PRELIMINARY FINAL REPORT GIVEN TO THE ASX UNDER LISTING RULE 4.3A

Name of entity

Healthscope Limited

ABN

85 006 405 152

Report period	**Previous corresponding period**
30 June 2010	**30 June 2009**

Contents **Item**

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				$'000
Revenue	up	**11.5%**	to	**$1,843,468**
Profit from ordinary activities before amortisation, depreciation,borrowing costs, income tax and non-recurring items. (EBITDA)	up	**15.4%**	to	**$263,573**
Profit from ordinary activities after income tax before non-recurring items.	up	**16.6%**	to	**$102,823**
Profit after income tax	up	**37.3%**	to	**$99,282**
Net profit for the period attributable to members	up	**37.3%**	to	**$99,282**

Dividends per Share	**Amount per share**	**Franked amount per share at 30% tax**
Final – Proposed	**12.0** cents	**12.0** cents
Interim	**11.5** cents	**11.5** cents

Record date for determining entitlements to dividends 1 October 2010

Payment Date for Dividend (4) October 2010

2. Net tangible assets per ordinary share

	Current Period	**Previous Corresponding Period**
Net tangible assets per ordinary share (NTA backing)	$0.71	$0.06

3. Healthscope Limited and Controlled Entities Annual Financial Report

Refer to the attached Annual Financial Report for an explanation of the above figures.

HEALTHSCOPE LIMITED

ABN 85 006 405 152

AND CONTROLLED ENTITIES

ANNUAL

FINANCIAL

REPORT

For the year ended 30 June 2010

TABLE OF CONTENTS

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report for the year ended 30 June 2010 accompanied by the financial report of Healthscope Limited and the entities it controlled from time to time during the year (‘Healthscope’).

Overview

Directors

The Directors of the Company during the year (or, where indicated, during part of the year only) were:

Ms Linda Nicholls
Mr Richard England
Dr Ziggy Switkowski
Mr Philip Bullock
Mr Eric Dodd
Ms Paula Dwyer (appointed 10 March 2010)
Mr Bruce Dixon
Mr David Evans (retired 30 November 2009)

Details of each current Director’s qualifications, special responsibilities and experience are set out on pages 10 to 12.

Meetings Of Directors

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

i) Board of Directors Meetings

	SCHEDULED		UNSCHEDULED	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Linda Nicholls***	11	11	17	17
Richard England	11	11	17	17
Ziggy Switkowski	11	11	17	17
Philip Bullock	11	11	17	15
Eric Dodd	11	11	17	16
Paula Dwyer*	3	2	10	10
Bruce Dixon	11	11	17	17
David Evans**	5	5	3	2

* *Appointed on 10 March 2010*
** *Retired on 30 November 2009*
*** Ceased as a member of the Audit, Compliance and Risk committee 24 March 2010

DIRECTORS' REPORT

ii) Board Committee Meetings

	AUDIT, COMPLIANCE & RISK ASSURANCE COMMITTEE		REMUNERATION COMMITTEE		NOMINATIONS COMMITTEE	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Linda Nicholls	5	5	-	-	1	1
Richard England	6	6	-	-	1	1
Ziggy Switkowski	6	5	4	4	1	1
Philip Bullock	-	-	4	4	1	1
Eric Dodd	6	6	-	-	-	-
Paula Dwyer*	1	1	-	-	1	-
Bruce Dixon	-	-	-	-	-	-
David Evans**	-	-	4	4	-	-

* *Appointed on 10 March 2010*
** *Retired on 30 November 2009*

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

In addition to the above, a special purpose Board sub-committee was appointed to undertake certain matters in relation to the proposed Scheme of Arrangement with Asia Pacific Healthcare Group Pty Ltd. The members of the Committee were Ms L Nicholls (Chairman), Dr Z Switkowski and Ms P Dwyer. The Committee met four times during the year with all members present, other than Dr Switkowski on one occasion.

During the year, another special purpose Board sub-committee was established to consider major acquisitions. The members of this Committee consisted of Mr R England as Chairman (with Dr Z Switkowski as his alternate) and Mr B Dixon. The Committee met five times during the year and Mr England and Mr Dixon attended all meetings. Dr Switkowski attended three meetings of the Committee as an observer.

The non-executive directors meet at least once annually, without management, to discuss the operations of the Board and key issues affecting the Company, including the performance of senior executives, succession planning and other strategic issues affecting the Company. Further details of Committee membership and functions are set out in the Corporate Governance Statement on pages 23 to 31.

Principal Activities

Healthscope's principal activity during the year was the provision of healthcare services, through the ownership and management of hospitals, medical centres and the provision of diagnostic services (pathology).

Operating Results

The net profit after tax from Continuing Operations, before Non-recurring Items (NRI's) amounted to $102,823,000 (2009: $88,214,000).
The consolidated operating profit of the economic entity for the year attributable to members of the Company, after providing for income tax, amounted to $99,282,000 (2009: $72,290,000).

Dividends

In respect of the year ended 30 June 2010:

- An interim dividend of 11.5 cents per share was paid on 6 April 2010 (100% franked); and
- A final dividend of 12 cents per share is intended to be paid on 4 October 2010 (100% franked) to eligible shareholders.

Review Of Operations

Group Results

Group Results – before NRI's

Healthscope delivered revenue growth of 11.5% in FY 2010, with both the Hospitals and Pathology businesses achieving solid gains. Revenue growth was driven by both organic growth as well as investment in new businesses, infrastructure and equipment. This included the commissioning of Norwest Private, the completion of a number of hospital expansion projects, the acquisition of ARL Pathology and the commencement of the Labtests NZ contract.

EBITDA increased by 15.5%, driven by the revenue growth referred to above, increased operating efficiencies across the businesses, and an accounting reclassification between EBITDA, depreciation and interest of $7.0 million relating to reagent rental agreements. Excluding the accounting reclassification, EBITDA was $256.6 million, an increase of 12.4% over FY 2009.

Depreciation increased by 34.5%, reflecting the significant investment in infrastructure and equipment over the past 12 months, in particular in relation to the hospital expansion program.

Net interest decreased marginally in FY 2010. Higher average interest rates and debt balances in the second half of the year largely offset the impact on net interest from the share placement and share purchase plan undertaken earlier in the year.

Tax expense increased by 7.9% in FY 2010. The lower effective tax rate is primarily due to the tax benefit of the Government's investment allowance.

NPAT before NRI's increased by 16.6%, driven by stronger operating earnings and a reduction in the effective tax rate, partially offset by an increase in depreciation.

The table below provides an analysis of the growth in EBITDA achieved in FY 2010 compared with the previous year. A more detailed analysis is contained in the Review of Operations.

EBITDA	FY 2010 $ Millions	FY 2009 $ Millions	Variation %
Hospitals	202.1	178.7	13.1
Pathology Australia	47.4	42.4	11.8
Pathology International	28.9	19.4	49.0
Corporate	(14.8)	(12.2)	21.3
Total-before NRI's	**263.6**	**228.3**	**15.5**

Higher EBITDA contributions from both the Hospitals and Pathology divisions were partially offset by higher corporate costs. Corporate costs increased in line with the increase in performance based executive remuneration, following achievement of 'stretch' targets for 2009.

DIRECTORS' REPORT

Non-Recurring Items

NRI's (after tax) reduced the Group FY 2010 NPAT by $3.5 million, which is significantly less than NRI's (after tax) in FY 2009 of $15.9 million. NRI's (after tax) included in the NPAT after NRI's are outlined in the table below:

NRI's after tax	FY 2010 $ Millions	FY 2009 $ Millions
Restructure and transition costs	(3.0)	(2.6)
Acquisition costs	(3.5)	(1.3)
Legal costs (major disputes)	(0.8)	-
Costs relating to proposed scheme	(1.7)	-
Tax adjustment (consolidations)	4.1	-
Profit on revaluation of e-clinic	1.4	-
Write-off of Symbion break fee	-	(12.0)
Total NRI's after tax	**(3.5)**	**(15.9)**

Occupational Health & Safety

Achieving improved safety performance with the ultimate goal of recording nil injuries is a major focus. The company has recorded its seventh successive year of reductions in lost time injury frequency rate (number of lost time injuries per million hours worked) which decreased from 5.0 to 3.4 a 32% improvement over the last 12 months.

Quality Programs

All staff members and clinicians have a role in ensuring patient safety and in promoting high quality healthcare. A cornerstone of Healthscope's Quality Program is accreditation of our hospitals, laboratories and medical centres by the relevant independent accreditation bodies.

During the year, 22 hospitals successfully underwent an organisation-wide survey or periodic review by the Australian Council on Healthcare Standards. Accreditation of diagnostic imaging services was a new Medicare requirement in 2009 and all 37 of our services have been accredited. In our Pathology division, 38 laboratories were successfully accredited by the National Association of Testing Authorities ('NATA'), and Labtests New Zealand successfully underwent IANZ accreditation. All Australian laboratories and collection centres have also attained ISO 9001 certification by Lloyds Register.

Outlook

The Health care reforms proposed by the Federal government primarily impact the public health system and will not change the strong industry fundamentals driving the demand for private hospital services.

– Growth in the Hospitals division in FY 2011 is expected to be underpinned by continued strong underlying demand and the benefits of the hospital expansion program.

– In Australian Pathology, growth in FY 2011 is expected to come from a significant increase in volumes, particularly through new collection centres opened following the deregulation on 1 July 2010. Furthermore, on 1 July 2010 Healthscope moved to national branding for its Australian Pathology business, Healthscope Pathology, which is also expected to enhance Healthscope's positioning in the Australian market.

– Further incremental growth is expected in International Pathology in FY2011.

DIRECTORS' REPORT

State Of Affairs

The Company's activities relate to the ownership and management of private hospitals and medical centres within Australia and also to the provision of pathology services in Australia, New Zealand and South East Asia.

Subsequent Events

On 19 July 2010, the Company announced that it had entered into a Scheme Implementation Agreement with funds advised by The Carlyle Group and TPG Capital (the "Consortium"). If the proposed Scheme of Arrangement is implemented, Asia Pacific Healthcare Group Pty Ltd, a special purpose company indirectly owned and controlled by the funds advised and managed by the Consortium, will acquire all of the shares in the capital of the Company. If the Scheme is implemented according to its terms, the Company will apply for termination of the official quotation of its shares on the ASX, and removal from the official list of the ASX.

The Scheme remains subject to certain conditions, including the approval of Healthscope Limited shareholders, the approval of the Supreme Court of Victoria and other regulatory approvals. Subject to the satisfaction or waiver (as applicable) of those conditions, the Company expects that the Scheme will be implemented by mid October 2010. More detail in relation to the proposed Scheme will be provided in an Explanatory Booklet for shareholders, which the Company expects, will be available on the ASX website and mailed to shareholders shortly after the date of this report.

The Company has announced that the directors intend to declare a fully franked special dividend of 9.0 cents per share if the Scheme proceeds in order to utilise the remaining franking credits which the Company will have after the final dividend is paid to shareholders.

If the Scheme is not approved and implemented and if no Superior Proposal emerges and becomes effective, Healthscope will be required to pay transactions costs of approximately $11 million.

Future Developments

In the opinion of the directors, it would prejudice the interests of the economic entity if the Directors' Report were to refer to any likely developments in the operations of the economic entity in subsequent financial years or to the expected results of those operations, beyond the coverage given to these matters herein.

Environmental Issues

Healthscope's operations are subject to various environmental regulations under both Commonwealth and State legislation. There are no significant regulations with which the operations are unable to comply.

Indemnification And Insurance Of Officers And Auditors

During or since the end of the year, the Company paid a premium in respect of a contract insuring each of the Directors of the Company, the Company Secretary and Executives of the Company against liabilities that are permitted to be covered by Section 199B of the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium not be disclosed.

DIRECTORS' REPORT

Options And Performance Rights

Details of performance rights granted to the Managing Director and Other Executives, and on issue as at the date of this report are detailed in the Remuneration Report.

Details of the total numbers of share options and performance rights granted to all employees and on issue as at the date of this report are detailed in note 32 of the 2010 Financial Report.

Details of shares issued as a result of the exercise of performance rights granted to employees as at the date of this report are detailed in note 32 of the 2010 Financial Report.

Directors' Benefits

No director has received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the Company, a controlled entity or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the financial statements or the fixed salary of a full-time employee of the chief entity, controlled entity or related body corporate.

All contracts are entered into on an arms length basis and on normal terms and conditions.

Directors' Interests In Contracts

No material contracts involving directors' interests were entered into since the end of the previous financial year.

Directors' Shareholdings

The following table sets out each director's relevant interest in shares and performance rights as at the date of this report.

	Fully paid ordinary share Number	**Performance rights Number**
L Nicholls	188,759	-
R England	109,097	-
Z Switkowski	207,158	-
P Bullock	22,265	-
E Dodd	10,000	-
P Dwyer**	-	-
B Dixon	1,359,743	405,960
D Evans*	-	-

*****_Mr Evans retired from the Board of Directors on 30 November 2009. The balance of his holdings at the date of retirement was 5,544,972_**.**
** As at the date of this report Ms Dwyer does not have any shareholdings in Healthscope Limited.

DIRECTORS' REPORT

Proceedings On Behalf Of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Rounding Off Of Amounts

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

DIRECTORS' REPORT

Board Of Directors

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

Linda Bardo Nicholls AO – Chairman

Non–executive Director (appointed January 2000), member of the Audit, Compliance and Risk Assurance Committee (until 24 March 2010), and the Nominations Committee. Appointed as Chairman October 2008.

Qualifications	BA (Econ), MBA, FAICD
Experience	Ms Nicholls is a corporate advisor and a director of several leading Australian companies and organisations. Ms Nicholls is a director of Sigma Pharmaceuticals Limited (appointed 5 December 2005) and Fairfax Media Limited (26 appointed February 2010). Ms Nicholls is a former director of Australian Postal Corporation from 1989 to 2006 and was its Chairman from 1996 to 2006. Ms Nicholls is a former Director of Perpetual Trustees Australia Limited (from 1996 to 2005) and St. George Bank Limited (from August 2002 to December 2008). Ms Nicholls brings to the Board considerable experience as an executive and advisor in the financial services industry and health sector.

Richard A F England – Director

Non-executive Director (appointed October 1996), Chairman of the Audit, Compliance and Risk Assurance Committee and member of the Remuneration Committee and Nominations Committee.

Qualifications	FCA, MAICD
Experience	Mr England is a Chartered Accountant. Mr England is a Chairman of Ruralco Holdings Limited (appointed Chairman 9 July 2002 with a period as Deputy Chair between June 2006 and February 2007) and Chairman of Chandler Macleod Group Limited (appointed director 27 February 2008 and Chairman since May 2008). Mr England is a director of Choiseul Investment Limited (since July 2004), Nanosonics Limited (since 5 February 2010) and Macquarie Atlas Roads Limited (since 1 June 2010). As a director he brings financial and accounting experience to the Board as well as broad management experience. Mr England is a former director of ITL Limited (from 2003 to October 2007) and St. George Bank Limited (from September 2004 to December 2008).

DIRECTORS' REPORT

Ziggy E Switkowski – Director

Non-executive Director (appointed January 2006), Chairman of the Remuneration Committee, member of the Audit, Compliance and Risk Assurance Committee and member of the Nominations Committee.

Qualifications	PhD, B.Sc (Hons), FAICD
Experience	Dr Switkowski is a director of Suncorp-Metway Limited (appointed 19 September 2005), Tabcorp Holdings Limited (appointed 2 October 2006). Dr Switkowski is the Chair of the Australian Nuclear Science and Technology Organisation (appointed 2 March 2007) and of Opera Australia (appointed 25 November 2008). He was previously the chief executive officer and managing director of Telstra Corporation Limited (from March 1999 to July 2005). As a director he brings significant senior executive operating and Board experience gained from leading large Australian and international organisations.

Philip Bullock – Director

Non-executive Director (appointed September 2007), member of Remuneration Committee and the Nominations Committee.

Qualifications	BA. MBA. Dip Ed., GAICD
Experience	Mr Bullock is a director of CSG Limited (appointed 5 August 2009) and Perpetual Limited (appointed 1 June 2010) and is currently the Chair of Skills Australia, a Federal Government statutory body. He previously held senior executive positions in the IBM group including Vice President of IBM's System and Technology Group for Asia Pacific, based in Shanghai and CEO of IBM Australia & New Zealand. As a director he brings extensive operational experience in the areas of IT, sales and marketing and Asia.

Eric Dodd – Director

Non-executive Director (appointed May 2009), member of Audit, Compliance and Risk Assurance Committee and the Nominations Committee.

Qualifications	BA (Econ), FCA, FAICD
Experience	Mr Dodd is the Chairman of First American Title Insurance Company of Australia Pty Limited and Snowball Group Limited (appointed 2 July 2010) and is a director of Credit Corp Group Limited (appointed 1 July 2009), and Clean Up Australia. Mr Dodd is a former CEO and Managing Director of MBF Australia Ltd (from October 2002 to November 2008) and a former director of the BUPA Australia Health Pty Ltd (November 2008 to May 2009). Mr Dodd is a former Chairman of Odyssey House. As a director, he brings extensive operational experience of more than 30 years in the insurance and financial sectors and a thorough understanding of the health industry.

DIRECTORS' REPORT

Paula Dwyer – Director

Non-executive Director (appointed March 2010), member of the Audit, Compliance and Risk Assurance Committee, and the Nominations Committee.

Qualifications	BComm, FCA, FAICD, Ffin
Experience	Ms Dwyer is a director of Tabcorp Holdings (appointed 30 August 2005), Suncorp Metway Limited (appointed 26 April 2007) and Astro Japan Property Group Limited (appointed 14 February 2003). Ms Dwyer is also a Deputy Chairman of the Baker ID Heart and Diabetes Institute and is a member of the Takeovers Panel. Ms Dwyer is a Chartered Accountant and during her 20 year executive career held senior positions in the securities, investment management and investment banking sectors.

Bruce R Dixon - Managing Director

Appointed Managing Director in December 1997

Qualifications	BA (Econ), MAICD
Experience	Mr Dixon has an extensive background in the healthcare sector having held senior positions in both private and public hospitals. Prior to joining Healthscope, he held the position of General Manager, SSL Healthcare Services, a division of Spotless Services Limited.

David Evans – Director

Mr Evans was appointed as a non-executive Director on 30 April 2007 and retired on 30 November 2009.

Qualifications	BA (Econ)
Experience	Mr Evans was a director of Mirrabooka Investments Ltd from October 2003 until 24 September 2009.

Company Secretary

Ingrid A Player – Company Secretary

Qualifications	Llb (Hons), BEc
Experience	Appointed Company Secretary February 2006. Ms Player is responsible for the legal affairs of Healthscope and for the company secretarial matters. Prior to joining Healthscope, Ms Player had over 9 years experience working as a lawyer in Australia and overseas.

DIRECTORS' REPORT

Remuneration report

Introduction and Executive Summary

This report outlines the remuneration arrangements in place for directors and senior management of Healthscope Limited for the financial year ended 30 June 2010. The report includes:

- A summary of Healthscope's remuneration objectives;
- A description of the Remuneration Committee and its responsibilities;
- A description of the components of executive remuneration;
- A summary of the employment contracts in place for Executive Committee members;
- An overview of company performance and returns made to shareholders; and
- Details of the remuneration of non-executive directors and Senior Executives.

Healthscope continued its trend of strong growth and increasing market share across all Divisions. Key points in this remuneration report are as follows:

- Members of the Executive Committee earned 80% of their maximum bonus entitlement in FY2010 which was paid in August 2010;
- Consistent with the Company's remuneration policies, Company shares were issued to senior management during the year in recognition of sustained business performance. Performance conditions applicable to performance rights granted in FY2007 were met in full. Further details are included on pages 15 and 16;
- Increases in Senior Executive remuneration in FY2010 were in line with inflation;
- Non-executive director ordinary fees did not increase in FY2010 (although additional fees were paid in recognition of the many additional meetings required following the receipt of unsolicited proposals to acquire the Company received in March 2010) and total fees remain well within the cap approved by shareholders. Further details are included on page 22.

Definition of terms used

Section 300A of the Corporations Act 2001 requires disclosure of the remuneration applicable to Key Management Personnel and the five highest paid Company executives.

The Company's Key Management Personnel are the members of the board of directors and of the Executive Committee who collectively have authority and responsibility for planning, directing and controlling the activities of the Company.

'Senior Executives' are members of the Executive Committee and Other Executives. 'Other Executives' refers to executives who are not Key Management Personnel but who are among the Company's five highest remunerated executives in addition to the Managing Director.

Remuneration objectives

The Company seeks to align the structure, nature and amount of remuneration of its directors and executives with the creation of shareholder value. The remuneration structure outlined below for senior management comprises fixed and variable remuneration. The objective of variable remuneration is to reinforce both the short and long term goals of the Company and to align the interests of management and shareholders. The Company's remuneration policies and practices are designed to enable it to attract and retain high calibre directors, executives and senior managers who will best contribute towards achieving positive outcomes for the Company, its shareholders and customers.

Remuneration Committee

The Remuneration Committee is a committee of the Board and oversees the Group's remuneration framework. The Remuneration Committee comprises three independent non-executive directors, Dr Z E Switkowski (Chairman), Mr P Bullock and Mr R England. Mr Evans was a member of the Committee until his retirement on 30 November 2009, when Mr England was appointed to the Committee. Both the Chairman of the Board, Ms L Nicholls, and the Managing Director, Mr B Dixon, are also invited to attend committee meetings. Mr B Dixon does not participate in discussion of his own remuneration.

The Committee assesses the appropriateness of the nature and amount of the remuneration of senior management and non-executive directors on an annual basis, taking into account relevant employment market conditions. In determining the level and mix of remuneration, the Remuneration Committee may seek advice from independent, external consultants. The Committee's activities are governed by its charter which is available on Healthscope's website at www.healthscope.com.au under the Investor Centre tab.

Executive remuneration

Relationship between remuneration and performance

Executive remuneration is structured to align remuneration with individual performance, achievement of strategic objectives and the creation of value for shareholders. Executive remuneration:

- Provides executives and senior management with a level and mix of remuneration commensurate with their positions and responsibilities within the Company;
- Rewards executives for Company, business unit and individual performance against targets set by reference to appropriate financial and non-financial benchmarks;
- Aligns the interests of executives with those of shareholders;
- Links reward with the strategic goals and financial performance of the Company; and
- Ensures total remuneration is competitive by market standards in the health sector.

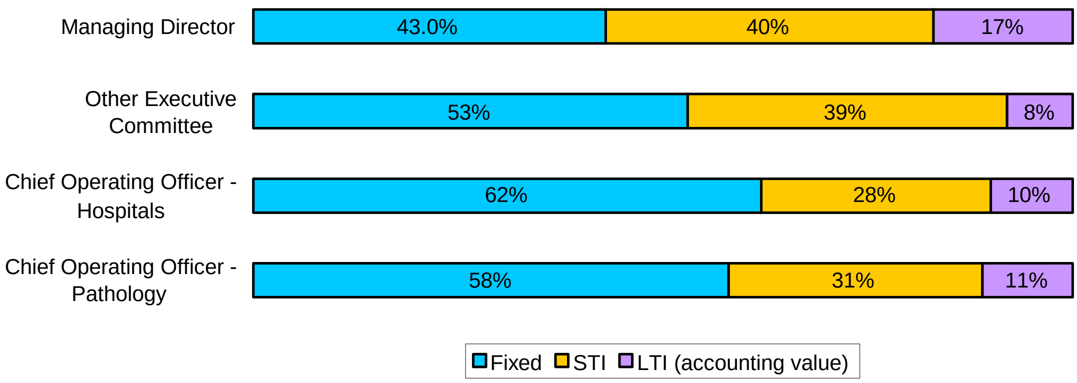
Components

Executive remuneration comprises the following components:

- Fixed remuneration;
- Variable remuneration linked to short term performance (referred to as short term incentive or STI); and
- Variable remuneration linked to long term Company performance (referred to as long term incentive or LTI).

The mix of fixed and variable remuneration varies depending on position and the ability of that position to influence the Company's performance.

The chart below shows the actual remuneration mix for Healthscope's Senior Executives for the financial year ended 30 June 2010.



DIRECTORS' REPORT

Fixed remuneration

Fixed remuneration is calculated on a total cost basis, including the cost of benefits packaged as salary and employer contributions to superannuation. Levels of fixed remuneration are set in order to provide a base level of remuneration both appropriate to the position, and competitive in the market. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, and benefits such as cars. The manner of payment chosen should be optimal for the recipient without creating additional cost for the Company.

Short term incentives ("STI")

The objective of the STI program is to link achievement of the Company's financial and operational targets with the remuneration received by executives and senior management charged with meeting those targets. The total potential STI available is set at a level, which provides sufficient incentive to achieve the Company's targets, but does not involve unnecessary or inappropriate cost.

STI awards are made in cash and are based on performance against a number of key performance indicators (KPI's) that include financial and non-financial measures identified by the Remuneration Committee as critical to Company short-term performance. Individual performance objectives for senior executives are based on a number of financial and qualitative measures. Financial targets (which may include measures such as revenue growth, net profit after tax growth and operating costs) are set by reference to the Company's annual budget. Non-financial milestones may relate to people measures such as employee turnover and occupational health and safety. Full details of STI KPI's have not been disclosed as they are commercially sensitive. The Remuneration Committee considers a number of different indicators of performance and reaches a view regarding the level of performance achieved. The Committee assesses performance relative to threshold, target and stretch standards corresponding to different levels of award.

Long term incentives ("LTI")

LTI awards are delivered under the Executive Performance Rights Plan (EPRP). The objective of the EPRP is to reward executives in a manner which is aligned with the creation of long-term shareholder value. Only executives who are able to influence the generation of shareholder wealth and have a direct impact on the Company's long-term performance are eligible to participate in the EPRP.

Under the EPRP, senior management employees are granted awards of rights to acquire Healthscope shares. If the Company achieves specific measures of performance over the three years following the grant date, rights vest and plan participants are able to exercise their rights and acquire Healthscope shares. Performance conditions are specified by the Board and are described below. Rights remain exercisable for up to two years after they vest. Upon exercise, each right entitles the holder to acquire one fully paid ordinary share in Healthscope Limited at no cost.

Under the Company's remuneration policy, performance rights are granted annually to the Managing Director and other qualifying executives. In general, performance rights are cancelled if an executive's service terminates prior to the end of the vesting period.

Details of EPRP awards made in FY2007, FY2008, FY2009 and FY2010 are outlined below.

Year of award	Performance conditions	Status
FY2007	50% TSR & 50% EPS	100% vested
FY2008	TSR	Vested post 30 June 2010
FY2009 & FY2010	TSR	Unvested

FY2008

For the performance rights granted in FY2008, Company performance was measured over the period from 1 July 2007 to 30 June 2010. The Board adopted a single performance condition based on relative Total Shareholder Return ("TSR") over the vesting period. This performance condition is explained below.

Having reviewed the Company's performance against this performance condition, the Board determined that 100% of the FY2008 performance rights should vest at 1 July 2010 and become exercisable as the Company's relative TSR performance placed the Company above the 75th percentile target for full vesting.

FY2009 and FY2010 - TSR Performance Condition

The Board adopted a relative TSR performance condition for performance rights granted in FY2008, FY2009 and FY2010. TSR was chosen as it is widely recognised as one of the best indicators of shareholder value creation. TSR represents the change in the market value of the Company over time, including dividends and any other distributions made to shareholders.

Vesting of performance rights is determined according to Healthscope's TSR performance relative to that of the companies in a comparator group. The comparator group was chosen as it represents the group with which the Company primarily competes for shareholders' capital. The comparator group comprises a selection of companies included in the S&P/ASX200 index excluding resources companies, financial companies, property trusts and companies involved in property management and development. A list of the companies included in Healthscope's comparator group is available on the Healthscope website at www.healthscope.com.au under the Investor Centre tab.

Vesting of rights is determined according to Healthscope's TSR rank against the companies in the comparator group as follows:

Healthscope TSR rank	Performance rights vesting
Below 51st percentile	0%
Equal to 51st percentile	50%
Between 51st and 75th percentile	Between 50% and 100% on a straight line basis
At or above 75th percentile	100%

TSR performance is measured on the third anniversary of the grant date. If the performance condition is not achieved in full at this date, performance is re-measured at the following half financial year and full financial year end. Grants of performance rights made under the EPRP after 30 June 2009 will not be subject to any performance re-testing. If the performance rights do not vest upon performance hurdle testing, they will automatically lapse.

The tables on pages 17 and 18 provide details of executive performance rights granted, including their value and the vesting periods that apply. The rules of the EPRP limit the total number of performance rights combined with the number of options and rights granted under other employee share plans to 5% of the total number of Healthscope shares on issue. As at 30 June 2010, the aggregate number of outstanding options and performance rights was equivalent to less than 1% of the total issued share capital of the Company.

Executives are subject to the Trading in Healthscope Securities Policy, which expressly prohibits hedging of performance rights or unvested options. This policy also emphasizes that directors and executives should avoid financial arrangements involving Company securities which may lead to ownership and rights in those securities being transferred to a third party. Directors and senior management may only enter into margin loans or other financing arrangements involving Company securities with the prior consent of the Chairman. In the case of the Chairman, approval must be obtained from the Chair of the Audit Committee. The full text of this policy is published on the Healthscope website www.healthscope.com.au under the Investor Centre tab.

DIRECTORS' REPORT

Executive Remuneration

The table below details the actual remuneration received by Executive Committee members and the two highest paid Other Executives for the years ended 30 June 2009 and 2010.

		Short Term Benefits			**Post Employment Benefits**	**Other long term employment benefits**	**Total (Excl. LTI)**	**LTI**
		Salary $	STI[3] $	Non monetary Benefits $	Superannuation $	Long Service Leave $	$	Accounting Value[4] $
Executive Committee members								
B Dixon [1] (Managing Director)	2010	1,084,445	1,048,008	-	14,461	19,416	2,166,330	456,966
	2009	836,256	1,017,759	-	13,754	17,470	1,885,239	426,754
V Pepe[2] (Group Chief Operating Officer)	2010	528,800	406,874	2,846	14,461	11,730	964,711	84,593
	2009	543,998	395,130	3,904	13,745	16,683	973,460	71,278
G Kent (Chief Financial Officer) (Appointed 4 August 2008)	2010	470,184	339,061	-	42,317	2,139	853,701	58,483
	2009	418,725	329,275	-	37,685	1,095	786,780	27,982
J Czyzewski (Director of Corporate Strategy & Business Development)	2010	446,683	369,885	10,831	40,201	14,797	882,397	79,182
	2009	435,780	359,209	7,271	39,220	21,823	863,303	67,698
Other Executives								
S Williams (COO Hospitals)	2010	347,942	184,943	5,242	44,815	8,216	591,158	64,876
	2009	339,450	150,000	5,847	30,550	23,993	549,840	48,638
P Waterson (COO Pathology)	2010	317,122	184,943	3,340	25,000	6,450	536,855	64,876
	2009	-	-	-	-	-	-	-
M Coglin[5] (Chief Medical Officer)	2010	-	-	-	-	-	-	-
	2009	275,235	168,000	3,775	37,191	6,538	490,739	21,871

[1] Managing Director remuneration includes a payment of accrued leave entitlements.
[2] Group Chief Operating Officer 2009 remuneration included a payment as a result of an underpayment from the prior year.
[3] STI payments for FY2009 performance were paid in August 2009. STI payments for FY2010 performance will be paid in August 2010.
[4] The value per right at grant date has been determined based on independent valuation provided by Leadenhall VRG Pty Ltd and Professional Financial Solutions.
[5] In the current year M Coglin is not one of the highest paid Other Executives

The value of LTI awards has been calculated in accordance with the requirements of accounting standard AASB2 Share-based Payment. The accounting standard requires an estimate of fair value at the time of grant and amortisation over the vesting period. The values shown in the LTI column comprise the FY2010 portion of the amortised value of EPRP awards made in FY2008, FY2009 and FY2010. They do not represent cash equivalent value available to executives which will be determined when they vest and will reflect the degree to which performance criteria are achieved and the company's share price at that time.

STI paid to Key Management Personnel

The table below summarises the proportion of maximum STI awards paid to members of the Executive Committee in August 2010 for FY2010 performance.

	FY2010 STI		
Key Management Personnel	FY2010 award $	% Of maximum bonus opportunity $	
		Paid	Forfeited
Directors			
B Dixon	1,048,008	80	20
Executives			
V Pepe	406,874	80	20
G Kent	339,061	80	20
J Czyzewski	369,885	80	20

Performance rights granted and vested to Key Management Personnel

Performance rights were granted to Key Management Personnel in FY2010 as detailed below. These rights remain unvested as at 30 June 2010.

	Number of rights granted	Grant Date	Fair value per right at grant date[1] ($)	Total fair value at grant date ($)	Share price at grant date	Estimate of max. Value at grant date[2]	First exercise date	Last exercise date
Director								
B Dixon	196,409	01/07/09	2.64	518,520	4.30	844,559	01/07/12	01/07/12
Executives								
V Pepe	36,740	01/07/09	2.64	96,994	4.30	157,982	01/07/12	01/07/12
G Kent	34,660	01/07/09	2.64	91,502	4.30	149,038	01/07/12	01/07/12
J Czyzewski	34,660	01/07/09	2.64	91,502	4.30	149,038	01/07/12	01/07/12

[1] The value per right at grant date has been determined based on independent valuation provided by Leadenhall VRG Pty Ltd and Professional Solutions.
[2] Minimum value of grant is zero if performance and service conditions not met.

During FY2010 the following Key Management Personnel exercised performance rights that had been granted to them as part of their compensation in FY2007. The awards that vested and were exercised represented 100% of those granted. No performance rights granted to Key Management Personnel lapsed during FY2010.

	Number of rights Vested and exercised	No. Of Healthscope Ltd shares issued	Amount paid ($)	Amount unpaid ($)	Value of rights at vested * ($)
Director					
Mr B Dixon	192,307	192,307	Nil	Nil	826,920
Executives					
Ms V Pepe	25,641	25,641	Nil	Nil	110,256
Mr J Czyzewski	25,641	25,641	Nil	Nil	110,256

* The amount is based on the Company's closing price on the date of vesting (as there is no exercise price payable in respect of performance rights). The value of each performance right on the date of vesting was $4.30.

DIRECTORS' REPORT

Employment Contracts

The following table summarises the terms of employment contracts for members of the Executive Committee.

Name	Mr Dixon	Ms Pepe	Mr Kent	Mr Czyzewski
Position	Managing Director	Group Chief Operating Officer	Chief Financial Officer	Director Corporate Strategy & Business Development
Contract End Date	Ongoing			
Executive notice period	Six months	Three months		
Company notice period – severance**	Twelve months	Three months	Twelve months	Three months
Termination provisions in the event of takeover	Termination payment equivalent to 12 months' salary			

** Severance applies when termination is initiated by Healthscope other than for misconduct or unsatisfactory performance.

Unvested performance rights are generally forfeited when an executive resigns or is dismissed. In circumstances of retrenchment, retirement or death, the Board may choose to allow an executive or their estate to retain performance rights (either in full or pro-rata based on service) subject to the relevant performance conditions.

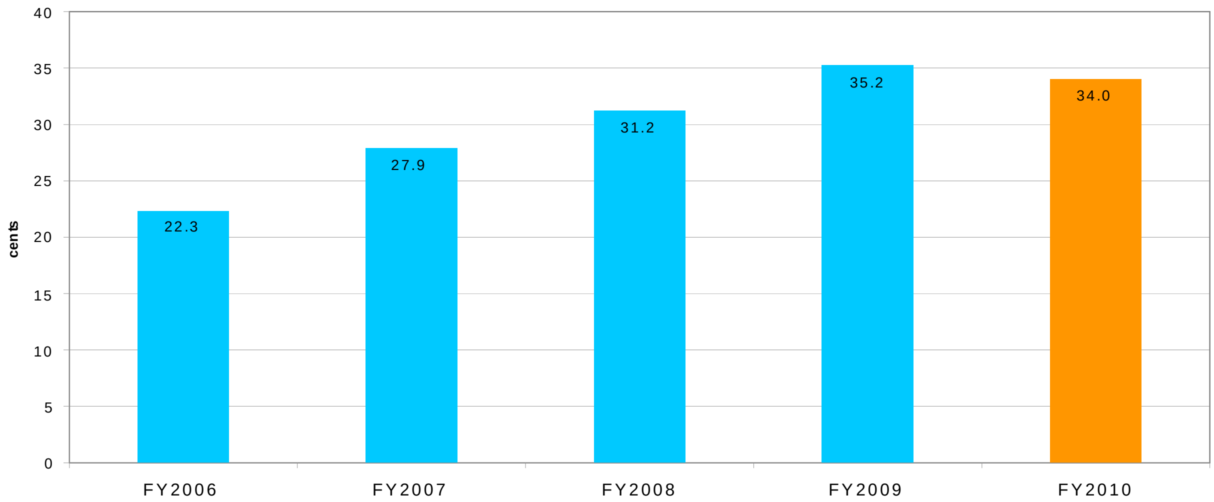
Company Performance

The charts below provide an overview of the Company's performance over the last five years. The charts include details of core earnings per share growth, growth in core NPAT and dividend growth over the period from 1 July 2006 to 30 June 2010.

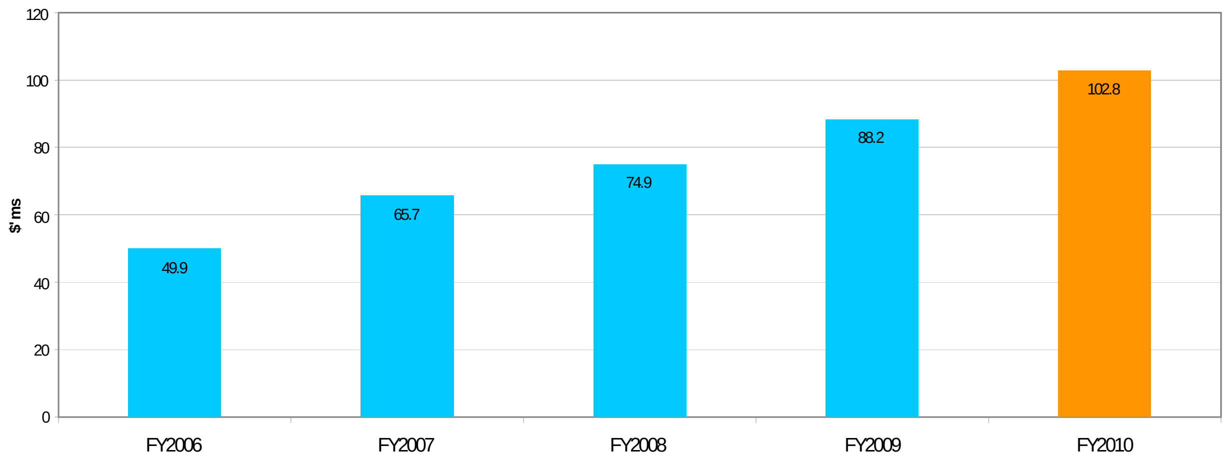
Core earnings per share is a key measure for shareholders and represents the Company's net profit after tax before non-recurring items divided by the number of ordinary shares on issue.

DIRECTORS' REPORT

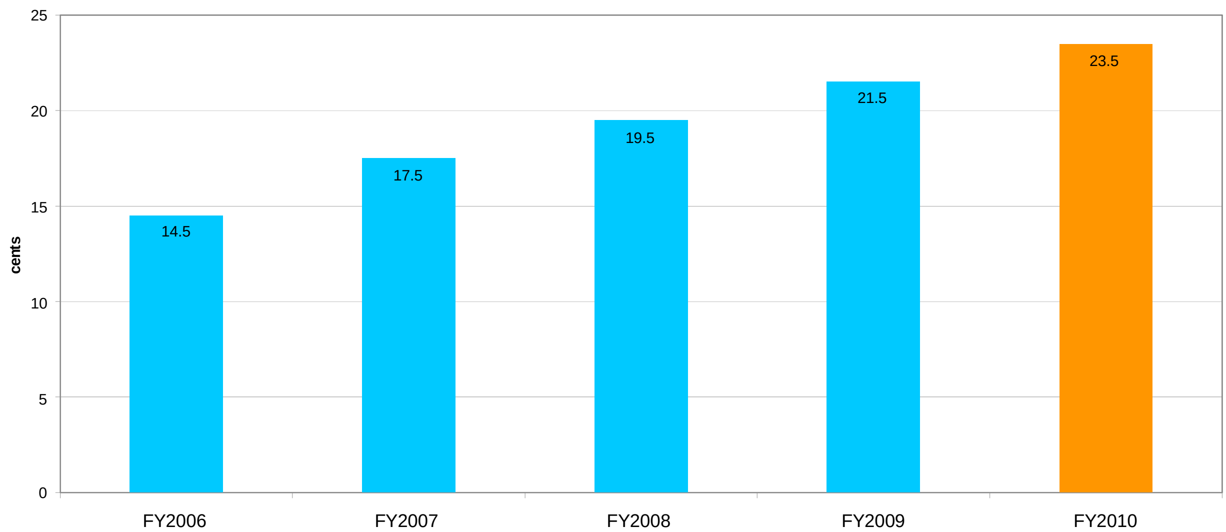
Strong performance in annual core[1] Earnings Per Share



Strong annual core[1] NPAT growth



Consistent annual dividend growth



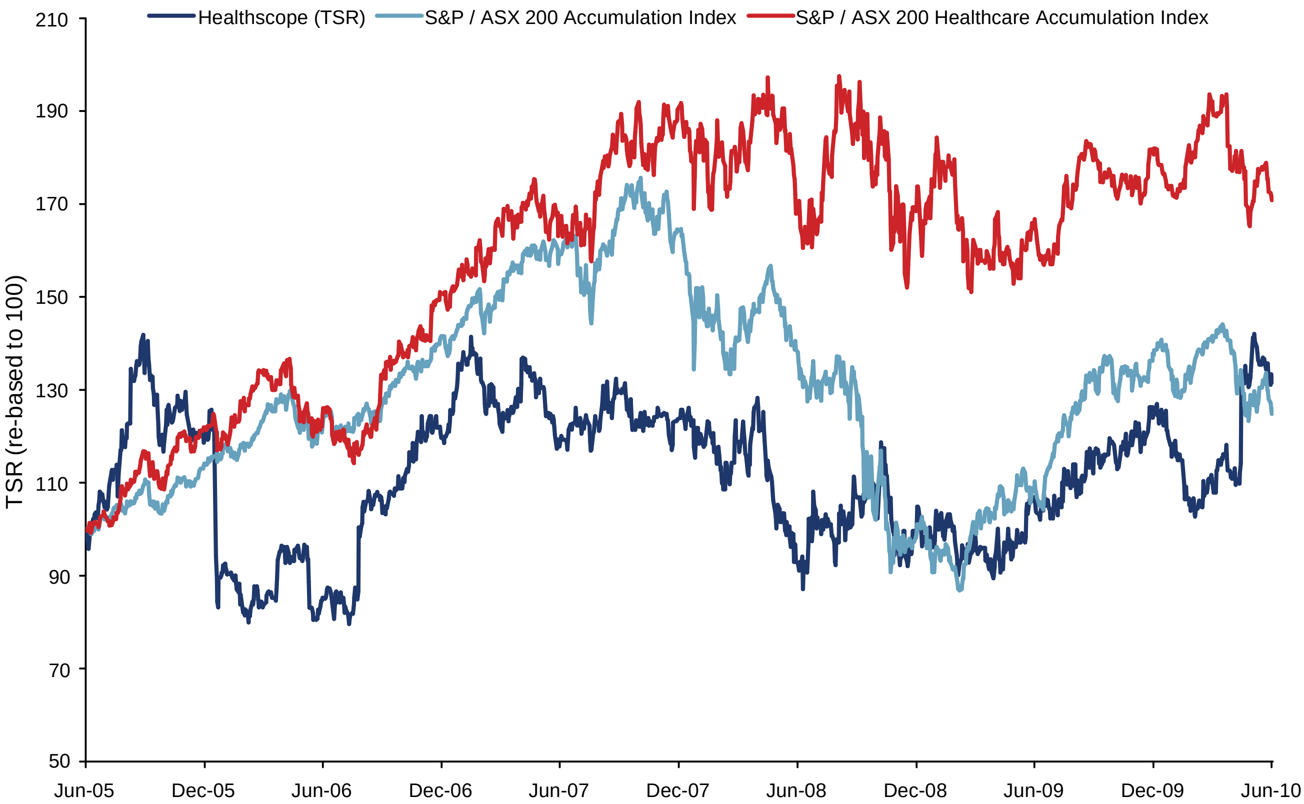
[1] Before non-recurring items

DIRECTORS' REPORT

The following graph shows the returns made by Healthscope shareholders over the period 1 July 2005 to 30 June 2010. The chart shows that as a result of share price appreciation and dividends reinvested in Healthscope shares, a $100 investment in Healthscope shares made in July 2005 was worth $131.60 on 30 June 2010. By contrast, $100 invested in S&P/ASX Top 200 Accumulation Index over the same period was worth $124.80.

Healthscope's total shareholder return performance relative to a comparator group determined vesting of 100% of the performance rights granted under the Company's Executive Performance Rights Plan in FY2008 and will determine vesting of 100% of the performance rights granted in FY2009, FY2010 and FY2011. Further details of the EPRP are included on pages 15 to 17.

Total Shareholder Return 1 July 2005 to 30 June 2010



Source: IRESS Market Technology

Non-Executive Director Remuneration

Objectives

The Board sets aggregate remuneration for non-executive directors at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost, which is acceptable to shareholders.

Components

Remuneration for non-executive directors consists of base fees and committee fees. The aggregate value of fees paid to all directors is subject to a limit of $1.5 million per year as approved by shareholders at the Annual General Meeting held on 24 October 2007. The aggregate value of fees paid to all non-executive directors in FY2010 was $1,095,272.

DIRECTORS' REPORT

Non-executive directors receive a base fee for being a director of the Company. Additional fees are paid to the Chairman of the Board, the Chairman of the Audit, Compliance and Risk Assurance Committee and the Chairman of the Remuneration Committee. Payment of these additional fees recognises the additional time commitment required by directors in these roles. No additional fees are paid for membership of board committees.

Current non-executive director base fee policy is shown in the table below.

Role	Annual fee inclusive of superannuation
Chairman	$283,000
Chair of Audit Committee	$149,200
Chair of Remuneration Committee	$123,500
Other non-executive director	$113,200

The Board may choose to pay additional fees to non-executive directors who commit significant additional time in response to extraordinary Company activities or events. Additional fees were paid in FY2010 in relation to the numerous additional meetings required following the unsolicited proposals to acquire 100% of the issued capital of the Company, which were received by the Board in March 2010.

The Board reviews the fees paid to non-executive directors annually. Following a review of market practice non-executive director fees conducted by the Remuneration Committee in June 2010, the Board determined that non-executive director fees should increase from 1 July 2010 by amount in line with inflation. No retirement benefits are provided to non-executive directors other than statutory superannuation.

The Board expects that all non-executive directors will acquire shares in the Company to a value at least equal to their annual fees within a three-year period following their appointment.

The table below summarises the remuneration of the non-executive directors of the Company for the financial years ended 30 June 2009 and 2010.

Non-Executive Directors			Employment Benefits	Post Employment Benefits	Total
			Director's Fees $	Superannuation $	$
L Nicholls (Chairman)	Appointed Chairman 17 October 2008, previously Deputy Chairman	2010	321,101	28,899	350,000
		2009	199,543	17,959	217,502
R England (Non-executive)	Chairman of Audit, Compliance and Risk Assurance Committee	2010	180,928	15,072	196,000
		2009	126,148	11,353	137,501
Z Switkowski (Non-executive)	Chairman of Remuneration Committee	2010	137,617	12,386	150,003
		2009	105,507	9,496	115,003
P Bullock (Non-executive)	Appointed 14-Sep-07	2010	128,440	11,560	140,000
		2009	96,330	8,670	105,000
E Dodd (Non-executive)	Appointed 15-May-09	2010	128,440	11,560	140,000
		2009	12,679	1,141	13,820
D Evans (Non-executive)	Retired 30 November 2009	2010	50,459	4,541	55,000
		2009	96,330	8,670	105,000
P Dwyer (Non-executive)	Appointed 10 March 2010	2010	58,962	5,307	64,269
		2009	-	-	-
H K McCann (Former Chairman)	Retired 17 October 2008	2010	-	-	-
		2009	66,056	5,945	72,001

Note: In FY 2010, additional extraordinary fees were paid to directors in respect of activities that involved additional time commitment in accordance with company policy described above.

DIRECTORS' REPORT

Corporate Governance Statement

"This statement sets out the governance framework the Board has adopted to help it to discharge its responsibilities." Linda Bardo Nicholls AO, Chairman

Board's approach to Governance

Healthscope is committed:
- To delivering high quality healthcare services; and
- To maximising returns to shareholders.

On behalf of Healthscope's shareholders, the Board guides and monitors the business and affairs of Healthscope. The Board recognises that for it to fulfil its responsibilities, sound and effective corporate governance is crucial.

As Healthscope is listed on the ASX, it must disclose in this report how it has applied the Recommendations in the ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations*, 2nd Edition (ASX Corporate Governance Recommendations). The Board must also explain any departures from those recommendations. The Board believes it has adopted the ASX Corporate Governance Recommendations in all material respects.

For full details of the policies and charters referred to in this statement, visit www.healthscope.com.au, then look under the "Investor Centre" tab and select "Corporate Governance". The website is regularly updated with Healthscope's most recent corporate governance information.

Board Of Directors

Structure and Composition of the Board
The Board is made up of six non-executive Directors and one executive Director — the Managing Director. The Directors bring wide and varied commercial experience to the Board's discussions. The qualifications, special responsibilities and experience of each current Director are set out on pages 10 to 12.

Board charter
The Board Charter clearly sets out the Board's purpose, powers and specific responsibilities. The Board is responsible for:

- **Corporate strategy** Setting Healthscope's corporate strategy and monitoring how management implements that strategy;
- **Managing Director** Appointing the Managing Director (and if necessary, terminating the Managing Director) and determining his remuneration, evaluating his performance and planning his succession;
- **Senior executives** Approving the appointment of executives who report to the Managing Director and overseeing their remuneration policies and performance;
- **Control systems** Overseeing Healthscope's control and accountability systems — in particular, the integrity of its financial and other reporting;
- **Financial planning and reporting** Approving Healthscope's annual financial plans and budgets, monitoring its financial performance, and approving its annual and half-year financial statements and reports;
- **Capital management** Approving and monitoring major capital expenditure, capital management, acquisitions and divestitures;
- **Risk management** Reviewing and approving:
  - Policies and systems of risk oversight — including policies and controls which assess and manage risk;
  - Management and internal compliance and control;
  - Codes of conduct;
  - Legal compliance; and
  - Corporate governance;
- **Health and safety** Ensuring that appropriate standards of clinical governance and occupational health and safety are in place — and monitoring performance against those standards;

DIRECTORS' REPORT

- **Values and standards** Setting Healthscope's values and standards of conduct — and making sure that they are followed in the interests:
    - Of Healthscope's shareholders
    - Of Healthscope's employees, patients and clinicians
    - Of health professionals who use Healthscope's hospitals and services;
    - Of Healthscope's suppliers; and
    - Of the communities in which Healthscope operates.

Healthscope's Constitution allows the Board to delegate any of its powers and responsibilities to Committees of the Board. The roles of the principal Board Committees are set out on pages 27 to 28.

Board meetings
Normally, the Board meets at least 10 times a year — including an offsite meeting at which it reviews Healthscope's strategy in detail.

Generally, each board meeting is attended by:
- The Managing Director;
- The Chief Financial Officer;
- The Group Chief Operating Officer;
- The Director Corporate Strategy and Business Development; and
- The General Counsel/Company Secretary.

Individual senior managers may also attend Board meetings when the Board is discussing an issue for which they are responsible or when the Board asks them to attend. The details about the number of Board meetings held during the year, and who attended those meetings, are set out on page 3 of the Directors' Report.

Delegation to Management
The Board delegates to the Managing Director all matters that are not specifically reserved for the Board. The Board develops and approves the delegation of authority guidelines and authority limits.

Board Member Selection and Procedure
The Board selects new directors based on the recommendation of the Nominations Committee. When the Board selects new members, it:
- Considers the appropriate skills and characteristics the Board needs to maximise its effectiveness; and
- Assesses the blend of skills, knowledge and experience required for the present and future needs of Healthscope.

The Board may hire external advisers to help it identify suitable candidates.

Independence of Directors
A Director is considered to be independent if they are not a member of management and free from any business or other relationship that could **materially** interfere with — or could reasonably be perceived to **materially** interfere with — the exercise of their unfettered and independent judgement. In reviewing the independence of non-executive directors, the Board takes into account those matters outlined in the commentary to Recommendation 2.1 of the ASX Corporate Governance Recommendations.

The Board considers the issue of "materiality":
- From the points of view of Healthscope and each individual Director;
- As a quantitative element — an item is seen to be quantitatively:
    - Immaterial if it is equal to, or less than, 5% of the appropriate base amount;
    - Material (unless there is qualitative evidence to the contrary) if it is equal to, or greater than, 10% of the appropriate base amount; and
- As a qualitative element — relevant factors include:
    - Whether a relationship is strategically important;
    - The competitive landscape;
    - The nature of the relationship and the contractual, or other arrangements, governing it; and
    - Other factors which point to the actual ability of a Director to shape the direction of the company's loyalty.

DIRECTORS' REPORT

As at the date of this Report, the Board believes all non-executive Directors to be independent. The Board believes that Dr Switkowski, Ms Dwyer and Mr England are able to exercise unfettered and independent judgement despite the business relationships outlined below.

Dr Switkowski and Ms Dwyer are non-executive directors of Suncorp-Metway Limited, a substantial shareholder of Healthscope. As Suncorp-Metway Limited's interests in Healthscope are held through wholly owned subsidiaries in accordance with investment mandates over which Dr Switkowski and Ms Dwyer have no influence, the Board believes that their roles at Suncorp-Metway do not affect their independence as a Director of Healthscope.

Mr England is a non-executive director of Clifford Hallam Healthcare Pty Ltd, one of many suppliers of healthcare products and services to Healthscope. As Mr England was not involved in the decision to acquire services from Clifford Hallam Healthcare Pty Ltd or the negotiation of any of the contracts, the Board believes that this role does not affect Mr England's independence as a Director of Healthscope.

A Director's Tenure and Retirement
A non-executive Director who wants to continue in their role must be re-elected by shareholders every 3 years. This is in line with the ASX Listing Rules.

Healthscope believes that a non-executive Director's independence can be preserved over a long length of service. Therefore, there is no upper limit on the length of a non-executive director's service. This is consistent with the revised ASX Corporate Governance Recommendations. This table shows the length of service of all non-executive Directors who served on the Board in FY2010.

Name	Length of service as a non-executive Director
L Nicholls (Chairman)	10 years
R England	13 years
Z Switkowski	4 years
D Evans*	3 years
P Bullock	2 years
E Dodd	1 year
P Dwyer	< 1 year

* Mr Evans retired on 30 November 2009.

Right to Independent Advice
To help Directors meet their responsibilities, each Director has the right (with the prior approval of the Chairman) to get independent professional advice about their responsibilities.

Also, the Board may, and each Committee may, get any professional advice it needs to complete its work.

Healthscope covers the cost of any professional advice for Directors, the Board or a Committee.

Preventing and Resolving Conflicts of interest
Each Director has a continuing responsibility to ensure they remain independent, and to determine whether they have a potential, or actual, conflict of interest about any material matters, which come before the Board. A conflict may arise from external associations, interests or personal relationships.

If a potential conflict of interest exists, then a Director may not exercise any influence over the Board. The affected Director may not (unless the other Directors allow it):

- Receive relevant Board papers;
- Be present for Board discussions on the subject; and
- Vote on any related Board resolutions.

Any conflicts of interest are recorded in the Board minutes.

DIRECTORS' REPORT

Evaluating Performance

The Board and senior management have set up processes to evaluate the performance of the Board, its Committees, Directors and executives.

The Board and its Committees
The Board completes regular performance reviews of:
- A collegiate consideration by the full Board; and
- Individual appraisals of Directors who want to be re-elected at the next Annual General Meeting.

Each year, each Board Committee reviews its charter and performance.

Managing Director
Before the end of each financial year, the Managing Director meets with the Board to discuss, review and agree on his objectives and performance indicators for the next year.

Each year, the Board's Remuneration Committee evaluates the Managing Director's performance. It then reports to the Board to help it complete the Managing Director's performance appraisal.

Senior management
The Managing Director completes annual performance reviews with each of the Key Management Personnel. At this review, the people involved:
- Focus on each person's performance against their set objectives; and
- Establish performance objectives for the next year.

Director Induction and Continuing Education
Healthscope has a formal induction process, which tells new Directors about:
- The nature of Healthscope's business;
- Current issues;
- Corporate strategies; and
- Healthscope's expectations about the performance of its Directors.

To get a better understanding of business operations, Directors also:
- Visit a range of different hospital and pathology operations; and
- Meet with senior management.

Directors also have access to continuing education opportunities to update and enhance their skills and knowledge along with visits to various hospitals, pathology laboratories and medical centres during the year.

Company Secretary Qualifications and Experience
The qualifications and experience of Ingrid Player, the Company Secretary, are set out on page 12. David Allison (B.Bus (Acctg), FCPA) also acts as a Company Secretary and has experience in company secretariat roles with other Australian listed companies.

Board Committees

Healthscope has 3 principal Board Committees:

- Audit, Compliance and Risk Assurance Committee;
- Nominations Committee; and
- Remuneration Committee.

DIRECTORS' REPORT

Healthscope Board Committee Membership FY2010

Audit, Compliance & Risk Assurance Committee	Nominations Committee	Remuneration Committee
Mr R England (Chairman)	Ms L Nicholls (Chairman)	Dr Z.E. Switkowski (Chairman)
Ms L Nicholls (until 24 March 2010)	Mr R England	Mr D Evans*
Dr Z.E. Switkowski	Dr Z.E. Switkowski	Mr P Bullock
Mr E Dodd	Mr D Evans*	Mr R England (appointed 30 November 2009)
Ms P Dwyer **	Mr P Bullock	
	Mr E Dodd	
	Ms P Dwyer**	

* Mr Evans was a member of the Nominations Committee and the Remuneration Committee until he retired on 30 November 2009.
** Ms Dwyer was appointed on 10 March 2010.

Membership and attendance
Each of the principal Board Committees:
- Is made up solely of independent non-executive Directors; and
- Has its own charter.

Each year, the Board reviews the composition of each Committee. Membership criteria are based on the skills and experience of each Director and their ability to add value to, and commit time to, the Committee.

The Managing Director is invited to attend Board Committee meetings as appropriate. However:
- His presence is not automatic;
- He does not attend meetings where his remuneration is considered or discussed; and
- He does not attend private sessions of the Committees when it meets without management present.

Non-executive Directors may attend any meeting of any Committee.

Each Board Committee may, within the scope of its responsibilities, have unrestricted access to management, employees and information that is relevant and necessary to complete its responsibilities under its charter.

Meetings
The Company Secretary helps the principal Board Committees to plan their annual agenda and to identify any gaps and unnecessary overlaps between Committees. The Company Secretary reports the results of this process to the Chairman of the Board to help the Board meet its responsibilities to oversee its delegations to the Board Committees.

After each Committee meeting, the Chairmen of the Committees report at the next Board meeting. Throughout the year, Committee Chairmen also hold agenda planning meetings with relevant stakeholders to address emerging issues.

Audit, Compliance and Risk Assurance Committee (“Audit Committee”)

The Audit Committee is responsible for ensuring and reporting to the Board that:

- Policies and procedures are effective to manage certain risks, including clinical risk;
- Policies and procedures are in place to make sure Healthscope complies with the law;
- Management’s system of control effectively safeguards Healthscope’s assets;
- Accounting records are properly kept in line with legal requirements;
- Financial information provided to shareholders and the Board is accurate and reliable; and
- The internal and external audit functions are effective.

DIRECTORS' REPORT

The Audit Committee is also responsible for:
- Appointing, evaluating and overseeing the external auditor, including reviewing their independence;
- Paying the external auditor;
- If appropriate, replacing the external auditor;
- Approving the scope of the annual internal and external audit programs; and
- Appointing the internal auditor and monitoring their performance.

The internal auditor reports directly to the Audit Committee.

The Audit Committee meets with both the internal and external auditors without management present. The Chairman of the Audit Committee meets separately and regularly with both the external and internal auditors and with management.

Nominations Committee

The Nominations Committee is responsible for:
- Reviewing the composition of the Board;
- Identifying new nominations for role of non-executive Director; and
- Establishing processes to review the performance of the Board and individual Directors.

Remuneration Committee

The Remuneration Committee is responsible for:
- Determining the Managing Director's remuneration and short-term incentives;
- Approving each senior executive's remuneration and short-term incentives;
- Recommending policies and procedures to recruit, retain and terminate executives;
- Recommending to the Board long-term, equity-based incentive schemes for executives; and
- Reviewing and recommending to the Board compensation arrangements for the non-executive Directors.

The details about how Key Management Personnel are remunerated — including all monetary and non-monetary components — are set out on pages 13 to 22 of the Directors' Report.

When the Committee considers a person's performance-based and equity-based incentives, it considers their individual performance, and the overall performance of Healthscope, during the period.

The details about the number of Committee meetings held during the year, and who attended those meetings, are set out on page 4 of the Directors' Report.

Ethical and responsible decision making

Code of Conduct

Healthscope first adopted its Code of Conduct in 2004. Since then, the business has grown and diversified from a regional hospital operator to a company with national hospital and medical centre operations and both national and international pathology operations.

In 2009 the Board reviewed and updated the Code of Conduct to make sure it appropriately reflects:
- The core values of Healthscope;
- Healthscope's current operations; and
- Good corporate governance.

DIRECTORS' REPORT

Trading in Healthscope Securities

The Board has policies and procedures in place to help make sure Directors, officers and employees:
- Do not trade in Healthscope shares in breach of the Corporations Act prohibitions on insider trading; or
- Do not compromise confidence in Healthscope's practices in relation to share dealings.

Insider trading is prohibited at all times. Also, the policy specifically prohibits non-executive Directors and restricted employees from trading in Healthscope securities during "blackout periods" before the announcements of the half-yearly and annual results. Trading at other times is allowed — unless the Director or staff member is aware of price sensitive information that is not generally available.

Directors and senior executives need to advise the Company Secretary about all proposed trades. The Company Secretary will consider the circumstances to make sure that before any trade takes place, the Director or senior executive do not possess material information that is not generally available. If the Company Secretary is unsure, they immediately refer the matter to the Chairman for a decision.

The policy expressly excludes hedging of unvested Company options or performance rights.

Whistleblower Protection

The Healthscope Whistleblower Protection Policy encourages Healthscope employees to voice serious concerns or escalate serious matters. It provides a process for them to do so:
- Through the usual management process or a designated Whistleblower Protection Officer;
- On a confidential basis; and
- Without fear of reprisal, dismissal or discriminatory treatment.

Commitment to shareholders

Healthscope's shareholder communication strategy:
- Provides shareholders with accurate, relevant and timely information;
- Enables shareholders to exercise their rights in an informed manner; and
- Provides potential investors and other interested stakeholders with equal and timely access to information about the Company.

Continuous Disclosure Compliance

Healthscope provides timely, full and accurate disclosure to the market. Healthscope's continuous disclosure policy aims to make sure it complies with the continuous disclosure obligations under the Corporations Act and Australian Securities Exchange (ASX) Listing Rules. As a result of this policy and the vetting and authorisation processes it requires:
- All investors have equal and timely access to material information about Healthscope — including its financial situation, performance, ownership and governance; and
- Company announcements are factual, complete and presented in a clear and balanced way.

Risks are Managed

Healthscope has established and implemented policies to oversee and manage its material business risks. These policies are available at www.healthscope.com.au under the "Investor Centre" tab. They require:
- Management to establish and implement a company-wide risk management framework. This framework needs to identify, assess, monitor and manage Healthscope's risks — including material financial risks, operational (including clinical) risks, strategic risks and compliance risks; and
- Management to report to the Board on the management and oversight of these material risks.

The Board, through the Audit Committee, oversees the implementation and annual review of the Company's risk management systems.

DIRECTORS' REPORT

Review of Risk Profile

Throughout the year, Healthscope continuously identifies, monitors and reports risk. Even so, each year Healthscope completes an annual risk profile exercise to re-assess the materiality of individual risks and to prioritise activities for the coming year. The results of this process are captured in Strategic and Operational risk profiles and are formally used to inform Healthscope's control and assurance activities.

External Audit

The external auditor's role is to provide an independent opinion that Healthscope's financial reports are true and fair and comply with applicable regulations. This year, the external auditor performed an independent audit in line with Australian Auditing Standards. The Audit Committee oversees the relationship with the external auditor. After 5 years, the lead partner of the external auditor must rotate off the Healthscope audit team.

The Directors' Report sets out on page 31:

- The details of the non-audit services provided by the external auditor, Deloitte, during FY2010, including the dollar value of those services; and
- The Board's statement that it is satisfied that Deloitte is compliant with the independence requirements of the Corporations Act 2001.

Internal Audit

Healthscope has established an internal audit function, which it has outsourced to Ernst & Young. The internal auditor bases its program on the company's Strategic and Operational risk profiles. The objective is to assure the Board of the adequacy and effectiveness of Healthscope's control environment for the relevant risk — and to suggest improvements as needed.

To make sure the internal audit function is independent, the internal audit provider can meet privately with the Audit Committee without management present.

The internal audit team and the external audit team work together to enhance the audit scope and to provide maximum coverage of the company's control environment.

Declaration of the Managing Director and Chief Financial Officer

The Managing Director and Chief Financial Officer have confirmed to the Board in writing that:

- The financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- This statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

Auditor Independence And Non-Audit Services

The auditor's independence declaration is included on page 32 of the financial report.

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. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Details of amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 36 to the financial statements.

Signed in accordance with a resolution of the Board of Directors

B R Dixon
Managing Director

Dated: 19 August 2010, Melbourne, Victoria.

Deloitte Touche Tohmatsu
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The Board of Directors
Healthscope Limited
Level 1, 312 St Kilda Road
Melbourne VIC 3004

19 August 2010

Dear Directors,

Healthscope Limited

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

As lead audit partner for the audit of the financial statements of Healthscope Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Healthscope Limited

Report on the Financial Report

We have audited the accompanying financial report of Healthscope Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 35 to 93.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Healthscope Limited is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 22 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants
Melbourne, 19 August 2010

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
Revenue	5	1,843,468	1,653,976
Share of profits of associates and joint ventures accounted for using the equity method	13	2,357	2,926
Employee benefits expense	7(b)	(857,781)	(751,124)
Medical and consumable supplies		(268,939)	(242,744)
Prosthetics expenses		(197,901)	(186,855)
Occupancy costs		(78,946)	(69,687)
Service costs		(178,685)	(178,148)
Profit before depreciation, amortisation, finance costs, non-recurring items and income tax (EBITDA)		**263,573**	**228,344**
Depreciation and amortisation	7(c)	(71,665)	(53,299)
Profit before finance costs, non-recurring items and income tax (EBIT)		**191,908**	**175,045**
Net finance costs	6	(53,704)	(54,049)
Profit before non-recurring items and income tax		**138,204**	**120,996**
Non-recurring items	8	(10,699)	(19,840)
Profit before income tax expense		**127,505**	**101,156**
Income tax expense	9	(28,223)	(28,866)
Net profit for the year		**99,282**	**72,290**
Other comprehensive income			
Exchange differences arising on translation of foreign operations		1,952	1,097
Gain / (loss) on cash flow hedges taken directly to equity		12,760	(24,141)
Income tax expense relating to other comprehensive income		(3,828)	7,242
Other comprehensive income for the year, net of tax		10,884	(15,802)
Total comprehensive income for the year		110,166	56,488
Profit attributable to:		99,282	72,290
Owners of the company		-	-
Non-controlling interests		**99,282**	**72,290**
Total comprehensive income attributable to:		110,166	56,575
Owners of the company		-	(87)
Non-controlling interests		**110,166**	**56,488**
Earnings per share			
Basic – cents per share	23	32.83	28.88
Diluted – cents per share	23	32.66	28.71

The notes on pages 39 to 92 are an integral part of these consolidated financial statements.

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
CURRENT ASSETS			
Cash and cash equivalents		2,803	2,836
Trade and other receivables	10	111,325	95,693
Prepayments		14,030	12,052
Inventories	11	47,413	39,852
Other financial assets	12	708	-
TOTAL CURRENT ASSETS		**176,279**	**150,433**
NON CURRENT ASSETS			
Trade and other receivables	10	8,000	13,814
Other financial assets	12	9,973	3,363
Investments accounted for using the equity method	13	654	788
Property, plant and equipment	14	1,058,140	804,208
Intangible assets	15	973,365	880,099
Deferred tax assets	9	45,625	42,889
TOTAL NON CURRENT ASSETS		**2,095,757**	**1,745,161**
TOTAL ASSETS		**2,272,036**	**1,895,594**
CURRENT LIABILITIES			
Trade and other payables	16	169,877	156,242
Deferred purchase consideration	17	10,079	2,785
Deferred revenue		2,367	2,337
Borrowings	18	12,524	9,693
Other financial liabilities	19	8,723	14,965
Current tax liabilities	9	3,079	11,313
Provisions	20	90,312	83,266
TOTAL CURRENT LIABILITIES		**296,961**	**280,601**
NON CURRENT LIABILITIES			
Borrowings	18	710,108	649,823
Deferred revenue		4,238	6,477
Other financial liabilities	19	-	5,810
Deferred tax liabilities	9	46,243	33,766
Provisions	20	15,200	13,801
TOTAL NON CURRENT LIABILITIES		**775,789**	**709,677**
TOTAL LIABILITES		**1,072,750**	**990,278**
NET ASSETS		**1,199,286**	**905,316**
EQUITY			
Issued capital	21	1,072,670	820,871
Reserves	22	(10,456)	(21,422)
Retained earnings		137,115	105,910
Equity attributable to equity holders of the parent		**1,199,329**	**905,359**
Minority interest		(43)	(43)
TOTAL EQUITY		**1,199,286**	**905,316**

The notes on pages 39 to 92 are an integral part of these consolidated financial statements.

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,823,668	1,614,247
Payment to suppliers and employees		(1,579,771)	(1,387,503)
Cash generated from operations		**243,897**	**226,744**
Interest received		1,274	817
Interest and costs of finance paid		(55,909)	(49,305)
Income tax paid		(29,500)	(27,750)
Net cash provided by operating activities	30(d)	**159,762**	**150,506**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		578	866
Payments for property, plant and equipment		(146,880)	(102,268)
Greenfield facility developments		(89,783)	(17,371)
Brownfield facility developments		(79,927)	(45,275)
Payments for operating rights		(8,109)	(4,847)
Net (advances to) / repayments from ACHA		6,885	(2,230)
Payments for investments		(6,533)	-
Payments for business combinations	29	(60,241)	(25,924)
Payments in respect of prior year acquisitions		(2,466)	(3,574)
Net cash used in investing activities		**(386,476)**	**(200,623)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		413,000	170,000
Repayments of borrowings		(368,000)	(115,000)
Proceeds from receivables securitisation		4,418	3,938
Finance leasing		(5,007)	(11,598)
Dividends paid		(68,078)	(50,755)
Proceeds from the issue of shares		249,895	50,755
Net cash provided by financing activities		**226,228**	**47,340**
Net increase / (decrease) in cash and cash equivalents		**(486)**	**(2,777)**
Cash and cash equivalents at the beginning of the financial year		(253)	2,108
Cash acquired on acquisition	29	512	213
Effects of exchange rate changes on the balance of cash held in foreign currencies		31	203
Cash and cash equivalents at the end of the financial year	30(a)	**(196)**	**(253)**

The notes on pages 39 to 92 are an integral part of these consolidated financial statements.

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

STATEMENTS OF CHANGES IN EQUITY
CONSOLIDATED

	Issued Capital $'000	Retained Earnings $'000	Foreign Currency Translation Reserve $'000	Employee Benefits Reserve $'000	Hedging Reserve $'000	Total $'000	Minority Interest $'000	Total Equity $'000
Opening balance at 1 July 2008	**768,832**	**84,375**	**(10,181)**	**2,655**	**2,357**	**848,038**	**44**	**848,082**
Gain / (loss) on cash flow hedges	-	-	-	-	(24,141)	(24,141)	-	(24,141)
Related income tax	-	-	-	-	7,242	7,242	-	7,242
Exchange differences arising on translation of foreign operations	-	-	1,184	-	-	1,184	(87)	1,097
Other comprehensive income	**-**	**-**	**1,184**	**-**	**(16,899)**	**(15,715)**	**(87)**	**(15,802)**
Profit for the period	-	72,290	-	-	-	72,290	-	72,290
Total comprehensive income for the year	**-**	**72,290**	**1,184**	**-**	**(16,899)**	**56,575**	**(87)**	**56,488**
Dividends paid	-	(50,755)	-	-	-	(50,755)	-	(50,755)
Dividend reinvestment scheme	24,502	-	-	-	-	24,502	-	24,502
Underwritten cash component of dividend	26,253	-	-	-	-	26,253	-	26,253
Transaction costs	(254)	-	-	-	-	(254)	-	(254)
Related income tax	-	-	-	-	-	-	-	-
Recognition of share-based payments	-	-	-	1,000	-	1,000	-	1,000
Vesting of performance rights	1,538	-	-	(1,538)	-	-	-	-
Closing balance at 30 June 2009	**820,871**	**105,910**	**(8,997)**	**2,117**	**(14,542)**	**905,359**	**(43)**	**905,316**
Opening balance at 1 July 2009	**820,871**	**105,910**	**(8,997)**	**2,117**	**(14,542)**	**905,359**	**(43)**	**905,316**
Gain / (loss) on cash flow hedges	-	-	-	-	12,760	12,760	-	12,760
Related income tax	-	-	-	-	(3,828)	(3,828)	-	(3,828)
Exchange differences arising on translation of foreign operations	-	-	1,952	-	-	1,952	-	1,952
Other comprehensive income	**-**	**-**	**1,952**	**-**	**8,932**	**10,884**	**-**	**10,884**
Profit for the period	-	99,282	-	-	-	99,282	-	99,282
Total comprehensive income for the year	**-**	**99,282**	**1,952**	**-**	**8,932**	**110,166**	**-**	**110,166**
Dividends paid	-	(68,077)	-	-	-	(68,077)	-	(68,077)
Dividend reinvestment scheme	22,344	-	-	-	-	22,344	-	22,344
Capital raising	140,000	-	-	-	-	140,000	-	140,000
Share Purchase Plan	90,330	-	-	-	-	90,330	-	90,330
Transaction costs	(2,779)	-	-	-	-	(2,779)	-	(2,779)
Related income tax	814	-	-	-	-	814	-	814
Recognition of share-based payments	-	-	-	1,172	-	1,172	-	1,172
Vesting of performance rights	1,090	-	-	(1,090)	-	-	-	-
Closing balance at 30 June 2010	**1,072,670**	**137,115**	**(7,045)**	**2,199**	**(5,610)**	**1,199,329**	**(43)**	**1,199,286**

The notes on pages 39 to 92 are an integral part of these consolidated financial statements.

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: GENERAL INFORMATION

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

The registered office and principal place of business is:
Level 1
312 St Kilda Road
Melbourne VIC 3004
Tel: (03) 9926 7500

The entity's principal activities are the provision of private hospitals and pathology services.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
These financial statements are general-purpose financial statements, which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.
The financial statements comprise the consolidated financial statements of the Group.
Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 19 August 2010.

Basis of preparation
The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.
The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Working Capital Position
The working capital position as at 30 June 2010 for the consolidated entity is a surplus of current liabilities over current assets of $120.7 million (2009: $130.2 million).

The contributing factor to this deficiency is that during the year the company continued to utilise the accounts receivable securitisation facility for $140 million. During the year $99.4 million of receivables were sold to the Bank under this facility and the proceeds from the sale were used to retire non-current debt and reduce the overall cost of debt servicing.

The directors continually monitor the group's working capital position including forecast working capital requirements in light of the group's existing debt facility (refer Note 30).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Healthscope Limited and all of its controlled entities (the 'Group'). Control exists where Healthscope Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Healthscope Limited to achieve the objectives of Healthscope Limited. A list of controlled entities is contained in Note 28 to the accounts. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The interest of non-controlling shareholders is stated at the non-controlling shareholders proportion of the fair values of the assets and liabilities recognised. Non-controlling shareholder's interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

When control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisitions method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Business combinations (cont'd)
Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;

- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and

- Assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(c) Income Tax

Current Tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax
Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount on the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income or accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Income Tax (cont'd)
Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation
The company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Healthscope Limited is the head entity in the tax-consolidated group. All wholly owned entities acquired by the company during the year ended 30 June 2010 joined the Healthscope Limited tax consolidated group.

Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from the unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivables by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 9. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity partners.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Inventories
Inventories are measured at the lower of cost, on a first in first out basis, and net realisable value. Net realisable value represents the estimated selling prices of inventories less all estimated costs of completion and costs necessary to make the sale.

(e) Financial assets
Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.
Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss
Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:
- Has been acquired principally for the purpose of selling in the near future;
- Is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- Is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the statement of comprehensive income. Fair value is determined in the manner described in Note 31.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Financial assets (cont'd)

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.
In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised directly in other comprehensive income.

De-recognition of financial assets

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

- The contractual rights to receive cash flows from the asset have expired; or
- The consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- The consolidated entity has transferred its rights to receive cash flows from the asset and either:
  - Has transferred substantially all the risks and rewards of the asset; or
  - Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

- Freehold land and buildings are measured on the cost basis.
- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.
- Finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments. Each is determined at the inception of the lease.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

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

Class of property, plant and equipment	**Depreciation rate**
Buildings	2% to 2.5%
Leasehold improvements	2% to 33%
Plant & equipment	5% to 33%
Leased assets	8% to 33%

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer is previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is subsequently measured at its cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's), or groups of CGU's, expected to benefit from the synergies of the business combination. CGU's or groups of CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU or group of CGU's is less than the carrying amount of the CGU or groups of CGU's, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or groups of CGU's and then to the other assets of the CGU or groups of CGU's pro-rata on the basis of the carrying amount of each asset in the CGU or groups of CGU's.

An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(h) Intangible assets

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their value can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at fair value (which is cost) less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

Intangible assets acquired separately
Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Research & development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Intangible assets (cont'd)

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives of no longer than 5 years.

(i) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Leased assets

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Leased assets (cont'd)
Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Employee benefits
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

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

Defined contribution plans
Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(l) Joint venture arrangements
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled operations
Where the Group is a venturer and so it has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that it incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled entities
Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements.

(m) Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements.

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

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Financial liability and equity instruments issued by the company
Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Group derecognises financial liabilities when and only when, the Group's obligations are discharged, cancelled or they expire.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(p) Foreign currency
Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in net profit or loss in the period in which they arise.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Foreign currency (cont'd)

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive and accumulated in equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is exposed.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Insurance claims

The provision is based on the schedule of outstanding claims and the costs have been estimated based on currently available data where the Group has no related insurance policy. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and when appropriate, the risks specific to the liability. The provision is reviewed at the end of each reporting period and updated for additional information.

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(r) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of a service is recognised once the service has been provided.

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

Revenue from the sale of goods is recognised when the Group has transferred to the buyer, the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Revenue (cont'd)
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(s) Derivative financial instruments
The Group enters into interest rate swaps to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in note 31 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging Instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value id recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge Accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Note 31 contains details of the fair values of the derivative instruments used for hedging purposes. Movement in the hedging reserve in equity are also detailed in the Statement of Changes in Equity.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, as part of other expenses or other income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Derivative financial instruments (cont'd)
Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At the time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(t) Comparative figures
Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

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

(i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
or
(ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(v) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they were incurred.

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

There are currently two plans in place to provide these benefits:
1. The Executive Option Plan; and
2. The Executive Performance Rights Plan.

The schemes are only available to eligible executive employees. Executive employees are those who take part in management roles within the Group but exclude non-executive directors. The cost of these transactions with employees is measured by reference to the fair value at the date at which they are granted. An external valuer determines the fair value. In valuing these transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Share based payments (cont'd)
The cost of these transactions is recognised together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

(x) Government grants
Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, other than as disclosed below, however they have impacted the disclosures presented in the financial statements.

Standards affecting presentation and disclosure

- AASB 101 'Presentation of Financial Statements (revised 2007)'
- AASB 8 'Operating Segments'
- AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'

AASB 101 (revised) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. The revised Standard also separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners. Non-owner changes in equity are included in the statement of comprehensive income.

AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision-maker, which in the case of Healthscope Limited is the Managing Director, to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (AASB 14 Segmental Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, segmental information is presented in accordance with AASB 8 within Note 4. The comparatives have been re-presented accordingly.

AASB 2009-2 expands on the disclosure requirements of AASB 7 in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Standards and Interpretations affecting the reported results or financial position

- AASB 3 'Business Combinations (as revised in 2008)'
- AASB 127 'Consolidated and Separate Financial Statements (as revised in 2008)'

AASB 3 (revised) and AASB 127 (revised) became effective for the Group from 1 July 2009. Adoption of these standards impact all business combinations completed after 1 July 2009. For any such business combinations:

- All acquisition-related costs must be expensed as they are incurred.
- Contingent consideration must be measured at fair value at the acquisition date and form part of the total consideration. Subsequent changes in fair value must be recognised in profit or loss as they arise.
- Where step acquisitions occur, the equity holding at the date on which control is achieved must be re-measured to its fair value at that date, with the difference between carrying value and fair value recognised in profit or loss.
- Transactions between equity holders, including increases or decreases in ownership that do not result in a change of control, are reported within equity with no impact on profit or loss.

These standards apply prospectively and therefore have no impact on acquisitions completed by the Group prior to 1 July 2009.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) Adoption of new and revised Accounting Standards (cont'd)

In the current period, these changes have affected the Group's reported results and financial position as follows:

Acquisition costs expensed as incurred	$4,208 thousand decrease in profit
Fair value gain arising from a step acquisition	$1,450 thousand dollar increase in profit, recorded as a non-recurring gain in the profit and loss of the Group.

Results in future periods may be affected by further acquisition costs expensed as incurred and by changes in the fair value of contingent consideration recognised as a liability.

Standards and Interpretations on issue not yet adopted

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective:

	Standards / Interpretations	***Effective date***	***First applicable reporting date***
(i)	AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2010	30 June 2011
(ii)	AASB 2009-5 'Further amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
(iii)	AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions'	1 January 2010	30 June 2011
(iv)	AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'	1 February 2010	30 June 2011
(v)	AASB Interpretation 19 'Extinguishing financial liabilities with equity instruments' and AASB 2009-13 'Amendments to Australian Accounting Standards arising from Interpretation 19'	1 July 2010	30 June 2011
(vi)	AASB 124 'Related Party Disclosures (revised December 2009)', AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
(vii)	AASB 2009-14 'Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
(viii)	AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2011	30 June 2012
(ix)	AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
(x)	AASB 1053 'Application of Tiers of Australian Accounting Standards' and AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	30 June 2014 unless early adopted

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying the entity's accounting policies
The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Employee entitlements
Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:
- Future increases in wages in salaries;
- Future on-cost rates; and
- Experience of employee departures and period of service.

(b) Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Medical Malpractice Insurance
During the year, management performed the regular review of the medical malpractice insurance claims provision across the Group, which is included in the balance sheet at 30 June 2010 at $7.760 million (2009: $9.025 million). The provision represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the company.

Provisional accounting of business combinations
Healthscope provisionally accounts for business combinations that are within their 12-month measurement period where the Group is in the process of ascertaining the fair values of identifiable assets, liabilities and contingent liabilities acquired. In doing so. Healthscope has relied on the best estimate of the identifiable assets; liabilities and contingent liabilities as disclosed in Note 29, until the quantification and treatment of items under review are complete.

Impairment of goodwill and other intangible assets
Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the end of the reporting period was $841.982 million (2009: $773.946 million). The carrying amount of other intangible assets at the end of the reporting period was $131.383 million (2009: $106.154 million). No impairment loss was recorded in the current or prior year.

Share based payment transactions
Healthscope measures the cost of equity settled share-based payments at fair value at the grant date using a pricing model consistent with the Binomial lattice methodology, taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 32.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 4: OPERATING SEGMENTS

The Group has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating (and reporting) segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Accordingly the Group has determined the following operating segments.

- Hospitals Australia– the management and provision of surgical and non-surgical private hospitals
- Pathology Australia – the provision of pathology services
- Other – the provision of pathology services overseas
- Corporate – provision of central administrative costs

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

Segment revenues and results	Revenue (i)		EBITDA		Depreciation and amortisation		Profit before finance costs, non-recurring items and income tax (ii)	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Hospitals Australia	1,383,783	1,276,919	202,071	178,657	(43,844)	(36,566)	158,227	142,091
Pathology Australia	316,983	272,548	47,425	42,433	(16,333)	(14,559)	31,092	27,874
Other	142,702	104,509	28,857	19,409	(11,488)	(2,174)	17,369	17,235
Corporate	-	-	(14,780)	(12,155)	-	-	(14,780)	(12,155)
Total all segments before non-recurring items	**1,843,468**	**1,653,976**	**263,573**	**228,344**	**(71,665)**	**(53,299)**	**191,908**	**175,045**
Non-recurring items							(10,699)	(19,840)
Net finance costs							(53,704)	(54,049)
Profit before income tax							**127,505**	**101,156**
Income tax expense							(28,223)	(28,866)
Net profit after income tax							**99,282**	**72,290**

(i) The revenue reported above represents revenue generated from external customers. Any inter-segment sales are eliminated on consolidation of the Group's results.

(ii) Segment profit represents the profit earned by each segment without the allocation of central administrative costs and directors' salaries, investment revenue and finance costs, income tax expense, non-recurring items and gains or losses on the disposal of associates or discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities	Assets		Liabilities	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Hospitals Australia	2,114,353	1,770,781	980,902	906,592
Pathology Australia	301,723	297,983	44,502	42,309
Other	75,988	47,898	38,759	20,741
Corporate	708	-	8,723	20,775
Total all segments	**2,492,772**	**2,116,662**	**1,072,886**	**990,417**
Eliminations	(220,736)	(221,068)	(136)	(139)
Consolidated	**2,272,036**	**1,895,594**	**1,072,750**	**990,278**

For the purposes of monitoring segment performance and allocating resources between segments, all assets on acquisition and all liabilities are allocated to reportable segments

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 4: OPERATING SEGMENTS (cont)

Other segment information	Additions to non-current assets		Carrying value of equity accounted investments	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Hospitals Australia	297,478	121,955	654	654
Pathology Australia	78,182	52,676	-	134
Other	40,468	19,233	-	-
Corporate	-	-	-	-
Consolidated	**416,128**	**193,864**	**654**	**788**

NOTE 5: REVENUE

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

	Consolidated 2010 $'000	Consolidated 2009 $'000
Revenue from rendering services	1,798,917	1,610,871
Rental revenue	21,288	21,793
Management Fees	11,096	11,884
Other Revenue	12,167	9,428
Total revenue	**1,843,468**	**1,653,976**

NOTE 6: FINANCE INCOME AND EXPENSE

	2010	2009
Finance income		
Bank Deposits	1,215	817
Finance expense		
Interest on bank overdrafts and loans	(55,156)	(56,883)
Interest capitalised to qualifying assets	2,702	3,238
Interest on obligation under finance leases	(2,465)	(1,221)
Finance expense	(54,919)	(54,866)
Net finance costs	**(53,704)**	**(54,049)**

The weighted average capitalisation rate on funds borrowed generally is 6.77% p.a. (2009: 7.48% p.a.)

HEALTHSCOPE LIMITED
ABN 85 006 405 152
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 7: PROFIT FOR THE YEAR BEFORE TAX

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Gains and losses		
Gain on disposal of property plant and equipment	228	12
Government grants and assistance	195	283
	423	**295**
Profit for the year includes the following expenses:		
(b) Other Expenses		
Employee benefits expense		
Post employment - defined contribution plans	(59,072)	(51,162)
Equity-settled share based payments (Note 32)	(1,172)	(1,000)
Termination benefits	(1,687)	(1,443)
Other employee benefits	(795,850)	(697,519)
Total employee benefits expense	(857,781)	(751,124)
Research and development costs immediately expensed	(538)	(454)
(c) Depreciation / amortisation of property plant & equipment		
Depreciation of non-current assets		
- Buildings	(10,640)	(8,435)
- Leasehold improvements	(6,041)	(4,593)
- Plant and equipment	(43,956)	(35,273)
- Leased plant and equipment	(6,157)	(2,950)
Total depreciation	(66,794)	(51,251)
Amortisation of non-current assets		
- Contract acquisition costs	(1,412)	(305)
- Operating rights	(3,459)	(1,743)
Total amortisation	(4,871)	(2,048)
Total depreciation and amortisation	**(71,665)**	**(53,299)**
(d) Operating lease rental expenses		
Minimum lease payments	(52,249)	(46,719)

NOTE 8: NON RECURRING ITEMS

	2010 Pre-tax $'000	2010 Post tax $'000	2009 Pre-tax $'000	2009 Post tax $'000
Restructure and transition costs	(4,254)	(2,978)	(3,780)	(2,645)
Costs relating to litigation matters	(1,207)	(845)	-	-
Symbion break fee	-	-	(14,258)	(12,017)
Costs relating to proposed Scheme of Arrangement	(2,480)	(1,736)	-	-
Acquisition costs	(4,208)	(3,505)	(1,802)	(1,262)
E-clinic revaluation	1,450	1,450	-	-
Tax adjustment consolidation (Note 9)	-	4,073	-	-
	(10,699)	**(3,541)**	**(19,840)**	**(15,924)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: INCOME TAXES

Income tax recognised in the income statement

	Consolidated 2010 $'000	Consolidated 2009 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	22,462	28,869
Adjustments recognised in the current year in relation to the current tax of the prior years	(825)	(107)
Benefit arising from previously unrecognised tax losses and tax credits	(626)	(1,301)
	21,011	27,461
Deferred tax expense relating to the origination and reversal of temporary differences	6,728	1,184
Adjustments recognised in the current year in relation to the deferred tax of the prior years	484	221
Total tax expense	**28,223**	**28,866**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: INCOME TAXES (cont'd)

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Profit before income tax	127,505	101,156
Income tax calculated at 30% (2009:30%)	38,252	30,347
Increase in income tax expense due to:		
Non-deductible expenses	669	1,001
Decrease in income tax expense due to:		
Effect on tax rate in foreign jurisdictions (rates decreased)	(628)	(812)
Non-assessable capital losses/(profits)	560	1,974
Investment allowance	(4,671)	(2,236)
Tax consolidation amendments (i)	(4,073)	-
Non-assessable income	(435)	-
	29,674	30,274
Under / (over) provided in prior years		
- Adjustments recognised in relation to the current tax of prior years	(825)	(107)
- Benefit arising from previously unrecognised tax losses and tax credits	(626)	(1,301)
Income tax expense	**28,223**	**28,866**

(i) Pursuant to recent changes in legislation that has retrospective application, Healthscope has lodged requests for amended assessments in relation to the tax cost setting amount of revenue assets (such as consumables) in determining assessable income irrespective of the treatment of the assets pre-consolidation.

Income tax recognised directly in equity

	2010 $'000	2009 $'000
Current tax		
Share-issue expenses	327	254
Deferred tax		
Arising on income and expenses taken directly to equity:		
- Revaluation of financial instruments treated as cash flow hedges	3,828	(7,242)
- Share issue costs	(814)	-
	3,014	(7,242)

Current tax liabilities

	2010 $'000	2009 $'000
Income tax attributable to:		
Parent Entity	(23,140)	(13,053)
Entities in tax consolidated group	25,539	23,434
Other	680	932
	3,079	11,313

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: INCOME TAXES (cont'd)

Deferred tax balances	Opening Balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / Disposals $'000	Closing Balance $'000
CONSOLIDATED					
2010 Gross Deferred Tax Liabilities					
Property Plant and Equipment	(24,203)	(7,714)	-	-	(31,917)
Inventories	(11,107)	(1,969)	-	-	(13,076)
Cash flow Hedges	6,232	-	(6,232)	-	-
Other	(4,688)	3,438	-	-	(1,250)
	(33,766)	(6,245)	(6,232)	-	(46,243)
2010 Gross Deferred Tax Assets					
Provisions	29,326	2,824	-	-	32,150
Property Plant and Equipment	3,088	(1,536)	-	-	1,552
Cash flow Hedges	-	-	2,404	-	2,404
Other	10,475	(1,770)	814	-	9,519
	42,889	(482)	3,218	-	45,625
2009 Gross Deferred Tax Liabilities					
Trade and other payables	33	(33)	-	-	-
Property Plant and Equipment	(20,267)	(3,936)	-	-	(24,203)
Inventories	(9,458)	(1,649)	-	-	(11,107)
Cash flow Hedges	(1,010)	-	7,242	-	6,232
Other	(2,798)	(1,890)	-	-	(4,688)
	(33,500)	(7,508)	7,242	-	(33,766)
2009 Gross Deferred Tax Assets					
Trade and other receivables	439	(439)	-	-	-
Provisions	28,397	929	-	-	29,326
Property Plant and Equipment	3,830	(742)	-	-	3,088
Other	3,899	6,576	-	-	10,475
	36,565	6,324	-	-	42,889

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: INCOME TAXES (cont'd)

	Consolidated 2010 $'000	Consolidated 2009 $'000
The following deferred tax assets have not been brought to account as assets:		
- Tax losses - revenue	309	416
- Tax losses - capital	2,658	2,668
- Unused tax credits	-	-
	2,967	3,084

Tax Consolidation System

The company and all it's wholly owned Australian resident entities set out in note 28 are part of a tax-consolidated group under Australian taxation law. Healthscope Limited is the head entity of the tax-consolidated group. Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "Group Allocation" approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Nature of tax funding arrangement and tax sharing agreement

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable / (payable) equal in amount to the tax liability / (asset) assumed. The inter-entity receivable / (payable) is at call.

Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 10: TRADE AND OTHER RECEIVABLES

	Consolidated 2010 $'000	2009 $'000
CURRENT		
Trade receivables	107,413	89,111
Provision for doubtful debts (ii)	(2,518)	(1,882)
	104,895	87,229
Loan to Adelaide Community Healthcare Alliance Inc. (i)	2,000	3,070
Goods and services tax recoverable	3,358	4,132
Other	1,072	1,262
	111,325	95,693
NON CURRENT		
Loan to Adelaide Community Healthcare Alliance Inc. (i)	8,000	13,814

(i) The loans due from the Adelaide Community Healthcare Alliance Inc bear interest at the sum of the bid rate and a commercial credit margin

(ii) Movement in the provision for doubtful debts	2010 $'000	2009 $'000
Balance at beginning of the year	1,882	1,593
Amounts recovered during the year	(80)	(675)
Increase / (decrease) in allowance recognised in profit and loss	716	964
Balance at end of the year	2,518	1,882

The average credit period for the provision of services is 30 days. No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past provision of services, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts increased by $636 thousand (2009: decreased by $289 thousand) in the Group.

Included in the Group's trade receivable balance are debtors with a carrying amount of $19,278 thousand (2009: $12,819 thousand) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 72 days (2009: 69 days).

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly the directors believe that there is no further credit provision in excess of the allowance for doubtful debts.

During the year $99.4 million (2009: $95.0 million) of trade receivables were sold to our financier under the Receivables Securitisation Program. The proceeds from the sale were used to retire non-current debt and reduce the overall cost of debt servicing.

NOTE 11: INVENTORIES

	2010 $'000	2009 $'000
Consumable supplies at cost	47,413	39,852

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: OTHER FINANCIAL ASSETS

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current		
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	708	-
Non Current		
Loans and receivables carried at amortised cost:		
Interest bearing loans to other entities	4,500	-
Option Payments	5,294	3,261
	9,794	3,261
Available-for-sale investments carried at fair value:		
Shares	179	102
	9,973	3,363

Amounts receivable from wholly owned subsidiaries

The terms and conditions of the tax funding agreement are set out in Note 9.
Loans made between wholly owned entities can attract interest at market rates and are repayable on demand.
Outstanding balances are unsecured and repayable in cash.

NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2010 $'000	Consolidated 2009 $'000
Investment in associates	579	711
Investment in jointly controlled ventures	75	77
	654	788

Name	Principal Activities	Ownership Interest 2010 %	Ownership Interest 2009 %	Carrying Amount of Investment 2010 $'000	Carrying Amount of Investment 2009 $'000
Associates:					
Unlisted:					
The Mount Cath Lab Pty Ltd (Incorporated in Australia)	Cardiac catheterisation	50	50	579	579
e-Clinic Pty Ltd (Incorporated in Australia)	Information services	100	24.45	-	132
Jointly controlled ventures:					
Darwin Cardiac Angiography Laboratory Joint Venture (Unincorporated and operating in Australia)	Cardiac catheterisation	50	50	75	77

NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

	Consolidated	
Reconciliation of movement in investments accounted for using the equity method	**2010 $'000**	**2009 $'000**
Balance at 1 July	788	560
Share of profit for the year	2,357	2,926
Dividends/Distributions	(2,491)	(2,776)
Additions	-	78
Balance at 30 June	**654**	**788**

Summarised financial information of associates

	2010	2009
Financial Position:		
Current assets	1,701	2,881
Non-current assets	935	441
Total assets	2,636	3,322
Current liabilities	(850)	(880)
Non current liabilities	-	(59)
Total liabilities	(850)	(939)
Net assets	**1,786**	**2,383**
Group's share of net assets	579	711
Financial Performance:		
Share of associated entity's profit before income tax expense	2,980	3,776
Share of associated entity's income tax expense	(894)	(1,133)
Share of associated entity's profit after income tax	2,086	2,643

Summarised financial information of jointly controlled ventures

	2010	2009
Financial Position:		
Current assets	33	144
Non-current assets	267	67
Total assets	**300**	**211**
Current liabilities	(89)	(58)
Non-current liabilities	(61)	-
Total liabilities	**(150)**	**(58)**
Net assets	150	153
Groups Share of net assets	75	77
Financial Performance:		
Share of profit before income tax expense	271	283
Income tax expense	-	-
Consolidated entity's share of jointly controlled venturer's net profit	271	283

Dividends and distributions received during the year
During the year the Group received dividends of $2,220 thousand (2009: $2,203 thousand) from its investments in associates and distributions of $271 thousand (2009: $573 thousand) from its investment in jointly controlled entities.

Capital commitments and contingent liabilities
There are no capital commitments or contingent liabilities relating to associates and jointly controlled entities in the current or prior year.

NOTE 14: PROPERTY, PLANT & EQUIPMENT

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

CONSOLIDATED	Freehold Land $'000	Buildings $'000	Leasehold Improvements $'000	Plant & Equipment $'000	Leased Plant & Equipment $'000	Total $'000
Cost						
Balance at 1 July 2008	99,124	399,455	68,003	277,480	6,048	850,110
Additions	18	14,023	7,144	141,261	4,527	166,973
Transfers	(200)	5,624	2,464	(6,573)	(1,315)	-
Disposals	-	-	(241)	(2,738)	-	(2,979)
Additions through acquisition	-	-	-	341	-	341
Foreign currency exchange	-	(10)	223	576	-	789
Balance at 30 June 2009	**98,942**	**419,092**	**77,593**	**410,347**	**9,260**	**1,015,234**
Balance at 1 July 2009	98,942	419,092	77,593	410,347	9,260	1,015,234
Additions	8,858	152,144	36,582	96,860	22,145	316,589
Transfers	(23)	563	390	(487)	(443)	-
Disposals	-	-	(907)	(15,227)	-	(16,134)
Additions through acquisition	-	-	384	3,410	-	3,794
Foreign currency exchange	-	2	394	159	599	1,154
Balance at 30 June 2010	**107,777**	**571,801**	**114,436**	**495,062**	**31,561**	**1,320,637**
Accumulated Depreciation						
Balance at 1 July 2008	-	(30,788)	(14,507)	(113,095)	(3,554)	(161,944)
Transfers	-	(1,617)	(1,659)	2,326	950	-
Disposals	-	-	119	2,198	-	2,317
Additions through acquisition	-	-	-	-	-	-
Depreciation expense	-	(8,435)	(4,593)	(35,273)	(2,950)	(51,251)
Foreign currency exchange	-	7	(130)	(21)	(4)	(148)
Balance at 30 June 2009	**-**	**(40,833)**	**(20,770)**	**(143,865)**	**(5,558)**	**(211,026)**
Balance at 1 July 2009	-	(40,833)	(20,770)	(143,865)	(5,558)	(211,026)
Transfers	-	(451)	299	(285)	437	-
Disposals	-	-	831	14,953	-	15,784
Additions through acquisition	-	-	-	-	-	-
Depreciation expense	-	(10,640)	(6,041)	(43,956)	(6,157)	(66,794)
Foreign currency exchange	-	-	(37)	(270)	(154)	(461)
Balance at 30 June 2010	**-**	**(51,924)**	**(25,718)**	**(173,423)**	**(11,432)**	**(262,497)**
Net book value						
At 1 July 2008	99,124	368,667	53,496	164,385	2,494	688,166
At 30 June 2009	98,942	378,259	56,823	266,482	3,702	804,208
At 1 July 2009	98,942	378,259	56,823	266,482	3,702	804,208
At 30 June 2010	107,777	519,877	88,718	321,639	20,129	1,058,140

During the year ended 30 June 2010 the Group purchased property, plant and equipment to the value of $320,383 thousand (2009: $167,314 thousand) and disposed of property, plant and equipment with a written down value of $350 thousand (2009: $662 thousand). The purchase price of property, plant and equipment is considered by the directors to at least equate to the market value of the assets at 30 June 2010.

The directors believe that the carrying value of property, plant and equipment will be fully recoverable from the assets use and subsequent disposal (refer note 2(i)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: INTANGIBLE ASSETS

CONSOLIDATED	Goodwill $'000	Licences $'000	Operating Rights $'000	Contract Development Costs $'000	Total $'000
Cost					
Balance at 1 July 2008	749,605	98,154	-	1,044	848,803
Additions	282	-	6,902	-	7,184
Transfers	(852)	-	852	-	-
Disposals/Adjustments	375	-	-	-	375
Additions through acquisitions	23,968	-	1,717	-	25,685
Foreign Exchange	568	-	-	-	568
Balance at 30 June 2009	**773,946**	**98,154**	**9,471**	**1,044**	**882,615**
Balance at 1 July 2009	773,946	98,154	9,471	1,044	882,615
Additions	-	-	10,217	19,554	29,771
Disposals/Adjustments	1,427	-	-	-	1,427
Additions through acquisitions	65,974	-	-	-	65,974
Foreign Exchange	635	-	-	395	1,030
Balance at 30 June 2010	**841,982**	**98,154**	**19,688**	**20,993**	**980,817**
Accumulated amortisation					
Balance at 1 July 2008	-	-	-	(163)	(163)
Amortisation expense	-	-	(1,743)	(305)	(2,048)
Additions through acquisitions		-	(305)	-	(305)
Balance at 30 June 2009	**-**	**-**	**(2,048)**	**(468)**	**(2,516)**
Balance at 1 July 2009	-	-	(2,048)	(468)	(2,516)
Amortisation expense	-	-	(3,459)	(1,412)	(4,871)
Additions through acquisitions	-	-	-	-	-
Foreign Exchange	-	-	-	(65)	(65)
Balance at 30 June 2010	**-**	**-**	**(5,507)**	**(1,945)**	**(7,452)**
Net book value					
As at 30 June 2009	773,946	98,154	7,423	576	880,099
As at 30 June 2010	841,982	98,154	14,181	19,048	973,365

The carrying values of licences relate solely to the Pathology Segment in Australia and the recoverable amounts are assessed as part of the recoverable amount of the CGU. Pathology collection licences have been assessed as having indefinite lives on the basis that they are expected to be renewed in line with business continuity requirements.

Allocation of goodwill and other intangible assets to cash-generating units

The allocation of goodwill and other intangible assets for impairment testing purposes is to three individual cash-generating units. The recoverable amounts of these cash-generating units are based on similar key assumptions and the aggregate carrying amount of goodwill and other intangible assets allocated to those units is provided below.

	2010 $'000	2009 $'000
Goodwill		
Hospital Operations – Australia	343,690	343,690
Pathology Operations – Australia	450,998	383,596
Pathology Operations – Other	47,294	46,660
	841,982	**773,946**
Other intangible assets		
Hospital Operations – Australia	-	-
Pathology Operations – Australia	112,335	106,153
Pathology Operations – Other	19,048	**-**
	131,383	**106,153**

The recoverable amount of each cash-generating unit is the net present value of the future cash flows of the cash-generating unit, which is determined on a value in use calculation. Recoverable amounts have been determined using:
- 2010/2011 management approved profit and loss and cash flow budgets for each cash-generating unit;
- Inherent growth factors consistent with current performance;
- Prevailing market based pre-tax discount rates for both the Group's debt and equity instruments. (2010: 10.92%, 2009: 11.79%)

NOTE 15: INTANGIBLE ASSETS (cont'd)

- Cash flow projections covering a five-year period and terminal value;
- Terminal growth factors depending on the CGU have been set at between 3% and 4% (2009: 3%-4%);
- Management believes that any reasonable possible change in the key assumptions, on which recoverable amount has been assessed would not cause any shortfall of recoverable amount in any of the cash generating units described above.

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated 2010 $'000	2009 $'000
CURRENT		
Trade creditors	94,966	78,927
Sundry creditors and accruals	74,911	77,315
	169,877	156,242

The average credit period on purchases of goods is 30 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 17: DEFERRED PURCHASE CONSIDERATION

	2010	2009
CURRENT		
Deferred purchase consideration	10,079	2,785

NOTE 18: BORROWINGS

	2010	2009
Secured at amortised cost		
CURRENT		
Bank Overdrafts	2,999	3,089
Hire purchase facility	5,595	5,415
Lease liability	3,930	1,189
	12,524	9,693
NON-CURRENT		
Loan facility advances	695,000	650,000
Prepaid loan facility establishment fees	(2,432)	(3,492)
Lease liability	17,540	3,315
	710,108	649,823

The loan facility advances and bank overdraft of the parent entity and controlled entities are secured by a first registered fixed and floating charge over the assets of the parent entity and all Australian & New Zealand controlled entities (refer note 28).

A syndicated facility of $850 million, along with a further advance facility of $25 million was put in place on 24th June 2008. The syndicated facility is a 3-year revolving debt facility, which matures on 15th July 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 19: OTHER FINANCIAL LIABILITIES

	Consolidated 2010 $'000	Consolidated 2009 $'000
Derivatives that are designated and effective as hedging instruments carried at fair value:		
CURRENT		
Interest rate swaps	8,723	14,965
NON CURRENT		
Interest rate swaps	-	5,810

NOTE 20: PROVISIONS

	2010 $'000	2009 $'000
CURRENT		
Employee benefits (i)	82,119	73,766
Medical malpractice insurance (ii)	7,760	9,025
Onerous lease contracts (iii)	380	475
Other	53	-
	90,312	83,266
NON-CURRENT		
Employee benefits (i)	15,131	13,614
Onerous lease contracts (iii)	69	187
	15,200	13,801

	Medical Malpractice Insurance (ii) $'000	Onerous lease contracts (iii) $'000
Consolidated		
Balance at 1 July 2009	9,025	662
Additional provisions recognised	1,805	-
Reductions arising from payments / other sacrifices of future economic benefits	(1,329)	(213)
Reductions resulting from re-measurement or settlement without cost	(1,741)	-
Balance at 30 June 2010	**7,760**	**449**
Current	7,760	380
Non current	-	69
	7,760	**449**

(i) The current and non current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future rates, discounted to present value at mandated discount rates. They are inclusive of on-costs.

(ii) The provision for medical malpractice insurance represents the present value of the estimated future outflow of economic benefits that may be required to be made to meet malpractice claims made against the Group and or company.

(iii) The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangement where applicable. The unexpired term of the leases range from 1 to 2 years (2009: 2 to 3 years).

NOTE 21: ISSUED CAPITAL

	Consolidated 2010 $'000	2009 $'000
317,010,025 (2009 – 257,165,951) Fully paid ordinary shares (i)	1,072,670	820,871
Fully paid ordinary shares		
At the beginning of the financial year	820,871	768,832
405,804 on 7 August 2008	-	1,538
2,845,534 on 6 October 2008	-	12,264
2,831,610 on 6 October 2008	-	12,204
3,220,498 on 6 April 2009	-	12,238
3,658,747 on 6 April 2009	-	14,049
489,861 on 20 August 2009	1,090	-
32,558,140 on 2 September 2009	140,000	-
21,558,522 on 9 October 2009	90,330	-
2,469,017 on 12 October 2009	10,938	-
2,768,534 on 6 April 2010	11,406	-
Transaction costs arising from the issue of shares	(2,779)	(254)
Related tax	814	
	1,072,670	820,871

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

Changes to the then Corporations Law abolished the authorised capital and par values concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Share options granted under the executive option plan
As at 30 June 2010, the company has 100,001 share options on issue (2009: 100,001), exercisable on a 1:1 basis for 100,001 ordinary shares of the company (2009: 100,001) at an exercise price of $1.68. The options expire between 28 August 2012 and 28 August 2014 (2009: 28 August 2012 and 28 August 2014), and carry no rights to dividends and no voting rights. Further details of the executive option plan are contained in note 32 to the financial statements.

Share rights granted under the executive performance rights plan
As at 30 June 2010, the company has 1,436,714 performance rights on issue (2009: 1,369,840), exercisable on a 1:1 basis for 1,436,714 ordinary shares of the company (2009: 1,369,840). The performance rights expire between 30 June 2012 and 30 June 2014 (2009: 30 June 2011 and 30 June 2013), and carry no rights to dividends and no voting rights. Further details of the executive performance rights plan are contained in note 32 to the financial statements.

NOTE 22: RESERVES

(a) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from, the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

(b) Employee benefits reserve
The employee benefits reserve arises from the grant of share options and performance rights to executives under the executive share option scheme and the executive performance rights scheme. Amounts are transferred out of the reserve and into share capital when the options are exercised or the performance rights vest. Further information about share-based payments to employees is made in Note 32 to the financial statements.

(c) Hedging reserve
The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 23: EARNINGS PER SHARE

	Consolidated	
	2010 Cents per share	2009 Cents per share
Basic earnings per share		
Total basic earnings per share	32.83	28.88
Diluted earnings per share		
Total diluted earnings per share	32.66	28.71

Basic earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2010 $'000	2009 $'000	2010 No.	2009 No.
- Earnings used in the calculation of basic EPS	99,282	72,290		
- Weighted average number of ordinary shares for the purpose of basic Earnings per share			302,439,938	250,322,200

Diluted earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share is as follows:

	2010 $'000	2009 $'000	2010 No.	2009 No.
Earnings used in the calculation of diluted EPS	99,282	72,290		
Weighted average number of ordinary shares for the purpose of basic earnings per share			302,439,938	250,322,200
Shares deemed to be issued in respect of employee options that contain an exercise price:			100,001	100,001
Shares deemed to be issued for no consideration in respect of performance rights:			1,436,714	1,369,840
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS			303,976,653	251,792,041

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 24: DIVIDENDS

	Consolidated 2010 $'000	2009 $'000
Recognised amounts		
Current year		
Interim fully franked ordinary dividend of 11.5 cents (2009: 10.5 cents) per share franked at a tax rate of 30% (2009: 30%), paid on 6 April 2010.	36,146	26,287
Prior year		
Final fully franked ordinary dividend of 11.0 cents (2008: 10.0 cents) per share franked at the tax rate of 30% (2009: 30%) paid on 12 October 2009.	31,931	24,468
	68,077	50,755
Unrecognised Amounts		
Final fully franked ordinary dividend of 12.0 cents (2009: 11.0 cents) per share payable to shareholders registered on 1 October 2010.	38,159	28,288

The 2010 final dividend was declared by directors on 18th August 2010 and does not require approval by shareholders at the Annual General Meeting. No liability has been recorded in these financial statements for this dividend.

Balance of the franking account at year-end includes franking credits arising from payment of provision for income tax and franking debits arising from payment of dividends.	21,342	23,055
Impact on franking account balance of dividends not recognised	(16,354)	(12,123)

NOTE 25: COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments:		
Capital expenditure projects	269,263	151,983
Plant and equipment:		
- Not longer than 1 year	131,063	151,913
- Longer than 1 year but no longer than 5 years	138,200	70
- Longer than 5 years	-	-
	269,263	151,983

NOTE 26: CONTINGENT LIABILITIES

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Estimates of material amounts of contingent liabilities, not provided for in the financial report:		
Retirement and termination benefits payable in certain circumstances to executive officers under service agreement.	1,927	2,355
The parent entity has given a bank guarantee to the Work cover Corporation of South Australia, in order to satisfy certain statutory agreements.	720	680
The parent entity has given bank guarantees in respect of property leases.	9,293	8,661

NOTE 27: LEASES

(a) Finance lease commitments:

Minimum future lease payments		
Payable		
- Not later than 1 year	5,523	1,505
- Later than 1 year but no later than 5 years	18,031	3,012
- Later than 5 years	3,929	1,017
Minimum lease payments	27,483	5,534
Less future finance charges	(6,013)	(1,030)
Present value of minimum lease payments	21,470	4,504

These commitments represent future payments for various plant and equipment and have been recognised as a liability in the current financial year. No lease has a term greater than twelve years and all leases expire within the next twelve years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Present value of minimum lease payments		
Payable		
- Not later than 1 year	3,930	1,189
- Later than 1 year but no later than 5 years	13,991	2,430
- Later than 5 years	3,549	885
Present value of minimum lease payments	21,470	4,504
Included in the financial statements:		
- Current borrowings (Note 18)	3,930	1,189
- Non current borrowings (Note 18)	17,540	3,315
Total	21,470	4,504

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

(b) Operating lease commitments:
Operating leases relate to properties leased by the Group with lease terms between 1 and 30 years. All operating leases contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable operating leases contracted for but not capitalised in the financial report		
Payable:		
- Not later than 1 year	55,962	47,667
- Later than 1 year but no later than 5 years	118,182	114,701
- Later than 5 years	107,418	122,218
	281,562	284,586

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28: SUBSIDIARIES

Name of Entity	County of Incorporation	% Owned 2010 %	% Owned 2009 %
Parent Entity:			
HEALTHSCOPE LIMITED	Australia		
Subsidiaries			
HOSPITALS			
Healthscope South Australia Pty Ltd	Australia	100	100
Healthscope (Tasmania) Pty Ltd	Australia	100	100
Healthscope (Tasmania Finance) Pty Ltd	Australia	100	100
Maybury Craft Pty Ltd	Australia	100	100
Darwin Private Hospital Pty Ltd	Australia	100	100
Australian Hospital Care (Como) Pty Ltd	Australia	100	100
Australian Hospital Care (Dorset) Pty Ltd	Australia	100	100
Australian Hospital Care (Knox) Pty Ltd	Australia	100	100
Australian Hospital Care (Lady Davidson) Pty Ltd	Australia	100	100
Australian Hospital Care (Ringwood) Pty Ltd	Australia	100	100
The Victorian Rehabilitation Centre Pty Ltd	Australia	100	100
Healthscope Diagnostic Imaging Pty Ltd	Australia	100	100
Melbourne Hospital Pty Limited	Australia	100	100
P.O.W Hospital Pty Ltd	Australia	100	100
Brisbane Private Hospital Pty Ltd	Australia	100	100
QPH Wickham Pty Ltd	Australia	100	100
Newcastle Private Hospital Pty Ltd	Australia	100	100
Nova Health Pty Limited	Australia	100	100
Brisbane Waters Administration Pty Ltd	Australia	100	100
Brisbane Waters Equities Pty Ltd	Australia	100	100
HCA Holdings (Southport) Pty Ltd	Australia	100	100
HCA Management Company Pty Ltd	Australia	100	100
Pacific Private Hospital Pty Ltd	Australia	100	100
HOSPITALS CONT'D			
Healthscope Aged Care Pty Ltd	Australia	100	100
Allamanda Private Hospital Pty Ltd	Australia	100	100
Allamanda Surgicentre Pty Ltd	Australia	100	100
Rivercity Private Hospital Pty Ltd	Australia	100	100
Tweed Surgicentre Pty Ltd	Australia	100	100
Healthscope Property Pty Ltd	Australia	100	100
PATHOLOGY AUSTRALIA			
Advanced Medical Technology Pty Ltd	Australia	100	100
A.C.N 009 076 555 Pty Ltd	Australia	100	100
ATTEB M. Pty Ltd[1]	Australia	100	100
Clinical Laboratories Pty Ltd	Australia	100	100
FHIC Pty Ltd	Australia	100	100
General Pathology Laboratories Pty Ltd	Australia	100	100
Gribbles Molecular Science Pty Ltd[1]	Australia	100	100
Gribbles Administrative Services Pty Ltd	Australia	100	100
Gribbles DAR. Pty Ltd[1]	Australia	100	100
Gribbles IP Holdings Pty Ltd[1]	Australia	100	100
Gribbles Medical Research Pty Ltd[1]	Australia	100	100
Gribbles Pathology Pty Ltd	Australia	100	100
Gribbles Services Pty Ltd[1]	Australia	100	100
Latot C.A. Pty Ltd[1]	Australia	100	100
Mazlin Investments Pty Ltd	Australia	100	100
Medical Marketing Research Pty Ltd[1]	Australia	100	100
Revesco Investments Pty Ltd[1]	Australia	100	100
Spectrum Medical Services Pty Ltd[1]	Australia	100	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28: SUBSIDIARIES (cont'd)

Name of Entity	County of Incorporation	% Owned 2010 %	% Owned 2009 %
PATHOLOGY AUSTRALIA CONT'D			
The Gribbles Group Pty Ltd	Australia	100	100
Histoderm Pty Ltd	Australia	100	100
28-050-049-780 Pty Ltd	Australia	100	100
43 065 317 106 Pty Ltd	Australia	100	100
96 002 869 632 Pty Ltd	Australia	100	100
Davies, Campbell & de Lambert Pty Ltd	Australia	100	100
Medibill Pty Ltd	Australia	100	100
Grahame Hookway & James Carroll Medical Practice Pty Ltd	Australia	100	100
Nextpath Pty Ltd	Australia	100	100
Analytical References Laboratories Pty Ltd*	Australia	100	-
Yarra Ranges Pathology Pty Ltd*	Australia	100	-
Australian Dermatopathology Laboratory Pty Ltd*	Australia	100	-
Bayside Pathology Pty Ltd*	Australia	100	-
Solaris Pathology Pty Ltd*	Australia	100	-
E-clinic Pty Ltd	Australia	100	24.45
Palcare Pty Ltd*	Australia	50	-
MEDICAL CENTRES			
D F G Clinics Pty Ltd	Australia	100	100
Skin Alert Pty Ltd	Australia	100	100
Healthscope Medical Centres Pty Ltd	Australia	100	100
Hopkins Services Pty Ltd	Australia	100	100
Molescan Australia Pty Ltd	Australia	100	-
HCOA Pty Ltd*	Australia	100	-
Healthcare of Australia Pty Ltd	Australia	100	-
Healthcare of Australia Holdings Pty Ltd	Australia	100	-

Name of Entity	County of Incorporation	% Owned 2010 %	% Owned 2009 %
PATHOLOGY INTERNATIONAL			
Healthscope New Zealand Ltd	New Zealand	100	100
New Zealand Diagnostic Group Holdings Ltd	New Zealand	100	100
New Zealand Diagnostic Group Ltd	New Zealand	100	100
Southern Community Laboratories Ltd	New Zealand	100	100
Riccarton Radiology Ltd	New Zealand	100	100
SCL Hawkes Bay Ltd	New Zealand	100	100
Moorhouse Radiology Ltd	New Zealand	75	75
SCL Canterbury Ltd	New Zealand	100	100
SCL Otago Southland Ltd	New Zealand	100	100
SCL Otago Southland Services Ltd	New Zealand	100	100
SCL Otago Southland Code Services Ltd	New Zealand	100	100
Gribbles Pathology (Malaysia) SDN BHD	Malaysia	100	100
Gribbles Cytology Services SDN BHD	Malaysia	100	100
Gribbles Information Technology SDN BHD	Malaysia	100	100
GPM Logistics SDN BHD	Malaysia	-	100
The Gribbles Group (Mauritius) Limited	Mauritius	100	100
Gribbles Pathology (Singapore) Pte Ltd	Singapore	100	100
The Medical Laboratory (S) Pte Ltd	Singapore	100	100
Quest Laboratories Pte Ltd	Singapore	100	100
Doctorslab Diagnostics Pte Ltd	Singapore	100	100
Northland Pathology Laboratory Ltd	New Zealand	100	100
Labtests Limited	New Zealand	100	100
Lab Tests Auckland Ltd	New Zealand	100	100
Labnet Invermay Limited	New Zealand	100	100
Gribbles Pathology NZ Ltd	New Zealand	100	100
Gribbles Veterinary Pathology Ltd	New Zealand	100	100

Healthscope Ltd is the head entity within the group. All Australian incorporated subsidiaries listed above are part of the tax-consolidated group. Other than as marked *, all Australian incorporated subsidiaries listed above have entered into a deed of cross guarantee with Healthscope Limited pursuant to ASIC Class Order 98 / 1418 and are relieved from the requirement to prepare and lodge audited financial reports. Those subsidiaries marked ***** are dormant and are accordingly exempt from the reporting obligations of s292 of the Corporations Act.

(1) Healthscope lodged a deed of revocation on 30 March 2010 to release these companies from the Healthscope deed of cross guarantee as part of the deregistration process. The actual release of these companies will be effective on 30 September 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28: SUBSIDIARIES (cont'd)

Deed of Cross Guarantee

The consolidated income statement and balance sheet of the entities listed above which are party to the deed of cross guarantee are:

	2010 $'000	2009 $'000
Income Statement		
Revenue	1,700,765	1,549,467
Expenses	(1,478,355)	(1,363,452)
Share of net profits of associates and joint ventures accounted for using the equity method	2,357	2,926
Profit before Amortisation, Depreciation, Borrowing costs and Income Tax (EBITDA)	224,767	188,941
Depreciation, amortisation of property, plant and equipment	(60,177)	(51,124)
Profit before Borrowing Costs and Income Tax (EBIT)	164,590	137,817
Finance Costs	(47,164)	(51,966)
Profit before income tax expense	**117,426**	**85,851**
Income tax expense	(25,805)	(24,211)
Net Profit after income tax	91,621	61,640
Net Profit attributable to members of the parent entity	**91,621**	**61,640**
Balance Sheet		
Current assets		
Cash and cash equivalents	545	968
Trade and other receivables	90,404	83,636
Prepayments	13,158	11,396
Inventories	43,587	37,045
Other financial assts	708	-
Total current assets	**148,402**	**133,045**
Non-current assets		
Receivables	8,000	13,814
Other financial assets	4,500	3,223
Property, plant and equipment	1,009,855	767,194
Investments	40,077	788
Intangibles	894,663	833,439
Amount receivable from related entities	68,099	58,350
Deferred tax assets	40,322	37,841
Total non-current assets	**2,065,516**	**1,714,649**
Total assets	**2,213,918**	**1,847,694**
Current liabilities		
Payables	157,950	144,757
Deferred purchase consideration	10,079	2,785
Deferred revenue	2,214	2,109
Interest bearing liabilities	10,705	10,179
Other financial liabilities	8,723	14,965
Current tax liabilities	2,399	10,150
Provisions	86,912	80,671
Total current liabilities	**278,982**	**265,616**
Non-current liabilities		
Interest bearing liabilities	695,545	649,946
Deferred purchase consideration	-	-
Deferred revenue	4,180	6,270
Provisions	14,178	12,849
Other financial liabilities	-	5,810
Deferred tax liabilities	41,243	29,752
Total non-current liabilities	**755,146**	**704,627**
Total liabilities	**1,034,128**	**970,243**
Net assets	**1,179,790**	**877,451**
Equity		
Contributed equity	1,072,670	820,871
Reserves	(3,517)	(20,387)
(Accumulated Losses) / Retained earnings	110,637	76,967
Total equity	**1,179,790**	**877,451**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 29: ACQUISITION OF BUSINESSES

(i) On 25th August 2009, the Group acquired 100% of the share capital of the Healthcare of Australia Group. The acquisition comprised the trading businesses of ARL Pathology, Molescan skin cancer clinics and Healthcare of Australia medical centres, all of which complement the Group's existing businesses.

(ii) The Group acquired the controlling interest in e-Clinic Pty Ltd on 21st December 2009. On acquisition date, the Group held an investment of 24.45% of the share capital with an equity accounted carrying value of $132 thousand. In accordance with accounting standard AASB 3 Business Combinations, this investment was re-measured on acquisition to a fair value of $1,582 thousand. The revaluation gave rise to an after-tax gain of $1,450 thousand dollars. This gain was recorded as a non-recurring gain in the profit and loss of the Group.

The initial accounting for these acquisitions has only been provisionally determined at reporting date. For tax purposes, the tax values of the acquired operations assets are required to be reset based on market values and other factors. At the date of finalisation of this report, the necessary market valuations and other calculations have not been finalised and the adjustment to deferred tax liabilities and goodwill noted above has therefore only been provisionally determined based on directors' best estimate of the likely tax values. The market value for tax purposes may also impact the recognised fair values of the other assets acquired as part of the business combination. All acquired entities became members of the Healthscope Limited consolidated tax group from their respective dates of acquisition.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire these operations. In addition the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of the above operations. These benefits are not recognised separately from goodwill, as the future economic benefits arising from them cannot be reliably measured.

Businesses Acquired	**Date of Acquisition**	**Proportion of Ownership Acquired %**	**Cost of Acquisition $'000**
2010			
Consideration			
Cash consideration			60,241
Deferred purchase consideration			9,648
Total			**69,889**
HealthCare of Australia Group (i)	25-Aug-09	100	
Cash consideration			43,030
Deferred purchase consideration			7,500
			50,530
Other Acquisitions			
Kooyong Rd Medical Centre	12-Oct-09	100	
South Canberra Medical Centre	23-Nov-09	100	
E-clinic (ii)	21-Dec-09	75.55	
Ainslie Medical Centre	8-Jan-10	100	
Wallsend Medical Centre	23-Feb-10	100	
Dural Medical Centre	15-Mar-10	100	
Sorrento Medical Centre	18-Mar-10	100	
Pindata Medical Centre	22-Mar-10	100	
Umina Medical Centre	22-Mar-10	100	
Robina Medical Centre	1-Apr-10	100	
Evandale Medical Centre	6-Apr-10	100	
CGPath	13-Apr-10	100	
Mater Hill Medical Centre	24-May-10	100	
Monaro Medical Centre	25-May-10	100	
Specialist Skin Pathology	28-May-10	100	
Cash consideration in respect of these acquisitions			17,211
Deferred purchase consideration in respect of these acquisitions			2,148
			19,359
Total Consideration in respect of current year acquisitions			**69,889**
Deferred consideration in respect of prior year acquisitions			2,466
Total Consideration			**72,355**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 29: ACQUISITION OF BUSINESSES (cont'd)

2009	
Pathology	17,147
Medical Centres	8,777
Deferred consideration in respect of prior year acquisitions	3,574
Total Consideration	**29,498**
Assets acquired and liabilities assumed at the date of acquisition in respect of current year acquisitions	
Current Assets	
Cash and cash equivalents	512
Trade and other receivables	1,686
Inventories	586
Prepayments	432
Non-current assets	
Plant and equipment	3,794
Collection centre licences	-
Operating rights	2,433
Current liabilities	
Payables	(3,796)
Employee provisions	(892)
Other provisions	(189)
Provision for income tax	(29)
Borrowings	(622)
	3,915
Goodwill arising on acquisition	
Consideration in respect of current year acquisitions	69,889
Less: fair value of identifiable net assets acquired	(3,915)
	65,974

	2010 $'000	2009 $'000
Net cash outflow on acquisition of businesses		
Consideration paid in cash	60,241	29,498
Less: cash and cash equivalent balances acquired	(512)	(213)
	59,729	29,285

NOTE 30: NOTES TO THE CASH FLOW STATEMENT

	Consolidated	
	2010 $'000	**2009 $'000**

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	2,803	2,836
Bank overdrafts	(2,999)	(3,089)
	(196)	(253)

(b) Finance facilities

Secured bank overdraft credit facility	5,000	5,000
Amount utilised	(2,999)	(3,089)
Unused credit facility	2,001	1,911
Secured credit facility (i)	875,000	875,000
Amount utilised	(695,000)	(650,000)
Unused credit facility	180,000	225,000
Receivables securitisation facility (ii)	140,000	110,000
Amount utilised	(99,445)	(95,026)
Unused credit facility	40,555	14,974

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 30: NOTES TO THE CASH FLOW STATEMENT (Cont'd)

(i) The loan facility advances and bank overdraft of the parent entity and controlled entities are secured by a first registered fixed and floating charge over the assets of the parent entity and all Australian & New Zealand controlled entities. (Refer Note 28). A syndicated facility of $850 million, along with a further working capital advance facility of $25 million was put in place on 24th June 2008. The syndicated facility is a 3-year revolving debt facility, which matures on 15th July 2011.

(ii) The company has in place a receivables securitisation facility with its financier. Under the terms of the facility the company was able to take off balance sheet $99,445 thousand (2009: $95,026 thousand) of eligible receivables and use the proceeds to retire non-current debt and reduce the overall cost of debt servicing. The facility was renewed on 25th June 2010 for a further 16 months.

(c) Businesses acquired

During the financial year, the Group acquired the businesses as disclosed in Note 29. The net cash outflow on acquisitions was $59,729 thousand (2009: $29,285 thousand).

	Consolidated	
	2010	**2009**
	$'000	**$'000**
(d) Reconciliation of net profit for the year to net cash flows from operating activities		
Profit for the year	**99,282**	**72,290**
Non-cash flows in operating profit		
- Depreciation and amortisation	71,665	53,299
- Bad debts written-off	612	725
- Loss on write-off of property, plant & equipment	48	192
- Profit on sale of assets	(228)	(205)
- Gain on fair value adjustment on acquisition	(1,450)	-
- Employee Performance Rights	1,172	1,000
- Share of profit in Joint Venture entities	134	(228)
- Insurance premium funding	-	9,058
Movement in deferred tax asset	(2,736)	(6,324)
Movement in current tax liability	(8,234)	1,345
Movement in deferred taxes liability	12,477	266
Changes in assets and liabilities:		
- Increase to provisions	5,467	8,530
- (Increase) in receivables	(20,005)	(8,468)
- (Increase) / decrease in prepayments	(1,546)	183
- (Increase) in inventories	(6,975)	(5,454)
- Increase in payables	10,079	24,297
Net cash from operating activities	**159,762**	**150,506**

NOTE 31: FINANCIAL INSTRUMENTS

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in notes 21 and 22 respectively.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 31: FINANCIAL INSTRUMENTS (Cont'd)

Operating cash flows are used to maintain and expand the group's assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt.

The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

The Group's risk management committee reviews the capital structure on a semi-annual basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target-gearing ratio of 65-75% in line with the industry norm, which is determined as the proportion of net debt to equity. Based on recommendations of the committee the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year-end was as follows:

	Consolidated	
	2010 **$'000**	**2009** **$'000**
Financial assets		
Debt (i)	722,632	659,516
Cash and cash equivalents	(2,803)	(2,836)
Net debt	719,829	656,680
Equity (ii)	1,199,286	905,316
Net debt to equity ratio	60.0%	72.5%

(i) Debt is defined as long and short-term borrowings (excluding derivatives and financial guarantee contracts), as detailed in note 18.
(ii) Equity includes all capital and reserves of the Group that are managed as capital.

(b) Significant accounting policies
Details of the significant accounting policies and methods adopted, (including the criteria for recognition, the bases of measurement and the bases on which income and expenses are recognised) in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(c) Financial risk management objectives
The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The internal auditors on a continuous basis review compliance with policies and exposure limits. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports regularly to executive management and the Audit, Compliance and Risk Assurance Committee (Audit Committee), an independent body that monitors risks and policies implemented to mitigate risk exposures.

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into a number of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps to mitigate the risk of rising interest rates.

NOTE 31: FINANCIAL INSTRUMENTS (cont'd)

(d) Categories of financial instruments

The Group managed the following financial instruments as at 30 June 2010

	Consolidated	
	2010 $'000	**2009 $'000**
Financial assets		
Cash and cash equivalents	2,803	2,836
Trade and other receivables	109,325	92,623
Loans and option payments	19,794	20,145
Available-for-sale financial assets	179	102
Derivative instruments in designated hedge accounting relationships – at fair value	708	-
Financial liabilities		
Trade and other payables – at amortised cost	169,877	156,242
Loan and lease facilities – at amortised cost	722,632	659,516
Derivative instruments in designated hedge accounting relationships – at fair value	8,723	20,775
Financial guarantee contracts	-	-

(e) Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counter parties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counter parties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter parties. Credit exposure is controlled by counter party limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other credit enhancements held.

(f) Foreign currency risk management

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

The Group is not significantly exposed to transactional foreign currency risk associated with receipts and payments that are required to be settled in foreign currencies. These transactions are minor in value and quantum with the exposure managed on an individual basis usually through the spot rate purchase of foreign currencies.

Foreign currency risk arising on the translation of the net assets of the Group's foreign controlled entities, which have a different functional currency, is managed at the Group level. Foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. The Group is exposed to foreign exchange risk on its loans receivable and payable with overseas subsidiaries. All loans are denominated in AUD, with the overseas subsidiaries exposed to currency fluctuations between their functional currency and the reporting currency. Such exposure is limited to New Zealand dollars (NZD), Singapore dollars (SGD) and Malaysian ringgits (MYR).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 31: FINANCIAL INSTRUMENTS (cont'd.)

The sensitivity analysis table below details the impact on the Group's net profit after tax from a 10% movement in the value of the Australian Dollar (reporting currency) against the functional currencies of New Zealand, Malaysia and Singapore. 10% is the sensitivity rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible changes in foreign currency risk.

	Sensitivity analysis foreign exchange risk 2010 $'000	2009 $'000
A 10% decrease in the Australian Dollar would have improved net profit after tax by	789	1,051
A 10% increase in the Australian Dollar would have decreased net profit after tax by	(717)	(956)

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. Included in note 30 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated	Weighted average effective interest rate %	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000
2010						
Non-interest bearing	-	72,425	97,160	2,657	4,238	-
Finance lease liability	6.79	460	920	4,142	18,031	3,929
Variable interest rate instruments	5.19	1,695	18,726	33,515	801,831	-
Fixed interest rate instruments	3.49	956	1,912	2,869	-	-
Financial guarantee contracts	-	-	-	-	-	-
		75,536	118,718	43,183	824,100	3,929
2009						
Non-interest bearing	-	70,836	86,184	1,558	6,477	-
Finance lease liability	7.80%	125	376	1,004	3,012	1,017
Variable interest rate instruments	7.48%	4,418	8,313	121,350	680,106	-
Fixed interest rate instruments	2.94%	904	1,807	2,711	-	-
Financial guarantee contracts	-	-	-	-	-	-
		76,283	96,680	126,623	689,595	1,017

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

NOTE 31: FINANCIAL INSTRUMENTS (cont'd.)

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
2010					
Net settled:					
Interest rate swaps	-	(811)	(7,423)	-	-
	-	**(811)**	**(7,423)**	**-**	**-**
2009					
Net settled:					
Interest rate swaps	-	(1,410)	(10,425)	(9,657)	-
	-	**(1,410)**	**(10,425)**	**(9,657)**	**-**

(h) Interest rate risk management
The Group are exposed to interest rate risk as the company borrows funds at both fixed and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings, through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.
The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points lower or higher and all other variables were held constant, the Group's:

- Net profit after tax would increase by $1.362 million and decrease by $1.362 million (2009: increase by $1.379 million and decrease by $1.379 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

- Other equity reserves would increase by $1.77 million and decrease by $1.79 million (2009: increase by $3.69 million and decrease by $3.77 million) mainly as a result of the changes in the fair value of derivative instruments designated in cash flow hedges.

The Group's sensitivity to interest rates has increased slightly during the current period mainly due to the increase in variable interest rates during the year.

Interest rate swap contracts
Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable debt held. The fair value of interest swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following table details the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as at the reporting date.

NOTE 31: FINANCIAL INSTRUMENTS (cont'd.)

Cash Flow hedges

	Average contracted fixed rate		Notional principal amount		Fair Value	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	%	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Less than 1 year	6.90	-	395,000	-	(8,015)	-
1 to 2 years	-	6.90	-	395,000	-	(20,775)
2 to 3 years	-	-	-	-	-	-
5 years +	-	-	-	-	-	-
	6.90	**6.90**	**395,000**	**395,000**	**(8,015)**	**(20,775)**

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The Group will settle the difference between the fixed and floating interest rate on a net basis.
All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in the profit or loss over the period that the floating interest rate payments on the debt impact profit of loss.

(i) Fair value of financial instruments
The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The directors consider the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value hierarchy
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale financial assets	179	-	-	179
Derivative financial assets	-	708	-	708
	179	708	-	887
Derivative financial liabilities	-	(8,723)	-	(8,723)
	-	**(8,723)**	**-**	**(8,723)**

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

NOTE 32: SHARE BASED PAYMENTS

The Group recognised an expense of $1.172 million (2009: $1 million) in respect of all share-based payments in the year. Share based payments include the Executive Performance Rights Plan & Executive Share Offer Plan.

(a) Executive Performance Rights

Long-term incentive awards are delivered under the Executive Performance Rights Plan (EPRP). The objective of the EPRP is to reward executives in a manner, which is aligned with the creation of long-term shareholder value. Only executives who are able to influence the generation of shareholder wealth and have a direct impact on the Company's long-term performance are eligible to participate in the EPRP.

Under the EPRP, senior management employees are granted awards of rights to acquire Healthscope shares. If the Company achieves specific measures of performance over the three years following the grant date, rights vest and plan participants are able to exercise their rights and acquire Healthscope shares. Performance conditions are specified by the Board and are described below. Rights remain exercisable for up to two years after they vest. Upon exercise, each right entitles the holder to acquire one fully paid ordinary share in Healthscope Limited at no cost.

Under the Company's remuneration policy, performance rights are granted annually to the Managing Director and other qualifying executives. In general, performance rights are cancelled if an executive's service terminates prior to the end of the vesting period.

Details of EPRP awards made in FY2008, FY2009 and FY2010 are outlined below.

Year of award	Performance conditions	Status
FY2007	50% TSR & 50% EPS	100% vested
FY2008	TSR	100% vested post 30 June 2010
FY2009 & FY2010	TSR	Unvested

2008

For the performance rights granted in FY2008, Company performance was measured over the period from 1 July 2007 to 30 June 2010. The Board adopted a single performance condition based on relative Total Shareholder Return ("TSR") over the vesting period. This performance condition is explained below.

Having reviewed the Company's performance against this performance condition, the Board determined that 100% of the FY2008 performance rights should vest at 1 July 2010 and become exercisable as the Company's relative TSR performance placed the Company above the 75th percentile target for full vesting.

TSR Performance Condition

The Board adopted a relative TSR performance condition for performance rights granted in FY2008, FY2009 and FY2010. TSR was chosen as it is widely recognised as one of the best indicators of shareholder value creation. TSR represents the change in the market value of the Company over time, including dividends and any other distributions made to shareholders.

Vesting of performance rights is determined according to Healthscope's TSR performance relative to that of the companies in a comparator group. The comparator group was chosen as it represents the group with which the Company primarily competes for shareholders' capital. The comparator group comprises a selection of companies included in the S&P/ASX200 index excluding resources companies, financial companies, property trusts and companies involved in property management and development. A list of the companies included in Healthscope's comparator group is available on the Healthscope website at www.healthscope.com.au under the 'Investor Centre' tab.

NOTE 32: SHARE BASED PAYMENTS (cont'd)

Vesting of rights is determined according to Healthscope's TSR rank against the companies in the comparator group as follows:

Healthscope TSR rank	Performance rights vesting
Below 51st percentile	0%
Equal to 51st percentile	50%
Between 51st and 75th percentile	Between 50% and 100% on a straight line basis
At or above 75th percentile	100%

A right to take up a share vests and becomes exercisable after the performance hurdle has been satisfied. The performance under the hurdle is measured at the third anniversary date of the Grant Date, and if not satisfied, then performance is remeasured at the half and full year ends up to the expiry date which is the fifth anniversary of the grant date. The performance rights will lapse if not exercised by the expiry date. Grants of performance rights made after 30 June 2009 will not be subject to performance re-testing.

Information with respect to the number of rights granted is as follows:

	2010 Number	2009 Number
Balance at the beginning of the year	1,369,840	1,252,168
- Number issued on 1 July 2008	-	554,818
- Number issued on 1 July 2009	560,433	-
- Rights cancelled due to termination of employment	(3,698)	(31,342)
- Rights vested	(489,861)	(405,804)
Balance at the end of the year	1,436,714	1,369,840
Exercisable at 30 June 2010	-	-

Rights held at the end of the reporting period

Performance rights series	Number of rights	Grant Date	Vesting Date	Expiry Date	Fair value at grant date
2008	325,161	01/07/2007	01/07/2010	30/06/2012	$2.42
2009	551,120	01/07/2008	01/07/2011	30/06/2013	$2.27
2010	560,433	01/07/2009	01/07/2012	01/07/2012	$2.64
	1,436,714				

Fair value of performance rights
The weighted average fair value of the performance rights granted during the financial year is $2.64 (2009: $2.27). Performance rights granted during 2010 were priced using a Monte Carlo simulation. The expected life used in the model has been adjusted based on management's best estimate for the effects of exercise restrictions (including the probability of meeting market conditions attached to the option). Expected volatility is based on the historical share price volatility over the past 4 years.

NOTE 32: SHARE BASED PAYMENTS (cont'd)

Inputs into the 2010 performance right pricing model

Grant date share price	$4.40
Exercise price	$0.00
Expected volatility	33.6%
Option life	3 years
Expected dividend yield	3.7%

(b) Executive Share Option Plan

During the year an executive option scheme was in operation whereby Healthscope Limited granted options over the ordinary issued shares of the company to Directors and Executive Officers of the consolidated entity. The options were granted subject to performance hurdles established by the Directors of Healthscope Limited. The options can be exercised in three tranches being one, two and three years after issue (or later). In order to be exercised, the market price must be greater than the share price hurdle for ten days in a twenty-day period. The Executive Share Option Plan was discontinued effective from 1 July 2004, with the Plan replaced by the Executive Performance Rights Plan.

Information with respect to the number of options granted is as follows:

	2010		2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of year	100,001	1.68	100,001	1.68
- issued (i)	-	-	-	-
- Exercised (ii)	-	-	-	-
- Lapsed (iii)	-	-	-	-
Balance at end of year (iv)	100,001	1.68	100,001	1.68
Exercisable at end of year	100,001	1.68	100,001	1.68

(i) Options granted during the reporting period:

No options were granted during the year ended 30 June 2009 and the year ended 30 June 2010.

(ii) Options Exercised

No options were exercised during the year ended 30 June 2010.

(iii) Options Lapsed

No options lapsed in the financial years ended 30 June 2009 and 30 June 2010.

(iv) Options held as at the end of the reporting period

The following table summarises information about options held as at 30 June 2010:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price $	Share Price Hurdle $
33,333	28/08/2001	28/08/2002	28/08/2012	1.68	2.56
33,334	28/08/2001	28/08/2003	28/08/2013	1.68	2.77
33,334	28/08/2001	28/08/2004	28/08/2014	1.68	2.97
100,001				1.68	

The share options outstanding at the end of the financial year had an exercise price of $1.68 (2009: $1.68), and a weighted average remaining contractual life of 1,155 days (2009:1,520).

NOTE 32: SHARE BASED PAYMENTS (cont'd)

(v) Fair Value of Options:

The fair value of each option is estimated on the date of grant using the Binomial lattice method which takes account of factors including the option exercise price, the level and volatility of the underlying share price, the risk free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

The resulting weighted average fair values per option as at grant date for all options are:

Number of Options	Grant Date	Vesting Date	Fair Value $
33,333	28/08/2001	28/08/2002	0.814
33,334	28/08/2001	28/08/2003	0.814
33,334	28/08/2001	28/08/2004	0.814
100,001			

NOTE 33: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel

Ms Linda Nicholls	(Chairman, non-executive director)
Mr Richard England	(Non-executive director)
Dr Ziggy Switkowski	(Non-executive director)
Mr David Evans	(Non-executive director), retired 30 November 2009
Mr Philip Bullock	(Non-executive director)
Mr Eric Dodd	(Non-executive director)
Ms Paula Dwyer	(Non-executive director), appointed 10 March 2010
Mr Bruce Dixon	(Managing director)
Ms Vita Pepe	(Group chief operating officer)
Mr Gary Kent	(Chief financial officer)
Mr Joe Czyzewski	(Director of corporate strategy and business development)

(b) Key Management Personnel Remuneration
The aggregate compensation made to key management personnel of the company and the Group is set out below:

	Consolidated	
	2010 $	2009 $
Short term employment benefits	5,761,646	5,106,971
Post-employment benefits	200,765	167,638
Share based payments	679,224	593,713
	6,641,635	5,868,322

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NOTE 33: KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

(c) Key Management Equity Holdings

Fully Paid Ordinary Shares in Healthscope Limited

2010	Balance 01/07/2009	On-Market Purchases/Sales & Share Purchase Plan	Received on exercise of Rights	Dividend Reinvestment Plan	Net other changes	Balance 30/06/2010
Directors						
L Nicholls	168,705	10,737	-	9,317	-	188,759
R England	100,069	3,579	-	5,449	-	109,097
D Evans*	5,324,235	220,737	-	-	(5,544,972)*	-
Z Switkowski	130,000	77,158	-	-	-	207,158
P Bullock	13,186	9,079	-	-	-	22,265
E Dodd	-	10,000	-	-	-	10,000
B Dixon	1,270,210	(236,421)	192,307	-	(22,013)**	1,204,083
P Dwyer***	-	-	-	-	-	-
Executives						
V Pepe	1,105,112	10,737	25,641	60,726	-	1,202,216
G Kent	-	5,000	-	-	-	5,000
J Czyzewski	331,276	(17,698)	25,641	-	-	339,219
	8,442,793	**92,908**	**243,589**	**75,492**	**(5,566,985)**	**3,287,797**

Trading in the Company's securities is governed by the Company's share trading policy detailed on page 29.
*Mr Evans retired as a director effective 30 November 2009 and was no longer Key Management Personnel as at 30 June 2010.
** Relevant interest changes.
*** As at the date of this report Ms Dwyer holds no ordinary shares in the company (appointed March 2010).

2009	Balance 01/07/2008	On-Market Purchases/Sales	Received on exercise of Rights	Dividend Reinvestment Plan	Net other changes	Balance 30/06/2009
Directors						
L Nicholls	164,789	-	-	3,916	-	168,705
R England	125,069	(25,000)	-	-	-	100,069
D Evans	5,934,331	(610,096)**	-	-	-	5,324,235
Z Switkowski	130,000	-	-	-	-	130,000
P Bullock	8,000	5,000	-	186	-	13,186
E Dodd	-	-	-	-	-	-
B Dixon	1,668,701	(523,591)	125,000	100	-	1,270,210
H McCann	987,243	-	-	-	(987,243)*	-
Executives						
V Pepe	1,034,926	-	21,277	48,909	-	1,105,112
G Kent	-	-	-	-	-	-
J Czyzewski	310,000	(1)	21,277	-	-	331,276
	10,363,059	**(1,153,688)**	**167,554**	**53,111**	**(987,243)**	**8,442,793**

* Mr McCann retired as a director effective 17 November 2009 and was no longer Key Management Personnel as at 30 June 2009.
** During the year the estate of the late Ron Evans (D Evans' father) was distributed which resulted in D Evans no longer holding a notifiable interest in these shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 33: KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

Executive Performance Rights in Healthscope Limited

	Balance at start of year No	Granted No	Exercised No	Balance at end of year No	Balance vested at start of year No	Vested during year No
2010						
B Dixon	557,518	196,409	(192,307)	561,620	-	192,307
V Pepe	92,858	36,740	(25,641)	103,957	-	25,641
G Kent	36,980	34,660	-	71,640	-	-
J Czyzewski	88,281	34,660	(25,641)	97,300	-	25,641
	775,637	302,469	(243,589)	834,517	-	243,589
2009						
B Dixon	472,967	209,551	(125,000)	557,518	-	125,000
V Pepe	74,937	39,198	(21,277)	92,858	-	21,277
G Kent	-	36,980	-	36,980	-	-
J Czyzewski	72,578	36,980	(21,277)	88,281	-	21,277
	620,482	322,709	(167,554)	775,637	-	167,554

NOTE 34: RELATED PARTY TRANSACTIONS

Key management personnel equity holdings
Details of the equity holdings of the key management personnel are detailed in Note 33. Key management personnel do not hold equity in subsidiary companies. All performance rights issued to key management personnel were made in accordance with the Executive Performance Rights Plan (EPRP). Further details of the EPRP and of performance rights granted are contained in notes 32 and 33 to the financial statements.

Transactions with key management personnel and their related entities
From time to time the company and the Group enter into transactions with director related parties. These transactions are on normal commercial terms and conditions and are no more favourable than those available to other parties. Accordingly such transactions are not disclosed.

The Group and the company do not have any loans payable to or receivable from key management personnel. No loans were issued or repaid with such personnel during the year. (2009: Nil)

Transactions within the wholly owned group
The wholly owned group includes
- Healthscope Limited, the parent entity in the wholly-owned group;
- Wholly owned controlled entities.

Transactions between Healthscope Limited and its related parties
Transactions and balances between the company and its subsidiaries were eliminated in the preparation of the consolidated financial statements of the Group.

During the financial year, the following transactions occurred between the company and its other related parties:
- Healthscope Limited recognised tax payable in respect of the tax liabilities of its wholly owned subsidiaries. Payments to / from the company are made in accordance with the terms of the tax funding arrangement. Further information about the nature of the tax funding arrangement and tax sharing agreement is made in note 9 to the financial statements.

Equity interests in subsidiaries
Details of the percentage of ordinary shares hold in subsidiaries are disclosed in note 28 to the financial statements.

Equity interests in associates and joint ventures
Details of interests in associates and joint ventures are disclosed in note 13 to the financial statements.

During the 2003/04 financial year, the directors elected for wholly owned Australian entities within the group to be taxed as a single entity from 14 April 2003.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 35: PARENT ENTITY DISCLOSURE

As at and during the financial year ended 30 June 2010, the parent company of the Consolidated entity was Healthscope Limited.

	2010 $'000	2009 $'000
Financial performance of the parent entity		
Profit for the year	123,536	53,431
Other comprehensive income	8,932	(16,899)
Total comprehensive income for the year	**132,468**	**36,532**
Financial position of the parent entity as at the year end		
Assets		
Current assets	61,253	53,570
Non-current assets	2,002,612	1,673,047
Total assets	2,063,865	1,726,617
Liabilities		
Current liabilities	179,956	202,764
Non-current liabilities	707,722	663,939
Total liabilities	887,678	866,703
Net assets	**1,176,187**	**859,914**
Total equity of the parent entity comprising of:		
Issued capital	1,072,670	820,871
Employee benefits reserve	2,199	2,117
Hedging reserve	(5,610)	(14,542)
Retained earnings	106,928	51,468
Total equity	**1,176,187**	**859,914**
Contingent liabilities of the parent entity		
Contingent liabilities (i)	11,940	11,696
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries (ii)		
Guarantees provided under the deed of cross guarantee (ii)	**-**	**-**
Commitments for the acquisition of property, plant and equipment by the parent entity		
Longer than one year	129,930	139,452
Longer than one year but not longer than five years	137,946	-
Longer than five years	-	-
	267,876	**139,452**

(i) All contingent liabilities of the Group as detailed in note 26 were entered into by the parent entity.

(ii) The parent entity is a party to the deed of cross guarantee as disclosed in note 28. No liabilities have been assumed by the parent entity in relation to this guarantee as it is expected the parties to the deed of cross guarantee will continue to generate positive cash flows. As a result of this assessment, the fair value has been deemed to be nil.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 36: AUDITORS' REMUNERATION

	Consolidated 2010 $	Consolidated 2009 $
Auditor of the parent entity		
– Audit or review of the financial report	488,175	471,410
– Other non-audit services	88,000	18,000
	576,175	489,410
Other Deloitte Touche Tohmatsu International Auditors		
– Audit or review of the financial report	175,300	148,000
	175,300	148,000

The auditor of Healthscope Limited is Deloitte Touche Tohmatsu.

NOTE 37: SUBSEQUENT EVENTS

On 19 July 2010, the Company announced that it had entered into a Scheme Implementation Agreement with funds advised by The Carlyle Group and TPG Capital (the "Consortium"). If the proposed Scheme of Arrangement is implemented, Asia Pacific Healthcare Group Pty Ltd, a special purpose company indirectly owned and controlled by the funds advised and managed by the Consortium, will acquire all of the shares in the capital of the Company. If the Scheme is implemented according to its terms, the Company will apply for termination of the official quotation of its shares on the ASX, and removal from the official list of the ASX.

The Scheme remains subject to certain conditions, including the approval of Healthscope Limited shareholders, the approval of the Supreme Court of Victoria and other regulatory approvals. Subject to the satisfaction or waiver (as applicable) of those conditions, the Company expects that the Scheme will be implemented by mid October 2010. More detail in relation to the proposed Scheme will be provided in an Explanatory Booklet for shareholders, which the Company expects, will be available on the ASX website and mailed to shareholders shortly after the date of this report.

The Company has announced that the directors intend to declare a fully franked special dividend of 9.0 cents per share if the Scheme proceeds in order to utilise the remaining franking credits which the Company will have after the final dividend is paid to shareholders.

If the Scheme is not approved and implemented and if no Superior Proposal emerges and becomes effective, Healthscope will be required to pay transactions costs of approximately $11 million.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Healthscope Limited, I state that:

(1) In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity as set out on pages 35 to 92 are in accordance with the Corporations Act 2001, including:

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

(ii) Complying with Accounting Standards and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable; and

(c) The attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements.

(2) 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 period ending 30 June 2010.

(3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 28 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.

(4) The Deed of Cross Guarantee has been entered into by the parties identified in note 28 to take advantage of the relief from accounting requirements available through Class Order 98/1418 issued by the Australian Securities and Investment Commission, and at the date of the declaration the company and the controlled entities identified in note 28 are within the classes of companies effected by this class order.

On behalf of the Board

B R Dixon
Managing Director

Dated: 19th August 2010, Melbourne, Victoria.

Shareholder and Corporate Information

Additional Stock Exchange information as at 31 July 2010

Shareholdings – as at 31 July 2010

(a) Distribution of Shareholders Number

Size of holding	Number of ordinary Shareholders
1-1,000	3,455
1,001 – 5,000	8,612
5,001 – 10,000	3,101
10,001 – 100,000	1,516
100,001 – and over	119

(b) The number of shareholdings held in less than marketable parcels is 564.

(c) Voting rights – each share is entitled to one vote.

(d) The names of the 20 largest Shareholders as at 31 July 2010 are:

Name	No. Of Ordinary Shares held	% Held of issued shares
1. National Nominees Ltd	55,950,933	17.63
2. J P Morgan Nominees Australia Pty Ltd	34,710,999	10.94
3. HSBC Custody Nominees Ltd	34,994,083	11.03
4. ANZ Nominees Limited	15,105,919	4.76
5. Cogent Nominees Pty Limited	13,726,100	4.33
6. Citigroup Nominees Pty Limited	12,761,857	4.02
7. RBC Dexia Investor Services Australia Nominees Pty Ltd	9,476,775	2.99
8. Tasman Asset Management	9,430,828	2.97
9. UBS Nominees Pty Ltd	4,771,767	1.50
10. Corkery Pty Ltd	4,078,579	1.29
11. CS Fourth Nominees Pty Ltd	3,954,883	1.25
12. AMP Life Limited	3,529,495	1.11
13. Invia Custodian Pty Limited	3,442,482	1.08
14. Zonda Investments Pty Ltd	3,192,476	1.01
15. Brispot Nominees Pty Ltd	2,919,317	0.92
16. Mirrabooka Investment Limited	1,857,506	0.59
17. Queensland Investment Corporation	1,839,440	0.58
18. Mrs Andrea Evans	1,833,869	0.58
19. Dene Nominees Pty Ltd	1,792,958	0.57
20. Australian Foundation Investment Company Ltd	1,557,943	0.49
	220,928,209	69.64

(e) The names of the substantial shareholders listed in the Company's register as at July 2010 are:

Name	No. Of ordinary shares held	% held of issued shares
1. Suncorp-Metway Limited	25,997,970	8.19
2. Cooper Investors Pty Ltd	24,712,361	7.79

Stock Exchange listing

Quotation has been granted for all the ordinary shares of the Company on all member exchanges of the Australian Securities Exchange Limited.

Healthscope is listed on the Australian Securities Exchange Limited. The ASX Code is 'HSP' and the Seat Abbreviation 'Healthscope'.

Company Details

The registered office of the Company is:
Healthscope Limited
Level 1
312 St Kilda Road
Melbourne, Vic. 3004.

FIVE YEAR HISTORICAL SUMMARY

2006 to 2010 financial performance

Description	Units	2006	2007	2008	2009	2010
Total Revenue	$'000	1,122,687	1,382,593	1,487,104	1,653,976	1,843,468
Total Revenue excl Prosthetic revenue	$'000	1,020,393	1,241,421	1,317,414	1,467,121	1,645,567
EBITDA	$'000	142,493	183,131	179,456	208,504	252,874
EBIT	$'000	112,531	147,865	136,133	155,205	181,209
Profit before Tax	$'000	72,092	103,165	86,015	101,156	127,505
Profit after Tax	$'000	54,920	84,280	64,438	72,290	99,282
EBITDA (before non-recurring items and discontinued operations)	$'000	137,502	172,583	197,938	228,344	263,573
EBIT (before non-recurring items and discontinued operations)	$'000	107,540	138,123	154,615	175,045	191,908
Profit before Tax (before non-recurring items and discontinued operations)	$'000	67,101	93,423	104,497	120,996	138,204
Profit after Tax (before non-recurring items and discontinued operations)	$'000	49,929	65,710	74,873	88,214	102,823
Operating Cashflow	$'000	84,552	108,567	124,244	150,506	159,762
Operating Cashflow / EBITDA	%	59.3	59.3	69.2	72.2	63.2
Operating Cashflow / EBITDA (before non-recurring items)	%	61.5	62.9	62.8	65.9	60.6
Operating Cashflow less Tax & Interest / EBITDA	%	95.1	92.8	112.5	108.7	94.0
Operating Cashflow less Tax & Interest / EBITDA (before non-recurring items)	%	98.6	98.4	102.0	99.3	90.2
Capital Expenditure	$'000	46,569	52,330	83,000	164,914	316,590
Capital Expenditure - Acquisition	$'000	581,906	108,915	57,508	29,498	62,707
Total Assets	$'000	1,547,712	1,620,701	1,727,586	1,895,594	2,272,036
Net Debt	$'000	576,256	552,477	597,209	656,680	719,829
Shareholders Equity	$'000	731,223	806,471	848,082	905,316	1,199,286
Dividends per share	cents	14.50	17.50	19.50	21.50	23.50
Key Ratios						
Earnings per share	cents	25.00	35.70	26.84	28.88	32.83
Operating cashflow / share	cents	36.40	45.68	50.88	58.52	50.40
Total dividend per share	cents	14.50	17.50	19.50	21.50	23.50
Net asset backing per share	$	3.15	3.39	3.47	3.52	3.78
Net debt to capitalisation	%	44.1	40.7	41.3	42.0	37.5
Net debt to Equity	%	78.8	68.5	70.4	72.5	60.0
Interest cover (EBITDA / Interest expense)	times	3.5	4.1	3.6	3.9	4.7
Interest cover (EBITDA before non-recurring items / Interest expense)	times	3.4	3.9	3.9	4.2	4.9
Return on Equity (NPAT / Equity)	%	7.5	10.5	7.6	8.0	8.3
Return on Invested Capital (EBIT before non-recurring items / Capital Invested)	%	8.4	10.4	10.9	11.3	10.2
Margins						
EBITDA margins	%	12.7	13.2	12.1	12.6	13.7
EBIT Margins	%	10.0	10.7	9.2	9.4	9.8
NPAT Margins	%	4.9	6.1	4.3	4.4	5.4

HEALTHSCOPE LIMITED

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COMPANY SECRETARY
I Player

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FINANCIAL CALENDAR
Financial year end 30 June

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