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MARKET ANNOUNCEMENT
(ASX:PRY)

Primary Health Care Limited (Primary) Trading Update

Primary today provides a trading update for the four months ended 31 October 2010.

Primary believes the market will benefit from a detailed explanation of current trading in each business unit as well as information on a cost reduction program the company is currently undertaking. Whilst this cost reduction program will result in non-recurring one off costs of \$34.7m during the current period, Primary anticipates annual cost savings of \$27m once fully implemented.

Primary's Managing Director, Dr Edmund Bateman, is confident of long term benefits associated with positive current volume trends.

Medical Centres

Financial year ended 30 June 2010 (FY2010) saw unusually subdued growth in GP patient attendances and this continued in July 2010. There has, however, been an improvement in the last three months with revenue from the division for the four months to 31 October 2010 up approximately 10% on the prior corresponding period, excluding clinical trials.

Primary now has 54 large scale medical centres in operation with two more expected to be open by 30 June 2011. Back-filling of GP and other services into the existing centres is continuing. Doctor recruitment continues at expected levels.

Pathology

FY2010 was highlighted by minimal volume growth throughout the Australian Pathology Industry. This was a result of the announcement in May 2009 by the Federal Government of funding cuts for Pathology services.

In the first four months to 31 October 2010, Primary has seen monthly episode growth on prior corresponding month as follows:

July 2010	0.8% increase
August 2010	3.5% increase
September 2010	5.2% increase
October 2010	6.3% increase

In total, for the first four months FY2011, episodes have grown by 4% over the prior corresponding four months of FY2010. There is a continuing improving trend. The improving trend in referral numbers is across all States. Total revenue for the four months to 31 October 2010 compared to prior corresponding period is

down 1.6% representing the effect of funding cuts introduced on 1 November 2009. The November 2009 Federal Government funding cuts amounted to approximately 6% of revenues on an annualised basis.

The division's EBITDA operating margin for the first four months of FY2011 is 15.6% (17.3% six months ended 30 June 2010).

The change in licensed collection centres arrangements has increased costs for delivery of pathology services. Primary has taken the opportunity of deregulation to provide wider service to our referring practitioners and the community.

Diagnostic Imaging

Primary maintains its focus on larger multi-modality sites where it can provide a comprehensive service that is not only better, but also more affordable, for patients. These sites are being upgraded. Radiologist recruitment and conversion to a fee-for-service model continues.

The first four months of FY2011, has seen monthly volume growth over the prior corresponding month (excluding acquisitions and closed sites) as follows:

July 2010	(0.4%) decrease
August 2010	1.7% increase
September 2010	3.1% increase
October 2010	7.8% increase

This is a reversal of prior trends. For the four months to 31 October 2010 volume growth was 3.1% and revenue growth 3.8% (excluding acquisitions and closed sites).

Cost reductions continue. There has been replacement of the outsourcing of after hours reporting by an in-house service. This provides both cost reductions and improved quality assurance.

Health Technology

The Health Technology division continues to operate in line with expectations. Renewal rates of all software products are in line with expectations.

Corporate

The ex-Symbion head office site in Melbourne is to be closed. This allows full consolidation of corporate shared services together, with more direct management control and resultant cost savings.

Retail Bond

In August/September 2010, Primary successfully raised \$152m via a Listed Retail Bond. The purpose of this issue was to extend out a portion of the group's debt for a period of five years. The remainder of the group's balance sheet debt of approximately \$860m is via a syndicated banking facility which matures in December 2012.

The issue of this Retail Bond did not increase Primary's overall funding costs over the term of the current funding profile. In addition it is envisaged that on re-financing of the syndicated bank debt in December 2012, Primary will benefit from the need to re-finance a lesser amount.

Non Recurring One-Off Costs

Funding cuts have occurred across the healthcare industry in Australia and Primary is implementing a cost reduction program to offset these. As a consequence of the cost reduction program \$34.7m in non-recurring, one-off costs will be charged to the profit and loss account for the current financial half year to 31 December 2010.

Of this total non-recurring one-off cost, \$26.9m is for cash items predominantly relating to staff redundancy and lease obligations. A non-cash cost of \$7.8m relates to the write-off of assets associated with closed practices.

The current cost reduction program enables Primary to assist in offsetting the cuts that have occurred to funding for healthcare. The current funding and regulatory environment requires healthcare providers to make increasing efficiency gains to maintain service levels to patients and practitioners.

As a result of the cost reduction program:

- A reduction of approximately 290 full-time equivalent positions will occur across the group. Of this number approximately 50% has now occurred, the majority of which are in the Pathology division;
- 23 sites will close in total. The majority of these sites are single modality diagnostic imaging practices predominantly in Queensland and sites associated with the clinical trial business in New South Wales and Victoria. No pathology laboratories are closing. In addition, further provision is made for significant lease obligations on several Symbion medical centre practices which have been closed;
- Revenue loss from closed practices will be approximately \$9m per annum, the majority from the Diagnostic Imaging business; and
- Annual cost savings of approximately \$27m will occur across the Primary group once fully implemented.

Dividend

With the non-recurring one-off costs being incurred in the current financial half year to 31 December 2010, the dividend for the period will be reduced. It is expected that the interim dividend will be 3.0 cents per share fully franked.

Earnings Guidance

The continuing background for healthcare delivery is one of increasing patient numbers and need. This underlying healthcare demand will provide long term volume growth in each of Primary's divisions.

Earnings before interest, tax, depreciation and amortisation (EBITDA) guidance for FY2011 is \$330m to \$340m (before deducting non-recurring one-off costs of \$34.7m). It is estimated that EBITDA will be split approximately 45/55 over the first and second half of FY2011, reflecting revenue trends, cost expectations and implementation.

FY2012 will benefit from a full year of both the benefits of the cost reduction program being implemented, in addition to the improving revenue growth profile.

Yours faithfully



Dr Edmund Bateman
Managing Director