RAMSAY HEALTH CARE LIMITED

AND CONTROLLED ENTITIES

A.B.N. 57 001 288 768

# FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

# RAMSAY HEALTH CARE LIMITED

## FINANCIAL REPORT
## FOR THE YEAR ENDED 30 JUNE 2016

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# RAMSAY HEALTH CARE LIMITED
# DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2016.

**DIRECTORS**

The names of the Directors of Ramsay Health Care Limited ("Ramsay", "the Company" or "the Group") in office during the financial year and until the date of this report and each Director's beneficial interest in the share capital of the Company as at the date of this report was as follows:

| | Ramsay Health Care Limited | | |
|---|---|---|---|
| **Director** | **Ordinary Shares** | **Convertible Adjustable Rate Equity Securities (CARES)** | **Rights over Ordinary Shares** |
| M.S. Siddle | 3,903,256 | - | - |
| P.J. Evans | 7,901 | - | - |
| C.P. Rex | 1,198,760 | 5,334 | 411,060 |
| B.R. Soden | 400,791 | 2,000 | 177,503 |
| A.J. Clark AM | 80,692 | 1,700 | - |
| I.P.S. Grier AM | 692 | - | - |
| R.H. McGeoch AO | 58,023 | 257 | - |
| K.C.D. Roxburgh | 73,192 | - | - |
| P. Akopiantz | 2,059 | - | - |
| M. Seale | 1,997 | - | - |

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

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

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

## OPERATING AND FINANCIAL REVIEW

### Principal Activities

Ramsay is a global hospital group operating 223 hospitals and day surgery facilities across Australia, the United Kingdom, France, Indonesia, Malaysia and Italy. The Group is committed to being a leading provider of health care services by delivering high quality outcomes for patients and ensuring long term profitability. Ramsay is well-respected in the health care industry for operating quality private hospitals and for its excellent record in hospital management, staff engagement 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 25,000 beds and places, the Group employs circa 60,000 staff, across six countries, treats circa 3 million patients per annum and is ranked in the top 5 private hospital operators in the world.

Ramsay listed on the Australian Securities Exchange in 1997 and, over the last eighteen years has developed and acquired a high quality portfolio of strategically located assets both in Australia and overseas, which have helped to position it at the forefront of the global health care market.

Ramsay is committed to ongoing improvement in patient care in all areas and has an excellent record in providing quality patient care and managing clinical risk. All Ramsay facilities offer high quality health care services and are fully accredited with the relevant accreditation bodies in their regions. Accreditation is an important driver for safety and quality improvement and ensures that Ramsay hospitals are at the forefront of health care delivery.

Ramsay maintains a decentralised management structure at all of its hospitals and day surgery facilities which allows managers to develop productive working relationships with doctors. This has assisted in attracting high calibre medical practitioners to consult in its facilities. Ramsay takes a leadership role in shaping the world that we live in through its focus on the environment, good corporate governance and societal issues at large. In 2012 and 2013, Ramsay was recognised in the Global 100 Most Sustainable Corporations in the World. In 2013 it was one of only nine Australian companies to make this industry leading corporate sustainability index. Since 2011 Ramsay has been included in the FTSE4Good Index, an index which objectively measures the performance of companies that meet globally recognised corporate responsibility standards.

The Group also commits significant funds and resources to clinical teaching and medical research believing that the private sector has an important role to play in the training and development of the future medical and nursing workforce. To this end, through its hospitals, the Group works closely with government and universities in the training of nursing and medical staff.

In November 2007, Ramsay Health Care acquired Capio UK and its portfolio of hospitals in England. Ramsay Health Care UK is now one of the leading providers of independent hospital services in the UK, with a network of 36 acute hospitals and day procedure centres providing a comprehensive range of clinical specialties to private and self-insured patients as well as to patients referred by the National Health Service (NHS).

In March 2010, Ramsay Health Care purchased a 57% interest in Group Proclif SAS (Proclif), a leading private hospital operator based in France. Proclif changed its name to Ramsay Santé. This was the start of several acquisitions in France, culminating in its acquisition of a controlling interest in Générale de Santé (GdS) in October 2014. GdS is a leading operator of private hospitals in France comprising 75 facilities (including 61 hospitals) in the fields of medicine, surgery, obstetrics and rehabilitation. The addition of GdS brings Ramsay's total portfolio in France to 115 facilities (including 101 hospitals), making it the largest private hospital operator in France. The merger of Ramsay Santé and GdS (the new merged entity is now known as Ramsay Générale de Santé (RGdS)) was finalised on 1 July 2015. This newly merged entity acquired HPM, a group of nine hospitals in Lille in December 2015.

In July 2013, Ramsay Health Care entered into a Joint Venture arrangement with Malaysian multinational conglomerate Sime Darby Berhad. The joint venture combined Sime Darby's portfolio of health care assets in Malaysia (three hospitals and a nursing and health sciences college) with Ramsay's three Indonesian hospitals, under a jointly owned company, Ramsay Sime Darby Health Care Sdn Bhd (RSD).

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Financial Performance**

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

| *Summary of Statutory earnings* | **2016 $000** | **2015 $000** | **% Change** |
|---|---|---|---|
| Revenue from services | 8,684,116 | 7,355,489 | 18.1% |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 1,224,427 | 1,067,108 | 14.7% |
| Earnings before interest and tax (EBIT) | 840,353 | 761,167 | 10.4% |
| Net profit attributable to owners of the parent | 450,297 | 385,542 | 16.8% |

| | **2016** | **2015** | **% Change** |
|---|---|---|---|
| Basic earnings per share (after CARES dividend) | 217.6c | 185.0c | 17.6% |
| Diluted earnings per share (after CARES dividend) | 216.1c | 183.5c | 17.8% |

Ramsay's net profit attributable to the owners of the parent for the year ended 30 June 2016 was $450.3 million, a 16.8% increase on the previous corresponding period. Diluted earnings per share is 216.1 cents for the year, a 17.8% increase.

The Company's solid volume growth, ongoing efficiencies, strategic acquisitions and further investment in our facilities, continue to underpin strong financial performance.

*Operational Highlights – Australia / Asia*

During the year, Ramsay's Australian and Asian business achieved revenue growth of 8.8% and EBIT growth of 11.6% on the back of solid volume growth, brownfield developments and ongoing efficiencies.

*Operational Highlights – UK*

Ramsay's UK business delivered another good result with NHS admissions growing by 8% driven by record referrals. Operating margins (EBITDAR) remain high at 26.1% and EBIT increased 9.5% to £44.3 million.

*Operational Highlights – France*

In spite of further tariff decreases in France, Ramsay Générale de Santé hospitals continued to perform well achieving good volume growth across all major specialities and on the back of excellent growth in emergency presentations. Revenue increased by 27.3% and EBIT increased by 2.2%, both benefitting from having an additional three months of operations from Ramsay Générale de Santé (acquired October 2014) and six months of operations from HPM which was acquired in December 2015. HPM has now been integrated into our French portfolio of hospitals and puts us in a leading position in this region.

**Financial Position**

A summary of the audited balance sheet is set out below:

| | **2016 $000** | **2015 $000** | **% Change** |
|---|---|---|---|
| Total assets | 8,264,524 | 7,621,685 | 8.4% |
| Total liabilities | (6,218,463) | (5,783,891) | 7.5% |
| Net assets | 2,046,061 | 1,837,794 | 11.3% |

Ramsay's total assets increased by 8.4% due mainly to an increase in property, plant and equipment of $269 million (net of depreciation) due to the brownfields development program and the acquisition of HPM, and the recognition of $179 million of goodwill in relation to the acquisition of HPM.

Total liabilities increased by 7.5% predominately due to borrowings to fund the HPM acquisition, brownfield developments, and the restructuring of debt on the merger of Ramsay Santé and GdS.

The Group is again in a net current liability position at 30 June 2016 (2015: net current liability position). Typically the Group receives cash from the provision of patient services ahead of cash paid out to suppliers. Surplus cash is used to pay-down the non-current bank loans. In addition, the Group endeavours to hold minimum cash balances at any point in time to ensure the efficient use of our working capital. These business attributes usually result in a net current liability position.

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Financial Position (continued)**

Ramsay's net asset position increased by 11.3% which is largely attributable to the current year's profit after tax of $450 million less dividends paid of $230 million to Ramsay shareholders.

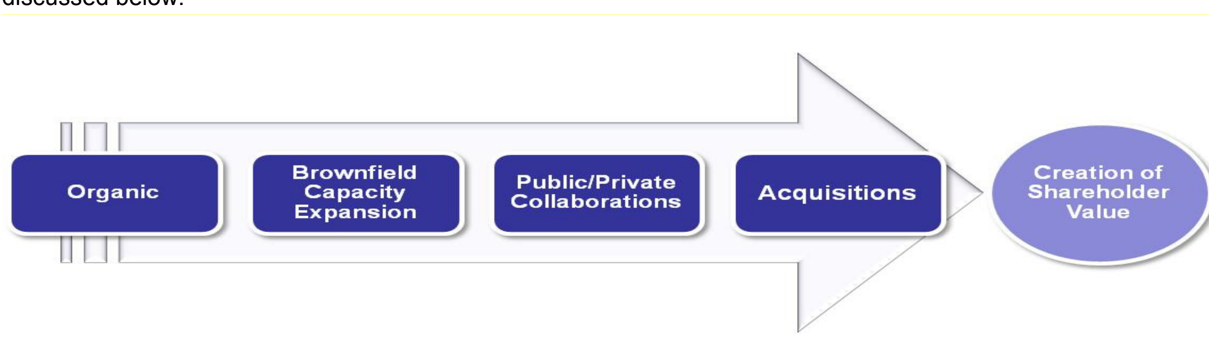
**Cash Flow**

Continuing strong and consistent operating cash flow and effective working capital management delivered a high cash conversion rate for the Group of operating profit (EBITDA) to gross operating cash flow.

Ramsay's robust balance sheet and strong cash flow generation continues to provide us with the flexibility to fund the increasing demand for brownfield capacity expansion, future acquisitions and ongoing working capital needs.

**Business Strategies and Prospects for Future Financial Years**

Ramsay is focused on operating its business effectively and identifying opportunities which will deliver growth, both in the short term and over the longer term. Growth is only pursued if the Group's financial and strategic criteria and investment hurdles are satisfied. Ramsay's growth strategy is broken down into four key components which are discussed below.




*Organic*

Organic growth is underpinned by demographics, Ramsay's quality portfolio of hospitals and continuous business improvement.

*Brownfield Capacity Expansion*

Ramsay continues to invest in brownfield capacity expansion. During the year, over $200 million was approved for new brownfields capacity expansion across the world as we continue to focus on meeting the needs of the communities we serve; keeping our facilities up-to-date and providing our patients, staff and doctors with the latest in theatres, wards and medical equipment.

Projects that are expected to complete in FY17 include:

- Peninsula
- New Farm Clinic
- North Shore
- Baringa
- Waverley

*Public / Private Collaborations*

A key component of Ramsay's growth strategy is further involvement in the provision of public hospital services through "public / private collaborations".

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**
**Business Strategies and Prospects for Future Financial Years (continued)**

*Acquisitions*

In December 2015, RGdS completed its acquisition of a controlling interest in HPM in France for an enterprise value of $261 million (being assumption of debt of $54 million and cash paid of $207 million). Refer to Note 9 for further information. This acquisition enables the Group to reinforce its market leadership in the Lille metropolitan area in France.

Ramsay continues to canvass emerging opportunities in France, the UK, Asia, and other markets.

**Material Business Risks**

Ramsay faces a number of business risks that could affect the Group's operations, business strategies and financial prospects. These are described below, together with relevant mitigation strategies:

*Australian government policy & regulation*
There are a number of areas in which changes in the policies of State and Federal government may have a material impact on the Australian health sector and, more specifically, the private health care sector and Ramsay. Some of the changes which may affect Ramsay include:

- The Federal Government's move since 1 July 2012 to "means test" individuals' private health insurance rebate may lead to a reduction in the number of Australians who hold private health fund memberships or members downgrading their cover to more affordable policies;
- The government regulation of health funds, in particular, restrictions on the levels of insurance premium increase and the scope of coverage; and
- Private hospital licensing policy which could have the effect of reducing the barriers to entry and exposing Ramsay to increased competition and additional compliance costs.

Ramsay monitors legislative and regulatory developments and engages appropriately with the relevant bodies where required.

*Foreign country government policy & regulation*
As Ramsay continues to expand into foreign markets, the Group must operate in accordance with these countries' government policies and regulations which may differ from Australian government policy and regulation. Changes in foreign government policy may have a material impact on the health sector and Ramsay's business operations.

Additionally, cultural differences may arise in the way businesses operate in foreign markets in comparison to how Ramsay has traditionally carried out its operations. If cultural differences are not identified and addressed, the local population will not be open to using Ramsay's facilities in these markets and the facilities located in foreign countries will not achieve their expected positive contribution to the Group's overall performance.

Ramsay undertakes comprehensive due diligence when entering into foreign markets to ensure that any risk of entering a foreign market is minimised to the extent possible, both in regards to government policy and regulation and cultural differences. Ramsay monitors legislative and regulatory developments and engages appropriately with the relevant bodies where required.

*Acquisitions*
Over the last decade, Ramsay has acquired several hospitals and groups of hospitals both locally and abroad. Should these hospitals fail to continue their improvement in financial performance and not achieve their expected positive contribution to the Group's overall financial performance, this may adversely impact on the financial performance and operations of Ramsay.

As discussed above, part of Ramsay's business and growth strategy includes the potential acquisition of additional hospitals. The acquisitions may expose Ramsay to unanticipated liabilities. The process of integrating acquired operations into Ramsay's existing operations may also result in unforseen operating difficulties and may require significant financial resources.

Ramsay undertakes comprehensive due diligence when entering into foreign markets to ensure that any risk of entering a foreign market is minimised to the extent possible and takes a disciplined approach to investment of capital.

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**
**Material Business Risks (continued)**

*Health funds*
The majority of Ramsay's revenue in Australia is derived from health funds. Accordingly, Ramsay has prima facie, significant credit risk exposure to receivables owing from a single or group of related health funds. The credit quality of these health funds is considered high as they are governed by the Australian Prudential Regulatory Authority (APRA). Additionally, failure to reach a satisfactory commercial relationship with key health funds has the potential to impact on the financial performance and operations of Ramsay. Failure to achieve an acceptable outcome may be because of differences in rates, terms or conditions (including the introduction of different funding models).

Ramsay maintains a regular dialogue with each of the private health funds and continues to work with them to deliver mutually beneficial outcomes as part of normal contract negotiations.

*Revenue from government sources*
The majority of Ramsay's revenue in the UK and France is derived from government sources. Accordingly, Ramsay has prima facie, significant risk exposure to adverse pricing changes as set by the respective governments. Failure to reach a satisfactory outcome with governments has the potential to impact on the financial performance and operations of Ramsay. Failure to achieve an acceptable outcome may be because of differences in rates, terms or conditions (including the introduction of different funding models).

Ramsay engages with the relevant government bodies where required and continues to work with them to deliver mutually beneficial outcomes.

*Relationships with Doctors*
As the majority of doctors operating or consulting at Ramsay's hospitals are not employees, doctors have no obligation to use any of Ramsay's facilities. Doctors directly affect the efficiency and quality of services of Ramsay's facilities through the number and type of patients they treat, the time they take in theatre, their consumption of supplies and their decision on when to discharge patients. Furthermore, Ramsay's reputation may be affected by the quality of the doctors using its facilities.

Ramsay regularly engages with its doctors to maintain a strong relationship. Ramsay facilities operate within a strict quality and clinical framework to ensure a high quality of clinical outcomes.

*Reliance on Nursing*
Ramsay's most significant cost is nursing labour. Whilst currently there is a good supply of nursing labour, it is projected that the supply will tighten over the next 10 years. Should Ramsay be unable to secure sufficient nurses or the cost of nurses escalates beyond anticipated levels this could impact on the financial and operational performance of the business.

Ramsay undertakes a worldwide recruitment program for nurses to mitigate any risks of issues with supply of nursing labour.

*Insurance*
Insurance is maintained within ranges of coverage consistent with industry practice. If any one of Ramsay's insurers ceased to be in a position to meet claims (for example, because of insolvency) Ramsay could be materially adversely affected.

Ramsay has an experienced team which works closely with its insurers and manages both Ramsay's on-going insurance needs and any claims that may arise from time to time.

*Licences*
Hospitals are required to be licensed under various legislations. These licences are generally subject to annual review and are subject to revocation in certain circumstances. Hospitals cannot operate without a valid licence. If Ramsay is unable to secure applicable licences for the operation of its hospitals in the future or if any of its existing hospital licences are revoked, this may have a material adverse effect on Ramsay.

Ramsay has robust compliance policies and procedures that are designed to manage each facility's licensing and accreditation obligations.

*Competition*
Ramsay operates in markets with established competitors and no assurance can be given that the actions of existing or future competitors will not have a material adverse effect on Ramsay's ability to implement its plans and on Ramsay's business, results of operations or financial condition. Ramsay concentrates on providing high quality health care in each of its locations and maintaining a high standard at all facilities to mitigate competition risk.

**DIVIDENDS**

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

| | |
|---|---|
| Final dividend recommended @ 72.0 cents per share (2015: 60.5 cents) | $145,499,000 (2015: $122,259,000) |
| Interim dividend paid during the year @ 47.0 cents per share (2015: 40.5 cents) | $94,978,000 (2015: $81,842,000) |

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

| | |
|---|---|
| Final dividend recommended @ $2.57 per security (2015: $2.51) | $6,670,000 (2015: $6,524,000) |
| Interim dividend paid during the year @ $2.47 per security (2015: $2.65) | $6,433,000 (2015: $6,888,000) |

The tax rate at which paid dividends have been franked and recommended dividends will be franked is 30% (2015: 30%).

**CORPORATE INFORMATION**

This financial report covers the Ramsay Health Care Limited consolidated Group which comprises the Company and its subsidiaries (**'the Group'**). The Group's functional and presentational currency is AUD ($).

The Company is a for profit 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 Suite 18.03, Level 18, 126 Phillip Street, Sydney NSW 2000.

The financial report of the Company for the year ended 30 June 2016 was authorised for issue on 13 September 2016 in accordance with a resolution of the Directors.

**SIGNIFICANT CHANGES IN THE 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 1,319,207 (2015: 1,394,000) ordinary shares under the Executive Performance Rights Plan that are yet to vest. Refer to Note 16 of the financial statements for further details of any rights outstanding as at 30 June 2016.

**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.

## REMUNERATION REPORT

*Dear Shareholders*

*We are pleased to present the 2016 Remuneration Report.*

*This Remuneration Report focuses on demonstrating how closely our remuneration policies and practices are linked to the Company's performance, both from a structural perspective and in terms of remuneration outcomes.*

*We are committed to continuing to provide shareholders and other stakeholders with all the information needed to properly understand Ramsay's remuneration framework and outcomes for each financial year.*

*FY2016 was another year of strong performance by Ramsay, both in terms of financial results and achievement of strategic milestones. In particular, Ramsay's continued growth in core EPS and NPAT demonstrates the Board's and management's commitment to delivering value to the Company's shareholders.*

*Our remuneration framework aligns executive remuneration outcomes with shareholder interests by rewarding executives for delivering sustained performance and also generating value for shareholders. While the fundamentals of Ramsay's executive remuneration framework have remained consistent for many years, the Board continues to review and consider the need for changes to enhance its alignment with strategy and performance, and in light of changes to market practice and governance expectations for a company of Ramsay's size and international standing.*

*As disclosed last year, significant time has been spent tailoring both Ramsay's key management personnel (**KMP**) remuneration and non-executive director (**NED**) remuneration. This included aligning the LTI EPS hurdles with the Company's published market guidance and providing greater transparency by disclosing the vesting schedule upfront. The Board is pleased with the positive feedback it received in response to these changes as well as the strong support of Ramsay shareholders at the 2015 AGM. The Board would like to thank all Ramsay shareholders and stakeholders for their support.*

*During FY2016, as in previous years, the Remuneration Committee sought independent advice on its KMP and NED remuneration policies and practices.*

*After consideration of this independent advice, the Remuneration Committee recommended and the Board approved KMP and NED remuneration arrangements for FY2017 in line with those arrangements implemented in FY2016. For example, executive LTIs will continue to be granted on a face value basis while the share rights will again be offered to NEDs under the Ramsay Non-Executive Share Rights Plan approved by shareholders last year.*

*Ramsay recognises that the outstanding results it has achieved in recent years reflect the contribution made by each and every staff member, not just the directors and executives. To recognise and reward our people and the contribution they make to the Group's success, Ramsay has continued its Employee Share Programme which gives employees an opportunity to hold shares in the Company and directly benefit from the Group's strong performance in the same way as other shareholders.*

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

*Yours sincerely*

***Rod McGeoch AO***
*Chairman*
*Remuneration Committee*
*13 September 2016*

**REMUNERATION REPORT – Audited**

The Directors present this Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)* (**Act**) for the Company and its controlled entities (**the Group**) for the year ended 30 June 2016 (**FY2016**). The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Act.

This Remuneration Report sets out the compensation arrangements in place for the key management personnel (**KMP**) of the Group for the purposes of the Act and the Accounting Standards (see table 1 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 CEO and Managing Director (**Managing Director**) and the executives referred to below (**Executives**) and the other Directors of the Company.

*Table 1 – Key Management Personnel for FY2016*

| Key Management Personnel | | | |
|---|---|---|---|
| **Non-Executive Directors** | | **Executives** | |
| **Name** | **Position** | **Name** | **Position** |
| M.S. Siddle | Chairman | C.P. Rex | Chief Executive Officer and |
| P.J. Evans | Deputy Chairman | | Managing Director |
| R.H. McGeoch AO | Director | B.R. Soden | Group Chief Financial Officer and |
| K.C.D. Roxburgh | Director | | Group Finance Director |
| A.J. Clark AM | Director | C.R. McNally | Group Chief Operating Officer |
| I.P.S. Grier AM | Director | D.A. Sims | Chief Executive Officer – |
| P. Akopiantz | Director | | Ramsay Health Care Australia |
| M. Seale | Director | | |

There have been no changes to the KMP between the end of FY2016 and 13 September 2016, the date of this Remuneration Report.

The Remuneration Report is presented in the following sections:

*Table 2 – 2016 Remuneration Report: Overview*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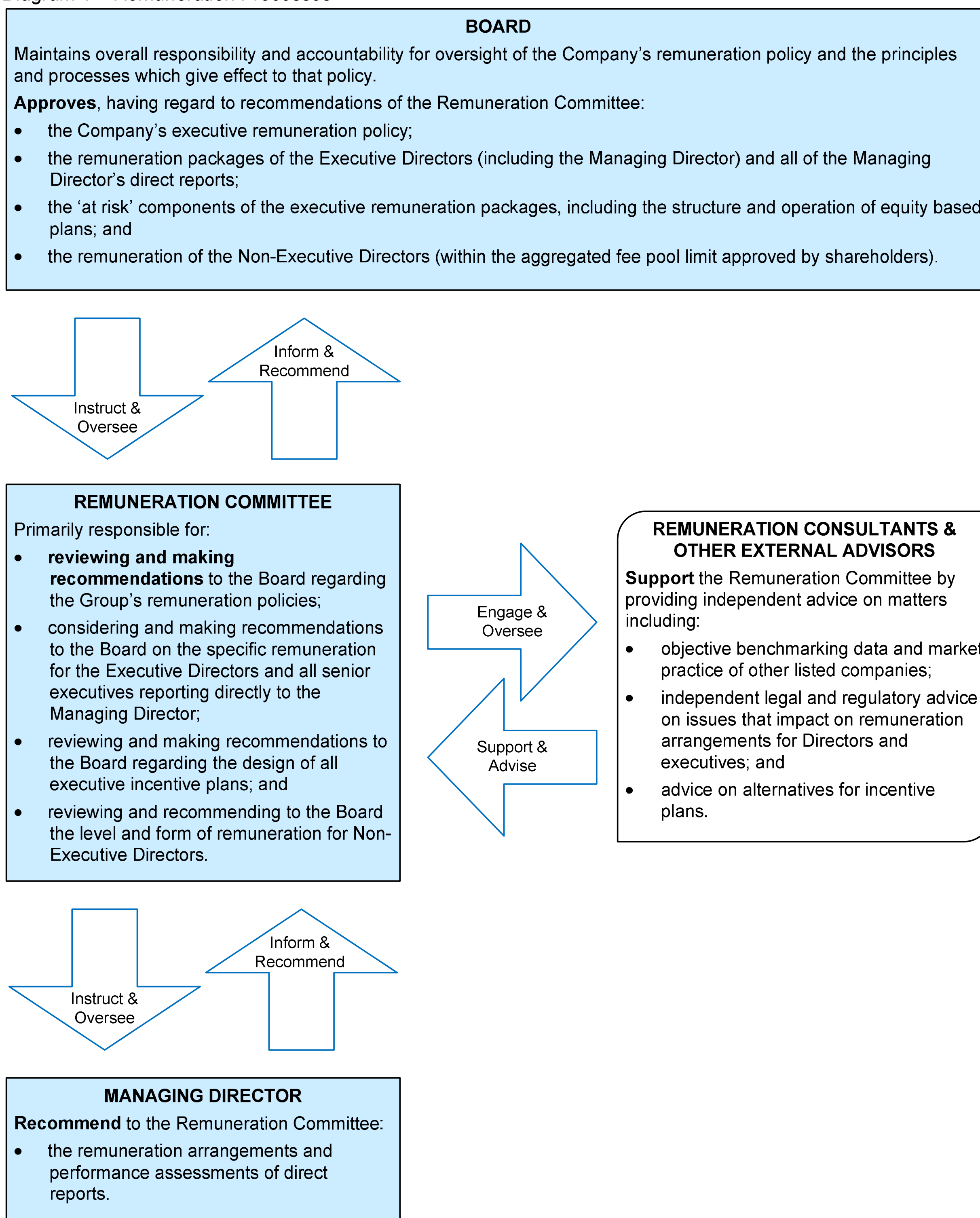
**REMUNERATION REPORT – Audited (continued)**

**1. 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*



**REMUNERATION REPORT – Audited (continued)**

**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:

- the 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
- the Remuneration Committee and the Board engage independent advisors from time to time to undertake detailed benchmarking analysis on executive 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 Remuneration Committee are Non-Executive Directors who are independent of management. The Remuneration Committee membership is currently comprised of Messrs McGeoch AO (chair), Siddle and Evans.

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 sections of the Annual Report.

*Engagement of remuneration consultants 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 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 Remuneration Committee and the Board.

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, the Remuneration Committee has formal selection criteria and is responsible for oversight of any direct interaction between a remuneration consultant and a member of the Company's KMP. Recommendations from a remuneration consultant must also be accompanied by a declaration that the recommendation has been made free from undue influence by any member of the KMP.

During FY2016, Godfrey Remuneration Group (**Godfrey**) provided the Company with remuneration recommendations and is therefore deemed to be a remuneration consultant under the Act. These recommendations related to:

- the structure of the executive directors' remuneration packages;
- the quantum of LTI grants to executive directors; and
- the Non-Executive Director remuneration packages.

Godfrey's fees for providing the remuneration recommendations in FY2016 were $12,100 (including GST). Godfrey did not provide any other advice to the Company during FY2016 and accordingly the Company did not make any payments to Godfrey other than those disclosed above.

The recommendations that were provided by Godfrey in FY2016 were accompanied by a declaration that the recommendations were made free from undue influence by any members of the KMP to whom the recommendations related. The Board is satisfied that, in receiving the remuneration recommendations, the Protocols were complied with in all respects.

**REMUNERATION REPORT – Audited (continued)**

**2. EXECUTIVE REMUNERATION POLICY**

**Guiding principles**

The key principles that underpin Ramsay's Executive remuneration approach and structures are set out in table 3 below.

*Table 3 – Executive remuneration – guiding principles*

| Principle | Explanation |
|---|---|
| **Talent management attraction & retention** | The Company's remuneration structure aims to attract and retain exceptional people to lead and manage the Group and to support internal development and promotion of executive talent from within the Company. |
| **Performance driven outcomes** | The amount of remuneration ultimately earned by any individual is dependent on superior performance and generating value for shareholders that is mainly achieved through the 'at-risk' components of Executive remuneration. |
| **Long-term value for shareholders** | To drive sustainable growth and returns to shareholders, Executives are set both short-term and long-term performance targets linked to the core activities necessary to build competitive advantages for the Group's business, without creating excessive risk for the Group. |
| **Communication & engagement of stakeholders** | The Board is committed to clear, transparent disclosure and explanation of the Company's remuneration structures for shareholders and other users of this Report. Where appropriate, the Board seeks and considers the views of shareholder representative bodies in designing and implementing remuneration structures and welcomes questions from shareholders, not just at the AGM, but throughout the year. |

**Overview of Executive remuneration structure**

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

Performance-based remuneration has two 'at risk' components:

- Short-term incentives (**STI**s) – an annual bonus linked to Company performance and achievement of strategic objectives; and
- Long-term incentives (**LTI**s) – equity grants tied to vesting conditions dependent on the satisfaction of longer term challenging performance hurdles.

The relative mix of the three remuneration components is determined by the Board on the recommendation of the Remuneration Committee. The mix that applied for FY2016 is set out in the table below:

*Table 4 – Relative mix of remuneration components for KMP Executives for FY2016*

| | % of Total Remuneration (Annualised) | | |
|---|---|---|---|
| | Fixed Remuneration | Performance Based 'At-Risk' Remuneration | |
| | | Maximum STI Opportunity[1] | Maximum LTI Opportunity[2] |
| C.P. Rex | 15% | 15% | 70% |
| B.R. Soden | 22% | 11% | 67% |
| C.R. McNally | 21% | 10% | 69% |
| D.A. Sims | 21% | 10% | 69% |

1. *Assumes all applicable STI Key Performance Indicators (**KPIs**) are achieved in full.*
2. *Assumes all applicable LTI hurdles are achieved in full. Refer to table 17 for the value of each KMPs Maximum LTI Opportunity.*

**REMUNERATION REPORT – Audited (continued)**

**Supporting 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 Ramsay staff across the Group under the stewardship of the Board and leadership of the Managing Director and other 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.

*Diagram 2 - Aligning Remuneration Structures to Corporate Strategy and Objectives*

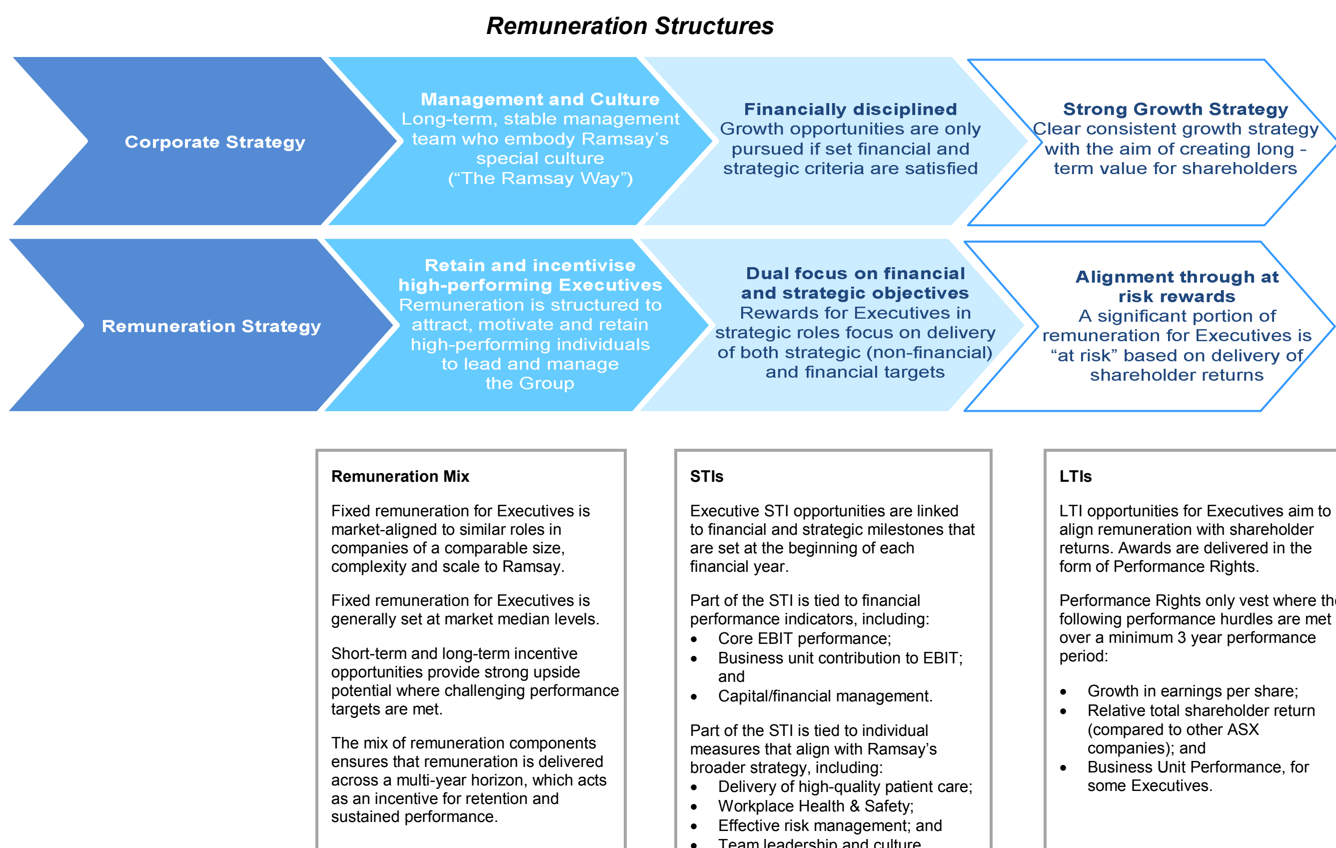
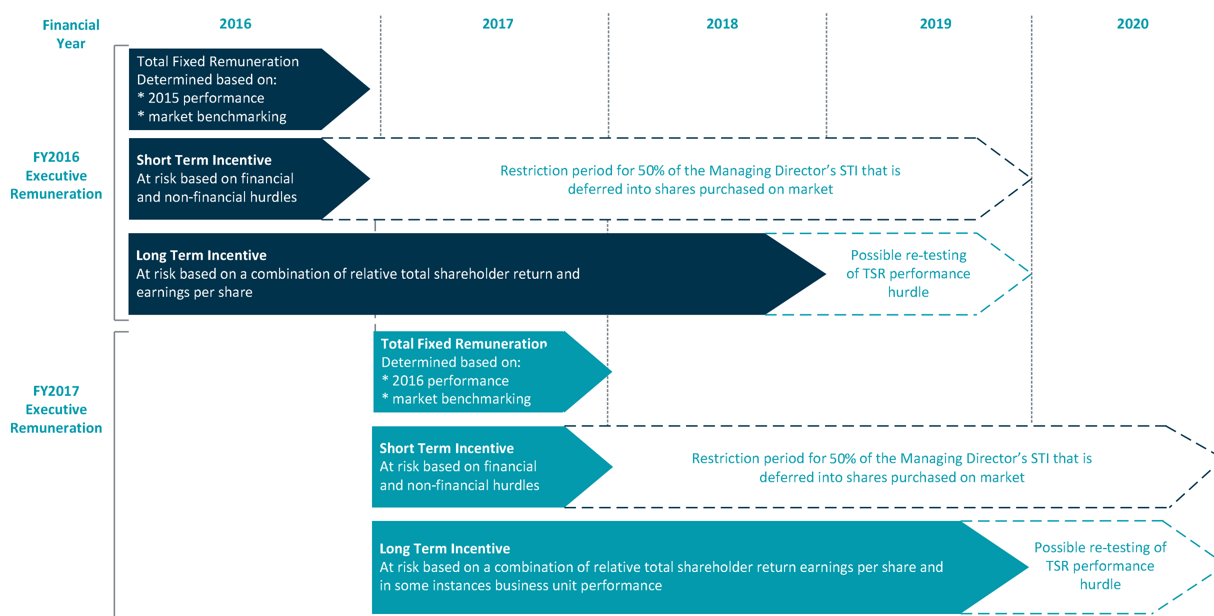



Diagram 3 illustrates the remuneration cycle for Executives. The remuneration components are explained in further detail in the 'Remuneration components' section below.

**REMUNERATION REPORT – Audited (continued)**

*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 the Group's performance and are focused on achieving and maintaining sustained returns instead of short-term results or behaviours that involve excessive risk. Staggering the point at which rewards deliver value to Executives also supports the retention of high-performing Executives.

**Aligning outcomes for shareholders and Executives**

The Company's success in aligning shareholder and Executive rewards is demonstrated by the Company's strong performance and delivery of value to shareholders, together with the value derived by Executives from the Company's remuneration arrangements.

*FY2016 remuneration outcomes*

Details of the remuneration of Executives, prepared in accordance with statutory obligations and accounting standards, are set out in table 18 of this Remuneration 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.

The following table summarises the actual reward outcomes for the Executives for FY2016, being the amounts the Executives became entitled to in FY2016 having satisfied any applicable performance hurdles. This includes their fixed remuneration for FY2016, the STIs that they earned based on FY2016 performance, the LTIs that vested based on multi-year performance up to and including the end of FY2016 (i.e. LTI grants made in 2013), and any other payments received by them during FY2016.

**REMUNERATION REPORT – Audited (continued)**

The key difference between remuneration figures provided in table 5 compared to the statutory table (table 18) is that under the applicable accounting standards the statutory table requires the value of equity grants to be estimated and apportioned over the relevant vesting period, irrespective of whether those awards ultimately vest. By contrast, the *actual* reward outcomes table below only captures equity grants that vested based on performance and delivered value to the Executive in FY2016.

*Table 5 – Remuneration, including actual reward outcomes of the Executives for FY2016*

| | Cash salary | STI [1] | LTI [2] | Superannuation | Other [3] | Total |
|---|---|---|---|---|---|---|
| C.P. Rex | $2,318,000 | $2,297,330 | $13,324,190 | $19,308 | $18,327 | $17,977,155 |
| B.R. Soden | $1,456,420 | $723,100 | $5,753,627 | $19,308 | $33,183 | $7,985,638 |
| C.R. McNally | $857,207 | $425,500 | $3,633,870 | $19,308 | $30,418 | $4,966,303 |
| D.A. Sims | $857,207 | $425,500 | $3,633,870 | $19,308 | $31,952 | $4,967,837 |

1. *This figure represents the actual STI earned for performance in FY2016 (to be paid in FY2017). The Managing Director is obliged to accept 50% of his STI in cash (paid at the same time as for other Executives); the remaining 50% of his STI earned is required to be invested in Company shares purchased on-market, which are subject to disposal restrictions for 3 years. STI payments are only finalised and made after the Auditor has signed the statutory financial statements in September 2016.*
2. *This figure represents the market value of the performance rights (**Performance Rights**) that have vested based on multi-year performance up to and including FY2016. The market value is calculated by multiplying the number of vested rights by the 5-day volume weighted average share price (**VWAP**) up to and including the date of vesting. Performance Rights, including those granted in FY2016, which remained unvested as at 30 June 2016, do not appear in this table as no actual value was realised by Executives from these Performance Rights during FY2016.*
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.*

The remuneration outcomes for the Executives continue to align with the overall performance of the Group, which has remained strong throughout FY2016. The high levels of 'at-risk' rewards earned in FY2016 reflect the Group's continuing strong performance, both in absolute terms and relative to the Company's peers.

*5 year history – alignment of performance and remuneration outcomes*

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

**REMUNERATION REPORT – Audited (continued)**

*Table 6 – Relative TSR Cumulative Performance*

| Financial Year | Share Performance | | | | Earnings Performance (A$m) | | Enterprise Value [3] (A$m) |
|---|---|---|---|---|---|---|---|
| | Closing share price (A$) | Dividend (cents/share) | TSR Percentile Ranking [1] (%) | Core EPS [2] (cents/share) | Core EBIT | Core NPAT | |
| 2016 | $71.76 | 119¢ | 90.82% | 231.4¢ | $897.1 | $481.4 | $17,877 |
| 2015 | $61.47 | 101.0¢ | 97.83% | 196.6¢ | $803.9 | $412.1 | $15,515 |
| 2014 | $45.50 | 85.0¢ | 96.81% | 163.9¢ | $584.9 | $346.2 | $10,817 |
| 2013 | $35.81 | 70.5¢ | 96.55% | 135.9¢ | $485.3 | $290.9 | $8,485 |
| 2012 | $22.61 | 60.0¢ | 88.89% | 116.1¢ | $438.8 | $252.6 | $5,725 |

1. *TSR percentile ranking against the comparator group (refer table 9) over the 3-year performance period up to the close of each relevant Financial Year, with exclusions and adjustments described in table 14.*
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 FY2009, there have been no material divested operations for accounting purposes.*
3. *Enterprise Value is the Company's market capitalisation (being the total number of issued ordinary shares on 30 June of the relevant financial year at the closing market share price) plus CARES and net debt.*

*STI performance outcomes*

The Company's strong year-on-year performance has resulted in Executives receiving a substantial proportion of their available STI bonuses for FY2016 and the four preceding financial years. Table 7 below sets out the average proportion of the maximum bonuses that Executives received for each of the past 5 financial years.

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

*Table 7 – Average proportion of STI awarded, FY2012-FY2016*

| Financial Year | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| % of maximum STI awarded (average for Executives) | 93% | 97% | 100% | 100% | 99.5% |

*LTI performance outcomes*

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 5 years, consistent with the strong performance of the Company both on a stand-alone basis and compared to the Company's peers.

The Company's sustained growth in EPS has resulted in full vesting of performance rights granted under the LTI programme that are tested against a 3-year aggregate EPS hurdle. This hurdle has been in place for grants made under the LTI programme since 2009 and has been relevant for grants that have vested over the past five years. Table 8 provides further details of the EPS performance and related vesting outcomes for the past 3 years, which is relevant for performance rights granted in FY2011 to FY2013.

**REMUNERATION REPORT – Audited (continued)**

*Table 8 – EPS Performance*

| Financial Year | Aggregate 3-year[1] Minimum EPS Threshold (cents per share) | Aggregate 3-year[1] Maximum EPS Target (cents per share) | Actual Aggregate 3-year[1] EPS Achieved (cents per share) | EPS component vesting under LTI programme |
|---|---|---|---|---|
| **2016** | **529.9** | **557.9** | **591.9** | **100%** |
| **2015** | 438.1 | 468.0 | 496.4 | 100% |
| **2014** | 362.0 | 393.8 | 415.9 | 100% |

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

For the LTIs granted in 2013 and 2014, the Board set the threshold EPS performance required for vesting (i.e. the minimum EPS target to be achieved before any vesting occurs) at 95% of the maximum EPS target.

For the FY2016 LTI grants, the Board set the EPS target by reference to the Company's published market guidance to align the EPS targets with the market's expectations of the Group's performance. The EPS targets for LTI grants in FY2017 will also be set by referenced to the Company's market guidance.

Similarly, the Company's strong TSR performance relative to its peers has resulted in high levels of vesting for those rights granted under the LTI programme that are subject to a relative TSR performance condition.

For the FY2016 LTI grants, the Board determined the comparator group to be the S&P/ASX100 index (with certain exclusions as explained in table 14). The same comparator group is to apply for the FY2017 grants.

For grants made in FY2013 (vested in 30 June 2016), FY2014 (due to vest 30 June 2017) and FY2015 (due to vest 30 June 2018), the comparator group is the S&P/ASX200 index.

Table 9 sets out the TSR results over the last three years (i.e., the TSR results relevant to LTIs that vested on 30 June 2016). Further details of how the TSR hurdles are measured are set out in table 14.

*Table 9 – Relative TSR Performance*

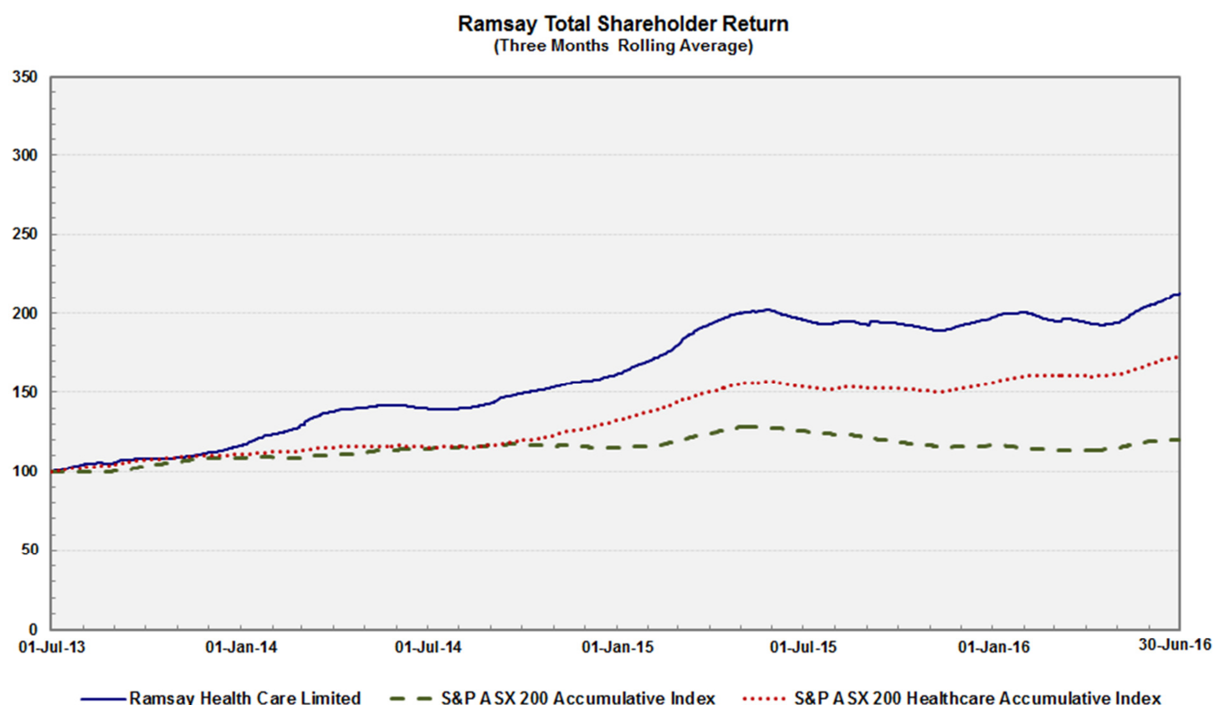
| Testing date (30 June)[1] | TSR Percentile Ranking for Vesting to Commence | TSR Percentile Ranking for Full Vesting | Actual TSR Percentile Ranking Achieved | TSR Component Vesting under LTI programme |
|---|---|---|---|---|
| 2016 | 50% | 75% | 90.82% | 100% |
| 2015 | 50% | 75% | 97.83% | 100% |
| 2014 | 50% | 75% | 96.81% | 100% |

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

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.

**REMUNERATION REPORT – Audited (continued)**

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




*Source: Orient Capital Pty Limited*

Further details of the terms of the STI and LTI programmes are set out in Section 3: Executive Remuneration below.

*Striking the balance between reward and restraint*

The Executive remuneration outcomes in recent years demonstrate that there has been a strong correlation between the returns delivered by the Company to its shareholders and the rewards derived by Executives from STI and LTI grants and that the intended alignment between shareholder and Executive interests is being achieved in practice.

While Executives have received high levels of vesting from their 'at-risk' remuneration components, this has *not* been accompanied by large increases in their fixed remuneration levels. Total remuneration packages for Executives remain heavily weighted towards the 'at-risk' components, particularly the LTI which focuses Executives on delivering sustainable strong performance.

The Company's excellent record of retaining its Executives is an indication that factors beyond remuneration, in particular the strong 'Ramsay Way' culture and the Group's investment in the development of staff through tailored training programmes, are equally important in attracting, motivating and retaining talented employees as well as supporting the internal promotion of staff to management positions.

*Employee Share Programme*

This culture of reward and retention applies to all employees, not just those occupying the most senior positions. Consistent with its commitment to reward its loyal and hard-working employees, the Board determined that the Company was in a position to again make an offer under its general Employee Share Programme in 2016 (in respect of FY2017).

A $1,000 free share offer was made to permanent Australian employees who qualified for the first time with 3 years of continuous service with the Group and, for those employees who satisfy this criteria and had previously participated in the programme, a $500 free share "top-up" offer was made.

An offer to acquire up to $5,000 of Ramsay shares under a salary sacrifice plan was also made to employees in senior management roles.

**REMUNERATION REPORT – Audited (continued)**

All shares in both the free share offer and the salary sacrifice plan were purchased on market, hence no new shares were issued by the Company for either of these employee share plans. Participants in the Executive Performance Rights Plan are ineligible to participate in the Employee Share Programme.

The response by our employees to the employee share programme has been extremely positive. Around 14,000 employees have acquired Ramsay shares under the free share offer and a significant number of senior managers who were eligible to participate in the salary sacrifice arrangement elected to acquire shares under the scheme.

*Management of Risk linked to Remuneration Framework*

One of the key factors of the Board's approach to setting Executive remuneration is to discourage excessive risk taking or short term thinking by Executives. The Company's Executive remuneration framework is structured in a way that encourages strategic decision-making and behaviours that align with the Group's long-term interests. Key features of the remuneration framework which discourage excessive risk taking include the use of strategic goals as part of the STI KPIs, an LTI with performance hurdles that utilise a combination of internal and external measures and a prohibition on hedging unvested equity awards. This approach to management of risk is consistent with the robust approach to risk management that the Company adopts across all aspects of its business (refer to the Corporate Governance Statement in the 2016 Annual Report for further details of the risk management framework).

## 3. EXECUTIVE REMUNERATION: IN DETAIL

### Remuneration components

*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 regularly 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 comparable size to the Company in terms of enterprise value and revenue.

Even though the Company continues to perform strongly, the Board and Remuneration Committee's practice is to set fixed remuneration for Executives at median market levels and exercise restraint in its approach to Executive fixed salary increases to ensure fixed remuneration levels do not exceed the desired market median level. Fixed remuneration for all Executives (including the Managing Director) was increased by 3% for FY2016 and increased by 2.5% for FY2017. The restraint exercised in respect of fixed remuneration in recent years has meant that STI opportunity levels, which are directly connected to fixed remuneration, have also been restrained.

**REMUNERATION REPORT – Audited (continued)**

*Short-term Incentive (STI)*

*Table 10 – Summary of STI Programme*

<table>
<tr><td>What is the STI programme?</td><td>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.<br>Formal KPIs are set at the beginning of each year for each of the Executives, including the Managing Director.</td></tr>
<tr><td>Who participates in the STI programme?</td><td>The Executives (including the Managing Director) as well as other key executives and senior managers on a discretionary basis.</td></tr>
<tr><td>Why does the Board consider the STI programme an appropriate incentive?</td><td>The STI programme and the performance conditions set under the programme are designed to motivate and reward high performance.<br>The STI programme puts a significant proportion of Executives’ 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.<br>The total potential STI available is set at a level designed to provide sufficient incentive to the Executives to achieve the operational targets at a cost to the Company that is appropriate in the circumstances.</td></tr>
<tr><td>Are both target and stretch performance conditions imposed?</td><td>Managing Director<br>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 KPIs, with:<br>• 60% of the total maximum STI opportunity available where target performance levels are achieved; and<br>• a further 40% of the total maximum STI opportunity available where ‘stretch’ levels of performance are achieved. The stretch KPIs are designed to only be met where outstanding performance is achieved.<br>The maximum annual STI opportunity is set at 100% of the Managing Director’s total fixed remuneration.<br>Other Executives<br>For the other Executives, a single set of challenging KPIs apply to the entire STI bonus (although the specific targets vary between individual Executives, as explained below).</td></tr>
<tr><td>Are both financial and non-financial performance considered?</td><td>Managing Director<br>As noted above, the Managing Director’s STI awards are linked to both target and stretch KPIs. Both components are divided between financial and non-financial measures.<br><br>Other Executives<br>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.<br>The table below reflects the weightings given to financial and non-financial KPIs for each Executive.<br><br>Table 11 – Financial and Non-Financial KPIs for Executives FY2016
<table>
<tr><th></th><th>% Financial KPIs</th><th>% Non-financial KPIs</th></tr>
<tr><td>C.P. Rex</td><td>44%</td><td>56%</td></tr>
<tr><td>B.R. Soden</td><td>50%</td><td>50%</td></tr>
<tr><td>C.R. McNally</td><td>50%</td><td>50%</td></tr>
<tr><td>D.A. Sims</td><td>50%</td><td>50%</td></tr>
</table></td></tr>
</table>

**REMUNERATION REPORT – Audited (continued)**

**What are the key performance indicators (KPIs)?**

*Managing Director*

The KPIs for the Managing Director's FY2016 STI are set out in the table below.

*Table 12 – FY2016 KPIs for the Managing Director*

| | ***Target KPIs (60% of total maximum STI opportunity)*** | ***Stretch KPIs (40% of total maximum STI opportunity)*** |
|---|---|---|
| **Financial** | • Financial performance of the global business as a whole* (24%) | • Core NPAT above FY2016 budget** (20%) |
| **Non-financial** | • Strategy, leadership & culture (18%)<br>• International strategy (12%)<br>• Discretionary criteria (6%) | Discretionary criteria (20%) including (but not limited to):<br>• Ensuring the success of global management and structure;<br>• Deriving material savings from global procurement;<br>• Development of robust quality & risk management practices/processes;<br>• Maintaining the 'Ramsay Way';<br>• Delivering safe, high quality patient care;<br>• Sourcing and review of acquisition opportunities;<br>• Navigating the Company to best achievable outcomes with funders;<br>• Succession planning for key management positions; and<br>• Maintaining close relationships with governments. |

* Further details of the financial performance measures used to assess this component of the Managing Director's STI are set out in the preceding paragraphs to table 13 of this Report.

** Full vesting of the financial component of the Managing Director's stretch KPIs will only occur where Core NPAT exceeds the FY2016 budget by 6% or more.

*Other Executives*

The KPIs for other Executives vary depending on their role and areas of responsibility.

Examples of the FY2016 *financial* KPIs used for Executives other than the Managing Director include:

- Core EBIT performance to budget;
- Business unit contribution to EBIT; and
- Capital and financial management.

Examples of the FY2016 *non-financial* KPIs used for Executives other than the Managing Director include:

- Strategy, leadership and culture KPIs, such as:
  - Delivering safe, high quality patient care;
  - Implementing and striving for success in the 5 year strategic plan; and
  - Promotion of the 'Ramsay Way' culture.

**REMUNERATION REPORT – Audited (continued)**

| | |
|---|---|
| | • Functional KPIs, such as:<br>o Search for strategic acquisitions;<br>o Management of brownfield opportunities;<br>o New business initiatives;<br>o Investor relations; and<br>o Effective communication. |
| **Why were the performance conditions (KPIs) chosen?** | The following is provided for the purposes of section 300A(1)(ba)(ii) of the Act.<br>Underpinning the KPIs are the Company's key objectives of:<br>• delivering safe, high quality clinical care for our patients;<br>• providing a safe working environment for our people; and<br>• generating value for shareholders.<br>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.<br>The financial KPIs were chosen to provide measureable financial performance criteria strongly linked to year-on-year shareholder returns.<br>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. |
| **What were the methods used to assess whether the performance conditions (KPIs) were satisfied and why were those methods chosen?** | The following is provided for the purposes of section 300A(1)(ba)(iii) of the Act.<br>Performance against the relevant operational targets is assessed annually as part of the broader performance review process for the individual Executives. Where applicable, financial KPIs are assessed quantitatively against predetermined benchmarks. Non-financial KPIs are assessed quantitatively where possible. For example, the workplace health and safety KPI for the Managing Director is assessed based on the year-on-year change in the Lost Time Injury Frequency Rate. Programmes implemented during FY2016 aimed at driving quality clinical governance in the Company's facilities, including implementation in programmes arising from the Company's Strategic Alliance with the International Consortium for Health Outcomes Measurement (ICHOM), is an example or qualification of the "development of robust quality and risk management practices/processes" 'stretch' KPI.<br>Where quantitative assessment is not practicable, qualitative performance appraisals are undertaken by the Remuneration Committee and the Board. Where available, the Remuneration Committee and the Board draws on the outcomes of 360-degree feedback reviews in making these assessments, which are periodically conducted by the Company in conjunction with an external consultant.<br>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.<br>These methods of assessing performance were chosen because they are, as far as practicable, objective and capable of being independently audited. |
| **Who assesses STI performance?** | The Remuneration Committee assesses the Managing Director's performance against his KPIs and stretch KPIs and makes a recommendation to the Board for final determination.<br>The Managing Director assesses the performance of all other Executives and makes recommendations to the Remuneration Committee for consideration, which in turn makes recommendations to the Board for final determination. |
| **In what form is the STI delivered?** | All STI awards are delivered as a cash payment to Executives, with the exception of the Managing Director.<br>Half of the Managing Director's STI award is paid in cash, with the remaining 50% (less any applicable tax) applied towards the on-market purchase of ordinary shares |

**REMUNERATION REPORT – Audited (continued)**

| | |
|---|---|
| | in the Company (and at the prevailing market price). The shares acquired 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. |
| **What if an Executive ceases employment?** | If an Executive ceases employment with the Company before KPI targets are achieved, then they will generally not be entitled to receive any STI bonus.<br>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. |
| **What STI awards did Management earn in FY2016?** | STI payments for FY2016 are set out in table 13 below. |

*STI payments for FY2016*

The methodology for assessing STI payments, based upon performance against KPIs is set out in the table above and, for the purposes of section 300A(1)(ba)(iii) of the Act, explained further below.

An evaluation was undertaken by the Remuneration Committee of the Managing Director's performance against his target KPIs and his 'stretch' KPIs for FY2016. The Group's financial performance in FY2016 was again outstanding, with Core EPS and Core NPAT exceeding the previous year by 17.7% and 16.8% respectively. As a result, the Managing Director's financial target KPIs were satisfied in full. In relation to the financial component of the Managing Director's 'stretch' KPIs, Core NPAT was just short of the threshold set for full vesting. 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 99.1% 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 FY2016 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 FY2016, the Remuneration Committee recommended to the Board that each of the Executives receive 100% of their STIs for FY2016. This recommendation was accepted and approved by the Board.

STI payments are only paid after the Auditor has signed off on the statutory financial accounts for the full year.

Table 13 shows the actual STI bonus amounts to be paid to the Executives for their performance in FY2016.

*Table 13 – STI bonuses for Executives FY2016 – to be paid in FY2017*

| Executive | Minimum potential STI Bonus | Maximum potential STI bonus | Actual STI for FY2016, to be paid in FY2017 subject to target KPIs | Actual STI for FY2016, to be paid in FY2017 subject to 'stretch' KPIs | Actual STI awarded as % of maximum STI |
|---|---|---|---|---|---|
| C.P. Rex [1, 2] | Nil | 2,318,000 | 1,390,800 | 906,530 | 99.1% |
| B.R. Soden | Nil | 723,100 | 723,100 | Not applicable | 100% |
| D.A. Sims | Nil | 425,500 | 425,500 | Not applicable | 100% |
| C.R. McNally | Nil | 425,500 | 425,500 | Not applicable | 100% |

1. *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.*

**REMUNERATION REPORT – Audited (continued)**

2. *As Mr Rex exceeded target performance levels for FY2016 and fell just short of meeting the 'stretch' targets, his total FY2016 STI award is 99.1% of the total maximum STI available for the financial year. Mr Rex's FY2016 STI award is comprised of a cash payment (50%) and a portion (50%, less taxes) used to purchase restricted shares. The maximum potential value of Mr Rex's FY2016 STI award depends on movements in the Company's share price over the period for which the shares will be restricted.*

*Long-term Incentive (LTI)*

*Table 14 – Summary of LTI Programme*

| | |
|---|---|
| **What is the purpose of the LTI programme?** | 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. |
| **Who participates in the LTI programme?** | Participation in the LTI programme is only offered to a small number of senior executives who are able to significantly contribute to the generation or preservation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles. All KMP Executives participate in the LTI programme. |
| **How is reward delivered under the LTI programme?** | LTI grants are delivered in the form of equity-based Performance Rights under the Company's Executive Performance Rights Plan (**Plan**). Each Performance Right is an entitlement to receive a fully-paid ordinary share in the Company (or, at the discretion of the Board, an equivalent cash payment) on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a minimum 3-year period. |
| **Do participants pay for the Performance Rights?** | Performance Rights are offered at no cost to the LTI participants. |
| **What rights are attached to the Performance Rights?** | Performance Rights do not carry voting or dividend rights, however shares allocated upon vesting of Performance Rights will carry the same rights as other ordinary shares. |
| **How is the number of Performance Rights granted determined?** | For grants made in FY2016, the number of rights granted to the Executives was determined on a face value basis in line with the value of their FY2015 grants (i.e. by dividing the face value of the FY2015 grant by the prevailing share price as at the start of FY2016).<br>The FY2017 LTI grants for Executives, including Mr Rex and Mr Soden, will be set at a face value that is in line with their FY2016 LTI grants. This will result in a lower number of performance rights being awarded for FY2017 compared to FY2016 (given the Company's share price has increased since the FY2016 grant). |
| **What restrictions apply?** | The Company prohibits hedging of Performance Rights. In addition, all shares allocated on vesting and exercise of Performance Rights can only be dealt with in accordance with the Company's Securities Trading Policy.<br>Participants may elect to have the shares they received under the Plan held in trust, in which case further restrictions on dealing apply. |
| **What are the performance hurdles?** | Grants to senior executives with global responsibilities are split into two equally weighted components with vesting linked to two independently-applied performance conditions:<br>• one component is tested against a relative Total Shareholder Return (**TSR**) hurdle; and<br>• the remaining component is tested against an Earnings Per Share growth (**EPS**) hurdle.<br>For most participants, grants of Performance Rights are subject to a third Business Unit Performance hurdle. This additional hurdle applies for participants who have direct responsibility and control over a discrete business unit (e.g. divisional and business unit heads).<br>Grants subject to a Business Unit Performance hurdle are split into three equally weighted components:<br>• one component is tested against the relative TSR hurdle;<br>• another component is tested against the EPS hurdle; and |

**REMUNERATION REPORT – Audited (continued)**

<table>
<tr><td></td><td>
<ul><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.
</td></tr>
<tr><td>How is the relative TSR hurdle measured?</td><td>
The relative TSR hurdle is determined by measuring and ranking the Company's TSR relative to the TSRs of a comparator group of companies.
For LTI grants made prior to FY2016 (including the FY2013 grant, which vested on 30 June 2016), the Board determined that the TSR comparator group be comprised of companies in the S&P/ASX 200 index as at the start of the 3-year performance period, excluding companies in sectors having different drivers of operating performance being those in the real estate, finance and resources sectors.
For the FY2016 LTI grants, the Board changed the comparator group to the S&P/ASX100 index. The Board considered the change to be appropriate on the basis that companies in this index are now a more appropriate comparator group given the Company's sustained growth in market capitalisation in recent years.
Broad industry groups are used for the purposes of assessing relative TSR performance because there are too few Australian healthcare companies with similar business drivers to the Company for TSR comparison purposes. Comparator groups may be adjusted where appropriate as a result of mergers, insolvencies, takeovers or other corporate reconstructions during the performance period.
Performance Rights tested against the relative TSR hurdle vest on a sliding scale as set out in the table below:
Table 15 – TSR vesting schedule
<table>
<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 50th percentile</td><td>Nil</td></tr>
<tr><td>TSR at 50th percentile</td><td>50%</td></tr>
<tr><td>TSR between 50th and 75th percentile</td><td>Between 50% and 100% increasing on a straight line basis</td></tr>
<tr><td>TSR above 75th percentile</td><td>100%</td></tr>
</table>
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 6 and 12 months following the original testing date) based on performance over the extended period.
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 after 6 and 12 months (if necessary) affords a fairer opportunity for assessing the Company's TSR performance over an extended multi-year period.
If the TSR hurdle is not satisfied on the second and final re-test, all unvested Performance Rights will immediately lapse.
</td></tr>
<tr><td>How is the EPS hurdle measured?</td><td>
EPS hurdle
'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 2a of the Financial Report).
For the FY2016 grant, the EPS hurdle is measured by comparing the Company's aggregate EPS over 3 years against the aggregate EPS target based on the Company's market guidance for EPS disclosed at the start of each financial year.
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 and motivating exceptional performance.
</td></tr>
</table>

**REMUNERATION REPORT – Audited (continued)**

The annual targets are then aggregated to provide the threshold and maximum 3-year targets for vesting of Performance Rights.

No re-testing of the EPS hurdle is permitted.

**What are the EPS Targets and Thresholds for grants made prior to FY2016?**

The following table outlines the vesting schedule for the Performance Rights that are tested against the EPS hurdle for grants made before FY2016, including the FY2013 grant that vested on 30 June 2016.

*Table 16 – EPS hurdle vesting schedule*

| 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% |

The Company is able to disclose that for the year ended 30 June 2016 the maximum EPS target was set at 219.2 cents per share and the threshold EPS target was 95% of this target (208.2 cents per share).

The EPS achieved in FY2016 was 231.4 cents per share.

**What are the EPS Targets and Thresholds for grants made in FY2016**

For the LTI grants made in FY2016, the Board restructured the vesting schedule that is to apply to the EPS hurdle. Vesting will occur on a stepped basis rather than the sliding scale outlined above. This means that no additional rights will vest for EPS performance that is between the following specified points:

- 0% of rights subject to the EPS hurdle will vest where the EPS performance is well short of the Company's market guidance.
- 25% of rights subject to the EPS hurdle will vest where the EPS performance is just below the lower end of the Company's market guidance.
- 50% of rights subject to the EPS hurdle will vest where the lower end of the Company's market guidance is achieved.
- 75% of rights subject to the EPS hurdle will vest where the mid-point of the Company's market guidance is achieved.
- 90% of rights subject to the EPS hurdle will vest where the upper end of the Company's guidance is achieved.
- 100% of rights subject to the EPS hurdle will vest where the EPS performance is well above the upper end of the Company's market guidance, in line with the 'stretch' incentive intended.

The table below illustrates the level of growth required for the FY2016 and FY2017 targets having regard to the Company's original published market guidance for FY2016 of an increase in EPS of 12% to 14%, actual EPS for FY2016 being 231.4 cents per share and the Company's published market guidance for FY2017 of an increase in EPS of 10% to 12%.

| % increase in EPS for FY2016 over FY2015 | % increase in EPS for FY2017 over FY2016 | % of Performance Rights subject to EPS hurdle to vest |
|---|---|---|
| Less than 11% | Less than 9% | 0% |
| 11% | 9% | 25% |
| 12% | 10% | 50% |
| 13% | 11% | 75% |
| 14% | 12% | 90% |
| 15% | 13% | 100% |

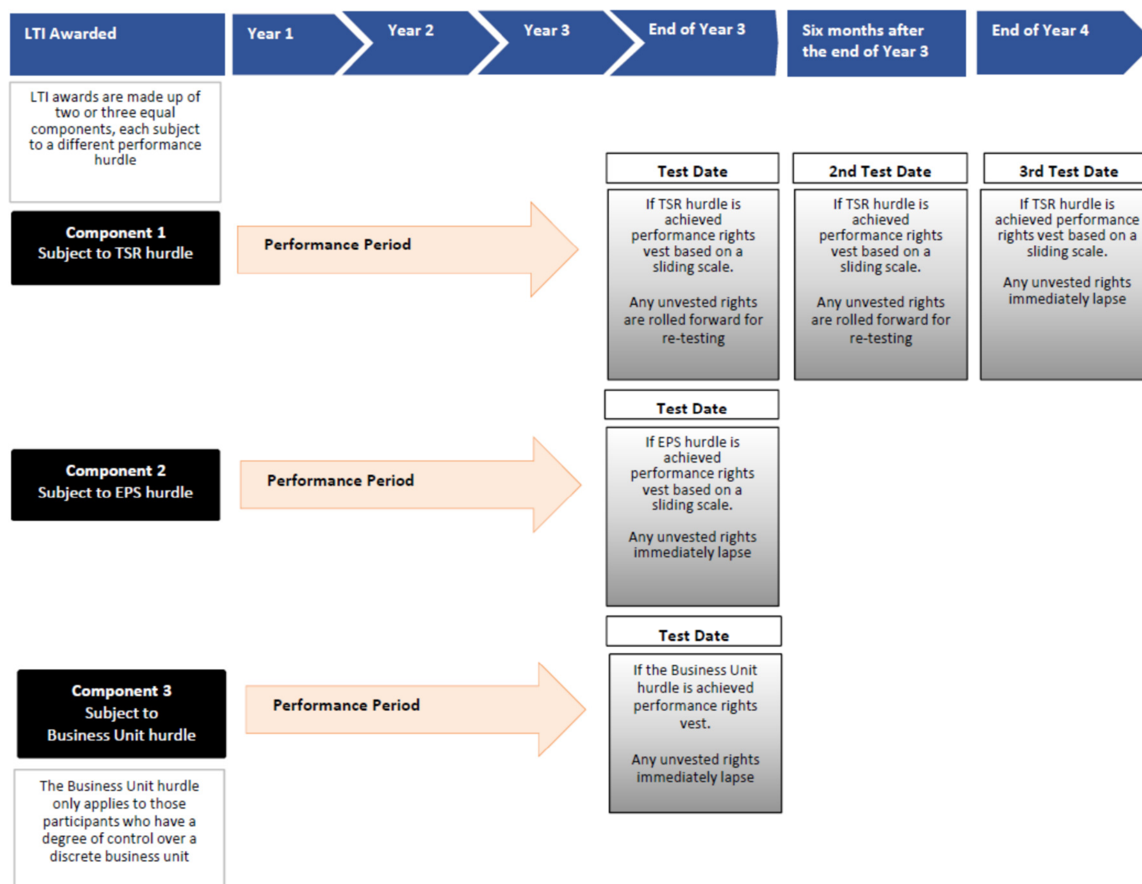
**REMUNERATION REPORT – Audited (continued)**

| | |
|---|---|
| **Why have the performance hurdles been chosen?** | The following information is provided for the purposes of section 300A(1)(b)(ii) of the Act.<br>*Relative TSR*<br>The relative TSR hurdle has been chosen because it provides a direct link between Executive reward and shareholder return, relative to the Company's ASX peers. Participants will not derive any value from their TSR Performance Rights unless the Company's performance is at least at the median of the comparator group for the performance period.<br>*EPS*<br>The EPS hurdle has been chosen as it provides evidence of the Company's growth in earnings and is directly linked to shareholder returns and the Company's overall strategic objectives.<br>*Business Unit Performance*<br>The Business Unit Performance measure is an additional hurdle applied to those participants who have direct responsibility and control over the performance of discrete parts of the Group's business. The purpose of this additional hurdle is to help focus the efforts of these participants on continually improved performance of the business unit for which they are responsible.<br>Diagram 4 below demonstrates the operation of the performance hurdles noted above. |
| **What if an Executive ceases employment?** | If an Executive ceases employment with the Company before the performance conditions are tested, the treatment of their unvested Performance Rights will depend on a number of factors, including the circumstances in which they have ceased employment.<br>In general, where an Executive's employment is terminated:<br>• for serious misconduct, their unvested Performance Rights will lapse; or<br>• in other circumstances, their unvested Performance Rights will remain on foot and will be tested in the ordinary course subject to the performance hurdles outlined above. This aligns the interests of executives with the interests of shareholders and encourages a long term strategic approach from Executives.<br>The Board retains a discretion to vest or lapse unvested Performance Rights with effect from the termination date in appropriate circumstances (and within the constraints of the termination benefits provisions of the Act). |
| **What happens in the event of a change in control?** | In the event of a takeover or change of control of the Company, any unvested Performance Rights may vest at the Board's discretion, having regard to pro-rata performance and the circumstances leading to the change of control. |
| **What Performance Rights were granted to the Executives in FY2016?** | The grants made to the Executives are summarised in the following table 17.<br>The Board, consistent with past practice, sources the underlying shares on-market for the Performance Rights that it is granting. 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 2016 AGM. |

The diagram on the following page illustrates the operation of the performance hurdles for Executives and other participants in the LTI programme.

**REMUNERATION REPORT – Audited (continued)**

*Diagram 4 – Operation of LTI hurdles*




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

Details of the Performance Rights granted under the LTI programme in FY2016 are set out below.

*Table 17 – Performance Rights granted to Executives in FY2016*

| Executive | Performance Condition [1] | Number of Performance Rights Granted [2] | Fair value per Performance Right [3] | Maximum value of grant [4] |
|---|---|---|---|---|
| **C.R. Rex** | TSR | 95,530 | $46.98 | $4,487,999 |
| | Core EPS | 95,530 | $61.96 | $5,919,039 |
| | | **191,060** | | **$10,407,038** |
| **B.R. Soden** | TSR | 41,252 | $46.98 | $1,938,019 |
| | Core EPS | 41,251 | $61.96 | $2,555,912 |
| | | **82,503** | | **$4,493,931** |
| **C.R. McNally** | TSR | 26,054 | $46.98 | $1,224,017 |
| | Core EPS | 26,053 | $61.96 | $1,614,244 |
| | | **52,107** | | **$2,838,261** |

**REMUNERATION REPORT – Audited (continued)**

| Executive | Performance Condition [1] | Number of Performance Rights Granted [2] | Fair value per Performance Right [3] | Maximum value of grant [4] |
|---|---|---|---|---|
| **D.A. Sims** | TSR | 17,369 | $46.98 | $815,996 |
| | Core EPS | 17,369 | $61.96 | $1,076,183 |
| | Business Unit | 17,369 | $61.96 | $1,076,183 |
| | | **52,107** | | **$2,968,362** |

1. *These Performance Rights are subject to performance over a 3-year period from 1 July 2015 to 30 June 2018. As the Performance Rights only vest on satisfaction of performance conditions which are to be tested in future financial periods, FY2016 Performance Rights have not yet been forfeited or vested.*
2. *The grants made to Executives constituted their full LTI entitlement for FY2016 and were made on 13 November 2015 subject to the terms summarised in Table 14.*
3. *The fair value per Performance Right was calculated by independent consultants PricewaterhouseCoopers as at the grant date of 13 November 2015. An explanation of the pricing model used to calculate these values is set out in note 16 to the Financial Report.*
4. *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).*

**REMUNERATION REPORT – Audited (continued)**

**Total remuneration**

Details of each Executive's remuneration for FY2016 (calculated in accordance with applicable Accounting Standards) are set out in table 18. All values are in A$ unless otherwise stated.

*Table 18 – Executive remuneration for FY2016 and FY2015*

| Name | Short term | | | Post-employment | | | Share based payment rights | Total $ | Total performance related |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Non monetary [1] $ | Accrued Bonus [2] $ | Long service leave entitlements $ | Super-annuation $ | Accrued termination benefits $ | Amortised cost of incentive share based rights [3] $ | | |
| **C.P. Rex** | | | | | | | | | |
| FY2016 | 2,318,000 | 18,327 | 2,297,330 | 53,296 | 19,308 | - | 8,962,779 | 13,669,040 | 82% |
| FY2015 | 2,250,000 | 22,319 | 2,250,000 | 54,820 | 18,783 | - | 6,881,233 | 11,477,155 | 80% |
| **B.R. Soden** | | | | | | | | | |
| FY2016 | 1,456,420 | 33,183 | 723,100 | 43,886 | 19,308 | - | 3,870,285 | 6,146,182 | 75% |
| FY2015 | 1,414,000 | 46,797 | 701,950 | 47,552 | 18,783 | - | 2,971,442 | 5,200,524 | 71% |
| **C.R. McNally** | | | | | | | | | |
| FY2016 | 857,207 | 30,418 | 425,500 | 26,213 | 19,308 | - | 2,444,387 | 3,803,033 | 75% |
| FY2015 | 832,240 | 23,564 | 413,090 | 28,686 | 18,783 | - | 1,876,700 | 3,193,063 | 72% |
| **D.A. Sims** | | | | | | | | | |
| FY2016 | 857,207 | 31,952 | 425,500 | 19,330 | 19,308 | - | 2,487,754 | 3,841,051 | 76% |
| FY2015 | 832,240 | - | 413,090 | 19,798 | 18,783 | - | 1,876,700 | 3,160,611 | 72% |
| **Totals** | | | | | | | | | |
| **FY2016** | **5,488,834** | **113,880** | **3,871,430** | **142,725** | **77,232** | **-** | **17,765,205** | **27,459,306** | **79%** |
| **FY2015** | **5,328,480** | **92,680** | **3,778,130** | **150,856** | **75,132** | **-** | **13,606,075** | **23,031,353** | **75%** |

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. *The FY2015 and FY2016 amounts represent the Executive's accrued STI for the year. 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.*
3. *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 programme). The fair value 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 16 to the financial statements.*

**REMUNERATION REPORT – Audited (continued)**

**Executive Service Agreement**

*Mr Christopher Rex*

In 2013, Mr Rex's contracted term as Managing Director was extended by three years until 30 June 2016 and is now continuing on a rolling basis until terminated by either party. As at the date of this Report, neither Mr Rex nor the Company have given notice to the other that they wish to terminate the contract.

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

*Table 19 – Key terms of Executive Service Agreement for Mr Rex*

| | |
|---|---|
| **Duration** | From 1 July 2013 to 30 June 2016 (3 years) (**the Term**).<br>If neither party terminates the Executive Service Agreement before the Term expires, Mr Rex's employment will continue on the existing terms as summarised below. |
| **Termination by Managing Director** | 12 months' notice in writing is required.<br>Company may elect to make payment in lieu of notice.<br>Where the termination date falls part way through a performance year, Mr Rex will forfeit his entitlement to any STI in respect of that performance year.<br>All unvested equity instruments under the Company's LTI programme will be treated in accordance with the terms of grant (see table 14 for details of the cessation treatment for the LTI grant made in FY2016). |
| **Termination for serious misconduct** | No notice required.<br>No further STI entitlement.<br>All unvested equity instruments will lapse. |
| **Other Company-initiated termination** | 12 months' notice.<br>Company may elect to make payment in lieu of notice.<br>Pro-rata STI entitlement based on performance up to the date of termination.<br>All unvested equity instruments under the Company's LTI programme will be treated in accordance with the terms of grant (see table 14 for details of the cessation treatment for the LTI grant made in FY2016). |
| **Restraint** | The Executive Service Agreement contains restrictions on Mr Rex's ability to compete with any member of the Ramsay Group during his employment or within 6 months after the termination of his employment. |

*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.

**REMUNERATION REPORT – Audited (continued)**

**Other statutory disclosures**

Table 20 below shows the movements (during FY2016 and up to the date of this Report) in equity granted to Executives as part of their remuneration.

*Table 20 – Movement in Executive equity grants*

| | Date of grant | Number of rights granted | Vesting date[1] | Number of rights vested[2] | Value of rights vested[3] $ | Number of rights forfeited / lapsed[4] | Value of rights forfeited / lapsed $ |
|---|---|---|---|---|---|---|---|
| **C.P. Rex** | | | | | | | |
| Equity Settled Performance Rights | 15-Nov-12 | 220,000 | 28-Aug-15 | 220,000 | 13,324,190 | - | - |
| | 14-Nov-13 | 220,000 | 31-Aug-16 | 220,000 | 17,589,264 | - | - |
| | 13-Nov-14 | 220,000 | 31-Aug-17 | - | - | - | - |
| | 13-Nov-15 | 191,060 | 31-Aug-18 | - | - | - | - |
| **B.R. Soden** | | | | | | | |
| Equity Settled Performance Rights | 15-Nov-12 | 95,000 | 28-Aug-15 | 95,000 | 5,753,628 | - | - |
| | 14-Nov-13 | 95,000 | 31-Aug-16 | 95,000 | 7,595,364 | - | - |
| | 13-Nov-14 | 95,000 | 31-Aug-17 | - | - | - | - |
| | 13-Nov-15 | 82,553 | 31-Aug-18 | - | - | - | - |
| **C.R. McNally** | | | | | | | |
| Equity Settled Performance Rights | 15-Nov-12 | 60,000 | 28-Aug-15 | 60,000 | 3,633,870 | - | - |
| | 14-Nov-13 | 60,000 | 31-Aug-16 | 60,000 | 4,797,072 | - | - |
| | 13-Nov-14 | 60,000 | 31-Aug-17 | - | | - | - |
| | 13-Nov-15 | 52,107 | 31-Aug-18 | - | - | - | - |
| **D.A. Sims** | | | | | | | |
| Equity Settled Performance Rights | 15-Nov-12 | 60,000 | 28-Aug-15 | 60,000 | 3,633,870 | - | - |
| | 14-Nov-13 | 60,000 | 31-Aug-16 | 60,000 | 4,797,072 | - | - |
| | 13-Nov-14 | 60,000 | 31-Aug-17 | - | - | - | - |
| | 13-Nov-15 | 52,107 | 31-Aug-18 | - | - | - | - |

1. *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. Vesting will only occur after the announcement of the release of Ramsay's Full Year results for the previous financial year.*
2. *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 table 14 of this Report).*
3. *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 market value of each Performance Right on vesting was:*
   - *$60.5645 on 28 August 2015*
   - *$79.9512 on 31 August 2016*
4. *The performance conditions applicable to Performance Rights which vested on 28 August 2015 and 31 August 2016 were fully satisfied, and no Performance Rights lapsed or were forfeited for the respective performance periods.*

**REMUNERATION REPORT – Audited (continued)**

## 4. NON-EXECUTIVE DIRECTOR REMUNERATION

### Guiding principles

The Company's Non-Executive Director remuneration policy is summarised below.

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

| Principle | Explanation |
|---|---|
| **Aggregate Board and Committee fees are approved by shareholders** | The current aggregate fee pool for Non-Executive Directors of $3,500,000 (including the superannuation guarantee levy) was approved by shareholders at the 2015 AGM. |
| **Fees are set by reference to key considerations** | The aggregate fee pool 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, having regard to:<br>• the responsibilities and risks of the role;<br>• the time commitment expected of Non-Executive Directors;<br>• the fees paid by companies to Non-Executive Directors; and<br>• the independent advice received from external advisers. |
| **Remuneration is structured to preserve independence whilst creating alignment** | To create alignment between the interests of Non-Executive Directors and shareholders, Non-Executive Directors are encouraged to hold shares in the Company.<br>To support Non-Executive Directors in building their shareholding in the Company, shareholders were asked to approve and did approve the Non-Executive Director Share Rights Plan at the 2015 AGM. Under the Plan, Non-Executive Directors receive a portion of their remuneration in the form of share rights which on exercise convert into shares in the Company. These shares are initially subject to a holding lock.<br>The Board considers structuring Non-Executive Director remuneration in this way will further enhance alignment of interests between Non-Executive Directors and shareholders. Importantly, the share rights are not subject to any performance conditions in order to preserve the Non-Executive Directors' impartiality. This is consistent with general governance principles that no element of Non-Executive Director remuneration should be performance-based to preserve their independence and impartiality. Further details about the Plan are set out below. |
| **Reviews of remuneration** | The Remuneration Committee and the Board annually reviews its approach to Non-Executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of good corporate governance. |

**REMUNERATION REPORT – Audited (continued)**

**Board & committee fees**

*Table 22 – Components of Non-Executive Director Remuneration*

| Component | Explanation |
|---|---|
| **Board fees/Committee fees** | Fees, per annum, for FY2016<br>• **Board:**<br>- Chairman - $707,308<br>- Deputy Chairman - $331,058<br>- Members - $277,308<br>• **Audit Committee:**<br>- Chairman - $54,698<br>- Members - $27,349<br>• **Risk Management Committee:**<br>- Chairman - $48,622<br>- Members - $24,311<br>• **Remuneration Committee:**<br>- Chairman - $40,000<br>- Members - $20,000<br>• **Nomination Committee:**<br>- Chairman – Nil<br>- Members – Nil<br>The above fees represent an increase on Board and Committee fees for FY2016, which was made after considering independent advice from Godfrey Remuneration Group (**Godfrey**). Godfrey highlighted that an increase in remuneration packages for Non-Executive Directors is necessary to ensure the Company does not fall behind the market in rewarding its Directors, particularly given the size and scope of Ramsay's operations and Director time commitments and responsibilities. The Board is of the view that the increases in fees for Non-Executive Directors for FY2016 were reasonable, in light of the continued international expansion of the Group, its ongoing strong performance, the levels of fees paid by peer companies and the need to ensure that the Company can continue to attract and retain directors with the skills and experience that are most relevant to the business strategy of the Company.<br>The above Chairman, Deputy Chairman and base Board fees also include amounts referrable to compulsory superannuation contributions made on behalf of each Non-Executive Director as well as share rights granted to each Non-Executive Director in FY2016 following shareholders approving the Non-Executive Director Share Rights Plan at the 2015 Annual General Meeting.<br>In FY2016, Non-Executive Directors were each granted 692 share rights, which converted to ordinary shares in the Company in March 2016. The number of share rights granted was calculated in accordance with the following formula:<br>$\frac{20\%\ of\ the\ FY2016\ base\ board\ fee}{Value\ per\ share\ right}$<br>where the:<br>- FY2016 base board fee was $215,000; and<br>- value per share right equals the VWAP of the Company's ordinary shares traded on the ASX over the 5 trading day period commencing on the trading day after the preliminary full year results are released for the prior financial year (FY2015). For FY2016, the VWAP used to determine the number of share rights granted to each Non-Executive Director was $62.1181.<br>The Company proposes to deliver a portion of remuneration to Non-Executive Directors for FY2017 and future years in the form of share rights (further discussed below). |

**REMUNERATION REPORT – Audited (continued)**

| | |
|---|---|
| **Other fees/benefits** | Other than as set out below, no additional fees for special duties or exertions were paid during FY2016.<br>Non-Executive Directors are also entitled to be reimbursed for all reasonable business related expenses, including travel, as may be incurred in the discharge of their duties. |
| **Post-employment benefits** | Superannuation contributions are made on behalf of the Non-Executive Directors (at the FY2016 rate of 9.5%) which satisfies the Company's statutory superannuation obligations. This is capped at the statutory limit, which was $19,308 per Director for FY2016.<br>Certain Non-Executive Directors are entitled to retirement benefits under the (now frozen) Directors Retirement Benefits Plan. Further details are provided below. |

**Non-Executive Director Share Rights Plan**

As part of the review of Non-Executive Director remuneration conducted during FY2015, the Board decided that from FY2016 fees paid by the Company to Non-Executive Directors for their services will be delivered partially in cash and partially in the form of rights to Ramsay shares. Structuring Non-Executive Director remuneration in this way will support Non-Executive Directors in building their shareholdings in the Company and enhance the alignment of interests between Non-Executive Directors and shareholders.

The share rights were fully vested at the time of granting in November 2015 (i.e. they were not subject to performance conditions or potential forfeiture) and were automatically exercised and converted into shares in the Company in March 2016. The shares are subject to dealing restriction: a holding lock is in place until the earlier of (i) the Non-Executive Director ceasing to be a director of the Company or (ii) 3 years from the date of grant or such longer period nominated by the Non-Executive Director at the time of the offer (up to a maximum of 15 years from the date of grant).

**Preserved benefits under the (frozen) Non-Executive Directors Retirement Benefit Plan**

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.

While entitlements have been frozen as at 31 December 2009, they are indexed in line with the one-year Commonwealth Government Bond Rate (adjusted twice a year). No adjustments are made based on increases in Directors' fees or years of service. As the indexation of retirement benefits occurs simply to preserve existing entitlements and not to enhance any Director's remuneration, they are not counted towards the aggregate fee pool.

The value of the frozen benefits as at 30 June 2016, to which participating Non-Executive Directors are entitled upon retirement are set out below:

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

| Total Frozen Benefit 31 December 2009 | Total Provision 30 June 2015 | Benefits Paid in FY2016 | Total Bond Rate Adjustment | Total Provision 30 June 2016 |
|---|---|---|---|---|
| $2,879,813 | $2,539,729[1] | - | $50,920 [1] | $2,590,649 |

1. *Cumulatively an amount of $2,590,649 (2015: $2,539,729) has been provided as at 30 June 2016 and $50,920 (2015: $60,104) expensed in the current year.*

**REMUNERATION REPORT – Audited (continued)**

**Total remuneration**

Details of Non-Executive Directors' remuneration for FY2016 and FY2015 (calculated in accordance with applicable accounting standards) are set out in table 24.

*Table 24 – Non-Executive Director Remuneration for FY2016 and FY2015*

| Director | Short-term benefits ($) | | Post-employment benefits ($) | | Total ($) |
|---|---|---|---|---|---|
| | Fees[1] | Non-monetary benefits | Superannuation Contributions[2] | Retirement Benefits[3] | |
| **Current Non-Executive Directors** | | | | | |
| **M.S. Siddle (Chairman)** | | | | | |
| FY2016 | 688,000 | - | 19,308 | 10,144 | 717,452 |
| FY2015 | 550,000 | - | 18,783 | 11,974 | 580,757 |
| **P.J. Evans (Deputy Chairman)** | | | | | |
| FY2016 | 435,070 | - | 19,308 | 12,815 | 467,193 |
| FY2015 | 311,858 | - | 18,783 | 15,126 | 345,767 |
| **R.H. McGeoch AO** | | | | | |
| FY2016 | 298,000 | - | 19,308 | 8,657 | 325,965 |
| FY2015 | 210,700 | - | 18,783 | 10,219 | 239,702 |
| **K.C.D. Roxburgh** | | | | | |
| FY2016 | 309,660 | - | 19,308 | 10,375 | 339,343 |
| FY2015 | 226,660 | - | 18,783 | 12,246 | 257,689 |
| **A.J. Clark AM** | | | | | |
| FY2016 | 285,349 | - | 19,308 | 8,929 | 313,586 |
| FY2015 | 202,349 | - | 18,783 | 10,539 | 231,671 |
| **I.P.S. Grier AM** | | | | | |
| FY2016 | 282,311 | - | 19,308 | - | 301,619 |
| FY2015 | 199,311 | - | 18,783 | - | 218,094 |
| **P. Akopiantz** | | | | | |
| FY2016 | 285,349 | - | 19,308 | - | 304,657 |
| FY2015 | 36,024 | - | 3,344 | - | 39,368 |
| **M. Seale** | | | | | |
| FY2016 | 282,311 | - | 19,308 | - | 301,619 |
| FY2015 | 35,483 | - | 3,344 | - | 38,827 |
| **Totals** | | | | | |
| **FY2016** | **2,866,050** | **-** | **154,464** | **50,920** | **3,071,434** |
| **FY2015** | **1,772,385** | **-** | **119,386** | **60,104** | **1,951,875** |

1. *Includes fees received in the form of share rights under the Non-Executive Directors Share Rights Plan.*
2. *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.*
3. *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.*

**REMUNERATION REPORT – Audited (continued)**

**5. ADDITIONAL STATUTORY DISCLOSURES**

**Loans to KMP and their related parties**

There were no loans outstanding to KMP and their related parties, at any time in FY2016.

**Other disclosable transactions**

Paul Ramsay Holdings Pty Limited granted a licence to the economic entity to occupy office space at a commercial arm's length licence fee. In addition, any expenditure incurred by the economic entity on behalf of Paul Ramsay Holdings Pty Limited is charged at arm's length basis. Total amount outstanding at 30 June 2016 is $nil (2015: nil).

During the year costs of $24,317 (2015: $30,799) were charged to and an amount of $24,317 (2015: $55,727) was received from Paul Ramsay Holdings Pty Limited for expenditure incurred on behalf of Paul Ramsay Holdings Pty Limited.

During the year costs of $88,257 (2015: $17,853) were charged by and an amount of $101,989 (2015: $36,901) was paid to Paul Ramsay Holdings Pty Limited for services rendered to the Group.

At 30 June 2016 costs of $10,067 (2015: $17,125) were accrued for expenditure incurred on behalf of Paul Ramsay Holdings Pty Limited that had not yet been invoiced.

**Equity Instruments of KMP**

*Table 25 – The movement during FY2016 in the equity of the Company held, directly, indirectly or beneficially, by each KMP, including their related parties is as follows:*

| | Held at 1 July 2015 | | Received on Vesting of LTI | | Received as Other Remuneration[1] | | Other Net Change purchase / (sale) | | Held at 30 June 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Ord. Shares* | *CARES* | *Ord. Shares* | *CARES* | *Ord. Shares* | *CARES* | *Ord. Shares* | *CARES* | *Ord. Shares* | *CARES* |
| **Non-Executive Directors** | | | | | | | | | | |
| M.S. Siddle | 3,902,564 | - | - | - | 692 | - | - | - | 3,903,256 | - |
| P. J. Evans | 7,209 | - | - | - | 692 | - | - | - | 7,901 | - |
| R.H. McGeoch AO | 57,331 | 257 | - | - | 692 | - | - | - | 58,023 | 257 |
| K.C.D. Roxburgh | 79,500 | - | - | - | 692 | - | (7,000) | - | 73,192 | - |
| A. J. Clark AM | 82,000 | 1,700 | - | - | 692 | - | (2,000) | - | 80,692 | 1,700 |
| I. P.S Grier AM | - | - | - | - | 692 | - | - | - | 692 | - |
| P.E. Akopiantz | - | - | - | - | 692 | - | 1,367 | - | 2,059 | - |
| M.L. Seale | - | - | - | - | 692 | - | 1,305 | - | 1,997 | - |
| **Executive Directors** | | | | | | | | | | |
| C. P. Rex | 749,271 | 5,334 | 220,000 | - | 9,489 | - | - | - | 978,760 | 5,334 |
| B. R. Soden | 260,791 | 2,000 | 95,000 | - | - | - | (50,000) | - | 305,791 | 2,000 |
| **Executives** | | | | | | | | | | |
| C. R. McNally | 310,333 | - | 60,000 | - | - | - | (25,284) | - | 345,049 | - |
| D. A. Sims | 150,550 | - | 60,000 | - | - | - | (49,000) | - | 161,550 | - |

1 *Includes ordinary shares allocated to Non-Executive Directors upon exercise of share rights granted in accordance with the terms of the Non-Executive Directors Share Rights Plan.*

**REMUNERATION REPORT – Audited (continued)**

*Table 26 – The movement during FY2016 in the number of rights over ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:*

| | UNVESTED | | | | | VESTED |
|---|---|---|---|---|---|---|
| | **Performance Rights / Share Rights** | **Held at 1 July 2015** | **Granted/ (Forfeited)** | **Performance Rights / Share Rights Exercised** | **Rights held at 30 June 2016** | **Vested during FY2016** |
| **Non-Executive Directors** | | | | | | |
| M.S. Siddle | Share Rights | - | 692 | 692 | - | 692 |
| P. J. Evans | Share Rights | - | 692 | 692 | - | 692 |
| R.H. McGeoch AO | Share Rights | - | 692 | 692 | - | 692 |
| K.C.D. Roxburgh | Share Rights | - | 692 | 692 | - | 692 |
| A. J. Clark AM | Share Rights | - | 692 | 692 | - | 692 |
| I. P.S Grier AM | Share Rights | - | 692 | 692 | - | 692 |
| P. Akopiantz | Share Rights | - | 692 | 692 | - | 692 |
| M. Seale | Share Rights | - | 692 | 692 | - | 692 |
| **Executive Directors** | | | | | | |
| C. P. Rex | Performance Rights | 660,000 | 191,060 | 220,000 | 631,060 | 220,000 |
| B. R Soden | Performance Rights | 285,000 | 82,503 | 95,000 | 272,503 | 95,000 |
| **Other KMP Executives** | | | | | | |
| D. A. Sims | Performance Rights | 180,000 | 52,107 | 60,000 | 172,107 | 60,000 |
| C. R. McNally | Performance Rights | 180,000 | 52,107 | 60,000 | 172,107 | 60,000 |

**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** | **Audit** | **Risk Management** | **Remuneration** | **Nomination** |
| **Number of Meetings held:** | 11 | 7 | 4 | 5 | 6 |
| Number of Meetings attended: | | | | | |
| M. S. Siddle | 10 | - | - | 4 | 6 |
| P. J. Evans | 11 | 7 | 4 | 5 | - |
| C. P. Rex | 11 | - | 3 | - | - |
| B. R. Soden | 11 | - | 3 | - | - |
| A. J. Clark AM | 11 | 6 | - | - | - |
| I. P. S. Grier AM | 11 | - | 4 | - | - |
| R. H. McGeoch AO | 11 | - | - | 5 | 6 |
| K. C. D. Roxburgh | 11 | 7 | 4 | - | 6 |
| P. Akopiantz | 11 | 7 | - | - | - |
| M. Seale | 10 | - | 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 and Ms Akopiantz |
| Risk Management Committee | Messrs Evans (c), Grier, Rex, Roxburgh, Soden and Ms Seale |
| Remuneration Committee | Messrs McGeoch (c), Evans and Siddle |
| Nomination Committee | Messrs McGeoch (c), Siddle and Roxburgh |

(c) : Designates the chairman of the committee

**AUDITORS' INDEPENDENCE DECLARATION AND MODIFICATION OF AUDITOR ROTATION**

The written Auditors' Independence Declaration in relation to the audit of the financial report has been included at page 41 and forms part of this report.

On 24 June 2014, at the recommendation of the Audit Committee, the Directors granted an extension of the Group's audit partner for a further two years as permitted under the Corporations Act 2001. The initial period of five years expired in June 2014 and the extension is subject to an annual performance assessment by the Chair of the Audit Committee.

The Audit Committee is satisfied that the extension is consistent with maintaining the quality of the audit provided to the Company and would not give rise to a conflict of interest for the reasons set out below:

1. Extending the time period of the Lead Partner only, with the existing Independent Review Partner role providing oversight on audit quality and independence, will both maintain independence and ensure the preservation of knowledge on the engagement.
2. The existing independence and service metrics in place are sufficient to ensure that auditor independence would not be diminished by such an extension.

**INDEMNIFICATION OF AUDITOR**

As part of the Company's terms of engagement with Ernst & Young, the Company has agreed to indemnify Ernst & Young against certain liabilities to third parties arising from their engagement as auditor. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

**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 Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

**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 | $ | 748,723 |
| Other services | $ | 701,807 |

Signed in accordance with a resolution of the Directors.

**M.S. SIDDLE**
**Chairman**

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

Sydney,13 September 2016

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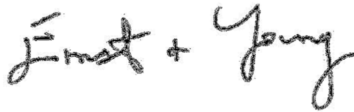
# Auditor's Independence Declaration to the Directors of Ramsay Health Care Limited

As lead auditor for the audit of Ramsay Health Care Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ramsay Health Care Limited and the entities it controlled during the financial year.



Ernst & Young

David Simmonds
Partner
13 September 2016

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

## Report on the financial report

We have audited the accompanying financial report of Ramsay Health Care Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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 the Overview note, 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.



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## 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 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

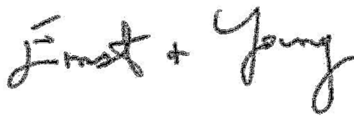
b. the financial report also complies with *International Financial Reporting Standards* as disclosed in the Overview note.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001.*



Ernst & Young

David Simmonds
Partner
Sydney
13 September 2016

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**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 2016 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 the Overview note.

(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 2016.

(e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 21 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

**M.S. SIDDLE**
**Chairman**

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

Sydney, 13 September 2016

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016<br>$000 | 2015<br>$000 |
|---|---|---|---|
| ***Revenue and other income*** | | | |
| Revenue from services | 2 | 8,684,116 | 7,355,489 |
| Interest income | | 7,081 | 5,290 |
| Other income - income from the sale of development assets | | 2,153 | 1,621 |
| Other income - net profit on disposal of non-current assets | | 4,201 | 4,123 |
| **Total revenue and other income** | | **8,697,551** | **7,366,523** |
| | | | |
| Employee benefits costs | 3 | (4,486,757) | (3,787,940) |
| Occupancy costs | 3 | (678,752) | (549,136) |
| Service costs | | (303,720) | (296,822) |
| Medical consumables and supplies | | (2,005,754) | (1,669,491) |
| Depreciation, amortisation and impairment | 3 | (384,074) | (305,941) |
| Cost of goods sold - book value of development assets sold | | (1,026) | (834) |
| **Total expenses, excluding finance costs** | | **(7,860,083)** | **(6,610,164)** |
| Share of profit of joint venture | 14a | 9,966 | 10,098 |
| **Profit before tax and finance costs** | | **847,434** | **766,457** |
| Finance costs | 3 | (138,498) | (126,155) |
| **Profit before income tax** | | **708,936** | **640,302** |
| Income tax | 13 | (197,674) | (221,216) |
| **Net profit for the year** | | **511,262** | **419,086** |
| Attributable to non-controlling interest | | 60,965 | 33,544 |
| **Attributable to owners of the parent** | | **450,297** | **385,542** |
| | | **511,262** | **419,086** |
| **Earnings per share (cents per share)** | | | |
| Basic earnings per share | | | |
| Profit (after CARES dividend) | 5 | 217.6 | 185.0 |
| Diluted earnings per share | | | |
| Profit (after CARES dividend) | 5 | 216.1 | 183.5 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2016

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Net profit for the year** | 511,262 | 419,086 |
| **Items that will not be reclassified to net profit** | | |
| Actuarial gain / (loss) on defined benefit plans | 5,528 | (412) |
| **Items that may be subsequently reclassified to net profit** | | |
| Cash flow hedges | | |
| Loss taken to equity | (54,747) | (5,135) |
| Transferred to Income Statement | 4,957 | 6,869 |
| Net (loss) / gain on bank loan designated as a hedge of a net investment | (20,382) | 15,373 |
| Foreign currency translation | (14,825) | (2,667) |
| Income tax relating to components of other comprehensive income / (expense) | 13,505 | (1,041) |
| **Other comprehensive (expense) / income for the year, net of tax** | **(65,964)** | **12,987** |
| **Total comprehensive income for the year** | **445,298** | **432,073** |
| Attributable to non-controlling interests | 50,264 | 35,486 |
| **Attributable to the owners of the parent** | **395,034** | **396,587** |
| | **445,298** | **432,073** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7a | 328,989 | 315,861 |
| Trade and other receivables | 8a | 1,141,607 | 996,234 |
| Inventories | 8b | 205,012 | 191,745 |
| Income tax receivable | 13 | 21,521 | 26,180 |
| Prepayments | | 112,041 | 99,620 |
| Other current assets | | 11,396 | 12,318 |
| | | 1,820,566 | 1,641,958 |
| Assets classified as held for sale | | 22,692 | 11,818 |
| **Total current assets** | | **1,843,258** | **1,653,776** |
| **Non-current assets** | | | |
| Other financial assets | | 31,516 | 26,596 |
| Investments in joint venture | 14a | 210,765 | 211,573 |
| Property, plant and equipment | 10 | 3,860,184 | 3,591,806 |
| Intangible assets | 11 | 2,059,957 | 1,883,049 |
| Deferred tax asset | 13 | 199,726 | 204,977 |
| Non-current prepayments | | 12,068 | 12,426 |
| Derivative financial instruments | 7c | - | 5,933 |
| Non-current receivables | 8a | 47,050 | 31,549 |
| **Total non-current assets** | | **6,421,266** | **5,967,909** |
| **TOTAL ASSETS** | | **8,264,524** | **7,621,685** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8c | 1,726,832 | 1,610,417 |
| Interest-bearing loans and borrowings | 7b | 117,927 | 425,198 |
| Derivative financial instruments | 7c | 18,808 | 10,778 |
| Provisions | 14b | 80,612 | 82,218 |
| Income tax payable | 13 | 49,560 | 42,021 |
| **Total current liabilities** | | **1,993,739** | **2,170,632** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 7b | 3,326,821 | 2,724,071 |
| Provisions | 14b | 476,327 | 492,255 |
| Defined employee benefit obligation | 14d | 70,626 | 67,715 |
| Derivative financial instruments | 7c | 44,710 | 9,442 |
| Other creditors | | 10,110 | 9,572 |
| Deferred tax liability | 13 | 296,130 | 310,204 |
| **Total non-current liabilities** | | **4,224,724** | **3,613,259** |
| **TOTAL LIABILITIES** | | **6,218,463** | **5,783,891** |
| **NET ASSETS** | | **2,046,061** | **1,837,794** |
| **EQUITY** | | | |
| Issued capital | 6 | 713,523 | 713,523 |
| Treasury shares | 6 | (88,844) | (80,190) |
| Convertible Adjustable Rate Equity Securities (CARES) | 6 | 252,165 | 252,165 |
| Other reserves | | (30,304) | 23,926 |
| Retained earnings | | 1,176,349 | 955,114 |
| **Parent interests** | | **2,022,889** | **1,864,538** |
| **Non-controlling interests** | | **23,172** | **(26,744)** |
| **TOTAL EQUITY** | | **2,046,061** | **1,837,794** |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2016**

| | Issued Capital (Note 6.1) $000 | Treasury Shares (Note 6.2) $000 | CARES (Note 6.3) $000 | Other Reserves $000 | Retained Earnings $000 | Non-controlling interests $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **As at 1 July 2014** | **713,523** | **(50,330)** | **252,165** | **20,545** | **766,656** | **41,085** | **1,743,644** |
| Total Comprehensive Income | - | - | - | 10,342 | 386,245 | 35,486 | **432,073** |
| Dividends paid | - | - | - | - | (197,787) | (106,099) | **(303,886)** |
| Shares purchased for executive performance share plan | - | (53,338) | - | - | - | - | **(53,338)** |
| Treasury shares vesting to employees | - | 23,478 | - | (23,478) | - | - | **-** |
| Share based payment expense for employees | - | - | - | 35,485 | - | - | **35,485** |
| Acquisition of subsidiary/non-controlling interest | - | - | - | (18,968) | - | 2,784 | **(16,184)** |
| **As at 30 June 2015** | **713,523** | **(80,190)** | **252,165** | **23,926** | **955,114** | **(26,744)** | **1,837,794** |
| | | | | | | | |
| **As at 1 July 2015** | **713,523** | **(80,190)** | **252,165** | **23,926** | **955,114** | **(26,744)** | **1,837,794** |
| Total Comprehensive Income | - | - | - | (56,395) | 451,429 | 50,264 | **445,298** |
| Dividends paid | - | - | - | - | (230,194) | (4,503) | **(234,697)** |
| Shares purchased for executive performance share plan | - | (45,837) | - | - | - | - | **(45,837)** |
| Treasury shares vesting to employees | - | 37,183 | - | (37,183) | - | - | **-** |
| Share based payment expense for employees | - | - | - | 39,348 | - | - | **39,348** |
| Acquisition of subsidiary/non-controlling interest | - | - | - | - | - | 4,155 | **4,155** |
| **As at 30 June 2016** | **713,523** | **(88,844)** | **252,165** | **(30,304)** | **1,176,349** | **23,172** | **2,046,061** |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016<br>$000 | 2015<br>$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 8,575,325 | 7,280,444 |
| Payments to suppliers and employees | | (7,341,415) | (6,154,266) |
| Income tax paid | | (197,871) | (204,028) |
| Finance costs | | (131,070) | (175,915) |
| **Net cash flows from operating activities** | 7a | **904,969** | **746,235** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (510,264) | (486,172) |
| Proceeds from sale of property, plant and equipment | | 2,249 | 27,157 |
| Proceeds from sale of other assets | | 2,488 | - |
| Interest received | | 7,081 | 5,290 |
| Acquisition of business, net of cash received | 9 | (213,718) | (624,606) |
| Acquisition of non-controlling interest | | - | (21,862) |
| Deferred payment on investment in joint venture | 7a | (23,298) | (14,876) |
| **Net cash flows used in investing activities** | | **(735,462)** | **(1,115,069)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to ordinary shareholders of the parent | | (230,194) | (197,787) |
| Dividends paid to outside equity interest | | (4,503) | (106,099) |
| Hospital infrastructure payments to be reimbursed | | (9,431) | - |
| Repayment of principal to bondholders | | (4,012) | (3,709) |
| Repayment of finance lease - principal | | (67,278) | (17,732) |
| Purchase of ordinary shares | | (45,837) | (53,338) |
| Proceeds from borrowings | | 866,710 | 1,360,473 |
| Repayment of borrowings | | (565,571) | (468,850) |
| Repayment of outside equity interest | | (96,732) | - |
| **Net cash flows (used in) / from financing activities** | | **(156,848)** | **512,958** |
| Net increase in cash and cash equivalents | | 12,659 | 144,124 |
| Net foreign exchange differences on cash held | | 469 | 3,852 |
| Cash and cash equivalents at beginning of year | | 315,861 | 167,885 |
| **Cash and cash equivalents at end of year** | 7a | **328,989** | **315,861** |

## OVERVIEW

The financial report of Ramsay Health Care Limitied ('The Company') for the year ended 30 June 2016 was authorised for issue on 13 September 2016 in accordance with a resolution of the Directors. Ramsay Health Care Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

### (a) Basis of preparation

This general purpose financial report:
- has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standard Board (AASB) and the Corporations Act 2001;
- has been prepared on the basis of historical cost, except for derivative financial instruments, listed investments and the assets and liabilities recognised through business combinations which have been measured at fair value;
- complies with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- is presented in Australian Dollars;
- discloses comparative information on a consistent basis and as used in the annual financial statements for the year ended 30 June 2015;
- presents all values as rounded to the nearest hundred thousand dollars, unless otherwise stated under the option available under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191;
- adopts all new and amended Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or after 1 July 2015, all of which did not have a material impact on the financial statements; and
- does not early adopt any Australian Accounting Standards and Interpretations issued or amended but are not yet effective.

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

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **(i) Reconciliation of net profit attributable to owners of the parent to core profit (segment result)** | | |
| Net profit attributable to owners of the parent | 450,297 | 385,542 |
| Add/(less) non-core items: | | |
| - Non-cash rent expense relating to leased UK hospitals * | 21,871 | 22,168 |
| - Non-cash unfavourable lease contracts expense | 8,183 | - |
| - Amortisation - service concession assets | 3,139 | 2,927 |
| - Net profit on disposal of non-current assets | (4,201) | (3,570) |
| - Income from the sale of development assets | (2,153) | (1,621) |
| - Book value of development assets sold | 1,026 | 834 |
| - Acquisition, disposal, and development costs | 19,114 | 21,984 |
| - Impairment of non-current assets | 9,731 | - |
| Income tax on non-core items | (28,437) | (11,453) |
| Non-controlling interest in non-core items net of tax | 2,855 | (4,722) |
| | 31,128 | 26,547 |
| Core profit (segment result) after tax | 481,425 | 412,089 |
| **Core earnings per share** | | |
| Core profit after tax (above) | 481,425 | 412,089 |
| Less: CARES Dividend | (12,958) | (13,734) |
| Core profit after tax used to calculate core earnings per share | 468,467 | 398,355 |
| Weighted average number of ordinary shares adjusted for effect of dilution | 202,415,611 | 202,598,503 |
| Diluted core earnings per share | 231.4c | 196.6c |
| Weighted average number of ordinary shares | 200,948,992 | 200,985,638 |
| Basis core earnings per share | 233.1c | 198.2c |

* Accounted for in accordance with *AASB 117 Leases* and *UIG 115 Operating Leases - Incentives*

### (ii) Reconciliation of statutory Income Statement to core (segment) Income Statement

The following table reconciles the statutory consolidated Income Statement to the core (segment) consolidated Income Statement. The non-core items listed at (a)(i) above are excluded from the relevant line items in the consolidated statutory Income Statement to ascertain the core (segment) consolidated Income Statement.

**OVERVIEW (CONTINUED)**

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

**(ii) Reconciliation of statutory Income Statement to core (segment) Income Statement (continued)**

| | Statutory Consolidated Income Statement | Non-core items as listed at (a)(i) | Core (segment) Consolidated Income Statement |
|---|---|---|---|
| ***For the year ended 30 June 2016*** | | | |
| Revenue from services | 8,684,116 | - | 8,684,116 |
| Interest income | 7,081 | - | 7,081 |
| Other income - income from the sale of development assets | 2,153 | (2,153) | - |
| Other income - net profit on disposal of non-current assets | 4,201 | (4,201) | - |
| **Total revenue and other income** | **8,697,551** | **(6,354)** | **8,691,197** |
| Employee benefits costs | (4,486,757) | - | (4,486,757) |
| Occupancy costs | (678,752) | 30,054 | (648,698) |
| Service costs | (303,720) | 19,114 | (284,606) |
| Medical consumables and supplies | (2,005,754) | - | (2,005,754) |
| Depreciation, amortisation and impairment | (384,074) | 12,870 | (371,204) |
| Cost of goods sold - book value development assets sold | (1,026) | 1,026 | - |
| **Total expenses, excluding finance costs** | **(7,860,083)** | **63,064** | **(7,797,019)** |
| Share of profit of joint venture | 9,966 | - | 9,966 |
| **Profit before tax and finance costs** | **847,434** | **56,710** | **904,144** |
| Finance costs | (138,498) | - | (138,498) |
| **Profit before income tax** | **708,936** | **56,710** | **765,646** |
| Income tax | (197,674) | (28,437) | (226,111) |
| **Net profit for the year** | **511,262** | **28,273** | **539,535** |
| Attributable to non-controlling interest | 60,965 | (2,855) | 58,110 |
| **Attributable to owners of the parent** | **450,297** | **31,128** | **481,425** |
| | **511,262** | **28,273** | **539,535** |
| ***For the year ended 30 June 2015*** | | | |
| Revenue from services | 7,355,489 | - | 7,355,489 |
| Interest income | 5,290 | - | 5,290 |
| Other income - income from the sale of development assets | 1,621 | (1,621) | - |
| Other income - net profit on disposal of non-current assets | 4,123 | (3,570) | 553 |
| **Total revenue and other income** | **7,366,523** | **(5,191)** | **7,361,332** |
| Employee benefits costs | (3,787,940) | - | (3,787,940) |
| Occupancy costs | (549,136) | 22,168 | (526,968) |
| Service costs | (296,822) | 21,984 | (274,838) |
| Medical consumables and supplies | (1,669,491) | - | (1,669,491) |
| Depreciation, amortisation and impairment | (305,941) | 2,927 | (303,014) |
| Cost of goods sold - book value development assets sold | (834) | 834 | - |
| **Total expenses, excluding finance costs** | **(6,610,164)** | **47,913** | **(6,562,251)** |
| Share of profit of joint venture | 10,098 | - | 10,098 |
| **Profit before tax and finance costs** | **766,457** | **42,722** | **809,179** |
| Finance costs | (126,155) | - | (126,155) |
| **Profit before income tax** | **640,302** | **42,722** | **683,024** |
| Income tax | (221,216) | (11,453) | (232,669) |
| **Net profit for the year** | **419,086** | **31,269** | **450,355** |
| Attributable to non-controlling interest | 33,544 | 4,722 | 38,266 |
| **Attributable to owners of the parent** | **385,542** | **26,547** | **412,089** |
| | **419,086** | **31,269** | **450,355** |

## OVERVIEW (CONTINUED)

### (b) Notes to the Financial Statements

In preparing the 2016 financial report, Ramsay has made changes to the presentation and layout of the notes to the financial statements. These changes have been made to enhance the disclosure of information required to understand the financial statements. The notes have been grouped into sections that are based on materiality and relevance to the financial position and performance of the Group. Where necessary, additional information has been provided to assist with understanding the Group's results.

### (c) New Accounting Standards and Interpretations

*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 9** | *Financial Instruments* | AASB 9 (December 2014) is a new standard **which replaces AASB 139.** This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and **includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.**<br>**AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.**<br>**Classification and measurement**<br>**AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.**<br>The main changes are described below.<br>***Financial assets***<br>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.<br>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.<br>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.<br>***Financial liabilities***<br>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:<br>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>► The remaining change is presented in profit or loss<br>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value.<br>This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. | 1 January 2018 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2018 |

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

## OVERVIEW (CONTINUED)

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

| Reference | Title | Summary | Application date of standard* | Impact on Group Financial Report | Application date for Group* |
|---|---|---|---|---|---|
| **AASB 9 (cont'd)** | *Financial Instruments (cont'd)* | These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.<br>***Impairment***<br>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.<br>***Hedge accounting***<br>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.<br>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.<br>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.<br>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after **1 January 2015**. | | | |
| **AASB 2014-3** | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11] | AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:<br>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11<br>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations<br>This Standard also makes an editorial correction to AASB 11. | 1 January 2016 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2016 |

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

**OVERVIEW (CONTINUED)**

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

| Reference | Title | Summary | Application date of standard* | Impact on Group Financial Report | Application date for Group* |
|---|---|---|---|---|---|
| **AASB 2014-4** | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) | **AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets*** both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.<br>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.<br>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. | 1 January 2016 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2016 |
| **AASB 15** | Revenue from Contracts with Customers | AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (**Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate,* Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*)**. AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).<br>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).**The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:**<br>**(a) Step 1: Identify the contract(s) with a customer**<br>**(b) Step 2: Identify the performance obligations in the contract**<br>**(c) Step 3: Determine the transaction price**<br>**(d) Step 4: Allocate the transaction price to the performance obligations in the contract**<br>**(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation**<br>AASB 2015-8 amended the **AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.**<br>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.<br>AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15. | 1 January 2018 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2018 |

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

## OVERVIEW (CONTINUED)

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

| Reference | Title | Summary | Application date of standard* | Impact on Group Financial Report | Application date for Group* |
|---|---|---|---|---|---|
| **AASB 2014-9** | Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements | AASB 2014-9 amends AASB 127 *Separate Financial Statements*, and consequentially amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures*, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.<br><br>AASB 2014-9 also makes editorial corrections to AASB 127.<br><br>AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted. | 1 January 2016 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2016 |
| **AASB 2014-10** | Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | AASB 2014-10 amends AASB 10 C*onsolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:<br><br>(a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)<br><br>(b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.<br><br>AASB 2014-10 also makes an editorial correction to AASB 10.<br><br>AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. | 1 January 2018 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2018 |
| **AASB 2015-1** | Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle | The subjects of the principal amendments to the Standards are set out below:<br><br>AASB 5 *Non-current Assets Held for Sale and Discontinued Operations:*<br><br>• Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.<br><br>AASB 7 *Financial Instruments: Disclosures:*<br><br>• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.<br><br>• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 *Interim Financial Reporting* when its inclusion would be required by the requirements of AASB 134. | 1 January 2016 | The adoption of these new amendments will not have any material impact on the financial report. | 1 July 2016 |

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

**OVERVIEW (CONTINUED)**

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

| Reference | Title | Summary | Application date of standard* | Impact on Group Financial Report | Application date for Group* |
|---|---|---|---|---|---|
| **AASB 2015-1 (cont'd)** | Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle (cont'd) | AASB 119 *Employee Benefits*:<br>• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.<br>AASB 134 *Interim Financial Reporting:*<br>Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information. | | | |
| **AASB 2015-2** | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. | 1 January 2016 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2016 |
| **AASB 2015-5** | Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception | This makes amendments to AASB 10, AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 arising from the IASB's narrow scope amendments associated with Investment Entities. | 1 January 2016 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2016 |
| **AASB 16** | Leases | The key features of AASB 16 are as follows:<br>**Lessee accounting**<br>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.<br>• A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.<br>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.<br>• AASB 16 contains disclosure requirements for lessees.<br>**Lessor accounting**<br>• AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.<br>• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. | 1 January 2019 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2019 |

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

**OVERVIEW (CONTINUED)**

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

| Reference | Title | Summary | Application date of standard* | Impact on Group Financial Report | Application date for Group* |
|---|---|---|---|---|---|
| **AASB 16 (cont'd)** | Leases (cont'd) | AASB 16 supersedes:<br>(a) AASB 117 Leases<br>(b) Interpretation 4 Determining whether an Arrangement contains a Lease<br>(c) SIC-15 Operating Leases—Incentives<br>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease<br><br>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16. | | | |
| **2016-1** | Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] | This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. | 1 January 2017 | The adoption of this new amendment will not have any material impact on the financial report. | 1 July 2017 |
| **2016-2** | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2017 |
| **IFRS 2 (Amendments)** | Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2] | This standard amends to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:<br>► The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments<br>► Share-based payment transactions with a net settlement feature for withholding tax obligations<br>► A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled | 1 January 2018 | The group is currently evaluating the impact of the new accounting standard. | 1 July 2018 |

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

**(d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Ramsay Health Care Limited and its subsidiaries ('**the Group**') as at and for the period ended 30 June each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**OVERVIEW (CONTINUED)**

**(d) Basis of consolidation (continued)**

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

In applying the Group's accounting policies, management has made a number of judgements, estimates and assumptions concerning the future. The key judgements, estimates and assumptions that are material to the financial statements relate to the following areas:

- Recognition of land and buildings at fair value in a business combination, refer note 9;
- Estimation of useful lives of property, plant and equipment and intangible assets, refer note 10 and note 11;
- Impairment testing of goodwill, refer note 12;
- Income tax losses and deferred tax, refer note 13;
- Medical malpractice provision, refer note 14b;
- Defined employee benefit obligations, refer note 14d; and
- Share based payment transactions, refer note 16.

**(f) Current versus non-current classification**

The Group presents assets and liabilities in the Consolidated Statement of Financial Position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Expected to be realised within twelve months after the reporting period
- Held primarily for trading, or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is due to be settled within twelve months after the reporting period
- Held primarily for trading, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**(g) 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: British pounds for Ramsay Health Care (UK) Limited; and Euro for Ramsay Générale de 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.

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.

**OVERVIEW (CONTINUED)**

**(h) Financial instruments – initial recognition and subsequent measurement**

*(i) Financial assets*

*Initial recognition and measurement*
Financial assets within the scope of AASB 139 are classified as receivables. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification as described below:

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurements, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of their EIR. The EIR amortisation is included in finance income in the Income Statement. The losses arising from impairment are recognised in the Income Statement in finance costs for loans and in Service Costs for receivables.

*Derecognition*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and maximum amount of consideration that the Group could be required to repay.

*(ii) Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(iii) Financial liabilities*

*Initial recognition and measurement*
Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

*Derecognition*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

**OVERVIEW (CONTINUED)**

**(h) Financial instruments - initial recognition and subsequent measurement (continued)**

*(iv) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The Group has not offset any financial assets and liabilities for the years ended 30 June 2015 and 2016.

## I. RESULTS FOR THE YEAR

### 1. SEGMENT INFORMATION

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

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

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

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

*Accounting policies and inter-segment transactions*
Transfer prices between operating segments are on an arm's 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 throughout the accounts and in prior periods.

| | Asia Pacific<br>$000 | UK<br>$000 | France<br>$000 | Total<br>$000 |
|---|---|---|---|---|
| ***Year ended 30 June 2016*** | | | | |
| **Revenue** | | | | |
| Revenue from services | 4,413,623 | 873,839 | 3,396,654 | 8,684,116 |
| Total revenue before intersegment revenue | 4,413,623 | 873,839 | 3,396,654 | 8,684,116 |
| Intersegment revenue | 6,156 | - | - | 6,156 |
| Total segment revenue | 4,419,779 | 873,839 | 3,396,654 | 8,690,272 |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** [1] | **719,548** | **130,262** | **419,144** | **1,268,954** |
| Depreciation and amortisation | (137,143) | (39,399) | (194,662) | (371,204) |
| Loss on disposal of non-current assets | (687) | - | - | (687) |
| **Earnings before interest and tax (EBIT)** [2] | **581,718** | **90,863** | **224,482** | **897,063** |
| Interest | | | | (131,417) |
| Income tax expense | | | | (226,111) |
| **Segment (core) net profit after tax** [3] | | | | **539,535** |
| Attributable to non-controlling interest | | | | (58,110) |
| **Segment (core) net profit after tax, attributable to owners of the parent** [4] | | | | **481,425** |
| Non-core items net of tax | | | | (31,128) |
| **Net profit attributable to owners of the parent** | | | | **450,297** |

[1] "EBITDA" is a non-statutory profit measure and represents profit before interest, tax, depreciation, amortisation and non-core items.
[2] "EBIT" is a non-statutory profit measure and represents profit before interest, tax and non-core items.
[3] "Segment (core) net profit after tax" is a non-statutory profit measure and represents profit before non-core items.
[4] "Segment (core) net profit after tax attributable to owners of the parents" is a non-statutory profit measure and represents profit before non-core items that are attributable to the owners of the parent

## I. RESULTS FOR THE YEAR (CONTINUED)

### 1. SEGMENT INFORMATION (CONTINUED)

| | Asia Pacific $000 | UK $000 | France $000 | Total $000 |
|---|---|---|---|---|
| ***Year ended 30 June 2015*** | | | | |
| **Revenue** | | | | |
| Revenue from services | 4,055,508 | 781,962 | 2,518,019 | 7,355,489 |
| Total revenue before intersegment revenue | 4,055,508 | 781,962 | 2,518,019 | 7,355,489 |
| Intersegment revenue | 5,217 | - | - | 5,217 |
| Total segment revenue | 4,060,725 | 781,962 | 2,518,019 | 7,360,706 |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** [1] | **651,497** | **111,113** | **343,740** | **1,106,350** |
| Depreciation and amortisation | (130,671) | (35,508) | (136,835) | (303,014) |
| Profit on disposal of non-current assets | 553 | - | - | 553 |
| **Earnings before interest and tax (EBIT)** [2] | **521,379** | **75,605** | **206,905** | **803,889** |
| Interest | | | | (120,865) |
| Income tax expense | | | | (232,669) |
| **Segment (core) net profit after tax** [3] | | | | **450,355** |
| Attributable to non-controlling interest | | | | (38,266) |
| **Segment (core) net profit after tax, attributable to owners of the parent** [4] | | | | **412,089** |
| Non-core items net of tax | | | | (26,547) |
| **Net profit attributable to owners of the parent** | | | | **385,542** |

[1] "EBITDA" is a non-statutory profit measure and represents profit before interest, tax, depreciation, amortisation and non-core items.
[2] "EBIT" is a non-statutory profit measure and represents profit before interest, tax and non-core items.
[3] "Segment (core) net profit after tax" is a non-statutory profit measure and represents profit before non-core items.
[4] "Segment (core) net profit after tax attributable to owners of the parents" is a non-statutory profit measure and represents profit before non-core items that are attributable to the owners of the parent

| | Asia Pacific $000 | UK $000 | France $000 | Adjustments & Eliminations $000 | Total $000 |
|---|---|---|---|---|---|
| ***As at 30 June 2016*** | | | | | |
| **Assets & liabilities** | | | | | |
| Segment assets | 4,870,350 | 1,475,076 | 3,300,667 | (1,381,569) | 8,264,524 |
| Segment liabilities | (2,436,835) | (733,101) | (3,048,527) | - | (6,218,463) |
| ***As at 30 June 2015*** | | | | | |
| **Assets & liabilities** | | | | | |
| Segment assets | 4,586,448 | 1,587,173 | 2,945,334 | (1,497,270) | 7,621,685 |
| Segment liabilities | (2,304,715) | (798,144) | (2,725,721) | 44,689 | (5,783,891) |

2015 comparatives have been updated to reflect finalisation of Générale de Santé acquisition accounting.

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **(i) Segment revenue reconciliation to Income Statement** | | |
| Total segment revenue | 8,690,272 | 7,360,706 |
| Inter segment sales elimination | (6,156) | (5,217) |
| Interest income | 7,081 | 5,290 |
| Other income - income from the sale of development assets | 2,153 | 1,621 |
| Other income - profit on disposal of non-current assets | 4,201 | 4,123 |
| Total revenue and other income | 8,697,551 | 7,366,523 |

**(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 Earnings before interest and tax (EBIT). A segment's core net profit after tax excludes income and expenses from non-core items. Refer to the Overview note for the reconciliation of net profit attributable to owners of the parent to core profit (segment result) after tax.

## I. RESULTS FOR THE YEAR (CONTINUED)

### 2. REVENUE

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Revenue from patients | 8,566,598 | 7,246,177 |
| Rental income | 36,493 | 35,972 |
| Income from ancillary services | 81,025 | 73,340 |
| **Revenue from services** | **8,684,116** | **7,355,489** |

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 (EIR), 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.

*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 risks and rewards of ownership are transferred.

### 3. EXPENSES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **(a) Depreciation** | | |
| Depreciation - Plant and equipment | 238,788 | 203,730 |
| Depreciation - Buildings | 112,535 | 85,769 |
| Total depreciation | 351,323 | 289,499 |
| **(b) Amortisation** | | |
| Service concession assets | 6,533 | 6,310 |
| Development cost | 16,487 | 10,132 |
| Total amortisation | 23,020 | 16,442 |
| **(c) Impairment** | | |
| Impairment - Property, plant and equipment | 2,499 | - |
| Impairment – Land and buildings | 7,232 | - |
| Total impairment | 9,731 | - |
| **(d) Operating lease costs and incentive** | | |
| Lease costs included in occupancy costs expenses | 430,488 | 327,887 |

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* | (21,871) | (22,168) |

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 2016 was lower than the rent expensed by $21,871,000 (2015: $22,168,000). The ongoing effect of the difference between cash rent paid and rent expense will be separately identified at each period.

## I. RESULTS FOR THE YEAR (CONTINUED)

### 3. EXPENSES (CONTINUED)

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **(e) Employee benefits cost** | | |
| Wages and salaries | 3,676,679 | 3,149,711 |
| Workers' compensation | 23,168 | 16,346 |
| Superannuation | 155,036 | 142,578 |
| Termination benefits | 8,699 | 9,844 |
| Social charges and contributions on wages and salaries | 461,051 | 339,305 |
| Other employment | 125,882 | 99,419 |
| Share-based payments (expenses arising from transactions accounted for as equity-settled share-based payment transactions) | 36,242 | 30,737 |
| | 4,486,757 | 3,787,940 |
| **(f) Finance costs** | | |
| Interest expense | 129,652 | 121,435 |
| Finance charges - Lease liability | 9,686 | 4,821 |
| | 139,338 | 126,256 |
| Finance cost - unwinding of discount and effect of changes in discount rates on deferred consideration | 3,206 | 3,848 |
| Finance costs capitalised | (4,046) | (3,949) |
| | 138,498 | 126,155 |

**(g) Recognition and Measurement**
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.

### 4. DIVIDENDS

| | Parent | |
|---|---|---|
| | 2016 $000 | 2015 $000 |
| **(a) Dividend on ordinary shares paid during the year:** | | |
| *(i) Interim dividend paid* | | |
| Franked dividends – ordinary (47.0 cents per share) (2015: 40.5 cents per share) | 94,977 | 81,842 |
| *(ii) Previous year final dividend paid* | | |
| Franked dividends – ordinary (60.5 cents per share) (2015: 51.0 cents per share) | 122,259 | 103,061 |
| | 217,236 | 184,903 |
| **(b) Dividend proposed and not recognised as a liability:** | | |
| *Current year final dividend proposed* | | |
| Franked dividends – ordinary (72.0 cents per share) (2015: 60.5 cents per share) | 145,499 | 122,259 |
| **(c) Dividends declared and paid during the year on CARES:** | | |
| *Current year interim and previous year final dividend paid* | | |
| Franked dividends - CARES | 12,958 | 13,734 |
| **(d) Dividends proposed and not recognised as a liability on CARES:** | | |
| *Final dividend proposed* | | |
| Franked dividends - CARES | 6,670 | 6,524 |

## I. RESULTS FOR THE YEAR (CONTINUED)

### 4. DIVIDENDS (CONTINUED)

| | Parent | |
|---|---|---|
| | 2016 $000 | 2015 $000 |
| **(e) Franking credit balance** | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| - franking account balance as at the end of the financial year at 30% (2015: 30%) | 450,524 | 385,541 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year * | 14,302 | 13,163 |
| | 464,826 | 398,704 |
| 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 | (65,215) | (55,193) |
| | 399,611 | 343,511 |

* 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% (2015: 30%). $152,169,000 (2015: $128,784,000) of the proposed dividends will be franked at the rate of 30% (2015: 30%).

### 5. 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.

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Net profit for the year attributable to the owners of the parent | 450,297 | 385,542 |
| Less: dividend paid on Convertible Adjustable Rate Equity Securities (CARES) | (12,958) | (13,734) |
| Profit used in calculating basic and diluted (after CARES dividend) earnings per share | 437,339 | 371,808 |

| | 2016 Number of Shares | 2015 Number of Shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 200,948,992 | 200,985,638 |
| Effect of dilution – share rights not yet vested (a) | 1,466,619 | 1,612,865 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 202,415,611 | 202,598,503 |

(a) The share rights granted to Executives but not yet vested, have the potential to dilute basic earnings per share.

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.

| | 2016 Cents per Share | 2015 Cents per Share |
|---|---|---|
| Earnings per share | | |
| - basic (after CARES dividend) for the year | 217.6 | 185.0 |
| - diluted (after CARES dividend) for the year | 216.1 | 183.5 |

## II. CAPITAL – FINANCING

### HOW THE GROUP MANAGES ITS CAPITAL – FINANCING

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.

The Group's capital is comprised of equity plus net debt. Net debt is calculated as interest bearing liabilities plus derivatives relating to debt, less cash assets.

During 2016, dividends of $230,194,000 (2015: $198,637,000) were paid. For the year ended 30 June 2016 fully franked ordinary dividends of 119.0c (2015: 101.0c) per share were declared (Interim dividend of 47.0c, Final dividend of 72.0c). These dividends represented a payout ratio of approximately 51% of Core Earnings per Share of 231.4c. Management's target for dividends for 2017 - 2020, subject to ongoing cash needs of the business, are increased in line with the growth in Core Earnings per Share and management intends to maintain a dividend payout ratio of approximately 50% of Core Earnings per Share, subject to future funding requirements.

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 2.5 times for the year ended 30 June 2016 (2015: 2.6 times).

The Group has committed senior debt funding until July 2018 and May 2020 (please refer to Note 7d 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.*

Details of Capital – Financing are as follows:

| | Note | 2016<br>$000 | 2015<br>$000 |
|---|---|---|---|
| Equity | 6 | 2,046,061 | 1,837,794 |
| Net Debt | 7 | 3,179,277 | 2,847,695 |
| | | 5,225,338 | 4,685,489 |

### 6. EQUITY

| | Note | 2016<br>$000 | 2015<br>$000 |
|---|---|---|---|
| Share capital | 6.1 | 713,523 | 713,523 |
| Treasury shares | 6.2 | (88,844) | (80,190) |
| Convertible Adjustable Rate Equity Securities (CARES) | 6.3 | 252,165 | 252,165 |
| Other reserves | | (30,304) | 23,926 |
| Retained earnings | | 1,176,349 | 955,114 |
| Non-controlling interests | | 23,172 | (26,744) |
| | | 2,046,061 | 1,837,794 |

#### 6.1 Ordinary Shares

***(a) Issued and paid up capital***

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| 202,081,252 ordinary shares fully paid<br>(30 June 2015: 202,081,252 ordinary shares fully paid) | 713,523 | 713,523 |

**II. CAPITAL – FINANCING (CONTINUED)**

**6. EQUITY (CONTINUED)**

**6.1 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.

***(c) Recognition and Measurement***

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.

**6.2 Treasury Shares**

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| 1,470,702 ordinary shares<br>(30 June 2015: 1,534,880) | 88,844 | 80,190 |

*Nature & Purpose*
Treasury shares are shares in the Group held by the Employee Share Plans and are deducted from equity.

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

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| ***(a) Issued & paid up capital*** | | |
| 2,600,000 CARES shares fully paid<br>(30 June 2015: 2,600,000 CARES shares fully paid) | 252,165 | 252,165 |

## II. CAPITAL – FINANCING (CONTINUED)

### 6. EQUITY (CONTINUED)

#### 6.3 Convertible Adjustable Rate Equity Securities (CARES) (continued)

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

### 7. NET DEBT

| | Note | 2016<br>$000 | 2015<br>$000 |
|---|---|---|---|
| Cash assets | 7a | 328,989 | 315,861 |
| Interest bearing liabilities - current | 7b | (117,927) | (425,198) |
| Interest bearing liabilities - non-current | 7b | (3,326,821) | (2,724,071) |
| Derivative net assets / (liabilities) - debt related | 7c | (63,518) | (14,287) |
| | | (3,179,277) | (2,847,695) |

## II. CAPITAL – FINANCING (CONTINUED)

### 7a. CASH AND CASH EQUIVALENTS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Cash at bank and on hand | 328,989 | 241,842 |
| Short term deposits | - | 74,019 |
| Total cash and cash equivalents | 328,989 | 315,861 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**Recognition and Measurement**
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.

**Reconciliation to Statement of cash flows**

| | 2016 $000 | 2015 $000 |
|---|---|---|
| For the purposes of the Statement of cash flows, cash and cash equivalents comprise the following at 30 June | | |
| Cash at bank and on hand | 328,989 | 315,861 |

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Net profit after tax for the year | 511,262 | 419,086 |
| **Adjustments for:** | | |
| Share of profit of joint venture | (9,966) | (10,098) |
| Depreciation, amortisation and impairment | 384,074 | 305,941 |
| Interest received | (7,081) | (5,290) |
| Share based payments expense | 36,242 | 30,737 |
| Net gain on disposal of non-current assets | (4,641) | (4,910) |
| **Changes in assets & liabilities** | | |
| Deferred tax | (5,541) | (10,724) |
| Receivables | (108,791) | (75,045) |
| Other assets | (3,878) | 11,177 |
| Creditors and accruals | 127,960 | 57 |
| Provisions | (8,832) | 61,921 |
| Inventory | (11,183) | (10,080) |
| Tax provisions | 5,344 | 33,463 |
| Net cash from operating activities | 904,969 | 746,235 |

**Disclosure of financing facilities**
Refer to Note 7d.

**Joint Venture**

On 1 July 2013, Ramsay acquired a 50% equity ownership in a joint venture with Sime Darby Berhad (a Malaysian listed company) through the contribution of our Indonesian assets and cash payments to Sime Darby Berhad over 3 years. On 1 July 2015, $23 million (1 July 2014: $15 million) deferred payment was paid to Sime Darby Berhad. As at 30 June 2016, $30 million deferred payment remained and was payable on 1 July 2016.

**Acquisition of Non-Controlling Interest - 2015**

| | $000 |
|---|---|
| Cash payment in relation to subsequent purchase of non-controlling interest in Générale de Santé SA | 16,049 |
| Cash payment in relation to purchase of non-controlling interest in other entity | 3,150 |
| Total cash payments for acquisitions of non-controlling interests | 19,199 |

**II. CAPITAL – FINANCING (CONTINUED)**

**7b. INTEREST BEARING LOANS AND BORROWINGS**

| | | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Current** | | | |
| Secured liabilities: | | | |
| - Loans - bondholders | (i) | 4,361 | 4,019 |
| - Lease liabilities | (ii) | 63,373 | 66,625 |
| - Bank loan | (iii) | 20,133 | 71,176 |
| - Loan – subordinated bonds | (iv) | - | 41,529 |
| Unsecured liabilities: | | | |
| - Deferred consideration | (v) | 30,060 | 23,263 |
| - Other loan | (vi) | - | 55,204 |
| - Bank loan | (iii) | - | 163,382 |
| | | 117,927 | 425,198 |
| **Non-current** | | | |
| Secured liabilities: | | | |
| - Loans – bondholders | (i) | 4,897 | 9,251 |
| - Lease liabilities | (ii) | 196,114 | 220,446 |
| - Bank loan | (iii) | 1,461,332 | 959,920 |
| Unsecured liabilities: | | | |
| - Deferred consideration | (v) | - | 28,301 |
| - Bank loan | (iii) | 1,664,478 | 1,506,153 |
| | | 3,326,821 | 2,724,071 |
| Total | | 3,444,748 | 3,149,269 |

(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. Further information is set out in Note 17.
(iii) Further information on bank loans is set out in Note 7d.
(iv) Loans - subordinated bonds. Further information is set out in Note 7d.
(v) Deferred consideration. These are deferred amounts payable to Sime Darby Berhad for Ramsay's 50% equity interest in the Ramsay Sime Darby Health joint venture. Further information is set out in Note 7a.
(vi) Other loan. This was a loan received from the Ramsay Santé outside equity interest to fund their share of the Medipsy acquisition.

**Fair values**

Interest bearing loans and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the counterparties and the other risk characteristics associated with the underlying debts.

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 1.845% to 1.96% (2015: 2.04% to 2.15%) for Australia, 0.512% to 0.558% (2015: 0.508% to 0.579%) for UK and -0.364% to -0.286% (2015: -0.064% to -0.014%) for France respectively.

The fair value of the interest bearing loans and borrowings was estimated using the level 2 method valuation technique in which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable. Set out in the table below is a comparison by carrying amounts and fair value of the Group's Interest bearing loans and borrowings.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying Amount $000 | Fair Value $000 | Carrying Amount $000 | Fair Value $000 |
| Bank loans | 3,145,943 | 3,205,134 | 2,700,631 | 2,749,791 |
| Lease liabilities | 259,487 | 279,998 | 287,071 | 314,321 |
| Bondholders | 9,258 | 9,732 | 13,270 | 14,330 |
| Subordinated bonds | - | - | 41,529 | 41,602 |
| Deferred consideration | 30,060 | 30,060 | 51,564 | 53,446 |
| Outside equity interest loan | - | - | 51,979 | 52,024 |
| Other loan | - | - | 3,225 | 3,225 |
| | 3,444,748 | 3,524,924 | 3,149,269 | 3,228,739 |

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

## II. CAPITAL – FINANCING (CONTINUED)

### 7b. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

**Interest rate, foreign exchange & liquidity risk**

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in Note 15.

**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:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| *Finance lease* | | |
| Leased assets | 401,403 | 406,282 |
| *Fixed and floating charge* | | |
| Receivables | 7,118 | 11,301 |
| Bank loan | 823,596 | 526,163 |
| Total non-current assets pledged as security | 1,232,117 | 943,746 |

**Defaults & breaches**

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

**Subsequent Measurement**

*Loans and borrowings*
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Income Statement.

### 7c. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Non - current assets** | | |
| Interest rate derivative contracts – cash flow hedges | - | 5,933 |
| **Current liabilities** | | |
| Interest rate derivative contracts – cash flow hedges | (18,808) | (9,663) |
| Forward exchange contracts – cash flow hedges | - | (1,115) |
| | (18,808) | (10,778) |
| **Non - current liabilities** | | |
| Interest rate derivative contracts – cash flow hedges | (44,710) | (9,442) |
| | (44,710) | (9,442) |

**(i) 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 and forward foreign exchange contracts – cash flow hedges*

Interest bearing loans in Australian Dollar of the Group currently bear an average variable interest rate of 1.955% (2015: 2.13%). Interest bearing loans in GBP of the Group currently bear an average variable interest rate of 0.56% (2015: 0.53%). Interest bearing loans in Euro of the Group currently bear an average variable interest rate of -0.297% (2015: 0.00%).

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 78% (2015: 72%) of the principal outstanding.

Foreign exchange forward contracts measured at fair value through Other Comprehensive Income are designated as hedging instruments in cash flow hedges of forecast payment in MYR. The cash flow hedges of the expected future payments were assessed to be highly effective and an unrealised net loss of nil (2015: net loss $781,000) was included in Other Comprehensive Income in respect of these contracts.

## II. CAPITAL – FINANCING (CONTINUED)

### 7c. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss.

**(ii) Interest rate risk**

Information regarding interest rate risk exposure is set out in Note 15.

**(iii) 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.

**(iv) Recognition and Measurement**

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 are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in Other Comprehensive Income.

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 highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; 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.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

## II. CAPITAL – FINANCING (CONTINUED)

### 7c. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

**(iv) Recognition and Measurement (continued)**

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

*(i) Cash flow hedges*
The effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Income Statement as other operating expenses.

The Group uses interest rate swap contracts as hedges of its exposure to fluctuations in interest rates.

Amounts recognised as Other Comprehensive Income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as Other Comprehensive Income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is 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, any cumulative gain or loss previously recognised in Other Comprehensive Income remains in Other Comprehensive Income until the forecast transaction or firm commitment affects profit or loss.

*(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.

**Subsequent Measurement**

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm’s length market transaction
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

**(v) Fair Value of Derivative Financial Instruments**

The fair value of the derivative financial instruments was estimated using the level 2 method valuation technique and is summarised in the table above.

The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships.

**Recognition and Measurement**

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## II. CAPITAL – FINANCING (CONTINUED)

### 7c. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

**(v) Fair Value of Derivative Financial Instruments (continued)**

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in the relevant notes.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

| | |
|---|---|
| Level 1 | Quoted (unadjusted) market prices in active markets for identical assets or liabilities |
| Level 2 | Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable |
| Level 3 | Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

***Transfer between categories***

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

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

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| 0-1 years | 280,758 | 290,376 |
| 1-2 years | 753,164 | 296,071 |
| 2-3 years | 249,142 | 685,975 |
| 3-5 years | 1,832,295 | 954,309 |
| | 3,115,359 | 2,226,731 |

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.

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

Included in bank loans at 30 June 2016 is a GBP borrowing of £117,000,000 (2015: £117,000,000) which has been designated as a hedge of the net investment in the UK subsidiary. 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 gain on the bank loan designated as a hedge of the net investment in a subsidiary of $29,477,000 (2015: net loss $26,365,000) was recognised in equity during the year.

Included in bank loans at 30 June 2016 is a Euro borrowing of €366,640,000 (2015: €444,640,000) which has been designated as a hedge of the net investment in the French subsidiary. It is being used to hedge the Group's exposure to changes in exchange rates on the value of its net investment in the French 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 French subsidiary. A net loss on the bank loan designated as a hedge of the net investment in a subsidiary of $51,797,000 (2015: net gain $41,738,000) was recognised in equity during the year.

Included in loans at 30 June 2016 is a borrowing of MYR 90,100,000 (2015: MYR 151,905,000) which has been designated as a hedge of the net investment in the Malaysian 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 Malaysian operations. A net gain on the MYR borrowing designated as a hedge of the net investment in the Malaysian operations of $808,000 (2015: net gain $1,130,000) was recognised in equity during the year.

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

## II. CAPITAL – FINANCING (CONTINUED)

### 7d. BORROWINGS

**Terms & Conditions**

**Ramsay and its wholly owned subsidiaries**

***(i) Senior Debt Facility***

On 10 November 2011 Ramsay and its wholly owned subsidiaries (except certain dormant subsidiaries) executed a Syndicated Facility Agreement (**SFA**). The SFA was amended on 9 December 2013 and again in March 2015 to extend its term and improve pricing. The SFA was also amended on 11 June 2014 to facilitate the funding of the acquisition of Générale de Santé, including execution of the 365 Day Facility (refer item (iii) below). On 11 August 2015, €35,000,000 outstanding under the 365 Day Facility was converted and included as a facility in the SFA, please refer below for details.

The current SFA consists of:

- a three year revolving facility - with total commitments of $400,000,000, £86,666,667 and €100,000,000;
- a five year revolving facility - with total commitments of $800,000,000, £93,333,333 and €298,504,000; and
- a revolving facility, maturing in May 2020 – with total commitments of €35,000,000 – commenced on 11 August 2015. The balance outstanding on the 365 Day Facility (refer to item (iii) below) was converted into this facility. This facility has the same terms and conditions as the five year revolving facility.

The total amounts drawn down under the SFA as at 30 June 2016 was $920,000,000, £117,000,000 and €366,640,000 (30 June 2015: $790,000,000, £124,000,000 and €331,640,000).

The three year revolving facility matures in July 2018 and the five year revolving facility matures in May 2020.

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

***(ii) Bilateral facilities***

The bilateral facilities are detailed below and the terms and conditions are consistent with the 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 capital with a limit of $10,500,000 and £10,000,000. The NAB bilateral facility includes 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 2016 the total outstanding was $12,714,734 (2015: $14,719,286) and £3,590,968 (2015: £3,550,968).

***(iii) 365 Day Facility***

In June 2014 Ramsay and its wholly owned subsidiaries (except certain dormant subsidiaries) executed a Syndicated Facility Agreement - 365 Day Facility (**365 Day Facility**). The initial purpose of the 365 Day Facility was to provide additional funding in connection with the acquisition of Générale de Santé.

On 6 July 2015, an amount of € 78,000,000, being monies received as a result of the repayment of subordinated bonds and shareholder loans issued by Ramsay Santé, was used to repay the 365 Day Facility and the facility limit was permanently reduced from €133,000,000 to € 35,000,000.

On 11 August 2015, the € 35,000,000 outstanding under the 365 day Facility was converted into a revolving facility maturing in May 2020, with terms and conditions consistent with the 5 year senior debt revolving facility (refer item (i) above).

**Ramsay Générale de Santé and controlled entities**

***Senior Debt Facility***

On 1 October 2014 Ramsay Générale de Santé (RGdS), formerly Générale de Santé, and its controlled entities executed a term and revolving facilities agreement to:

- Refinance existing RGdS debt and overdraft facilities;
- Provide the Group with additional liquidity to support its capital requirements ;
- Fund the special dividend paid on 4 December 2014;
- Refinance Ramsay Santé's existing indebtedness upon the merger of Ramsay Santé and Générale de Santé. The merger was completed on 1 July 2015;
- Fund future working capital requirements; and
- Fund future capital requirements and acquisitions.

## II. CAPITAL – FINANCING (CONTINUED)

### 7d. BORROWINGS (CONTINUED)

***Senior Debt Facility (continued)***

The debt facility was underwritten by three French trading banks and two international investment banks and was subsequently fully syndicated.

The debt facilities limits total €1,045,000,000 (2015: €1,075,000,000) comprising:

(i) Term Loan B facilities totalling €870,000,000 (2015: €900,000,000). In April 2015, an amount of €30,000,000 was used to repay and permanently cancel the Term Loan B facility limit from €900,000,000 to €870,000,000;
(ii) a revolving working capital facility of €100,000,000 (2015: €100,000,000); and
(iii) a capex / acquisition facility of €75,000,000 (2015: €75,000,000).

The total amount drawn under the debt facilities as at 30 June 2016 was €910,000,000 (2015: €660,000,000).

The debt facilities have a maturity of six years and are repayable as a bullet on maturity. The lenders to these debt facilities only have recourse to RGdS and certain RGdS controlled entities. The debt facilities are secured by first ranking pledges over Material Companies, granted only by RGdS and certain RGdS controlled entities. Guarantees have also been provided and are provided only by RGdS and certain RGdS controlled entities.

**Other Interest Bearing Loans**

At 30 June 2016 a loan to bondholders of $9,251,181 (2015: $13,270,099) was outstanding. This loan arose as a result of the securitisation of the Joondalup leases between Joondalup Hospital Pty Limited and Joondalup Health Campus Finance Limited. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge, being the receivable from the Government (refer note 8a).

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING

### HOW THE GROUP MANAGES ITS OVERALL FINANCIAL POSITION

The Group manages its overall financial position by segregating its balance sheet into two categories; Assets and Liabilities – Operating and Investing and Capital – Financing. Assets and Liabilities – Operating and Investing is managed at both the site and group level while Capital – Financing (refer to section II) is managed centrally.

Details of Assets and Liabilities – Operating and Investing are as follows:

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Working Capital | 8 | (380,213) | (422,438) |
| Property, plant and equipment | 10 | 3,860,184 | 3,591,806 |
| Intangible assets | 11 | 2,059,957 | 1,883,049 |
| Current and deferred tax assets/(liabilities) | 13 | (124,443) | (121,068) |
| Other assets/(liabilities) | | (190,147) | (245,860) |
| | | 5,225,338 | 4,685,489 |

### 8. WORKING CAPITAL

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Trade and other receivables (current) | 8a | 1,141,607 | 996,234 |
| Inventories | 8b | 205,012 | 191,745 |
| Trade and other payables | 8c | (1,726,832) | (1,610,417) |
| | | (380,213) | (422,438) |

### 8a. TRADE AND OTHER RECEIVABLES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Current** | | |
| Trade and other receivables | 1,169,222 | 1,025,064 |
| Allowances for impairment loss | (27,615) | (28,830) |
| | 1,141,607 | 996,234 |
| **Non-current** | | |
| Receivable from the Government in respect of the availability charge for the operation of a privately operated public hospital | 6,801 | 8,552 |
| Rental property bonds receivable | 33,032 | 19,872 |
| Other | 7,217 | 3,125 |
| | 47,050 | 31,549 |
| Total | 1,188,657 | 1,027,783 |

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 8a. RECEIVABLES (CONTINUED)

**(i) Allowances for impairment loss**

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Movements in the provision for impairment loss were as follows:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| At 1 July | (28,830) | (25,633) |
| Charge for the year (included in service costs) | (6,423) | (6,764) |
| Acquisition of subsidiary | (1,260) | (8,892) |
| Foreign exchange translation | 6 | (657) |
| Amounts written off | 8,892 | 13,116 |
| At 30 June | (27,615) | (28,830) |

**(ii) Ageing analysis**

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

| | Total $000 | Neither past due nor impaired $000 | 0-30 Days PDNI* $000 | 31-60 Days PDNI* $000 | 61-90 Days PDNI* $000 | 91+ Days PDNI* $000 | Considered impaired $000 |
|---|---|---|---|---|---|---|---|
| 2016 | 1,216,272 | 815,044 | 113,465 | 116,882 | 100,118 | 43,148 | 27,615 |
| 2015 | 1,056,613 | 623,875 | 145,484 | 118,802 | 107,612 | 32,010 | 28,830 |

**PDNI – Past due not impaired*

Receivables past due but not considered impaired are: $373,613,000 (2015: $403,908,000). 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 19.

**(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. The majority of the non-current receivables are assessed as low risk.

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

Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 15.

**(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**.**

**(vii) Impairment of Financial Assets**

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 8b. INVENTORIES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Amount of medical and food supplies to be consumed in providing future patient services – at cost | 183,848 | 169,071 |
| Development assets to be sold that are currently under construction – at cost | 21,164 | 22,674 |
| | 205,012 | 191,745 |

**(i) Inventory expense**

Medical and food inventories recognised as an expense for the year ended 30 June 2016 totalled $2,005,754,000 (2015: $1,669,491,000) 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 2016 totalled $1,026,000 (2015: $834,000) for the Group. This expense has been included in Cost of goods sold – book value of development assets sold in the Income Statement.

**(ii) Recognition and Measurement**

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.

### 8c. TRADE AND OTHER PAYABLES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Trade payables | 787,534 | 721,860 |
| Sundry creditors and accrued expenses | 300,898 | 306,199 |
| Employee and Director entitlements | 637,265 | 580,837 |
| Other payables | 1,135 | 1,521 |
| | 1,726,832 | 1,610,417 |

**(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 15.

## 9. BUSINESS COMBINATIONS

**Other Acquisitions – 2016**

Ramsay has acquired other businesses within the healthcare sector. The amounts recognised for these business combinations in the financial statements for the year ended 30 June 2016 have been determined on a provisional basis only.

| | $000 |
|---|---|
| Fair value of identifiable net assets | 2,902 |
| Non-controlling interest | (40) |
| Goodwill arising on acquisition | 16,785 |
| Acquisition date fair value of consideration transferred | 19,647 |
| | |
| The cash outflow on acquisition is as follows | |
| Cash paid | (19,647) |

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 9. BUSINESS COMBINATIONS (CONTINUED)

**HPM – 2016**

In December 2015 and January 2016, Ramsay Générale de Santé acquired 99.69% of the share capital of Hôpital Privé Métropole (HPM). Ramsay Générale de Santé has provisionally recognised the fair values of the identifiable assets and liabilities of HPM as follows, based upon the best information available as of the reporting date. The diligences underpinning this accounting are substantially complete as at 30 June 2016, however, as they remain formally open, the amounts recognised for the HPM business combination in the financial statements for the year ended 30 June 2016 have been determined on a provisional basis only. Ramsay has until the end of the measurement period to obtain and consider the information necessary about facts and circumstances that existed as of the acquisition date and, if known, would have affected the recognition and measurement of the amounts recognised as of that date for the HPM business combination, in order to retrospectively adjust the provisional amounts recognised:

| | **$000** |
|---|---|
| Cash | 12,750 |
| Accounts Receivable | 28,836 |
| Inventory | 2,481 |
| Corporate tax receivable | 2,121 |
| Other assets | 3,916 |
| Property, plant and equipment | 112,785 |
| Intangible assets | 4,402 |
| Other financial assets | 3,974 |
| Creditors and accruals | (54,387) |
| Interest-bearing liabilities | (53,828) |
| Provisions and other liabilities | (8,240) |
| Deferred income tax liability | (22,378) |
| **Fair value of identifiable net assets** | **32,432** |
| Non-controlling interest | (4,114) |
| Goodwill arising on acquisition | 178,503 |
| | 206,821 |
| Acquisition date fair value of consideration transferred | |
| Cash paid | 206,821 |
| | 206,821 |
| Direct costs relating to the acquisition - included within service costs | 2,447 |
| The cash outflow on acquisition is as follows: | |
| Net cash acquired with the subsidiary | 12,750 |
| Cash paid | (206,821) |
| Net consolidated cash outflow | (194,071) |

The goodwill of $178,503,000 comprises the value of synergies expected to be achieved as a result of combining HPM with the rest of the Group, as well as intangible assets that do not qualify for separate recognition.

This acquisition provides a number of strategic benefits consistent with Ramsay's growth strategy and enables the Group to reinforce its market leadership in the Lille metropolitan area in France. None of the goodwill recognised is expected to be deductible for income tax purposes. The goodwill balance represents goodwill attributable to the parent only.

The Group has elected to measure the non-controlling interests in the acquiree at their proportionate share in the recognised amounts of the acquiree's identifiable net assets. The non-controlling interests in the acquiree at the time of the business combination represent 0.31% of the share capital of HPM and other non-controlling interests within the HPM group.

The fair value of the acquired receivables amounts to $28,836,000. The gross contractual amount receivable is $30,096,000, however only the fair value amount of $28,836,000 is expected to be collected.

The results of HPM from acquisition to 30 June 2016 are not material and therefore have not been disclosed separately.

The revenue and results of the total Group for the year ended 30 June 2016, though HPM was acquired on 1 July 2015, would not be significantly different to the Group results as reported.

**III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)**

**9. BUSINESS COMBINATIONS (CONTINUED)**

**Générale de Santé - 2015**

On 1st October 2014, Ramsay acquired a controlling interest in Générale de Santé, a leading private hospital operator and healthcare services group in France listed on the Euronext Paris Eurolist, thereby significantly enlarging and enhancing its operations in that geographic segment.

The primary reason for the business combination is the acquisition of a controlling interest in Générale de Santé. Ramsay has entered into a shareholders' agreement with Predica in order to organise their future relationships as shareholders of Générale de Santé of which they together hold 83.43% of the shares and 75.72% of the theoretical voting rights upon completion of the acquisition transaction. The shareholders' agreement provides for the composition of the board of directors and other corporate governance undertakings. Ramsay has obtained control of Générale de Santé by virtue of the provisions of the shareholders' agreement entered into with Predica, together with the acquisition of 47.55% of the share capital and 43.16% of the theoretical voting rights of Générale de Santé.

**Assets acquired and liabilities assumed**

The fair values of the identifiable assets and liabilities of Générale de Santé as at the date of acquisition are as follows:

| | **$000** |
|---|---|
| Accounts receivable | 341,670 |
| Inventory | 54,809 |
| Corporate tax receivable | 22,180 |
| Property, plant and equipment | 1,268,693 |
| Intangible assets | 23,639 |
| Financial assets | 20,698 |
| Other assets | 81,991 |
| Bank overdraft | (76,815) |
| Creditors and accruals | (569,491) |
| Interest-bearing liabilities | (855,994) |
| Provisions and other liabilities | (147,358) |
| Deferred income tax liability | (183,201) |
| **Fair value of identifiable net liabilities** | **(19,179)** |
| Non-controlling interests | (5,565) |
| Goodwill arising on acquisition | 644,994 |
| | 620,250 |
| Acquisition date fair value of consideration transferred | |
| Cash paid | 620,250 |
| | 620,250 |
| Direct costs relating to the acquisition - included within service costs | |
| Expensed in the year ended 30 June 2014 | 9,775 |
| Expensed in the year ended 30 June 2015 | 2,829 |
| | 12,604 |
| The cash outflow on acquisition is as follows: | |
| Cash paid | (620,250) |
| Net consolidated cash outflow | (620,250) |

The goodwill of $644,994,000 comprises the value of synergies expected to be achieved as a result of combining Générale de Santé with the rest of the Group, as well as intangible assets that do not qualify for separate recognition. Goodwill has been allocated to the UK and Australia to the extent they are expected to benefit from this acquisition. This acquisition provides a number of strategic benefits consistent with Ramsay's growth strategy and enables the Group to become the leader in private hospitals in France with significant market share. None of the goodwill recognised is expected to be deductible for income tax purposes. The goodwill balance represents goodwill attributable to the parent only.

The Group has elected to measure the non-controlling interests in the acquiree at their proportionate share in the recognised amounts of the acquiree's identifiable net liabilities. The non-controlling interests in the acquiree at the time of the business combination represent 52.42% of the share capital of Générale de Santé.

The fair value of the acquired receivables amounts to $341,670,000. The gross contractual amount receivable is $350,562,000, however only the fair value amount of $341,670,000 is expected to be collected.

From the date of acquisition through to 30 June 2015, Générale de Santé has contributed $1,933,775,000 of revenue and $88,188,000 to the Group profit before income tax from continuing operations for the year ended 30 June 2015. If Générale de Santé had been acquired on 1 July 2014, the revenue for the Group for the year ended 30 June 2015 would have been $7,911,557,000 and the profit before income tax from continuing operations for the Group for the year ended 30 June 2015 would not have been significantly different to the Group profit before tax as reported for the year ended 30 June 2015.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 9. BUSINESS COMBINATIONS (CONTINUED)

**Générale de Santé - 2015 (continued)**

**Acquisition of additional interest in Générale de Santé**

On 7 and 13 of November 2014, the Group acquired a total additional 1.24% interest in the voting shares of Générale de Santé, increasing its ownership interest to 48.80%. Cash consideration of $16,049,000 was paid to non-controlling shareholders.

| | $000 |
|---|---|
| Cash consideration paid to non-controlling shareholders | 16,049 |
| Carrying value of the additional interest acquired in Générale de Santé | 486 |
| Difference recognised in acquisition of non-controlling interests reserve within equity | 16,535 |

**Other Acquisitions – 2015**

In 2015, Ramsay has acquired other businesses within the healthcare sector. The amounts recognised for these business combinations in the financial statements for the year ended 30 June 2015 are as follows:

| | $000 |
|---|---|
| Fair value of identifiable net assets | 414 |
| Goodwill arising on acquisition | 3,942 |
| Acquisition date fair value of consideration transferred | 4,356 |
| | |
| The cash outflow on acquisition is as follows | |
| Cash paid | (4,356) |

**Recognition and Measurement**

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. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to Other Comprehensive Income. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

**Key Estimates and Assumptions**

The Group recognises the identifiable assets and liabilities of acquired businesses at their acquisition date fair values. Where a significant amount of land and buildings are recognised in the acquired business, the fair value will be determined by an external valuer using an approach relevant to the private healthcare market in that country.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 10. PROPERTY, PLANT AND EQUIPMENT

| | Land & Buildings $000 | Plant & Equipment $000 | Assets Under Construction $000 | Total $000 |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 30 June 2014** | **1,956,586** | **1,396,768** | **117,799** | **3,471,153** |
| Additions | 57,671 | 209,647 | 188,503 | 455,821 |
| Acquisition of subsidiary | 995,487 | 273,284 | - | 1,268,771 |
| Disposals | (10,563) | (31,198) | - | (41,761) |
| Transferred from assets under construction | 109,519 | 62,524 | (172,043) | - |
| Exchange Differences | 22,247 | 40,116 | - | 62,363 |
| **At 30 June 2015** | **3,130,947** | **1,951,141** | **134,259** | **5,216,347** |
| Additions | 34,378 | 165,105 | 318,399 | 517,882 |
| Acquisition of subsidiary | 80,264 | 31,852 | 623 | 112,739 |
| Disposals | (7,219) | (109,056) | - | (116,275) |
| Assets reclassified as held for sale | (22,823) | - | - | (22,823) |
| Transferred from assets under construction | 158,788 | 22,584 | (181,372) | - |
| Exchange Differences | 9,732 | (25,271) | (7,604) | (23,143) |
| **At 30 June 2016** | **3,384,067** | **2,036,355** | **264,305** | **5,684,727** |
| | | | | |
| **Depreciation and Impairment** | | | | |
| **At 30 June 2014** | **(386,913)** | **(939,021)** | **-** | **(1,325,934)** |
| Depreciation charge for the year | (85,769) | (203,730) | - | (289,499) |
| Disposals | 2,483 | 16,244 | - | 18,727 |
| Exchange Differences | (6,070) | (21,765) | - | (27,835) |
| **At 30 June 2015** | **(476,269)** | **(1,148,272)** | **-** | **(1,624,541)** |
| Depreciation charge for the year | (112,535) | (238,788) | - | (351,323) |
| Disposals | 4,533 | 109,056 | - | 113,589 |
| Assets reclassified as held for sale | 9,104 | - | - | 9,104 |
| Impairment | (7,232) | (2,499) | - | (9,731) |
| Exchange Differences | 10,021 | 28,338 | - | 38,359 |
| **At 30 June 2016** | **(572,378)** | **(1,252,165)** | **-** | **(1,824,543)** |
| | | | | |
| **Net Book Value** | | | | |
| **At 30 June 2016** | **2,811,689** | **784,190** | **264,305** | **3,860,184** |
| **At 30 June 2015** | **2,654,678** | **802,869** | **134,259** | **3,591,806** |

The carrying value of property, plant and equipment held under finance leases and hire purchase contracts at 30 June 2016 is $401,403,000 (2015: $406,282,000).

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

#### (a) Recognition and Measurement

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 – 60 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.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

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

#### (a) Recognition and Measurement (continued)

*(i) Impairment*
The carrying values of property, 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 unit 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 the expense category Depreciation, amortisation and impairment.

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. 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.

#### (b) Key Estimates and Assumptions

Useful lives of assets are estimated based on historical experience. The useful life of assets are assessed annually and adjusted where deemed necessary.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 11. INTANGIBLE ASSETS

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

| | Goodwill | Service Concession Assets | Development Costs^ | Total |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **Cost** | | | | |
| ***At 30 June 2014*** | **1,099,279** | **84,137** | **46,388** | **1,229,804** |
| Additions | - | 9,993 | 13,743 | 23,736 |
| Disposals | - | - | (74) | (74) |
| Acquisition of a subsidiary | 648,936 | - | 23,639 | 672,575 |
| Exchange differences | 31,406 | - | 18 | 31,424 |
| ***At 30 June 2015*** | **1,779,621** | **94,130** | **83,714** | **1,957,465** |
| Additions | - | 593 | 26,699 | 27,292 |
| Disposals | - | - | (242) | (242) |
| Acquisition of a subsidiary | 195,288 | - | 5,884 | 201,172 |
| Exchange differences | (27,341) | - | (934) | (28,275) |
| ***At 30 June 2016*** | **1,947,568** | **94,723** | **115,121** | **2,157,412** |
| **Amortisation and Impairment** | | | | |
| ***At 30 June 2014*** | **-** | **(22,002)** | **(35,901)** | **(57,903)** |
| Amortisation charge for the year | - | (6,310) | (10,132) | (16,442) |
| Disposals | - | - | 59 | 59 |
| Exchange differences | - | - | (130) | (130) |
| ***At 30 June 2015*** | **-** | **(28,312)** | **(46,104)** | **(74,416)** |
| Amortisation charge for the year | - | (6,533) | (16,487) | (23,020) |
| Disposals | - | - | 79 | 79 |
| Exchange differences | - | - | (98) | (98) |
| ***At 30 June 2016*** | **-** | **(34,845)** | **(62,610)** | **(97,455)** |
| **Net Book Value** | | | | |
| **At 30 June 2016** | **1,947,568** | **59,878** | **52,511** | **2,059,957** |
| **At 30 June 2015** | **1,779,621** | **65,818** | **37,610** | **1,883,049** |

^ *Mainly internally generated software costs*

#### (ii) Goodwill – Recognition and Measurement

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. 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.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is determined to have an indefinite life.

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.*

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 11. INTANGIBLE ASSETS (CONTINUED)

**(ii) Goodwill – Recognition and Measurement (continued)**

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

**(iii) Intangible assets – Recognition and Measurement**

Intangible assets acquired separately are measured on initial recognition 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.

| | **Service Concession Assets** | **Development Costs (mainly internally developed software costs)** |
|---|---|---|
| **Useful lives** | Finite | Finite |
| **Amortisation method used** | Amortised over the period of the lease | Amortised over the period of expected future benefit from the related project on a straight line basis |
| **Internally generated or acquired** | Acquired | Internally generated |
| **Impairment testing** | When an indication of impairment exists. The amortisation method is reviewed at each financial year end. | When an indication of impairment exists. 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.

**(iv) Service concession assets – Recognition and Measurement**

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'.

**(v) Key Estimates and Assumptions**

Useful lives of assets are estimated based on historical experience and the expected period of future consumption of embodied economic benefits. Adjustments to useful lives are made where deemed necessary.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 12. 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. This is tested for impairment on an annual basis.

Goodwill has been allocated to the Australian business, the UK business and the French business as follows:

| | Australia | | UK | | France | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| Carrying amount of goodwill | 1,031,256 | 1,014,948 | 268,350 | 306,170 | 647,962 | 458,503 | 1,947,568 | 1,779,621 |

2015 comparatives have been updated to reflect finalisation of Générale de Santé acquisition accounting.

**(ii) Key Estimates and Assumptions**

The recoverable amount of the Australian business, the UK business and the French business has been determined based on a value in use calculation using cash flow projections as at 30 June 2016 based on financial budgets approved by senior management covering a five-year period. Key assumptions used in the value in use calculations are as follows:

| | Australia % | UK % | France % |
|---|---|---|---|
| Extrapolated growth factor (Year 5+) | | | |
| 2016 | 3.0 | 2.0 | 1.0 |
| 2015 | 3.0 | 2.0 | 1.5 |
| Pre-tax discount rate | | | |
| 2016 | 11.0 | 6.5 | 8.7 |
| 2015 | 11.5 | 6.7 | 9.1 |

Key inputs in value in use calculations are:

- 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 19% - 34.4% 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, the United Kingdom and France, management do not consider that any reasonably likely 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.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 13. TAXES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **(a) Income tax expense** | | |
| The major components of income tax expense are: | | |
| **Income Statement** | | |
| **Continuing operations:** | | |
| *Current income tax* | | |
| Current income tax charge | 225,202 | 223,351 |
| Adjustments in respect of previous years | (7,837) | 4,817 |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | (28,474) | (5,031) |
| Adjustments in respect of deferred income tax of previous years | 8,783 | (1,921) |
| Income tax expense reported in the Income Statement | 197,674 | 221,216 |

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

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Accounting profit before tax | 708,936 | 640,302 |
| At the Parent Entity's statutory income tax rate of 30% (2015: 30%) | 212,681 | 192,091 |
| Expenditure not allowable for income tax purposes | 4,757 | 9,550 |
| Amounts not assessable for income tax purposes | (17,692) | (14,471) |
| Impact of change in tax rates on deferred tax balances | (13,540) | - |
| Other French income tax expense | 18,245 | 24,796 |
| Foreign tax rate adjustment | 7,750 | 3,753 |
| Other | (14,527) | 5,497 |
| | 197,674 | 221,216 |
| Income tax expense reported in the consolidated Income Statement | 197,674 | 221,216 |

**(c) Recognised tax assets and liabilities**

| | 2016 $000 Current income tax | 2016 $000 Deferred income tax | 2015 $000 Current income tax | 2015 $000 Deferred income tax |
|---|---|---|---|---|
| Opening balance | (15,841) | (105,227) | (6,455) | 67,049 |
| (Charged)/ credited to income | (217,365) | 19,691 | (228,168) | 6,952 |
| Credited to equity | - | 17,353 | - | 5,321 |
| Payments | 201,477 | - | 197,000 | - |
| Exchange differences | 1,569 | (5,843) | (398) | (1,348) |
| Acquisition of subsidiary | 2,121 | (22,378) | 22,180 | (183,201) |
| Closing balance | (28,039) | (96,404) | (15,841) | (105,227) |

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 13. TAXES (CONTINUED)

#### (c) Recognised tax assets and liabilities (continued)

| | Statement of Financial Position | |
|---|---|---|
| | 2016<br>$000 | 2015<br>$000 |
| *Amounts recognised in the Statement of Financial Position for Deferred Income Tax at 30 June:* | | |
| ***(i) Deferred tax liabilities*** | | |
| Inventory | (14,597) | (13,049) |
| Recognition of revenue | (14,962) | (49,323) |
| Depreciable assets | (223,119) | (209,233) |
| Other | (9,889) | (16,208) |
| Provisions and lease liabilities | (95,807) | (75,408) |
| **Gross deferred tax liabilities** | (358,374) | (363,221) |
| Set-off of deferred tax assets | 62,244 | 53,017 |
| **Net deferred tax liabilities** | (296,130) | (310,204) |
| ***(ii) Deferred tax assets*** | | |
| Employee provisions | 175,296 | 116,899 |
| Other provisions and lease liabilities | 40,809 | 102,931 |
| Unearned income | 9,912 | 11,332 |
| Other | 1,863 | 6,529 |
| Losses | 14,765 | 16,582 |
| Derivatives | 19,325 | 3,721 |
| **Gross deferred tax assets** | 261,970 | 257,994 |
| Set-off of deferred tax assets | (62,244) | (53,017) |
| **Net deferred tax assets** | 199,726 | 204,977 |

#### (d) 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 $28,565,852 (2015: increased by $29,262,294). This is included in the summarised information relating to Ramsay Health Care Limited. Refer to Note 23.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 13. TAXES (CONTINUED)

**(e) Income Tax - Recognition and Measurement**

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.

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.

**(f) Other taxes – Recognition and Measurement**

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.

**(g) Key Estimates and Assumptions**

In determining the Group's deferred tax assets and liabilities, management is required to make an estimate about the availability of future taxable profits and cash-flows. Changes in circumstances will alter expectations, which may impact the amount of tax losses and temporary differences recognised.

**Tax losses**

At 30 June 2016, there is $5,726,854 (2015: $5,726,854) of capital losses carried forward for which a deferred tax asset has not been recognised. As it is not probable they will be used in the foreseeable future, they have not been recognised.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 14a. INVESTMENT IN JOINT VENTURE

The Group has a 50% interest in Ramsay Sime Darby Health Care Sdn Bhd (RSDH), a joint venture involved in operating hospitals and day surgery facilities across Malaysia and Indonesia. The Group's interest in RSDH is accounted for using the equity method in the consolidated financial statements.

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| Investment in joint venture at beginning of period | 211,573 | 192,815 |
| Share of profit of joint venture | 9,966 | 10,098 |
| Foreign currency translation and other equity movements | (10,774) | 8,660 |
| | 210,765 | 211,573 |

**Recognition and Measurement**

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Income Statement reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the Income Statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in the joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of joint venture' in the Income Statement.

Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 14b. PROVISIONS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Current** | | |
| Restructuring provision | 4,764 | 7,104 |
| Unfavourable contracts | 10,244 | 12,225 |
| Insurance provision | 13,152 | 16,733 |
| Legal and compliance provision | 38,699 | 36,706 |
| Deferred lease provision | 300 | 300 |
| Other provisions | 13,453 | 9,150 |
| | 80,612 | 82,218 |
| **Non-current** | | |
| Non-current employee and Director entitlements | 31,522 | 28,609 |
| Deferred lease provision | 254,886 | 267,853 |
| Unfavourable contracts | 27,909 | 26,468 |
| Insurance provision | 114,556 | 113,950 |
| Restructuring provision | 12,515 | 20,677 |
| Legal and compliance provision | 22,261 | 14,964 |
| Other provisions | 12,678 | 19,734 |
| | 476,327 | 492,255 |
| Total | 556,939 | 574,473 |

**(i) Recognition and Measurement**
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.

**(ii) Movements in provisions**

| | Deferred lease $000 | Restructuring $000 | Insurance $000 | Unfavourable contracts $000 | Legal and compliance $000 | Other provision $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| At 30 June 2015 | 268,153 | 27,781 | 130,683 | 38,693 | 51,670 | 28,884 | 545,864 |
| Arising during the year | 21,871 | 3,450 | 8,272 | 12,720 | 17,589 | 6,497 | 70,399 |
| Utilised during the year | (325) | (6,785) | (8,189) | (12,546) | (5,518) | (2,534) | (35,897) |
| Exchange differences | (34,513) | 845 | (285) | (714) | 1,276 | 4,189 | (29,202) |
| Unused amounts reversed | - | (8,012) | (2,773) | - | (4,057) | (11,462) | (26,304) |
| Discount rate adjustment | - | - | - | - | - | 557 | 557 |
| At 30 June 2016 | 255,186 | 17,279 | 127,708 | 38,153 | 60,960 | 26,131 | 525,417 |
| | | | | | | | |
| Current 2016 | 300 | 4,764 | 13,152 | 10,244 | 38,699 | 13,453 | 80,612 |
| Non-current 2016 | 254,886 | 12,515 | 114,556 | 27,909 | 22,261 | 12,678 | 444,805 |
| | 255,186 | 17,279 | 127,708 | 38,153 | 60,960 | 26,131 | 525,417 |
| | | | | | | | |
| Current 2015 | 300 | 7,104 | 16,733 | 12,225 | 36,706 | 9,150 | 82,218 |
| Non-current 2015 | 267,853 | 20,677 | 113,950 | 26,468 | 14,964 | 19,734 | 463,646 |
| | 268,153 | 27,781 | 130,683 | 38,693 | 51,670 | 28,884 | 545,864 |

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 14b. PROVISIONS (CONTINUED)

#### (iii) 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;
- restructuring of entities with the Group, announced prior to acquisition; and
- land rich duties payable.

***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, including potential uninsured and 'Incurred but not Reported' claims.

*(i) Key Estimates and Assumptions*
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.

***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 corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

***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 one 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.

***Legal and compliance provision***

The legal and compliance provision primarily relates to amounts provided for litigation that is currently in the court process or a matter under review by a relevant authority.

### 14c. 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.

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 14d. DEFINED EMPLOYEE BENEFIT OBLIGATION

The Group has a defined employee benefit obligation in France as required to be paid under local legislation.

The following tables summarise the funded status and amounts recognised in the consolidated Statement of Financial Position for the plans:

| | 2016 $000 | 2015 $000 | 2014 $000 | 2013 $000 | 2012 $000 |
|---|---|---|---|---|---|
| **Net (liability) included in the Statement of Financial Position** | | | | | |
| Present value of defined benefit obligation | (75,635) | (72,595) | (21,269) | (10,833) | (23,773) |
| Fair value of plans assets | 5,009 | 4,880 | - | - | 5,631 |
| Net (liability) - non-current | (70,626) | (67,715) | (21,269) | (10,833) | (18,142) |

| | Defined Employee Benefit Obligation | |
|---|---|---|
| | 2016 $000 | 2015 $000 |
| Net benefit expense (Note 3) (recognised in superannuation expenses) | 5,338 | 3,857 |

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

| | Defined Employee Benefit Obligation | |
|---|---|---|
| | 2016 $000 | 2015 $000 |
| Opening defined benefit obligation | 72,595 | 21,269 |
| Acquisition balances | 3,961 | 49,036 |
| Current service cost | 4,460 | 1,860 |
| Interest cost | 932 | 2,188 |
| Benefits paid | (2,079) | (2,192) |
| Actuarial (gains) / losses on obligation | (6,512) | 518 |
| Exchange differences on foreign plans | 2,278 | (84) |
| Closing defined benefit obligation | 75,635 | 72,595 |

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

| | 2016 | 2015 |
|---|---|---|
| Opening fair value of plans assets | 4,880 | - |
| Acquisition balances | - | 4,791 |
| Expected return | 53 | - |
| Contributions by employer | - | 191 |
| Actuarial losses | (79) | (106) |
| Exchange differences on foreign plans | 155 | 4 |
| Fair value of plans assets | 5,009 | 4,880 |
| Actuarial return on plan assets | - | - |

Plan assets consist of 100% of investment in bonds. 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.

The Group expects to contribute $ nil to its defined benefit obligations in 2017.

| | Defined Employee Benefit Obligation | |
|---|---|---|
| | 2016 $000 | 2015 $000 |
| Actuarial (gains) / losses recognised in the Statement of Comprehensive Income | (6,433) | 412 |
| Cumulative actuarial losses recognised in the Statement of Comprehensive Income | 894 | 7,327 |

## III. ASSETS AND LIABILITIES OPERATING AND INVESTING (CONTINUED)

### 14d. DEFINED EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

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

| | Defined Employee Benefit Obligation | |
|---|---|---|
| | 2016 (%) | 2015 (%) |
| Discount rate | 1.2 | 2.0 – 2.3 |
| Future salary increases | 1.0 | 1.5 |

**Recognition and Measurement**

The Group has a defined employee benefit obligation in France arising from local legislative requirements.

The cost of providing benefits under this obligation is determined using the projected unit credit method using actuarial valuations. Actuarial gains and losses for the defined obligation are recognised in full in the period in which they occur in Other Comprehensive Income. Such actuarial gains and losses are also immediately recognised in retained earnings and are not reclassified to profit or loss in subsequent periods.

Unvested past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. Past service costs are recognised immediately if the benefits have already vested, immediately following the introduction of, or changes to, the obligation.

The defined benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) less unrecognised past service costs.

**Key Estimates and Assumptions**

The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. All assumptions are reviewed at each reporting date. In determining the appropriate discount rates, the interest rates of corporate bonds in France are considered. The mortality rate is based on publicly available mortality rates for France. Future salary increases are based on expected future inflation rates in France.

## IV. RISK MANAGEMENT

### 15. FINANCIAL RISK MANAGEMENT

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.

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

The Group manages its exposure to key financial risks, including market risk (interest rate and foreign currency risk), credit risk and liquidity 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 and foreign exchange forward 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 and 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.

**(a) Interest rate risk**
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The level of debt is disclosed in Note 7d.

## IV. RISK MANAGEMENT (CONTINUED)

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

**(a) Interest rate risk (continued)**

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:

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Financial Assets** | | |
| Cash and cash equivalents | 328,989 | 315,861 |
| **Financial Liabilities** | | |
| Bank Loans | (680,007) | (757,406) |
| Net exposure | (351,018) | (441,545) |

Interest rate derivatives contracts are outlined in Note 7c, with a net negative fair value of $63,518,000 (2015: negative: $13,172,000) 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 2016, after taking into account the effect of interest rate swaps, approximately 78% (2015: 72%) 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.

**Interest rate sensitivity**

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)** | |
|---|---|---|---|---|
| | **2016<br>$000** | **2015<br>$000** | **2016<br>$000** | **2015<br>$000** |
| **AUD** | | | | |
| + 120 basis points (2015: + 80 basis points) | (1,872) | (575) | 17,588 | 7,546 |
| - 120 basis points (2015: - 80 basis points) | 1,872 | 575 | (18,520) | (7,722) |
| **GBP** | | | | |
| + 70 basis points (2015: + 55 basis points) | (98) | (160) | 2,318 | 1,471 |
| - 70 basis points (2015: - 55 basis points) | 98 | 160 | (1,956) | (1,497) |
| **EUR** | | | | |
| + 20 basis points (2015: + 35 basis points) | (355) | (658) | 80,701 | 11,779 |
| - 20 basis points (2015: - 35 basis points) | 355 | 658 | 4,241 | (11,498) |

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 2016, comparing to 2015, is due to the increase in hedging from 72% in 2015 to 78% in 2016 and the increased interest rate volatility in 2016.

**IV. RISK MANAGEMENT (CONTINUED)**

**15. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investments in foreign operations.

The Group manages its foreign exchange rate exposure within approved policy parameters by utilising foreign currency swaps and forwards.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions, the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in foreign currency.

The Group hedges its exposure to fluctuations on the translation into Australian dollars of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forward contracts.

**Foreign currency sensitivity**

The following tables demonstrate the sensitivity to a reasonably possible change in GBP, Euro and MYR exchange rates, with all other variables held constant. The impact on the Group's post tax profit is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

British Pound (GBP)

| | **Change in GBP rate** | **Effect on Post Tax Profit Higher/ (Lower)** | **Effect on Other Comprehensive Income Higher/(Lower)** |
|---|---|---|---|
| | | **$000** | **$000** |
| 2016 | +25% | (218) | (102,268) |
| | -25% | 272 | 127,827 |
| | | | |
| 2015 | +20% | (13) | (67,752) |
| | -20% | 15 | 81,255 |

- At reporting date, the Group had GBP exposure of £285,961,000 (2015: £284,635,000) that is not designated in a net investment hedge.
- The Group has a GBP borrowing of £117,000,000 (2015: £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 7c.

Euro (EUR)

| | **Change in EUR rate** | **Effect on Post Tax Profit Higher/ (Lower)** | **Effect on Other Comprehensive Income Higher/(Lower)** |
|---|---|---|---|
| | | **$000** | **$000** |
| 2016 | +20% | (216) | (35,095) |
| | -20% | 260 | 42,091 |
| | | | |
| 2015 | +20% | (165) | (7,747) |
| | -20% | 198 | 9,300 |

- At reporting date, the Group had Euro exposure of €141,185,000 (2015: €45,927,000) that is not designated in a net investment hedge.
- The Group has a Euro borrowing of €366,640,000 (2015: €444,640,000) that is designated as a hedge of the net investment in the French operation. Further information on the hedge is set out in Note 7c.

## IV. RISK MANAGEMENT (CONTINUED)

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

**(b) Foreign currency risk (continued)**

Malaysian Ringgit (MYR)

| | Change in MYR rate | Effect on Post Tax Profit Higher/ (Lower) | Effect on Other Comprehensive Income Higher/(Lower) |
|---|---|---|---|
| | | $000 | $000 |
| 2016 | +20% | (3,509) | (30,118) |
| | -20% | 4,211 | 36,144 |
| | | | |
| 2015 | +15% | (2,125) | (14,532) |
| | -15% | 2,444 | 16,710 |

- At reporting date, the Group had MYR exposure of MYR 541,648,000 (2015: MYR 462,491,000) that is not designated in net investment hedge.
- The Group has a MYR borrowing of MYR 90,100,000 (2015: MYR 151,905,000) that is designated as a hedge of the net investment in the Malaysian operations. Further information on the hedge is set out in Note 7c.

The movement in the post-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedge relationship and monetary assets and liabilities denominated in foreign currencies, where the functional currency of the entity is a currency other than the above currencies. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in the borrowings (net of cash and cash equivalents) in the hedge of net investments in overseas operations (UK, France and Malaysia) and cash flow hedges. These movements will off-set the translation of the overseas operations' net assets in Australian dollar.

**(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.

*Trade receivables*

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.

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.

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 the prudential requirements of PHIAC, or Governments.

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.

## IV. RISK MANAGEMENT (CONTINUED)

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Credit risk (continued)

*Financial instruments and cash deposits*

Credit risks related to balances with banks and financial institutions are managed by Ramsay Group Treasury in accordance with Board approved policies. Such policies only allow financial derivative instruments to be entered into with high credit quality financial institutions with a minimum long-term credit rating of A- or better by Standard & Poor's. In addition, the Board has approved the use of these financial institutions, and specific internal guidelines have been established with regard to limits, dealing and settlement procedures. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The investment of surplus funds is made only with approved counterparties and within credit risk in relation to derivatives undertaken in accordance with the consolidated entity's hedging and risk management activities.

The Group does not hold any credit derivatives to off-set its credit risk exposure. The Group's maximum exposure for financial derivative instruments is noted in the liquidity table below.

#### (d) Liquidity risk

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| | On demand $000 | Less than 3 months $000 | 3 to 12 months $000 | 1 to 5 years $000 | > 5 years $000 | Total $000 |
|---|---|---|---|---|---|---|
| ***Year ended 30 June 2016*** | | | | | | |
| Trade and other payable | - | (1,713,298) | - | - | - | (1,713,298) |
| Interest-bearing loans and borrowings | - | (26,012) | (86,983) | (3,344,599) | (21,791) | (3,479,385) |
| Deferred consideration | - | (30,060) | - | - | - | (30,060) |
| Financial derivatives | - | (4,559) | (14,369) | (46,883) | - | (65,811) |
| | - | (1,773,929) | (101,352) | (3,391,482) | (21,791) | (5,288,554) |
| ***Year ended 30 June 2015*** | | | | | | |
| Trade and other payable | - | (1,596,582) | - | - | - | (1,596,582) |
| Interest-bearing loans and borrowings | - | (249,705) | (35,437) | (1,693,476) | (16,224) | (1,994,842) |
| Sub-ordinated bonds | - | (41,529) | - | - | - | (41,529) |
| Outside equity interest loan | - | (51,979) | - | - | - | (51,979) |
| Deferred consideration | - | (23,263) | - | (31,204) | - | (54,467) |
| Financial derivatives | - | (2,778) | (8,889) | (9,062) | - | (20,729) |
| | - | (1,965,836) | (44,326) | (1,733,742) | (16,224) | (3,760,128) |

## IV. RISK MANAGEMENT (CONTINUED)

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

| *Year ended 30 June 2016* | On demand $000 | Less than 3 months $000 | 3 to 12 months $000 | 1 to 5 years $000 | > 5 years $000 | Total $000 |
|---|---|---|---|---|---|---|
| Inflows | - | 3,260 | 9,249 | 31,171 | - | 43,680 |
| Outflows | - | (7,819) | (23,618) | (78,054) | - | (109,491) |
| Net | - | (4,559) | (14,369) | (46,883) | - | (65,811) |
| Discounted at the applicable interbank rates | - | (2,881) | (14,307) | (46,330) | - | (63,518) |
| *Year ended 30 June 2015* | | | | | | |
| Inflows | - | 3,370 | 10,031 | 25,264 | - | 38,665 |
| Outflows | - | (6,148) | (18,920) | (34,326) | - | (59,394) |
| Net | - | (2,778) | (8,889) | (9,062) | - | (20,729) |
| Discounted at the applicable interbank rates | - | (2,331) | (8,448) | (9,441) | - | (20,220) |

## V. OTHER INFORMATION

### 16. SHARE BASED PAYMENT PLANS

#### 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of Rights | Weighted Average Fair Value | Number of Rights | Weighted Average Fair Value |
| Balance at beginning of year | 2,055,000 | | 2,068,000 | |
| - granted | 644,743 | $55.47 | 698,000 | $44.70 |
| - vested | (717,536) | $20.82 | (671,000) | $15.99 |
| - forfeited | - | - | (40,000) | $26.23 |
| Balance at end of year | 1,982,207 | | 2,055,000 | |
| 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 2016:

| Number of Rights | Grant Date | Vesting Date [(1)] | Weighted Average Fair Value [(2)] |
|---|---|---|---|
| 307,170 | 14-Nov-13 | 31-Aug-16 | $25.08 |
| 355,830 | 14-Nov-13 | 31-Aug-16 | $36.22 |
| 313,169 | 13-Nov-14 | 31-Aug-17 | $38.58 |
| 366,831 | 13-Nov-14 | 31-Aug-17 | $49.95 |
| 279,512 | 13-Nov-15 | 31-Aug-18 | $46.98 |
| 359,695 | 13-Nov-15 | 31-Aug-18 | $61.96 |
| 1,982,207 | | | |

[(1)] The vesting date shown is the most likely vesting date subject to full satisfaction of the respective performance conditions.
[(2)] Fair value at grant date

## V. OTHER INFORMATION (CONTINUED)

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

**Key Estimates and Assumptions**

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 14 November 2013, 13 November 2014 and 13 November 2015.

| | Granted 13-Nov-15 | Granted 13-Nov-14 | Granted 14-Nov-13 |
|---|---|---|---|
| Dividend yield | 1.83% | 1.91% | 2.08% |
| Expected volatility | 22.5% | 22.5% | 22.5% |
| Historical volatility | 21.2% | 21.7% | 22.3% |
| Risk-free interest rate | 2.2% | 2.9% | 3.0% |
| Effective life of incentive right | 3 years | 3 years | 3 years |

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

**Recognition and Measurement**

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 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.

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

## V. OTHER INFORMATION (CONTINUED)

### 17. EXPENDITURE COMMITMENTS

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **(i) Finance leases & hire purchase commitments – Group as lessee** | | | |
| - Within one year | | 61,746 | 74,937 |
| - After one year but not more than five years | | 142,475 | 204,625 |
| - After more than five years | | 81,839 | 49,857 |
| Total minimum lease payments | | 286,060 | 329,419 |
| - Less: future finance charges | | (26,573) | (42,348) |
| - Present value of minimum lease payments | | 259,487 | 287,071 |
| Total lease liability accrued for: | | | |
| *Current* | | | |
| - Finance leases | 7b | 63,373 | 66,625 |
| *Non-current* | | | |
| - Finance leases | 7b | 196,114 | 220,446 |
| | | 259,487 | 287,071 |

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 six years and the average discount rate implicit in the leases is between 2.5% to 6.5% (2015: 2.5% to 6.5%). The security over finance leases is disclosed in Note 7b.

**(ii) Lease expenditure commitments – Group as lessee**

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Operating leases (non-cancellable): | | | |
| Minimum lease payments | | | |
| - Within one year | | 332,726 | 309,455 |
| - After one year but not more than five years | | 1,109,241 | 1,121,861 |
| - After more than five years | | 2,884,821 | 3,035,087 |
| Aggregate lease expenditure contracted for at reporting date | | 4,326,788 | 4,466,403 |
| Amounts provided for: | | | |
| - deferred lease - current | 14b | 300 | 300 |
| - deferred lease - non- current | 14b | 254,886 | 267,853 |
| - unfavourable contract - current | 14b | 10,244 | 12,225 |
| - unfavourable contract – non-current | 14b | 27,909 | 26,448 |
| | | 293,339 | 306,826 |
| Amounts not provided for: | | | |
| - rental commitments | | 4,033,449 | 4,159,577 |

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.

**(iii) Group as lessee – Recognition and Measurement**

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.

*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.

## V. OTHER INFORMATION (CONTINUED)

### 17. EXPENDITURE COMMITMENTS (CONTINUED)

**(iv) Group as lessor – Recognition and Measurement**

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period which they are earned.

**(v) Commitment to manage & operate the Mildura Base Hospital**

Ramsay Health Care Australia Pty Limited had a 15 year agreement with the State of Victoria to manage and operate the Mildura Base Hospital, in accordance with the Hospital Service Agreement between Ramsay Health Care Australia Pty Limited and the State of Victoria. A 5 year extension to this agreement was signed in the year ended 30 June 2014. Under this agreement Ramsay Health Care Australia Pty Limited takes full operator risk.

### 18. AUDITORS' REMUNERATION

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Amounts received or due and receivable by Ernst & Young (Australia) for: | | |
| - An audit or review of the financial report of the entity and any other entity in the consolidated group | 1,796,254 | 1,817,000 |
| - Other services in relation to the entity and any other entity in the consolidated group | | |
| Tax compliance | 482,551 | 720,000 |
| Assurance related | 40,000 | 5,000 |
| Other | 661,807 | 39,000 |
| | 2,980,612 | 2,581,000 |
| Amounts received or due and receivable by related practices of Ernst & Young (Australia) for: | | |
| - An audit or review of the financial report of the entity and any other entity in the consolidated group | 1,031,959 | 930,000 |
| - Other services in relation to the entity and any other entity in the consolidated group | | |
| Tax compliance | 266,172 | 134,000 |
| Other | - | 89,000 |
| | 4,278,743 | 3,734,000 |
| Amounts received or due and receivable by non Ernst & Young audit firms for: | | |
| - Audit or review of the financial report | 2,888,000 | 3,452,000 |
| - Taxation services | 10,000 | 9,000 |
| - Other non-audit services | 81,000 | - |
| | 2,979,000 | 3,461,000 |

### 19. RELATED PARTY TRANSACTIONS

**(i) Transactions with Directors of Ramsay Health Care Limited and the Group**

*Entities associated with Mr Siddle, Mr Clark and Mr Evans*

Paul Ramsay Holdings Pty Limited granted a licence to the economic entity to occupy office space at a commercial arms-length licence fee which expired on 30 September 2015. In addition, any expenditure incurred by the economic entity on behalf of Paul Ramsay Holdings Pty Limited is charged at arm's length basis. Total amount outstanding at 30 June 2016 is nil (2015: nil).

During the year costs of $24,317 (2015: $30,799) were charged to and an amount of $24,317 (2015: $55,727) was received from Paul Ramsay Holdings Pty Limited for expenditures incurred on behalf of Paul Ramsay Holdings Pty Limited.

During the year costs of $88,257 (2015: $17,853) were charged by and an amount of $101,989 (2015: $36,901) was paid to Paul Ramsay Holdings Pty Limited for services rendered to the Group.

At 30 June 2016 costs of $10,067 (2015: $17,125) were accrued for expenditures incurred on behalf of Paul Ramsay Holdings Pty Limited that had not yet been invoiced.

## V. OTHER INFORMATION (CONTINUED)

### 19. RELATED PARTY TRANSACTIONS (CONTINUED)

**(ii) Compensation of key management personnel**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Non-Executive Directors** | | |
| Short term | 2,522,050 | 1,772,385 |
| Post-employment | 205,384 | 179,490 |
| Performance/Incentive rights | 344,000 | - |
| | 3,071,434 | 1,951,875 |
| **Executive Directors** | | |
| Short term | 6,846,360 | 6,685,066 |
| Post-employment | 135,798 | 139,938 |
| Performance/Incentive rights | 12,833,064 | 9,852,675 |
| | 19,815,222 | 16,677,679 |
| **Executives** | | |
| Short term | 2,627,784 | 2,514,224 |
| Post-employment | 84,159 | 86,050 |
| Performance/Incentive rights | 4,932,141 | 3,753,400 |
| | 7,644,084 | 6,353,674 |
| **Total** | | |
| Short term | 11,996,194 | 10,971,675 |
| Post-employment | 425,341 | 405,478 |
| Performance/Incentive rights | 18,109,205 | 13,606,075 |
| | 30,530,740 | 24,983,228 |

### 20. 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.

## V. OTHER INFORMATION (CONTINUED)

### 21. INFORMATION RELATING TO SUBSIDIARIES

| Name | Country of Incorporation | % Equity Interest 2016 | 2015 |
|---|---|---|---|
| RHC Nominees Pty Limited ^ | Australia | 100% | 100% |
| RHC Developments Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Investments Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Hospital Holdings Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Hospital Holdings (Queensland) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Finance Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Aged Care Holdings Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Aged Care Properties Pty Limited ^ | Australia | 100% | 100% |
| RHC Ancillary Services Pty Limited ^ | Australia | 100% | 100% |
| Linear Medical Pty Limited ^ | Australia | 100% | 100% |
| Newco Enterprises Pty Limited ^ | Australia | 100% | 100% |
| Sydney & Central Coast Linen Services Pty Limited ^ | Australia | 100% | 100% |
| Benchmark Healthcare Holdings Pty Limited ^ | Australia | 100% | 100% |
| Benchmark Healthcare Pty Limited ^ | Australia | 100% | 100% |
| AHH Holdings Health Care Pty Limited ^ | Australia | 100% | 100% |
| AH Holdings Health Care Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Centauri Pty Limited ^ | Australia | 100% | 100% |
| Alpha Healthcare Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Australia Pty Limited ^ | Australia | 100% | 100% |
| Donvale Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| The Benchmark Hospital Group Pty Limited ^ | Australia | 100% | 100% |
| Dandenong Valley Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Benchmark – Surrey Pty Limited ^ | Australia | 100% | 100% |
| Benchmark – Peninsula Pty Limited ^ | Australia | 100% | 100% |
| Benchmark – Donvale Pty Limited ^ | Australia | 100% | 100% |
| Benchmark – Windermere Pty Limited ^ | Australia | 100% | 100% |
| Benchmark – Beleura Pty Limited ^ | Australia | 100% | 100% |
| Beleura Properties Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Holdings Australia Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Finance Australia Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Foundation Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health Holdings Indonesia Pty Limited ^ | Australia | 100% | 100% |
| Hospitals of Australia Pty Limited ^ | Australia | 100% | 100% |
| Glenferrie Private Hospital Pty Limited^ | Australia | 100% | 100% |
| Relkban Pty Limited ^ | Australia | 100% | 100% |
| Relkmet Pty Limited ^ | Australia | 100% | 100% |
| Votraint No. 664 Pty Limited ^ | Australia | 100% | 100% |
| Votraint No. 665 Pty Limited ^ | Australia | 100% | 100% |
| Australian Medical Enterprises Pty Limited ^ | Australia | 100% | 100% |
| AME Hospitals Pty Limited ^ | Australia | 100% | 100% |
| Victoria House Holdings Pty Limited ^ | Australia | 100% | 100% |
| C&P Hospitals Holdings Pty Limited ^ | Australia | 100% | 100% |
| HCoA Hospital Holdings (Australia) Pty Limited ^ | Australia | 100% | 100% |
| AME Properties Pty Limited ^ | Australia | 100% | 100% |
| AME Superannuation Pty Limited ^ | Australia | 100% | 100% |
| Attadale Hospital Property Pty Limited ^ | Australia | 100% | 100% |
| Glengarry Hospital Property Pty Limited ^ | Australia | 100% | 100% |
| Hadassah Pty Limited ^ | Australia | 100% | 100% |
| Rannes Pty Limited ^ | Australia | 100% | 100% |
| Hallcraft Pty Limited ^ | Australia | 100% | 100% |
| Jamison Private Hospital Property Pty Limited ^ | Australia | 100% | 100% |
| Affinity Health (FP) Pty Limited ^ | Australia | 100% | 100% |
| Armidale Hospital Pty Limited ^ | Australia | 100% | 100% |
| Caboolture Hospital Pty Limited ^ | Australia | 100% | 100% |
| Joondalup Hospital Pty Limited ^ | Australia | 100% | 100% |
| Joondalup Health Campus Finance Limited | Australia | 100% | 100% |
| Logan Hospital Pty Limited ^ | Australia | 100% | 100% |
| Noosa Privatised Hospital Pty Limited ^ | Australia | 100% | 100% |
| AMNL Pty Limited ^ | Australia | 100% | 100% |
| Mayne Properties Pty Limited ^ | Australia | 100% | 100% |
| Port Macquarie Hospital Pty Limited ^ | Australia | 100% | 100% |
| HCoA Operations (Australia) Pty Limited ^ | Australia | 100% | 100% |
| Hospital Corporation Australia Pty Limited ^ | Australia | 100% | 100% |
| Dabuvu Pty Limited ^ | Australia | 100% | 100% |

^ *Entities included in the deed of cross guarantee as required for the class order*

## V. OTHER INFORMATION (CONTINUED)

### 21. INFORMATION RELATING TO SUBSIDIARIES (CONTINUED)

| Name | Country of Incorporation | % Equity Interest 2016 | 2015 |
|---|---|---|---|
| HOAIF Pty Limited ^ | Australia | 100% | 100% |
| HCA Management Pty Limited ^ | Australia | 100% | 100% |
| Malahini Pty Limited ^ | Australia | 100% | 100% |
| Tilemo Pty Limited ^ | Australia | 100% | 100% |
| Hospital Affiliates of Australia Pty Limited ^ | Australia | 100% | 100% |
| C.R.P.H Pty Limited ^ | Australia | 100% | 100% |
| Hospital Developments Pty Limited ^ | Australia | 100% | 100% |
| P.M.P.H Pty Limited ^ | Australia | 100% | 100% |
| Pruinosa Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Allamanda) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Latrobe) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care 1988 Pty Limited ^ | Australia | 100% | 100% |
| AHC Foundation Pty Limited ^ | Australia | 100% | 100% |
| AHC Tilbox Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Masada) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care Investments Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (MPH) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (MSH) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (Pindara) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care (The Avenue) Pty Limited ^ | Australia | 100% | 100% |
| Australian Hospital Care Retirement Plan Pty Limited ^ | Australia | 100% | 100% |
| eHealth Technologies Pty Limited ^ | Australia | 100% | 100% |
| Health Technologies Pty Limited ^ | Australia | 100% | 100% |
| Rehabilitation Holdings Pty Limited ^ | Australia | 100% | 100% |
| Bowral Management Company Pty Limited ^ | Australia | 100% | 100% |
| Simpak Services Pty Limited ^ | Australia | 100% | 100% |
| APL Hospital Holdings Pty Limited ^ | Australia | 100% | 100% |
| Alpha Pacific Hospitals Pty Limited ^ | Australia | 100% | 100% |
| Health Care Corporation Pty Limited ^ | Australia | 100% | 100% |
| Alpha Westmead Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Illawarra Private Hospital Holdings Pty Limited ^ | Australia | 100% | 100% |
| Northern Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Westmead Medical Supplies Pty Limited ^ | Australia | 100% | 100% |
| Herglen Pty Limited ^ | Australia | 100% | 100% |
| Mt Wilga Pty Limited ^ | Australia | 100% | 100% |
| Sibdeal Pty Limited ^ | Australia | 100% | 100% |
| Workright Pty Limited ^ | Australia | 100% | 100% |
| Adelaide Clinic Holdings Pty Limited ^ | Australia | 100% | 100% |
| eHospital Pty Limited ^ | Australia | 100% | 100% |
| New Farm Hospitals Pty Limited ^ | Australia | 100% | 100% |
| North Shore Private Hospital Pty Limited ^ | Australia | 100% | 100% |
| Phiroan Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (Asia Pacific) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (South Australia) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (Victoria) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (QLD) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (VIC) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care Services (WA) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Pharmacy Retail Services Pty Limited^ | Australia | 100% | 100% |
| Ramsay International Holding Company Pty Limited | Australia | 100% | - |
| Ramsay Professional Services Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Diagnostics (No. 1) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Diagnostics (No. 2) Pty Limited ^ | Australia | 100% | 100% |
| Ramsay Health Care (UK) Limited | UK | 100% | 100% |
| Ramsay Health Care UK Finance Limited | UK | 100% | 100% |
| Ramsay Health Care Holdings UK Limited | UK | 100% | 100% |
| GHG 2008 10A (BVI Property Holdings) Limited | British Virgin Islands | 100% | 100% |
| Ramsay UK Properties Limited | UK | 100% | 100% |
| Independent British Healthcare (Doncaster) Limited | UK | 100% | 100% |
| Ramsay Diagnostics UK Limited | UK | 100% | 100% |
| Ramsay Health Care UK Operations Limited | UK | 100% | 100% |
| Ramsay Health Care Leasing UK Limited | Guernsey | 100% | 100% |
| Ramsay Santé SA* | France | - | 57% |
| Ramsay Générale de Santé SA* (formerly Générale de Santé SA) | France | 50.9% | 48.8% |

^ *Entities included in the deed of cross guarantee as required for the class order*
* *Ramsay Générale de Santé and Ramsay Santé SA own a number of subsidiaries, none of which are individually material to the Group*

## V. OTHER INFORMATION (CONTINUED)

### 22. CLOSED GROUP

**Entities subject to class order**

Pursuant to Class Order 98/1418, relief has been granted to the entities in the table of subsidiaries in Note 21, (identified by ^) from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, these entities entered into a Deed of Cross Guarantee on 22 June 2006 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, 24 June 2011, 20 October 2015 and 17 December 2015. 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:

| | Closed Group | |
|---|---|---|
| **Consolidated Income Statement** | **2016 $000** | **2015 $000** |
| Profit from operations before income tax | 517,595 | 461,541 |
| Income tax expense | (150,440) | (135,865) |
| Net profit for the year | 367,155 | 325,676 |
| Retained earnings at the beginning of the year | 839,848 | 711,959 |
| Retained earnings adjustments for additions of entities into the class order | 1,624 | - |
| Dividends provided for or paid | (230,194) | (197,787) |
| Retained earnings at the end of the year | 978,433 | 839,848 |
| | | |
| **Consolidated Statement of Financial Position** | | |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 100,751 | 72,095 |
| Trade receivables | 569,132 | 473,968 |
| Inventories | 103,886 | 100,956 |
| Prepayments | 18,407 | 18,311 |
| Other current assets | 5,991 | 3,709 |
| **Total Current Assets** | **798,167** | **669,039** |
| | | |
| **Non-current Assets** | | |
| Other financial assets | 627,068 | 627,288 |
| Investments in joint ventures | 210,765 | 211,573 |
| Goodwill and intangibles | 1,102,735 | 1,093,632 |
| Deferred tax asset | 112,355 | 102,232 |
| Property, plant and equipment | 1,986,449 | 1,834,718 |
| Non-current prepayments | 12,068 | 12,426 |
| Other non-current assets | 6,490 | 3,541 |
| **Total Non-current Assets** | **4,057,930** | **3,885,410** |
| **TOTAL ASSETS** | **4,856,097** | **4,554,449** |
| | | |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Trade and other payables | 856,607 | 808,886 |
| Interest-bearing loans and borrowings | 30,129 | 23,297 |
| Provisions | 35,496 | 20,268 |
| Derivative financial instruments | 10,377 | 9,985 |
| Income tax payable | 18,357 | 21,824 |
| **Total Current Liabilities** | **950,966** | **884,260** |
| | | |
| **Non-current Liabilities** | | |
| Interest-bearing loans and borrowings | 1,345,962 | 1,265,412 |
| Provisions | 170,774 | 167,245 |
| Derivative financial instruments | 23,561 | 8,892 |
| **Total Non-current Liabilities** | **1,540,297** | **1,441,549** |
| **TOTAL LIABILITIES** | **2,491,263** | **2,325,809** |
| **NET ASSETS** | **2,364,834** | **2,228,640** |

## V. OTHER INFORMATION (CONTINUED)

### 22. CLOSED GROUP (CONTINUED)

| | Closed Group | |
|---|---|---|
| **EQUITY** | **2016 $000** | **2015 $000** |
| Issued capital | 713,523 | 713,523 |
| Treasury shares | (88,844) | (80,190) |
| Convertible Adjustable Rate Equity Securities (CARES) | 252,165 | 252,165 |
| Retained earnings | 978,433 | 839,848 |
| Other reserves | 509,557 | 503,294 |
| **TOTAL EQUITY** | **2,364,834** | **2,228,640** |

### 23. PARENT ENTITY INFORMATION

| **Information relating to Ramsay Health Care Limited** | **2016 $000** | **2015 $000** |
|---|---|---|
| Current assets | 1,115,045 | 1,123,740 |
| Total assets | 1,256,564 | 1,265,649 |
| Current liabilities | (21,631) | (24,518) |
| Total liabilities | (21,631) | (24,518) |
| | | |
| Issued capital | (713,523) | (713,523) |
| Other equity | (521,410) | (527,608) |
| Total shareholders' equity | (1,234,933) | (1,241,131) |
| | | |
| Net profit for the year after tax | 193,409 | 172,909 |

As a condition of the class order (set out in Note 22), 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.

### 24. MATERIAL PARTLY- OWNED SUBSIDIARIES

Ramsay Générale de Santé SA (formerly Générale de Santé SA) has a material non-controlling interest (NCI):

This entity represents the French segment for management and segment reporting.

Financial information in relation to the NCI is provided below:

**(a) Proportion of equity interest and voting rights held by non- controlling interests**
Refer to Note 21 which discloses the equity interest held by the Ramsay Group. The remaining equity interest is held by the non-controlling interest.
Voting rights for Ramsay Générale de Santé (formerly Générale de Santé) at 30 June 2016 are 50.3% (2015: 45.7%). The remaining interest is held by the non-controlling interest.

**(b) Accumulated balances of non-controlling interests**
Refer to the Consolidated Statement of Changes in Equity

**(c) Profit allocated to non-controlling interests**
Refer to the Consolidated Income Statement

**(d) Summarised Statement of Profit or Loss and Statement of Financial Position for 2016 and 2015**
Refer to Note 1. The French segment consists only of this subsidiary that has a material non-controlling interest.

**(e) Summarised cash flow information**

| | **2016 $000** | **2015 $000** |
|---|---|---|
| Operating | 232,117 | 246,862 |
| Investing | (354,245) | (95,268) |
| Financing | 88,285 | 64,137 |
| Net increase/(decrease) in cash and cash equivalents | (33,843) | 215,731 |

# ATTACHMENT 1 - RAMSAY HEALTH CARE LIMITED DIRECTORS & COMPANY SECRETARY FOR THE YEAR ENDED 30 June 2016

## DIRECTOR INFORMATION

**Michael S Siddle**
**Chairman**
Appointed 27/05/14 (Appointed as a Director 26/5/75)

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Mr Michael Siddle was appointed as Chairman of the Company on 27 May 2014, having formerly been Deputy Chairman for 17 years and a founding director. He has built up significant knowledge of the business and the private hospital industry after starting with the Company in 1968. Mr Siddle has extensive experience in the management of private hospitals and has been integrally involved in Ramsay Health Care's successful expansion through construction, mergers and acquisitions. He serves as a member of the Company's Remuneration Committee and is Chair of the Nomination Committee.

Mr Siddle was a director of Prime Media Group Limited, one of Australia's largest regional television and radio operators, from April 1985 to November 2015.

Mr Siddle is also a trustee of the Paul Ramsay Foundation.

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

- Prime Media Group Limited (Retired November 2015)

**Peter J Evans** FCA
**Deputy Chairman**
Appointed 27/05/14 (Appointed as a Director 29/12/90)

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Mr Peter Evans was appointed as Deputy Chairman of the Company on 27 May 2014, having formerly served as a Non-Executive Director since his appointment to the Board in 1990. Mr Evans began working with Ramsay Health Care in 1969. He 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 45 years. Mr Evans is Chairman of both the Company's Audit and Risk Management Committees and a member of the Remuneration Committee.

Mr Evans is also a trustee of the Paul Ramsay Foundation and has been actively involved with several other charitable organisations over many years.

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

- Prime Media Group Limited (Retired November 2014)

**Christopher P Rex**
**CEO & Managing Director**
Appointed 01/07/08

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Mr Chris Rex is Managing Director and Chief Executive Officer of Ramsay Health Care (Ramsay) 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 to over $7 billion and included the transformational acquisition of Affinity Healthcare in 2005 and Ramsay's subsequent growth overseas in Europe, the UK and Asia. In addition to its market leading position in Australia, Ramsay is now the largest operator of private hospitals in France, and is ranked in the top five hospital operators in the world by revenue and market capitalisation.

Prior to joining Ramsay Health Care in 1995, Mr Rex 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 former President of the Australian Private Hospitals Association (APHA) the peak body representing private hospitals in Australia. Until recently he was a Board member of the Schizophrenia Research Foundation and also a Director of Football Federation Australia and Sydney FC.

Mr Rex is Chairman of Ramsay Générale de Santé, a publicly listed hospital operator in France in which Ramsay Health Care (UK) Limited has a controlling interest. He is also a member of the Board's Risk Management Committee.

**DIRECTOR INFORMATION (CONTINUED)**

**Bruce R Soden** B.Comm CA FAICD
**CFO & Group Finance Director**
Appointed 02/01/97

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Mr Bruce Soden, a chartered accountant, is Group Finance Director and Chief Financial Officer of the Company, a role he has held since early 1997. Mr Soden is responsible for all financial operations and corporate governance functions of the business including treasury, banking and finance, legal and company secretariat, investor relations and group accounting and taxation. Over his extensive time with the Group, 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), Ramsay's listing on the ASX in 1997, the company-transforming acquisition of Affinity Health Care in 2005 and all debt and equity raisings.

Since listing and under Mr Soden's financial leadership, Ramsay's enterprise value has grown from under $400 million in 1997 to in excess of $18.5 billion currently.

Mr Soden is also a member of the Board's Risk Management Committee.

Mr Soden is a Director of Ramsay Générale de Santé, a publicly listed hospital operator in France in which Ramsay Health Care (UK) Limited has a controlling interest, and he is also a Director of Ramsay Sime Darby Health Care, the Company's joint venture with Sime Darby.

Prior to being appointed Group Finance Director in 1997, Mr Soden was Finance Director and Chief Financial Officer 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 US health care company.

Before joining Ramsay in 1987, Mr Soden was 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

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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 is also a trustee of the Paul Ramsay Foundation.

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 (Resigned October 2013)
- Sphere Minerals Limited (Resigned June 2016)

**I Patrick S Grier** AM MAICD
**Non-Executive Director**
Appointed 01/07/08

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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.

Mr Grier was also a director of Careers Australia Group Limited until October 2013.

Mr Grier is a member of the Skin Cancer Network Advisory Board. He was previously Chairman of the Domain Principal Group.

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

- Estia Health Limited (Chairman, Appointed November 2014)
- Prime Media Group Limited (Retired November 2014)

**DIRECTOR INFORMATION (CONTINUED)**

**Rod H McGeoch** AO LLB MAICD
**Non-Executive Director**
Appointed 03/07/97

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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. Mr McGeoch is also a past Chairman of Sky City Entertainment Group Limited.

Currently Mr McGeoch is Chairman of Vantage Private Equity Growth Limited and Mediaworks Limited in New Zealand, and is also Deputy Chairman of the Sydney Cricket & Sports Ground Trust. Mr McGeoch also holds a number of honorary positions. In 1990 he was awarded Membership of the Order of Australia for services to Law and the Community and in 2013, also awarded an Officer of the Order of Australia for distinguished service to the Community through contributions to a range of organisations and to sport, particularly through leadership in securing the Sydney Olympic Games. Mr McGeoch is Co-Chairman of the Australian New Zealand Leadership Forum and is also a director of Destination NSW. In January 2013, Mr McGeoch was appointed Honorary Consul General of Luxembourg in Australia.

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

- BGP Holdings Plc Malta and BGP Investment S.a.r.l Luxembourg (Appointed November 2009) (Currently Chairman)
- Sky City Entertainment Group Limited (Appointed September 2002) (Resigned October 2014)

**Kerry C D Roxburgh** BCom MBA MESAA
**Non-Executive Director**
Appointed 03/07/97

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

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 Eclipx Group Limited and of Tyro Payments Ltd.

He is also a member of the Advisory Board of AON Risk Solutions in Australia.

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 (now HSBC Australia Ltd) 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.

Until 31 December 2015, he was Chairman of Tasman Cargo Airlines Pty Ltd and Deputy Chairman of Marshall Investments Pty. Ltd.

In addition to Ramsay Health Care Limited, during the last three years Mr Roxburgh also served as a director of the following listed companies:

- Eclipx Group Limited (Appointed March 2015) (Currently Chairman)
- Charter Hall Limited (Retired November 2014)

**Patricia E Akopiantz** BA MBA
**Non-Executive Director**
Appointed 28/04/15

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Ms Akopiantz has over 30 years’ experience in consumer-facing businesses in Australia and overseas. She has been a non-executive director for the last 14 years and has served on numerous boards including Coles Group, AXA Asia Pacific and Energy Australia.

Previously, she was with McKinsey & Company where she helped lead the Retail and Consumer Goods Practice and advised a range of clients on strategy. Her executive career included roles as General Manager Marketing at David Jones and Vice President for an American apparel manufacturer. She has an MBA from Harvard Business School.

In addition to Ramsay Health Care, Ms Akopiantz currently serves as the Chairman of AMP Bank Limited and as a non-executive director on the Board of AMP Limited. She is also Chairman of AMP’s People and Remuneration Committee and a Member of AMP Limited’s Nominations and Governance Committee.

During the last three years, Ms Akopiantz has also served as a director of the following listed company:

- AMP Limited (Appointed March 2011)

**DIRECTOR INFORMATION (CONTINUED)**

**Margaret L Seale** BA FAICD
**Non-Executive Director**
Appointed 28/04/15

Ms Margaret (Margie) Seale is a Non-Executive Director and serves as a member of the Risk Management Committee. She also has current directorships at Telstra Corporation Limited, Bank of Queensland Limited and Scentre Group Limited and is Chair of Penguin Random House Australia and New Zealand. She is a member of the Audit Committee for Telstra, a member of each of the Technology and Remuneration Committees for Bank of Queensland and a member of each of the Audit and Risk and Human Resources Committees at Scentre Group.

Ms Seale is a professional non-executive director with 25 years' experience in senior executive roles in Australia and overseas in the global publishing, health and consumer goods industries, doing business in Asia and across multinational markets.

In her most recent executive role, Ms Seale was Managing Director of Random House Australia and New Zealand and President, Asia Development for Random House globally. She stepped down from Random House in November, 2012. During her time at the helm, the publishing industry transitioned from an entirely print world to a mixed print and digital environment. Prior to this she held national sales and marketing roles in a number of industries.

Ms Seale was educated at the University of Sydney.

During the last three years, Ms Seale has also served as a Director of the following listed companies:

- Telstra Corporation Limited (Appointed May 2012);
- Bank of Queensland Limited (Appointed January 2014); and
- Scentre Group Limited (Appointed February 2016).

**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 in January 2007, 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 Global Legal team and has responsibility for coordinating Risk Management throughout the Group. He also provides input into all major acquisitions of the Ramsay Group globally 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.