit risk for non-current receivables at the reporting date is the higher of the carrying value and fair value of each class of these receivables. As the majority of the non-current receivables are receivable from the Government, this is assessed as low risk.

### (vi) Foreign exchange & interest rate risk

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

### (vii) Terms & conditions

The non-current receivables from the Government in respect of the availability charge for the operation of a privately operated public hospital will be fully repaid by June 2018.

## 13. INVENTORIES

	<b>2012 \$000</b>	<b>2011 \$000</b>
Amount of medical and food supplies to be consumed in providing future patient services – at cost	94,880	76,150
Development assets to be sold that are currently under construction – at cost	10,155	11,651
	<u>105,035</u>	<u>87,801</u>

### (i) Inventory expense

Medical and food inventories recognised as an expense for the year ended 30 June 2012 totalled \$987,012,000 (2011: \$950,375,000) for the Group. This expense has been included in the medical consumables and supplies in the income statement. The cost of development assets sold which has been recognised as an expense for the year ended 30 June 2012 totalled \$4,355,000 (2011: \$10,561,000) for the Group. This expense has been included in Cost of goods sold – Book value of development assets sold in the income statement.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**14. OTHER CURRENT ASSETS**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Prepayments	36,027	35,874
GST receivable	7,829	7,785
Other current assets	3,584	2,508
	<u>47,440</u>	<u>46,167</u>

**15. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land &amp; Buildings</b>	<b>Plant &amp; Equipment</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Cost</b>			
At 1 July 2010	1,611,037	1,069,369	2,680,406
Additions	126,601	94,996	221,597
Acquisition of subsidiary	-	7,647	7,647
Disposals	(3,366)	(20,203)	(23,569)
Exchange Differences	(39,428)	(45,122)	(84,550)
<b>At 30 June 2011</b>	<b>1,694,844</b>	<b>1,106,687</b>	<b>2,801,531</b>
Additions	139,344	92,197	231,541
Disposals	(29,985)	(32,885)	(62,870)
Exchange Differences	(5,529)	(6,630)	(12,159)
<b>At 30 June 2012</b>	<b>1,798,674</b>	<b>1,159,369</b>	<b>2,958,043</b>
<b>Depreciation and Impairment</b>			
At 1 July 2010	(249,921)	(693,381)	(943,302)
Depreciation charge for the year	(31,133)	(90,675)	(121,808)
Impairment	-	(2,014)	(2,014)
Disposals	459	14,305	14,764
Exchange Differences	5,376	31,949	37,325
<b>At 30 June 2011</b>	<b>(275,219)</b>	<b>(739,816)</b>	<b>(1,015,035)</b>
Depreciation charge for the year	(31,860)	(103,655)	(135,515)
Disposals	5,842	26,807	32,649
Exchange Differences	482	5,835	6,317
<b>At 30 June 2012</b>	<b>(300,755)</b>	<b>(810,829)</b>	<b>(1,111,584)</b>
<b>Net Book Value</b>			
At 30 June 2012	<u>1,497,919</u>	<u>348,540</u>	<u>1,846,459</u>
At 30 June 2011	<u>1,419,625</u>	<u>366,871</u>	<u>1,786,496</u>

The carrying value of property, plant and equipment held under finance leases and hire purchase contracts at 30 June 2012 is \$48,347,000 (2011: \$53,682,000).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 16. GOODWILL AND INTANGIBLE ASSETS

### (i) Reconciliation of carrying amounts at the beginning and end of the period

	<b>Goodwill \$000</b>	<b>Service Concession Assets \$000</b>	<b>Development Costs ^ \$000</b>	<b>Total \$000</b>
<b>Cost</b>				
At 1 July 2010	871,549	43,329	31,610	946,488
Additions	-	445	3,661	4,106
Acquisition of subsidiary	13,484	-	3	13,487
Disposals	(944)	(257)	-	(1,201)
Exchange Differences	(41,537)	(1,243)	(286)	(43,066)
<b>At 30 June 2011</b>	<b>842,552</b>	<b>42,274</b>	<b>34,988</b>	<b>919,814</b>
Additions	-	308	1,031	1,339
Disposals	-	(17)	(232)	(249)
Exchange Differences	(4,401)	(481)	(388)	(5,270)
<b>At 30 June 2012</b>	<b>838,151</b>	<b>42,084</b>	<b>35,399</b>	<b>915,634</b>
<b>Amortisation and Impairment</b>				
At 1 July 2010	-	(10,822)	(11,715)	(22,537)
Amortisation charge for the year	-	(2,224)	(9,029)	(11,253)
Disposals	-	172	-	172
<b>At 30 June 2011</b>	<b>-</b>	<b>(12,874)</b>	<b>(20,744)</b>	<b>(33,618)</b>
Amortisation charge for the year	-	(2,186)	(9,193)	(11,379)
Disposals	-	9	232	241
Exchange Differences	-	-	(235)	(235)
<b>At 30 June 2012</b>	<b>-</b>	<b>(15,051)</b>	<b>(29,940)</b>	<b>(44,991)</b>
<b>Net Book Value</b>				
At 30 June 2012	838,151	27,033	5,459	870,643
At 30 June 2011	842,552	29,400	14,244	886,196

^ Internally generated, including software costs

### (ii) Description of the Group's intangible assets and goodwill

Goodwill has been acquired through business combinations and is determined to have an indefinite life. 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.

The intangible asset, 'service concession assets', has been acquired through business combinations and purchases of assets.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

### **17. 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 2012 based on financial budgets approved by senior management covering a five-year period. The budgets are calculated using an approved budget for 2013 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 (2011: 3%).

The pre tax discount rate applied to cash flow projections is 12.8% (2011: 12.3%). The post tax discount rate is 9.8% (2011: 9.5%).

#### **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 2012 based on financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 7.9% (2011: 9.2%). The post tax discount rate applied to cash flow projections is 7.2% (2011: 8.0%).

The long-term growth rate used to extrapolate the cash flows of the overseas business beyond the five-year period is 2% (2011: 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 2012 based on financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 6.3% (2011: 6.4%). The post tax discount rate applied to cash flow projections is 5.7 % (2011: 5.8%).

The long-term growth rate used to extrapolate the cash flows of the overseas business beyond the five-year period is 0.5% (2011: 0.5%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 17. 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 (Australia/Indonesia) business, to the UK business and the French business, are significant in comparison with the total carrying amounts of goodwill.

	Australia/Indonesia		UK		France		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount of goodwill	554,172	554,172	187,858	183,217	96,121	105,163	838,151	842,552

### (iii) Key assumptions used in value in use calculations for the goodwill for 30 June 2012 and 30 June 2011

- 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 24% - 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 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 United Kingdom, management do not 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 result in the carrying value of the UK goodwill exceeding the recoverable amount.

For France, 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 France goodwill exceeding the recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 18. TRADE & OTHER PAYABLES

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Trade payable	246,979	227,285
Sundry creditors and accrued expenses	181,115	167,300
Employee and director entitlements	148,575	140,312
Other payables	2,673	2,420
	<u>579,342</u>	<u>537,317</u>

### (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 & liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk exposure are set out in note 3.

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>19. PROVISIONS</b>		
<b>Current</b>		
Restructuring provision	6,656	6,730
Unfavourable contracts	4,965	4,384
Insurance provision	131,439	124,341
Other provisions	4,102	-
	<u>147,162</u>	<u>135,455</u>
<b>Non-current</b>		
Non-current employee and Director entitlements	106,902	93,568
Deferred lease provision	137,393	110,328
Unfavourable contracts	18,270	23,173
Other provisions	1,777	3,530
	<u>264,342</u>	<u>230,599</u>
Total	<u>411,504</u>	<u>366,054</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 19. PROVISIONS (CONTINUED)

### (a) Movements in provisions

	Deferred lease \$000	Restructuring \$000	Insurance \$000	Unfavourable contracts \$000	Other provision \$000	Total \$000
At 1 July 2011	110,328	6,730	124,341	27,557	3,530	272,486
Arising during the year	23,670	540	13,297	-	4,145	41,652
Utilised during the year	-	(614)	(5,046)	(4,859)	(642)	(11,161)
Exchange differences	3,395	-	(91)	537	(552)	3,289
Unused amounts reversed	-	-	(1,062)	-	(602)	(1,664)
Discount rate adjustment	-	-	-	-	-	-
At 30 June 2012	<u>137,393</u>	<u>6,656</u>	<u>131,439</u>	<u>23,235</u>	<u>5,879</u>	<u>304,602</u>
Current 2012	-	6,656	131,439	4,965	4,102	147,162
Non-current 2012	<u>137,393</u>	<u>-</u>	<u>-</u>	<u>18,270</u>	<u>1,777</u>	<u>157,440</u>
	<u>137,393</u>	<u>6,656</u>	<u>131,439</u>	<u>23,235</u>	<u>5,879</u>	<u>304,602</u>
Current 2011	-	6,730	124,341	4,384	-	135,455
Non-current 2011	<u>110,328</u>	<u>-</u>	<u>-</u>	<u>23,173</u>	<u>3,530</u>	<u>137,031</u>
	<u>110,328</u>	<u>6,730</u>	<u>124,341</u>	<u>27,557</u>	<u>3,530</u>	<u>272,486</u>

### (b) Nature and timing of provisions

#### Restructuring provision

The restructuring provision primarily relates to:

- the restructuring of the Group subsequent to the purchase of acquisitions 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 2012 and 2013.

#### 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 uncertainty 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 10 - 20% 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 five 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 20. INTEREST BEARING LOANS AND BORROWINGS

		<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>Current</b>			
Secured liabilities:			
- Loans - bondholders	(i)	3,159	2,916
- Lease liabilities	(ii)	4,163	5,572
- Bank loan	(iii)	5,041	5,415
Unsecured liabilities:			
- Bank Loans	(iii)	19,120	-
		<u>31,483</u>	<u>13,903</u>
<b>Non-current</b>			
Secured liabilities:			
- Loans - bondholders	(i)	20,403	23,563
- Lease liabilities	(ii)	18,108	21,984
- Bank loan	(iii)	38,968	51,218
- Loan - subordinated bonds	(iv)	42,716	43,278
Unsecured liabilities:			
- Bank loan	(iii)	917,380	1,087,183
		<u>1,037,575</u>	<u>1,227,226</u>
<b>Total</b>		<u><u>1,069,058</u></u>	<u><u>1,241,129</u></u>

(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.

(ii) Lease liabilities are effectively secured by the leased asset (refer note 25).

(iii) Further information on bank loans is set out in note 29.

(iv) Loans - subordinated bonds. Further information is set out in note 29.

### (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 reporting date, the market interest rates vary from 3.54% to 3.63% (2011: 4.61% to 5.23%) for Australia, 0.67% to 1.00% (2011: 0.77% to 1.24%) for UK, 4.20% to 4.48% (2011: 6.00% to 7.20%) for Indonesia, and 0.65% to 0.79% (2011: 1.13% to 2.03%) for France respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 20. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

### (a) Fair values (continued)

	2012		2011	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Bank loans	980,509	997,388	1,143,816	1,194,365
Lease liabilities	22,271	26,570	27,556	26,243
Bondholders	23,562	26,737	26,479	28,792
Subordinated bonds	42,716	55,293	43,278	59,906
	<u>1,069,058</u>	<u>1,105,988</u>	<u>1,241,129</u>	<u>1,309,306</u>

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

### (b) Interest rate, foreign exchange & 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 non-current interest bearing liabilities are set out in the following table:

	2012 \$000	2011 \$000
<i>Finance lease</i>		
Leased assets	48,347	53,682
<i>Fixed and floating charge</i>		
Receivables	18,725	22,014
Bank loan	84,257	92,184
Total non-current assets pledged as security	<u>151,329</u>	<u>167,880</u>

### (d) Defaults & breaches

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

## 21. ISSUED CAPITAL, RETAINED EARNINGS AND RESERVES

	2012 \$000	2011 \$000
<b>21.1 Ordinary Shares</b>		
<i>(a) Issued and paid up capital</i>		
202,081,252 ordinary shares fully paid		
(30 June 2011: 202,081,252 ordinary shares fully paid)	<u>713,523</u>	<u>713,523</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

### 21.1 Ordinary Shares (continued)

#### *(b) Terms & 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.

### 21.2 Cash Flow Hedges Reserve

#### *Nature & 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 debit to equity during the year to 30 June 2012 represents a decrease in forecast long term interest rates.

### 21.3 Share Based Payment Reserve

#### *Nature & 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 to note 23 for further details of these plans.

### 21.4 Vested Employee Equity

#### *Nature & 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 Share Based Payment Reserve and the actual purchase price of the shares.

### 21.5 Convertible Adjustable Rate Equity Securities (CARES)

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<i>(a) Issued &amp; paid up capital</i>		
2,600,000 CARES shares fully paid		
(30 June 2011: 2,600,000 CARES shares fully paid)	<u>252,165</u>	<u>252,165</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

#### (b) Terms and conditions of CARES

<b>Issuer</b>	<b>Ramsay Health Care Limited</b>
<b>Security</b>	Convertible Adjustable Rate Equity Securities (CARES) which are a non-cumulative, redeemable and convertible preference shares in Ramsay.
<b>Face Value</b>	\$100 Per CARES.
<b>Dividends</b>	The holder of each CARES is entitled to a preferred, non-cumulative, floating rate dividend equal to: $\text{Dividend Entitlement} = \frac{\text{Dividend Rate} \times \text{Face Value} \times N}{365}$ <p>where:  N is the number of days in the Dividend Period  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.  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.</p>
<b>Dividend Rate</b>	The Dividend Rate for each Dividend Period is calculated as: $\text{Dividend Rate} = (\text{Market Rate} + \text{Margin}) \times (1-T)$ <p>where:  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.  The Margin for the period to 20 October 2010 was 2.85% per annum. It was determined by the Bookbuild held on 26 April 2005.  T is the prevailing Australian corporate tax rate applicable on the Allotment Date.  As Ramsay did not convert or exchange by 20 October 2010 the Margin was increased by a one time step up of 2.00% (200 basis points) per annum.</p>
<b>Step-up</b>	One-time 2.00% (200 basis points) step-up in the Margin at 20 October 2010
<b>Franking</b>	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. 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.
<b>Conversion or exchange by Ramsay</b>	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. Ramsay also has the right to: <ul style="list-style-type: none"> <li>• convert or exchange CARES after the occurrence of a Regulatory Event; and</li> <li>• convert CARES on the occurrence of a Change in Control Event.</li> </ul> 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.
<b>Conversion Ratio</b>	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.
<b>Ranking</b>	CARES rank equally amongst themselves in all respects and are subordinated to all creditors but rank in priority to Shares.
<b>Participation</b>	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.
<b>Voting Rights</b>	CARES do not carry a right to vote at general meeting of Ramsay except in limited circumstances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

#### 21.6 Treasury Shares

	2012 \$000	2011 \$000
1,522,333 ordinary shares (30 June 2011: 1,319,666)	23,259	18,474

#### *Nature & Purpose*

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

#### 21.7 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 21.5 for further information on the existing CARES (2,600,000).

During 2012, dividends of \$128,821,000 (2011: \$111,835,000) were paid. For the year ended 30 June 2012 fully franked ordinary dividends of 60.0c (2011: 52.0c) per share were declared (Interim dividend of 25.5c, Final dividend of 34.5c). These dividends represented a payout ratio of approximately 51.7% of Core Earnings per Share of 116.1c. Management's target for dividends for 2013 – 2016, 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 Group that are used to service debt. This ratio is calculated as Net Debt/EBITDA and is 1.5 times for the year ended 30 June 2012 (2011: 1.93 times).

The Group had certain senior debt facilities that would have matured in November 2012. These facilities were refinanced and the wholly owned Subsidiaries of the Group (except certain dormant subsidiaries) have committed senior debt funding until April 2015 and April 2017 (please refer to Note 29 for further information in relation to these borrowings). As such, these subsidiaries have 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 wholly owned Subsidiaries of the Group (except certain dormant subsidiaries) are not and have not been in breach of any of the financial and other undertakings of the Senior Debt Facility Agreement.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
<b>Current assets</b>		
Interest rate derivatives contracts – cash flow hedges	-	823
<b>Non – current assets</b>		
Interest rate derivatives contracts – cash flow hedges	-	635
<b>Current liabilities</b>		
Interest rate derivatives contracts – cash flow hedges	14,521	9,182
<b>Non - current liabilities</b>		
Interest rate derivatives contracts – cash flow hedges	14,519	13,029

### (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 3.56% (2011: 5.01%). Interest bearing loans in GBP of the Group currently bear an average variable interest rate of 0.89% (2011: 0.83%). Interest bearing loans in Euro of the Group currently bear an average variable interest rate of 0.65% (2011: 1.53%).

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, GBP 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 73% (2011: 76%) of the principal outstanding.

The Australian Dollar interest rate swap contracts fixed interest rate range between 3.51% and 5.69% (2011: 4.55% and 5.69%) and the variable rates is the 90-day bank bill swap bid rate, which at reporting date was 3.49% (2011: 5.00%). The GBP interest rate swap contracts fixed interest rate range between 3.02% and 5.46% (2011: 3.02% and 5.46%) and the variable rate is the 90-day London inter-bank offered rate, which at reporting date was 0.87% (2011: 0.93%). The Euro interest rate swap contracts fixed interest rate range between 2.015% and 2.02% (2011: 2.015% and 2.02%) and the variable rate is the 90 day Euro zone interbank deposit rates, which at reporting date was 0.65% (2011: 1.55%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 22. 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:

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
0-1 years	351,216	400,000
1-2 years	240,708	369,491
2-3 years	170,708	70,000
3-5 years	321,820	185,821
	<u>1,084,452</u>	<u>1,025,312</u>

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:

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Opening balance	(14,489)	(22,252)
Transferred to interest expense	9,802	(25,519)
Taken to equity	(18,031)	36,609
Related income tax	2,469	(3,327)
Closing balance	<u>(20,249)</u>	<u>(14,489)</u>
Loss on cash flow hedge ineffectiveness recognised immediately in the income statement	<u>(67)</u>	<u>(76)</u>

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

Included in bank loans at 30 June 2012 is a GBP borrowing of £117,000,000 (2011: £117,000,000) which has been designated as a hedge of the net investment 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 investment in the UK subsidiary. A net loss on the bank loan designated as a hedge of the net investment of \$4,439,000 (2011: net gain \$34,372,000) 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 instruments 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 23. SHARE BASED PAYMENT PLANS

### 23.1 Recognised share-based payment expenses

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

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Expense arising from equity-settled share based payment transactions	7,732	5,720
Total expense arising from share-based payment transactions (note 5 (d))	7,732	5,720

### 23.2 Executive Performance Rights Plan (Equity)

An executive performance rights scheme was 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:

	2012		2011	
	Number of Rights	Weighted Average Fair Value	Number of Rights	Weighted Average Fair Value
Balance at beginning of year	1,232,000	\$10.75	822,701	\$8.42
- granted	656,000	\$16.32	575,000	\$12.89
- vested	(320,000)	\$9.37	(165,701)	\$6.50
- forfeited	-	-	-	-
Balance at end of year	<u>1,568,000</u>		<u>1,232,000</u>	
Exercisable at end of year	-		-	

The following table summarises information about rights held by participants in the executive performance rights plan as at 30 June 2012:

<b>Number of Rights</b>	<b>Grant Date</b>	<b>Vesting Date <sup>(1)</sup></b>	<b>Weighted Average Fair Value <sup>(2)</sup></b>
158,666	20-Oct-09	31-Aug-12	\$7.58
188,334	20-Oct-09	31-Aug-12	\$9.68
249,334	17-Nov-10	30-Aug-13	\$10.61
285,666	17-Nov-10	30-Aug-13	\$14.36
10,000	29-Jun-11	30-Aug-13	\$14.30
20,000	29-Jun-11	30-Aug-13	\$16.70
297,834	17-Nov-11	29-Aug-14	\$13.86
343,166	17-Nov-11	29-Aug-14	\$17.51
5,000	22-May-12	29-Aug-14	\$18.14
10,000	22-May-12	29-Aug-14	\$19.92
<u>1,568,000</u>			

<sup>(1)</sup> The vesting date shown is the most likely vesting date subject to full satisfaction of the respective performance conditions.

<sup>(2)</sup> Fair value at grant date

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 23. SHARE BASED PAYMENT PLANS (CONTINUED)

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

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

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 fair value of share rights with TSR performance conditions are estimated on the date of grant using a Monte Carlo model. The fair value of share rights with non-market performance conditions are estimated at the date of grant using the Black Scholes Option Pricing model. The following weighted average assumptions were used for grants made on 20 October 2009, 17 November 2010, 29 June 2011, 17 November 2011, and 22 May 2012.

	<b>Granted 22-May-12</b>	<b>Granted 17-Nov-11</b>	<b>Granted 29-Jun-11</b>	<b>Granted 17-Nov-10</b>	<b>Granted 20-Oct-09</b>
Dividend yield	3.10%	3.13%	3.25%	3.10%	3.80%
Expected volatility	23%	25%	20% - 40%	22% - 30%	30% - 35%
Historical volatility	25%	25%	25%	25%	35%
Risk-free interest rate	2.4% - 2.5%	3.3% - 3.4%	4.6% - 4.7%	5.1% - 5.2%	5.2% - 5.4%
Effective life of incentive right	3 years	3 years	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.

#### 23.3 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.

<b>Number of Rights</b>	<b>Grant Date</b>	<b>Vesting Date</b>	<b>Weighted Average Fair Value</b>
600,000	1 Jul 2008	1 Jul 2013	\$8.84 <sup>(1)</sup>

<sup>(1)</sup> Fair Value at grant date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 24. 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 the reporting date.

### (b) Compensation of Key Management Personnel

	2012 \$	2011 \$
<b>Non-Executive Directors</b>		
Short term	1,304,625	1,242,500
Post employment	231,876	236,890
	<u>1,536,501</u>	<u>1,479,390</u>
<b>Executive Directors</b>		
Short term	6,370,388	5,041,141
Post employment	31,550	30,398
Performance/Incentive/Retention rights	3,841,583	2,587,392
	<u>10,243,521</u>	<u>7,658,931</u>
<b>Executives</b>		
Short term	2,376,912	2,339,812
Post employment	31,550	30,398
Performance/Incentive/Retention rights	1,248,650	855,533
	<u>3,657,112</u>	<u>3,225,743</u>
<b>Total</b>		
Short term	10,051,925	8,623,453
Post employment	294,976	297,686
Performance/Incentive/Retention rights	5,090,233	3,442,925
	<u>15,437,134</u>	<u>12,364,064</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 24. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

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

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 Performance Rights is forbidden.

30 June 2012	Vested	Granted	Grant Date	Fair Value \$ (note 23)	First Test Date	Second TSR Test Date	Last TSR Test & Expiry Date
<b>Directors</b>							
C. Rex <sup>(1)</sup>	25,000	-	30/12/08	\$9.05	30/6/11	31/12/11	30/6/11
C. Rex <sup>(2)</sup>	25,000	-	30/12/08	\$9.15	30/6/11	N/A	N/A
C. Rex <sup>(1)</sup>	-	105,000	17/11/11	\$13.86	30/6/14	31/12/14	30/6/15
C. Rex <sup>(2)</sup>	-	105,000	17/11/11	\$17.51	30/6/14	N/A	N/A
B. Soden <sup>(1)</sup>	22,500	-	30/12/08	\$9.05	30/6/11	31/12/11	30/6/12
B. Soden <sup>(2)</sup>	22,500	-	30/12/08	\$9.15	30/6/11	N/A	N/A
B. Soden <sup>(1)</sup>	-	42,500	17/11/11	\$13.86	30/6/14	31/12/14	30/6/15
B. Soden <sup>(2)</sup>	-	42,500	17/11/11	\$17.51	30/6/14	N/A	N/A
<b>Executives</b>							
C. McNally <sup>(1)</sup>	12,500	-	30/12/08	\$9.05	30/6/11	31/12/11	30/6/11
C. McNally <sup>(2)</sup>	12,500	-	30/12/08	\$9.15	30/6/11	N/A	N/A
C. McNally <sup>(1)</sup>	-	27,500	17/11/11	\$13.86	30/6/14	31/12/14	30/6/15
C. McNally <sup>(2)</sup>	-	27,500	17/11/11	\$17.51	30/6/14	N/A	N/A
D. Sims <sup>(1)</sup>	17,500	-	30/12/08	\$9.05	30/6/11	31/12/11	30/6/12
D. Sims <sup>(2)</sup>	17,500	-	30/12/08	\$9.15	30/6/11	N/A	N/A
D. Sims <sup>(1)</sup>	-	27,500	17/11/11	\$13.86	30/6/14	31/12/14	30/6/15
D. Sims <sup>(2)</sup>	-	27,500	17/11/11	\$17.51	30/6/14	N/A	N/A

30 June 2011	Vested	Granted	Grant Date	Fair Value \$ (note 23)	First Test Date	Second TSR Test Date	Last TSR Test & Expiry Date
<b>Directors</b>							
C. Rex <sup>(1)</sup>	42,306	-	23/10/07	\$6.50	30/06/10	31/12/10	30/06/11
C. Rex <sup>(1)</sup>	-	75,000	17/11/10	\$10.61	30/06/13	31/12/13	30/06/14
C. Rex <sup>(2)</sup>	-	75,000	17/11/10	\$14.36	30/06/13	N/A	N/A
B. Soden <sup>(1)</sup>	27,700	-	23/10/07	\$6.50	30/06/10	31/12/10	30/06/11
B. Soden <sup>(1)</sup>	-	37,500	17/11/10	\$10.61	30/06/13	31/12/13	30/06/14
B. Soden <sup>(2)</sup>	-	37,500	17/11/10	\$14.36	30/06/13	N/A	N/A
<b>Executives</b>							
C. McNally <sup>(1)</sup>	20,146	-	23/10/07	\$6.50	30/06/10	31/12/10	30/06/11
C. McNally <sup>(1)</sup>	-	27,500	17/11/10	\$10.61	30/06/13	31/12/13	30/06/14
C. McNally <sup>(2)</sup>	-	27,500	17/11/10	\$14.36	30/06/13	N/A	N/A
D. Sims <sup>(1)</sup>	10,073	-	23/10/07	\$6.50	30/06/10	31/12/10	30/06/11
D. Sims <sup>(1)</sup>	-	27,500	17/11/10	\$10.61	30/06/13	31/12/13	30/06/14
D. Sims <sup>(2)</sup>	-	27,500	17/11/10	\$14.36	30/06/13	N/A	N/A

<sup>(1)</sup> Equity based performance rights subject to satisfaction of relative TSR performance condition

<sup>(2)</sup> Equity based performance rights subject to satisfaction of core EPS Growth performance condition

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**24. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)**

**(d) Performance and Incentive Right holdings of Key Management Personnel**

30 June 2012	Performance/ Retention/ Incentive Right	Balance at beginning of period 01 Jul 11	Granted as Remuner- ation	Exercised	Balance at end of period 30 Jun 12	Vested at 30 Jun 12
<b>Directors</b>						
C. Rex	Equity Performance Rights	255,000	210,000	(50,000)	415,000	-
C. Rex	Retention Rights	600,000	-	-	600,000	-
B. Soden	Equity Performance Rights	170,000	85,000	(45,000)	210,000	-
<b>Executives</b>						
C. McNally	Equity Performance Rights	115,000	55,000	(25,000)	145,000	-
D. Sims	Equity Performance Rights	130,000	55,000	(35,000)	150,000	-

30 June 2011	Performance/ Retention/ Incentive Right	Balance at beginning of period 01 Jul 10	Granted as Remuner- ation	Exercised	Balance at end of period 30 Jun 11	Vested at 30 Jun 11
<b>Directors</b>						
C. Rex	Equity Performance Rights	147,306	150,000	(42,306)	255,000	-
C. Rex	Retention Rights	600,000	-	-	600,000	-
B. Soden	Equity Performance Rights	122,700	75,000	(27,700)	170,000	-
<b>Executives</b>						
C. McNally	Equity Performance Rights	80,146	55,000	(20,146)	115,000	-
D. Sims	Equity Performance Rights	85,073	55,000	(10,073)	130,000	-

**(e) Shareholdings of Key Management Personnel**

30 June 2012	Balance 01 Jul 11		Granted as Remuneration		Exercise of Performance Rights		Net Change - Other		Balance 30 Jun 12	
	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.
<b>Directors</b>										
C. Rex	337,015	5,334	-	-	50,000	-	22,501	-	409,516	5,334
B. Soden	100,791	2,000	-	-	45,000	-	-	-	145,791	2,000
<b>Executives</b>										
C. McNally	176,047	-	-	-	25,000	-	-	-	201,047	-
D. Sims	40,550	-	-	-	35,000	-	-	-	75,550	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**24. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)**

**(e) Shareholdings of Key Management Personnel (continued)**

30 June 2011	Balance 01 Jul 10		Granted as Remuneration		Exercise of Performance Rights		Net Change - Other		Balance 30 Jun 11	
	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.
<b>Directors</b>										
C. Rex	272,803	5,334	-	-	42,306	-	21,906	-	337,015	5,334
B. Soden	73,091	3,335	-	-	27,700	-	-	(1,335)	100,791	2,000
<b>Executives</b>										
C. McNally	155,901	-	-	-	20,146	-	-	-	176,047	-
D. Sims	30,477	-	-	-	10,073	-	-	-	40,550	-

**25. EXPENDITURE COMMITMENTS**

		<b>2012</b>	<b>2011</b>
		<b>\$000</b>	<b>\$000</b>
	Note		
<b>(a) Finance leases &amp; hire purchase commitments – Group as lessee</b>			
- Within one year		5,146	4,126
- After one year but not more than five years		15,877	12,019
- After more than five years		6,886	25,420
Total minimum lease payments		27,909	41,565
- Less: future finance charges		(5,638)	(14,009)
- Present value of minimum lease payments		22,271	27,556
Total lease liability accrued for:			
<i>Current</i>			
- Finance leases	20	4,163	5,572
<i>Non-current</i>			
- Finance leases	20	18,108	21,984
		22,271	27,556

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 five years and the average discount rate implicit in the leases is between 4.0% to 7.4% (2011: 4.0% to 7.4%). The security over finance leases is disclosed in note 20.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 25. EXPENDITURE COMMITMENTS (CONTINUED)

	Note	2012 \$000	2011 \$000
<b>(b) Lease expenditure commitments – Group as lessee</b>			
Operating leases (non-cancellable):			
Minimum lease payments			
- Within one year		97,937	92,811
- After one year but not more than five years		375,649	376,325
- After more than five years		2,053,793	2,094,085
Aggregate lease expenditure contracted for at reporting date		2,527,379	2,563,221
Amounts provided for:			
- deferred lease – non-current	19	137,393	110,328
- unfavourable contract - current	19	4,965	4,384
- non-current	19	18,270	23,173
		160,628	137,885
Amounts not provided for:			
- rental commitments		2,366,751	2,425,336
Aggregate lease expenditure contracted for at reporting date		2,527,379	2,563,221

Operating leases have lease terms of between one and twenty five years. Assets which are the subject of operating leases include land and buildings, motor vehicles and items of medical equipment.

### (c) Commitment to manage & operate the Mildura Base Hospital

Ramsay Health Care Australia 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.

### (d) 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.

## 26. 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 insurance companies. The entity contributes to the funds at various agreed contribution levels, which are not less than the statutory minimum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 27. DEFINED BENEFIT PENSION PLAN

The Group has defined benefit plans in the UK, France and Indonesia, as at 30 June 2012. The defined benefit plans in the UK and Australia are now closed and were only open to existing employees who had always been on the plan. They were not open to new employees. During this year the decision was made to wind up the Australian plan. This was completed by 30 June 2012. The decision to wind up the UK plan was made in 2011 and was still underway at 30 June 2012.

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

	<b>Pension Plans</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
<b>Net benefit expense (recognised in employee benefits)</b>		
Current service cost	607	726
Interest cost on benefit obligation	1,046	1,077
Expected return on plan assets	(237)	(236)
Net actuarial (gains)/losses recognised in the period	(386)	(214)
Past service cost	2	-
Net benefit expense (note 5) (recognised in superannuation expense)	<u>1,032</u>	<u>1,353</u>
Actual return on plan assets	<u>(146)</u>	<u>769</u>

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Net (liability) included in the Statement of Financial Position</b>					
Present value of defined benefit obligation	(23,773)	(23,378)	(18,423)	(10,636)	(10,304)
Fair value of plans assets	<u>5,631</u>	<u>4,537</u>	<u>4,098</u>	<u>3,990</u>	<u>5,236</u>
Net (liability) – non-current	<u>(18,142)</u>	<u>(18,841)</u>	<u>(14,325)</u>	<u>(6,646)</u>	<u>(5,068)</u>

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

	<b>Pension Plans</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Opening defined benefit obligation	23,378	18,423
Acquisition of subsidiary	-	1,119
Current service cost	607	726
Interest cost	1,046	1,077
Actuarial assessment of value required to wind up UK plans	-	3,444
Benefits paid	(1,498)	(150)
Actuarial losses on obligation	663	1,418
Past service costs	-	-
Exchange differences on foreign plans	<u>(423)</u>	<u>(2,679)</u>
Closing defined benefit obligation	<u>23,773</u>	<u>23,378</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 27. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

	<b>Pension Plans</b>	
	<b>2012 \$000</b>	<b>2011 \$000</b>
Opening fair value of plans assets	4,537	4,098
Expected return	236	238
Contributions by employer	1,754	402
Benefits paid	(630)	-
Actuarial losses	(382)	533
Exchange differences on foreign plans	116	(734)
Fair value of plans assets	<u>5,631</u>	<u>4,537</u>

The Group expects to contribute \$3,631,000 to its defined benefit pension plans in 2013.

The major categories of plan assets as a percentage of the fair value of total plan assets for the UK (2011: UK and Australia) are as follows:

	<b>Pension Plans</b>	
	<b>2012 (%)</b>	<b>2011 (%)</b>
Equities	-	60 - 69
Bonds	94	20 - 21
Property	-	4 - 6
Other	6	6 - 14

	<b>Pension Plans</b>	
	<b>2012 \$000</b>	<b>2011 \$000</b>
Actuarial losses recognised in the statement of comprehensive income	<u>1,045</u>	<u>885</u>
Cumulative actuarial losses recognised in the statement of comprehensive income	<u>4,268</u>	<u>3,223</u>

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

	<b>Pension Plans</b>	
	<b>2012 (%)</b>	<b>2011 (%)</b>
Discount rate	2.5 - 6.6	4.5 - 7.6
Expected rate of return on assets	2.5	6.5
Future salary increases	2.5 - 10.0	2.0 - 10.0
Future pension increases	2.5	3.7

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 28. AUDITORS' REMUNERATION

	2012 \$	2011 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
- An audit for review of the financial report of the entity and any other entity in the consolidated group	1,490,000	1,593,000
- Other services in relation to the entity and any other entity in the consolidated group		
Tax compliance	1,179,000	916,000
Assurance related	27,000	23,000
Other	16,000	58,000
	<u>2,712,000</u>	<u>2,590,000</u>
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
- An audit for review of the financial report of the entity and any other entity in the consolidated group	664,000	736,000
- Other services in relation to the entity and any other entity in the consolidated group		
Tax compliance	251,000	284,000
Due diligence services	245,000	37,000
Other	24,000	-
	<u>3,896,000</u>	<u>3,647,000</u>

## 29. BORROWINGS

### Terms & Conditions

#### (i) Senior Debt Facility & Working Capital Facility

##### a) Repayment and Cancellation of senior debt facility

On 30 April 2012 the Ramsay Group repaid and cancelled the Syndicated Facility Agreement (2007 SFA) executed on 20 November 2007 and maturing on 19 November 2012.

The amounts repaid under the 2007 SFA totalled A\$740,000,000 and £200,000,000.

##### b) Execution of new senior debt facility

On 10 November 2011 Ramsay and its wholly owned subsidiaries (except certain dormant subsidiaries) executed a Syndicated Facility Agreement (2011 SFA).

The 2011 SFA consists of:

- A three year revolving facility – with total commitments of \$400,000,000, £86,666,667 and €100,000,000; and
- A five year revolving facility – with total commitments of \$800,000,000, £173,333,333 and €200,000,000.

On 30 April 2012 Ramsay and its wholly owned subsidiaries (except certain dormant subsidiaries) made the first draw downs under the 2011 SFA of A\$760,000,000 and £150,000,000 and these draw downs were used to repay and refinance the 2007 SFA and for working capital.

The total amounts drawn down under the 2011 SFA as at 30 June 2012 was \$700,000,000, £150,000,000 and €nil.

The three year facility matures in April 2015 and the five year facility matures in April 2017.

The 2011 SFA is unsecured with negative pledges and guarantees given by Ramsay's wholly owned subsidiaries (excluding dormant subsidiaries).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 29. BORROWINGS (CONTINUED)

#### Terms & Conditions (continued)

##### (ii) *Bilateral Facilities*

The terms and conditions of the existing bilateral facilities, detailed below, have been amended to be consistent with the 2011 SFA:

- Bilateral facility with ANZ for working capital with a limit of \$6,500,000 and £3,100,000. The ANZ bilateral facility consists of a cash advance facility, overdraft facility and indemnity/guarantee facility (in both AUD and GBP).
- Bilateral facility with NAB for working with a limit of \$10,000,000 and £10,000,000. The NAB bilateral facility includes a cash advance facility, overdraft facility and indemnity/guarantee facility (in both AUD and GBP) together with certain transactional facilities.
- Other bilateral facilities (including set-off facilities, corporate card and lease line facilities) with Westpac and others.
- Under the bilateral facilities as at 30 June 2012 the total outstanding was \$10,760,958 (2011: \$10,411,636) and £3,550,968 (2011: £4,734,624).

##### (iii) *Indonesian Bank Loan*

On 8 February 2010 PT Affinity Health Indonesia entered into a one-year revolving credit facility with PT ANZ Panin Bank with a total facility of IDR 81,610,000,000 and on 4 February 2011, this facility agreement was amended whereby the term of the facility was extended to 8 February 2013. As at 30 June 2012 an amount of IDR 81,610,000,000 (2011: 81,610,000,000) was drawn under this facility. The interest rate is JIBOR plus 3.0%.

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 2012 an amount of IDR 102,020,000,000 (2011: IDR 128,220,000,000) was drawn under this facility. The interest rate is JIBOR plus mandatory costs plus 1.2%.

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 and its controlled entities executed a club facility arrangement on 6 September 2010 and this facility is provided by five major French banks. This club facility provides €40,000,000 worth of core debt facilities, €40,000,000 worth of debt facilities to fund future acquisitions and/or expansionary capital expenditures and €5,000,000 revolving working capital debt facility. The total amounts drawn under the club facility as at 30 June 2012 was €37,000,000 (2011: €40,000,000) and the undrawn commitment (after the mandatory repayment and cancellation) was €44,000,000 (2011: €45,000,000).

66

The new debt facilities 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 are secured against certain assets of the Ramsay Santé group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 29. BORROWINGS (CONTINUED)

### Terms & 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 €18,000,000 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 between 6 and 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 2012 an amount of €54,614,236 (2011: €54,614,236) and accrued interest of €20,634,433 (2011: €15,059,985) was outstanding in respect of these bonds. As at 30 June 2012, Predica, the non-controlling interest held €26,477,000 (2011: €26,477,000) worth of bonds and the interest accrued in respect of these bonds was €8,043,545 (2011: €5,486,359).

## 30. RELATED PARTY TRANSACTIONS

### Equity Instruments of Directors

The beneficial and direct interest of each Director in the equity of the Company as at 30 June 2012 was as follows:

Director	Ordinary Shares				Convertible Adjustable Rate Equity Securities (CARES)				Performance Rights <sup>(2)</sup>	
	2012		2011		2012		2011		2012	2011
	Direct	Indirect <sup>(1)</sup>	Direct	Indirect <sup>(1)</sup>	Direct	Indirect <sup>(1)</sup>	Direct	Indirect <sup>(1)</sup>	Direct	Direct
P.J. Ramsay	-	73,149,269	-	73,149,269	-	-	-	-	-	-
M.S. Siddle	152,564	-	152,564	-	-	-	-	-	-	-
C.P. Rex	407,320	2,196	334,819	2,196	-	5,334	-	5,334	415,000	255,000
B.R. Soden	141,658	4,133	96,658	4,133	-	2,000	-	2,000	210,000	170,000
A.J. Clark	82,000	-	82,000	-	-	1,600	-	1,400	-	-
P.J. Evans	7,209	-	7,209	-	-	-	-	-	-	-
I.P.S. Grier	-	-	58,116	-	-	-	-	-	-	-
R.H. McGeoch	-	74,231	-	74,231	-	257	-	257	-	-
K.C.D. Roxburgh	47,500	32,000	48,500	31,000	-	-	-	-	-	-

<sup>(1)</sup> Shares in which the Director does not have a direct interest including shares held in director related entities and shares held by family members.

<sup>(2)</sup> The terms and vesting conditions over these rights are as disclosed in note 23.

Mr Ramsay has a relevant interest in 73,149,269 (2011: 73,149,269) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 30. RELATED PARTY TRANSACTIONS (CONTINUED)

#### Equity Instruments of Directors (continued)

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 (2011: 15 September 2011). These shares may not be sold or transferred before the earlier of termination or 3 years.

#### Movements in Directors' equity holdings

During the year until the date of this report:

- Mr Rex acquired 22,501 ordinary shares on market in respect of the STI bonus, and 50,000 ordinary shares through the Executive Performance Rights Plan.
- Mr Soden acquired 45,000 ordinary shares through the Executive Performance Rights Plan.
- Mr Clark indirectly acquired 200 CARES on market.
- Mr Grier sold 58,116 ordinary shares on market.
- Mr Roxburgh sold 1,000 ordinary shares and indirectly acquired 1,000 ordinary shares on market.

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 arm's length basis. Total amount outstanding at 30 June 2012 is \$16,694 (2011:\$50,705).

During the year costs of \$73,439 (2011: \$50,705) were charged to and an amount of \$107,450 (2011: nil) was received from Paul Ramsay Holdings Pty Limited for expenditures incurred on behalf of Paul Ramsay Holdings Pty Limited.

During the year costs of \$8,964 (2011: \$13,491) were charged by and an amount of \$8,964 (2011: \$13,491) was paid to Paul Ramsay Holdings Pty Limited for services rendered to the Group.

- Entities associated with Mr Grier

During the year an amount of nil (2011:\$10,000) was paid to a company related to Mr Grier for services rendered to the Group.

### 31. SUBSEQUENT EVENTS

There have been no 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 32. CLOSED GROUP

#### Entities subject to class order

Pursuant to Class Order 98/1418, relief has been granted to the following entities from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

RHC Nominees Pty Limited  
RHC Developments Pty Limited  
Ramsay Health Care Investments Pty Limited  
Ramsay Hospital Holdings Pty Limited  
Ramsay Hospital Holdings (Queensland) Pty Limited  
Ramsay Finance Pty Limited  
Ramsay Aged Care Holdings Pty Limited  
Ramsay Aged Care Properties Pty Limited  
RHC Ancillary Services Pty Limited  
Linear Medical Pty Limited  
Newco Enterprises Pty Limited  
Sydney & Central Coast Linen Services Pty Limited  
Benchmark Healthcare Holdings Pty Limited  
Benchmark Healthcare Pty Limited  
AHH Holdings Health Care Pty Limited  
AH Holdings Health Care Pty Limited  
Ramsay Centauri Pty Limited  
Alpha Healthcare Pty Limited  
Ramsay Health Care Australia Pty Limited  
Donvale Private Hospital Pty Limited  
The Benchmark Hospital Group Pty Limited  
Dandenong Valley Private Hospital Pty Limited  
Benchmark – Surrey Pty Limited  
Benchmark – Peninsula Pty Limited  
Benchmark – Donvale Pty Limited  
Benchmark – Windermere Pty Limited  
Benchmark – Beleura Pty Limited  
Beleura Properties Pty Limited  
Affinity Health Care Holdings Pty Limited  
Affinity Health Holdings Australia Pty Limited  
Affinity Health Finance Australia Pty Limited  
Affinity Health Pty Limited  
Affinity Health Foundation Pty Limited  
Affinity Health Holdings Indonesia Pty Limited  
Hospitals of Australia Pty Limited  
Relkban Pty Limited  
Relkmet Pty Limited  
Votrant No. 664 Pty Limited  
Votrant No. 665 Pty Limited  
Australian Medical Enterprises Pty Limited  
AME Hospitals Pty Limited  
Victoria House Holdings Pty Limited  
C&P Hospitals Holdings Pty Limited  
HCoA Hospital Holdings (Australia) Pty Limited  
AME Properties Pty Limited  
AME Superannuation Pty Limited  
Attadale Hospital Property Pty Limited  
Glengarry Hospital Property Pty Limited  
Hadassah Pty Limited  
Rannes Pty Limited  
Hallcraft Pty Limited  
Jamison Private Hospital Property Pty Limited  
Affinity Health (FP) Pty Limited  
Armidale Hospital Pty Limited

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 32. CLOSED GROUP (CONTINUED)

#### Entities subject to class order (continued)

Caboolture Hospital Pty Limited  
Joondalup Hospital Pty Limited  
Logan Hospital Pty Limited  
Noosa Privatised Hospital Pty Limited  
AMNL Pty Limited  
Mayne Properties Pty Limited  
Port Macquarie Hospital Pty Limited  
HCoA Operations (Australia) Pty Limited  
Hospital Corporation Australia Pty Limited  
Dabuvu Pty Limited  
HOAIF Pty Limited  
HCA Management Pty Limited  
Malahini Pty Limited  
Tilemo Pty Limited  
Hospital Affiliates of Australia Pty Limited  
C.R.P.H Pty Limited  
Hospital Developments Pty Limited  
P.M.P.H Pty Limited  
Pruinosa Pty Limited  
Australian Hospital Care Pty Limited  
Australian Hospital Care (Allamanda) Pty Limited  
Australian Hospital Care (Latrobe) Pty Limited  
Australian Hospital Care 1998 Pty Limited  
AHC Foundation Pty Limited  
AHC Tilbox Pty Limited  
Australian Hospital Care (Masada) Pty Limited  
Australian Hospital Care Investments Pty Limited  
Australian Hospital Care (MPH) Pty Limited  
Australian Hospital Care (MSH) Pty Limited  
Australian Hospital Care (Pindara) Pty Limited  
Australian Hospital Care (The Avenue) Pty Limited  
Australian Hospital Care Retirement Plan Pty Limited  
eHealth Technologies Pty Limited  
Health Technologies Pty Limited  
Rehabilitation Holdings Pty Limited  
Bowral Management Company Pty Limited  
Simpak Services Pty Limited  
APL Hospital Holdings Pty Limited  
Alpha Pacific Hospitals Pty Limited  
Health Care Corporation Pty Limited  
Alpha Westmead Private Hospital Pty Limited  
Illawarra Private Hospital Holdings Pty Limited  
Northern Private Hospital Pty Limited  
Westmead Medical Supplies Pty Limited  
Herglen Pty Limited  
Mt Wilga Pty Limited  
Sibdeal Pty Limited  
Workright Pty Limited  
Adelaide Clinic Holdings Pty Limited  
eHospital Pty Limited  
New Farm Hospitals Pty Limited  
North Shore Private Hospital Pty Limited  
Phiroan Pty Limited  
Ramsay Health Care (Asia Pacific) Pty Limited  
Ramsay Health Care (South Australia) Pty Limited  
Ramsay Health Care (Victoria) Pty Limited  
Ramsay Health Care Services (QLD) Pty Limited  
Ramsay Health Care Services (VIC) Pty Limited  
Ramsay Health Care Services (WA) Pty Limited  
Ramsay Professional Services Pty Limited  
Ramsay Diagnostics (No. 1) Pty Limited  
Ramsay Diagnostics (No. 2) Pty Limited

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 32. CLOSED GROUP (CONTINUED)

As a condition of the Class Order, these entities entered into a Deed of Cross Guarantee on 22 June 2006 or have subsequently been added as parties to the Deed of Gross Guarantee by way of Assumption Deeds dated 24 April 2008, 27 May 2010 and 24 June 2011. 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.

The consolidated Income Statement and Statement of Financial Position of the entities that are members of the Closed Group are as follows:

	<b>Closed Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
<b>Consolidated Income Statement</b>		
Profit from operations before income tax	329,312	261,820
Income tax expense	(89,797)	(81,363)
Net profit for the year	239,515	180,457
Retained earnings at the beginning of the year	375,684	307,740
Actuarial gain/(loss) on defined benefit plan	-	(105)
Retained earnings adjustments for addition of entities into the class order	-	(1,662)
Dividends provided for or paid	(128,404)	(110,746)
Retained earnings at the end of the year	486,795	375,684
<b>Consolidated Statement of Financial Position</b>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	102,959	148,404
Trade receivables	347,559	317,500
Inventories	73,107	68,055
Derivative financial instruments	-	823
Other current assets	22,192	21,609
	545,817	556,391
Assets classified as held for sale	1,150	1,150
<b>Total Current Assets</b>	546,967	557,541
<b>Non-current Assets</b>		
Other financial assets	422,913	421,052
Goodwill and intangibles	574,172	583,648
Deferred tax asset	58,538	26,799
Property, plant and equipment	1,519,694	1,441,166
Other non-current assets	13,360	15,605
<b>Total Non-current Assets</b>	2,588,677	2,488,270
<b>TOTAL ASSETS</b>	3,135,644	3,045,811
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	446,043	415,267
Interest-bearing loans and borrowings	85	86
Provisions	135,648	127,951
Derivative financial instruments	14,128	8,948
Income tax payable	38,091	36,370
<b>Total Current Liabilities</b>	633,995	588,622
<b>Non-current Liabilities</b>		
Interest-bearing loans and borrowings	876,636	940,822
Other creditors	-	17
Pension liability	-	140
Derivative financial instruments	13,947	13,029
Provisions	107,979	95,524
<b>Total Non-current Liabilities</b>	998,562	1,049,532
<b>TOTAL LIABILITIES</b>	1,632,557	1,638,154
<b>NET ASSETS</b>	1,503,087	1,407,657

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

**32. CLOSED GROUP (CONTINUED)**

	<b>Closed Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
<b>EQUITY</b>		
Issued capital	713,523	713,523
Treasury shares	(23,259)	(18,474)
CARES (convertibles Adjustable Rate Equity Securities)	252,165	252,165
Retained earnings	486,795	375,684
Other reserves	73,863	84,759
<b>TOTAL EQUITY</b>	<b>1,503,087</b>	<b>1,407,657</b>

**33. PARENT ENTITY INFORMATION**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
<b>Information relating to Ramsay Health Care Limited</b>		
Current assets	1,125,364	1,099,874
Total assets	1,269,333	1,241,566
Current liabilities	(43,468)	(39,892)
Total liabilities	(43,468)	(39,892)
Issued capital	(713,523)	(713,523)
Other equity	(512,342)	(488,151)
Total shareholders' equity	(1,225,865)	(1,201,674)
Net profit for the year after tax	<b>140,805</b>	<b>84,589</b>

As a condition of the class order (set out in note 32), 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 32 for further information.

**ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY SECRETARY  
FOR THE YEAR ENDED 30 JUNE 2012**

## **Directors**

**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.

During the last three years Mr Ramsay has also served as a director of the following listed company:

- Prime Media Group Limited (Appointed April 1985) (Currently Chairman)
- 

**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 transformational acquisitions of Affinity Health Care 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. He is a former 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.

**ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY  
SECRETARY (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2012**

## **Directors**

**Bruce R Soden, B.Comm CA MAICD  
Group Finance Director – Appointed 02/01/97**

Mr Bruce Soden is Group Finance Director of Ramsay Health Care and has almost 23 years of experience with the Company at a senior executive level. Since joining Ramsay in 1987, Mr Soden has led the Company's capital management strategy through many critical milestones including the acquisition of the privatised Department of Veteran Affairs' hospitals Hollywood (1994) and Greenslopes (1995), debt and equity raisings and Ramsay's listing in 1997. As Group Finance Director, Mr Soden also presided over the acquisition of Affinity Health Care in 2005, Ramsay's first significant offshore acquisition of Capio UK in 2007 and its move into continental Europe with the acquisition of a majority stake in the French hospital group, Groupe Proclif, in March 2010.

During the time of Mr Soden's financial leadership, Ramsay's annual revenues have grown from approximately \$30 million in 1987 to revenue approaching \$4 billion today. Ramsay's market capitalisation now exceeds \$3.5 billion.

Mr Soden was appointed Finance Director of Ramsay in January 1997 and since 1994 was a Director of Ramsay's operating entities. Prior to that he spent four years based in New Orleans as Director and Senior Vice President of Ramsay Health Care Inc, a listed United States Health Care company.

Before joining Ramsay Health Care, Mr Soden worked as a financial consultant for a major global accounting firm for 11 years.

---

**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.

Mr Clark was appointed as a director of Sphere Minerals Limited on 22 November 2010.

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)



**ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY  
SECRETARY (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2012**

## **Directors**

**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)

---

**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 August 2008, Mr Grier was appointed as a director of Careers Australia Group Limited.

Mr Grier is also the Chairman of the Australian Healthcare Workforce Institute and Chairman of the Domain Principal Group and is also a member of the Skin Cancer Network Advisory Board.

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)

**ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY  
SECRETARY (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2012**

## **Directors**

**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 and is also a director of Destination NSW.

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)
- BGP Holdings Plc Malta and BGP Investment S.a.r.l Luxembourg (Appointed November 2009)
- Telecom Corporation of New Zealand Limited (Resigned September 2010)

---

**Kerry C D Roxburgh, B.Comm MBA MESSA**  
**Non-Executive Director – Appointed 03/07/97**

Mr Kerry Roxburgh is a Stockbrokers Association of Australia Practitioner Member.

He is currently the Lead Independent non-executive Director of Ramsay Health Care Ltd, and a non-executive director of the Medical Indemnity Protection Society and of MIPS Insurance Ltd.

He is Chairman of the Charter Hall Limited, of Tyro Payments Ltd, of Tasman Cargo Airlines Pty Ltd and of TEKTUM Ltd. He is Deputy Chairman of Marshall Investments Pty. Ltd.

He is also a member of the Advisory Boards of AON Insurance and of Built Pty. Ltd.

In 2000 he completed a 3 year term as CEO of E\*TRADE Australia (a business that he co-founded in 1997), becoming its non-executive Chairman until June 2007, when it 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 from 1986, he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. 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 Group (Appointed April 2005) (Currently Chairman)
- Eircom Holdings Limited (Resigned January 2010)

**ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY  
SECRETARY (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2012**

## **Company Secretary**

**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). 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.