Primary Health Care Limited

Appendix 4D – Half-Year Report

For the Half-Year ended 31 December 2015

Primary Health Care Limited

Appendix 4D – Half-Year Report

Results for announcement to the market

For the Half-Year ended 31 December 2015

$000	% Change	31 December 2015 Total	31 December 2014 Total
Revenue	**4.6%**	**835,047**	798,581
EBITDA	**4.0%**	**204,011**	196,121
Profit for the period after tax	**28.5%**	**68,570**	53,371
Profit attributable to members of the parent entity	**28.5%**	**68,585**	53,356

Cents per share	2015 Total	2014 Total
Basic and diluted earnings per share	**13.2**	10.5
Interim dividend [1, 2]	**5.6**	9.0

[1] The 31 December 2015 Interim Dividend will be 50% franked at the corporate income tax rate (2015: 30%, 2014: 100% franked at the corporate income tax rate, 30%).
[2] The record date for determining entitlement to the interim dividend is 21 March 2016 and the dividend is payable on 29 March 2016. The Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) have been suspended effective 16 February 2016 until further notice.

Primary Health Care Limited

Appendix 4D – Half-Year Report

Attachment A – Interim Financial Report
For the Half-Year ended 31 December 2015

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Directors' report

For the Half-Year ended 31 December 2015

Your Directors present their report on the consolidated entity consisting of Primary Health Care Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

Directors

The Directors of Primary Health Care Limited during the half-year ended 31 December 2015 and up to the date of this report were:

- Mr. Robert Ferguson
- Mr. Peter Gregg
- Mr. Brian Ball
- Dr. Edmund Bateman (until 13 September 2015)
- Mr. Robert Hubbard
- Dr. Paul Jones
- Dr. Errol Katz
- Ms. Arlene Tansey
- Mr. Gordon Davis (from 3 August 2015)

Review of operations

A review of operations of the Group during the half-year ended 31 December 2015, and the results of those operations, can be found on pages 3 to 12 of this Report.

The Directors have included the additional line item EBITDA in the Statement of Profit or Loss as such presentation is necessary, in the Directors' view, to be relevant to a full understanding of the entity's financial performance.

Subsequent event

On 13 November 2015, Primary announced to the ASX it had entered into an agreement to sell its Barangaroo office site at Millers Point for $40 million, conditional upon consent from the landlord (Barangaroo Development Authority), as to the assignment of Primary's lease.

On 9 February 2016, the landlord executed the deed of consent to assignment of the leasehold interest. Accordingly, the sale contract is now unconditional and the purchaser is required to complete the contract by 24 March 2016.

Other than the execution of the above deed of consent, there has not been any other matter or circumstance that has arisen since the end of the period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Dividend

In respect of the half-year ended 31 December 2015, an interim dividend of 5.6 cents per share has been declared, 50% franked (31 December 2014: 9.0 cents per share, 100% franked).

Non-IFRS Financial Information

The Review of Operations attached to and forming part of this Directors' Report includes a number of non-IFRS financial measures. These non-IFRS financial measures are used internally by management to assess the performance of Primary's business and make decisions on the allocation of resources.

Rounding off of amounts

The company is of a kind referred to in Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission. In accordance with that Class Order amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars.

Auditor's independence declaration

The Auditors' Independence Declaration is set out on page 13.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

Peter Gregg
Managing Director & Chief Executive Officer

Sydney 17 February 2016

1H 2016 PERFORMANCE

Group Performance

The results for Primary Health Care ("Primary" or the "Group") for the six months ended 31 December 2015 ("1H 2016") are set out below in comparison to the six months ended 31 December 2014 ("1H 2015"), on both a reported and an underlying basis.

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Reported**	31 DECEMBER 2014 Reported	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying
Revenue	**835.0**	798.6	**815.2**	785.7
Earnings before interest tax depreciation and amortisation (EBITDA)	**204.0**	196.1	**181.9**	188.0
Depreciation & Amortisation	**(80.7)**	(83.9)	**(79.8)**	(75.3)
Earnings before interest and tax (EBIT)	**123.3**	112.2	**102.1**	112.7
Finance costs	**(30.5)**	(33.3)	**(30.5)**	(33.3)
Profit before tax (PBT)	**92.8**	78.9	**71.6**	79.4
Income tax	**(24.2)**	(25.5)	**(21.5)**	(23.8)
Net profit after tax (NPAT)	**68.6**	53.4	**50.1**	55.6
Earnings per share	**13.2**	10.5		
Dividend per share	**5.6**	9.0		

On a reported basis, the Group achieved growth at all key profit lines with:

- Revenue up 4.6%
- EBITDA up 4.0%
- NPAT up 28.5%

The reported results were supported by the gain on sale of shares in Vision Eye Institute Limited ("VEI") and an improvement in the final settlement with the Australia Tax Office ("ATO") relating to the potential tax liabilities of healthcare practitioners ("HCPs") on medical practice sales.

Reported earnings per share were 13.2 cents, up 25.7%. The Group announced an interim dividend of 5.6 cents per share, 50% franked (1H 2015 9.0 cents per share, 100% franked).

Highlights of the 1H 2016 results on an underlying basis in comparison to 1H 2015 were:

- Underlying Revenue up $29.5 million (3.8%).
- Underlying EBITDA down $6.1 million (3.2%).
- Underlying PBT down $7.8 million (9.8%) with $4.5 million increased depreciation and amortisation partially offset by $2.8 million savings in finance costs.
- Taxation was $21.5 million on an underlying basis with an effective rate of 30%.
- Underlying NPAT was down $5.5 million (9.9%).

The result has been negatively impacted by margin compression caused by a subdued revenue environment. Specifically:

- Medical Centres experienced soft revenue growth due to the freeze on the indexation of Medicare rebates and starting the year with lower than expected Healthcare Practitioner numbers.
- Pathology revenue growth was ahead of Medicare data but our growth rates were lower than expected and were impacted by the fee cuts to Vitamin D and other tests which annualised in November 2015. While performance has continued to be affected by cost growth associated with collection centres, we believe cost pressures will moderate following the Government's confirmation that collection centre deregulation will remain and our on-going focus on underperforming sites.
- Diagnostic Imaging experienced subdued revenue growth consistent with Medicare data, with market softness the likely consequence of regulatory uncertainty and the impact on referral patterns and the loss of hospital contracts.

The Group expects a stronger second half and initiatives to improve performance and reduce operating costs are already underway.

Reconciliation of reported and underlying

Underlying results for 1H 2016 exclude the impact of non-underlying items relating to:

- Gain on disposal of Vision Eye Institute shareholding, and other non cash gains on dissolution of a Joint Venture.
- Finalisation of ATO Settlement relating to potential Healthcare Practitioners tax liabilities.
- Other non cash fair value adjustments and one off items associated with implementation of the various restructuring and strategic initiatives set out in Primary's strategic update released in August and November 2015.

The reconciliation of 1H 2016 reported results to underlying results is as follows:

SIX MONTHS ENDED 31 DECEMBER 2015 $M	Revenue	EBITDA	EBIT
Reported	**835.0**	**204.0**	**123.3**
Gain on sale / dissolution, including VEI	(19.8)	(19.8)	(19.8)
ATO settlement	-	(13.5)	(13.5)
Business restructuring and other adjustments	-	11.2	12.1
Underlying	**815.2**	**181.9**	**102.2**

In order to provide comparatives on a consistent basis, as underlying profit was not reported for the six months ended 31 December 2014, non-underlying adjustments have been recognised. Underlying results for 1H 2015 exclude the impact of the following items:

- Gain on sale of shares in VEI.
- Non-recurring depreciation of $8.6m from accelerated asset write downs.
- Other non-underlying items.

The reconciliation of 1H 2015 reported results to underlying results is as follows:

SIX MONTHS ENDED 31 DECEMBER 2014 $M	Revenue	EBITDA	EBIT
Reported	**798.6**	**196.1**	**112.2**
Gain on sale	(1.0)	(1.0)	(1.0)
Accelerated Depreciation and Amortisation	-	-	8.6
Other non underlying items	(11.9)	(7.1)	(7.1)
Underlying	**785.7**	**188.0**	**112.7**

Operating divisions

The 1H 2016 underlying EBIT results for the operating divisions of the Group are set out below in comparison to 1H 2015. The segment information in Note 2 sets out the reported and underlying results by operating division, reconciling to total Group results.

Medical Centres

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying	Movement %
Revenue	**165.3**	160.5	3.0
EBITDA	**87.7**	86.7	1.2
Depreciation	**(9.1)**	(10.2)	10.8
Amortisation	**(30.2)**	(27.1)	(11.3)
EBIT	**48.3**	49.4	(2.1)

Total revenue for the Medical Centres division increased by $4.8 million, or 3.0%, over the prior comparable period. Increases in revenue for Dental and IVF offset a reduction in GP revenue as a result of starting the year with lower than expected GPs.

Underlying EBITDA was up $1 million from the prior period, but the margin declined with increases in particular in labour costs and marketing spend. The margin compression was partly the result of the investment in clinical engagement teams and the Primary Healthcare Institute, both of which contribute to improved engagement with healthcare practitioners, as well as operating the IVF facility in Sydney and the Transport Health business for the full six months.

Amortisation costs increased by $3.1 million, or 11.4%, due to an increase in the proportion of healthcare practitioner acquisitions being classified as intangibles which amortise over the life of the contract.

Importantly, during the period recruitment and retention of healthcare practitioners, in particular GPs, was ahead of expectations, with retention up 32%. The settlement with the ATO in July regarding potential tax liabilities of healthcare practitioners has removed the uncertainty which existed and recruitment and retention has not been negatively affected by the change in the tax treatment of upfront payments.

Upfront payment have generally not been grossed up for tax and, with the company receiving a tax deduction, after-tax costs per GP have reduced in the period. (Refer section titled “Strategic imperatives” below regarding the new healthcare practitioner acquisition models, aiming at driving a step change in recruitment and retention, and the pipeline of new medical centres).

Pathology

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying	Movement %
Revenue	**482.3**	456.2	5.7
EBITDA	**73.4**	69.8	5.2
Depreciation	**(9.6)**	(8.4)	(14.3)
Amortisation	**(3.8)**	(3.7)	(2.7)
EBIT	**60.0**	57.7	4.0

Total revenue grew by $26.1 million, or 5.7%, over the prior corresponding period. An increase in volumes drove the revenue growth and offset a slight reduction in average fee per episode. The volumes and average fees were affected by the cuts to Vitamin D, B12 and Folate which were introduced in November 2014. However these annualised in November 2015, reducing the comparable amount in the second half of this year.

Volumes achieved by Primary during the period were ahead of market, albeit in a soft market environment where growth was at historical lows. The current rolling 12-month average for Medicare benefits paid is at 1.2% compared with a long term average of 6.6%.

In view of the operating environment, the division has implemented costs savings program to improve performance and reduce operating costs in 2H 2016, especially in ACCs. (Refer section titled “Strategic imperatives” below).

Imaging

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying	Movement %
Revenue	**162.1**	165.5	(2.1)
EBITDA	**30.5**	38.4	(20.6)
Depreciation	**(13.8)**	(13.8)	-
Amortisation	**(6.2)**	(4.4)	(40.9)
EBIT	**10.5**	20.2	(48.0)

In the six month period, total revenue declined by $3.4 million, or 2.1%, primarily due to a 4% reduction in average fee per exam. This was caused by a changed mix of modalities, away from the higher fee modalities of CT & MRI and towards the lower fee modalities of ultrasound and Mammography.

Overall volumes, excluding immigration visa medicals, were up 2.7%. Although this was above market growth, the subdued level when compared with long-term historical growth trends of around 4%-5% for volumes, and 7% for revenue, reflects the tough market environment. The market softness is the likely consequence of regulatory uncertainty over government policy issues and rhetoric around proposed funding cuts.

The loss of the private hospital work at Epworth, Westmead, and Buderim impacted, but was partially offset by the continued ramp up of the Bridge Road Imaging facility and the transfer of the MRI license from Westmead to the Liverpool community site, and the Buderim license transferred to Caloundra.

EBITDA has declined by 20.6% with growth in key cost items including labour and property costs which have been driven by CPI and EBA rises respectively. The cost base has been reset to support the current operating environment. (Refer section titled “Strategic imperatives” below).

Amortisation increased by $1.8 million (40.9%) in the six month period due to increased radiologist costs.

Medical Director

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying	Movement %
Revenue	**21.0**	18.7	12.3
EBITDA	**9.3**	9.8	(4.1)
Depreciation	**(0.3)**	(0.2)	(50.0)
Amortisation	**(2.3)**	(3.8)	39.5
EBIT	**6.8**	5.9	15.3

Revenue grew by $2.3 million, or 12.3%, in the six month period with record levels of customer retention in software products. Transactional revenue also grew with on-going innovation in next generation products. The Group won the Victorian Department of Health and Human Service contract to deliver its online clinical information portal.

Gross margins grew 6% year on year but investment in software development, marketing and the costs of running the strategic partner process resulted in a 4.1% decline in EBITDA. However amortisation of the intangible asset arising on the acquisition of Medical Director rolled off in the period, resulting in an uplift in EBIT from $5.8 million to $6.9 million, or 19.0%.

Group finance costs and income tax

Group finance costs and income tax expense for 1H 2016 are set out below in comparison to 1H 2015, on an underlying and a reported basis.

SIX MONTHS ENDED $M	**31 DECEMBER 2015 Reported**	31 DECEMBER 2014 Reported	**31 DECEMBER 2015 Underlying**	31 DECEMBER 2014 Underlying
EBIT	**123.3**	112.2	**102.1**	112.7
Finance costs	**(30.5)**	(33.3)	**(30.5)**	(33.3)
PBT	**92.8**	78.9	**71.6**	79.4
Income tax	**(24.2)**	(25.5)	**(21.5)**	(23.8)
NPAT	**68.6**	53.4	**50.1**	55.6

Finance costs

Reported (and underlying) finance costs of $30.5 million were incurred in the six months ended 31 December 2015, compared with $33.3 million in the prior comparable period. Of this amount interest expense, net of capitalised interest, totalled $28.0 million (1H 2015 $30.5 million), while borrowing costs were $2.5 million (1H 2015 $2.8 million).

Primary's Retail Bonds totalling $152.3 million matured in September 2015 and were redeemed from the existing facilities. The bonds carried an interest rate of 8.75%. Primary's $1.25 billion syndicated bank debt facilities were refinanced in April 2015 with reduced interest costs. The combination of the redemption of the Retail Bond, the refinance of the bank debt facilities and debt management have reduced the weighted average cost of debt during the period.

Tax expense

The reported tax expense for the period was $24.2 million (1H2015 $25.5 million). This equated to an overall effective tax rate of 26.1% and compares with an effective tax rate of 32.4% for the prior comparable period. The effective tax rate was reduced by:

- Over provisioning in prior years of $3.0 million;
- $4.1 million tax effect associated with the reduction in the final settlement with the ATO for healthcare practitioners which was non-taxable revenue;
- $2.2 million tax effect of other non-taxable revenue items; and
- Additional refund from the ATO for the deductible costs of acquiring healthcare practitioners of $1.8 million.
- Partly offsetting these was the $7.5 million tax impact of non-deductible amortisation on pre-June 2015 healthcare practice acquisitions.

For underlying results, an effective tax rate of 30% has been adopted.

Dividend

The directors have declared an interim dividend of 5.6 cents per share, franked to 50%, which will be payable on 29 March 2016 (31 December 2015: 9.0 cents per share fully franked). The dividend equates to a payout ratio of 60% of UNPAT, reflective of the company's growth strategy.

Primary's ability to frank dividends has been impacted by the ATO refund received in 1H 2016, and the potential further refund relating to the period FY 2003-FY 2007.

1H16 Net Debt

Group net debt as at 31 December 2015 is set out below in comparison to 30 June 2015.

AS AT $M	**31 DECEMBER 2015**	30 JUNE 2015	Movement $
Bank and finance debt	1,162.6	1,053.2	(109.4)
Cash	(64.2)	(50.0)	14.2
Retail Bonds	-	152.3	152.3
Net debt	1,098.4	1,155.5	57.1
Gearing (net debt: net debt + equity)	30.7%	32.1%	

In the six months ended 31 December, 2015 net debt reduced by $57 million to $1.1 billion, including the redemption of the $152.3 million in Retail Bonds.

Gearing (expressed as the ratio of net debt to net debt plus equity) improved from 32.1% to 30.7%. As at 31 December 2015, the Group was within its banking covenant with its gearing covenant at 2.9x compared with the bank covenant of "below 3.5x". The Group's interest cover was at 6.2x, compared with the bank covenant of "above 3.0x".

Further improvements in net debt are targeted in 2H 2016 from capital recycling initiatives especially Barangaroo and other capital recycling and capital management initiatives. (Refer section titled "Capital management" below).

Group cash flow

Group cash flow for 1H 2016 is set out below in comparison to 1H 2015.

AS AT $M	**31 DECEMBER 2015**	31 DECEMBER 2014	Movement $
Net cash provided by operating activities	149.1	118.3	30.8
Net cash used in investing activities	(54.8)	(151.6)	96.8
Net cash used in financing activities	(80.1)	40.3	(120.4)
Net increase in cash held	14.2	7.0	7.3
Opening cash	50.0	27.5	22.5
Closing cash	64.2	34.5	29.8

Capital expenditure (net cash used in investing activities) improved in 1H 2016 compared with 1H 2015, reducing from $151.6 million to $54.8 million. This improvement was primarily due to:

- Reduced spend on Medical Centre healthcare practice acquisitions which totalled $38 million or, net of the associated tax deduction $27 million (1H 2015 $46 million).
- Successful capital recycling program with the proceeds from the sale of shares in VEI for $36.7 million.
- Successful establishment of the Primary Health Care Property Trust ("PHPT") with the proceeds from sale of properties into the trust totalling $23 million. (Refer section titled "Capital Management" below.)
- A focus on balance sheet strengthening. (1H 2015 Non-core asset acquisitions totalled $54.8 million - Barangaroo office site, Transport Health and additional shares in VEI).

STRATEGIC IMPERATIVES

Operating divisions

Medical Centres

Medical Centres division is the central to Primary's business model. It is targeting a step change in recruitment and retention, transitioning to a less capital intensive profile with new healthcare practitioner acquisition models rolled out in November 2015. These are designed to broaden the appeal and offer a more flexible framework for the healthcare practitioners while aligning the interests of the company and its practitioners.

A range of upfront and revenue share percentages are now available. Healthcare practitioners who contract for five years can receive an upfront payment of up to a maximum of their annual billings and a 50% share of revenue they generate. Alternatively, they can receive a higher share of revenue they generate with no upfront payment over a one year contract period. The latter model matches costs to revenue generated, and better matches actual cash flow, while increasing return on invested capital and delivering an EBIT neutral outcome.

In between there are a range of bespoke options. The initial reaction is positive, especially with healthcare practitioners who are re-signing at the end of their contracts.

The Group is focused on meeting the financial, personal and professional needs of its healthcare practitioners. It is improving practitioner engagement with its clinical management teams, lead doctor initiative and the establishment of the Primary Health Care Institute which is assisting with on-going education of GPs and with training registrars.

The company is expecting a stronger second half to position it for growth in FY 2017, having made up the deficit in healthcare practitioner numbers against budget from FY 2015.

In addition to transitioning to capital-light acquisition models, Primary is investing for growth in its Medical Centres with four large scale and one super centre in the pipeline and due to be opened in FY 2017. These will add to the 58 large scale, including one super centre at Warringah in New South Wales, and 13 smaller scale centres which are currently in operation. The new centres will be principally funded by the PHPT.

Medical Centres division is exploring selective expansion options in revenue, due to ongoing pressure from the current freeze on Medicare rebates and the Medicare Benefits Schedule (“MBS”) review. Initiatives include piloting different centre models and private billing options as well as industrial medicine and expanding after-hours in centre capacity and for home visits.

The Primary IVF centre opened in Melbourne, Victoria in November 2015, and its performance to date has exceeded expectations. Preparations are currently well-advanced for further expansion of the Primary IVF business. In terms of success rates for Primary’s Sydney IVF during the first 6 months of operations, 30% of all couples who started their IVF journey with Primary went on to have successful births (with data reflecting births arising from fresh and frozen embryos during the reporting period).

Pathology

The pathology division is a mature business with a competitive cost base but with limited inorganic growth prospects in Australia and pressure on its revenue line. In response, the Group is continuing to reduce its cost base, in particular with a new program to reduce ACC rents, pilot selective private or out-of-pocket billings to enhance revenue, and seek diversification of activities by selectively invest for growth.

During the six months ended 31 December 2015, the Group closed or exited 100 ACCs. ACC numbers stabilized in the October to December period, with strong signs the overall market is moderating as well.

The division has a strong focus on cost savings through reductions in both underperforming ACC sites and overall rental costs. Hurdle rates have been tightened to drive lower rents for new sites and for re-signing sites that come up for renewal. The company has flexibility in its lease portfolio with 60% of leases able to be renegotiated within the next 18 months. This provides a strong platform to reset the ACC cost base.

The pathology division has also instituted a broader cost savings program which includes a review of regional laboratories and centralisation of certain tests, and improved procurement and productivity initiatives.

Pathology is exploring selective expansion options in revenue, due to ongoing pressure from the MBS review and from the proposed removal of bulk-billing incentives in the December 2015 Mid-Year Economic and Fiscal Outlook (“MYEFO”). The division is piloting private or out-of-pocket billings in certain geographies and specialisations.

Primary is continuing with selective investment in growth in pathology, for example by expanding service offerings in specialist areas such as histopathology and by continuing its focus on State Government outsourcing opportunities given the extent of potential cost savings available. Investigation of opportunities for expansion in Asia are also progressing with specific opportunities under review in various countries in South East Asia.

Imaging

The imaging division is focused on improving returns on its existing asset base by improving revenue mix and reducing costs, as it looks to transition from underperforming small community sites to specialised high-yield centres and hospital contracts. It is undertaking a progressive introduction of selective out-of-pocket billings.

Imaging has completed a full review of its cost base and structures and has already implemented profit improvement plans to improve performance in 2H 2016. This includes labour cost reductions, site optimisation with increased radiologists attendance, and closure of loss making sites.

New models for funding imaging equipment are currently under review. This will better align revenue and costs and reduce capital intensity of the business.

Medical Director

The Group is pursuing the significant opportunity to leverage Medical Director and to increase income streams around data analytics, consumer connectivity, and e-health. A process to find a strategic partner to accelerate these growth opportunities is underway.

Response to Government reviews

Bulk-billing has been an underlying philosophy of the Group and has served it well. However Government health funding has been, and continues to be, under pressure. Current headwinds include the aforementioned freeze on Medicare rebates, MBS review, and proposed removal of bulk-billing incentives in pathology and imaging in MYEFO. Recent Medicare data indicates that market growth rates, in particular in pathology and imaging, are well below long term trends, the likely consequence of regulatory uncertainty and the impact on referral patterns.

In response, the Group is diversifying revenue streams towards higher margin revenue in all divisions, making its cost base more variable, and instigating an aggressive cost reduction in imaging and pathology. Current plans suggest the company will be able to mitigate the estimated $50 million EBIT impact from the MYEFO cuts, subject to the normal competitive risks around market response.

Capital management

Capital recycling

In March 2016, the Group will receive $40 million on completion of the sale of the Barangaroo property which is now unconditional. Further capital recycling initiatives include a potential partner for Medical Director and a potential ATO refund for FY 2003-07. The Primary Health Care Property Trust was established in December 2015 with $52 million in seed capital.

Property Trust

The PHPT was established in December 2015 and has acquired $23 million of existing assets from Primary's balance sheet, including the imaging centre in Bridge Road, Richmond, Victoria; the adjoining property in Bridge Road, which is being developed into the nuclear medicine facility and specialist suites; and a site in Corrimal in New South Wales, on which construction will soon commence for a large-scale medical centre. PHPT is committed to fund a further $30 million to-date for other acquisitions and developments. PHPT has been set up and financed by Australian Unity Group.

Capital expenditure

The Group is focused on reduction in capital expenditure with new recruitment and retention models for HCPs including the no upfront offering, new models for funding imaging equipment, and tighter return hurdles for all capital expenditure.

Outlook

Looking to the medium to longer term, there remains strong underlying demand for healthcare services with an ageing and growing population, increased chronic conditions and rising patient expectations. Frontline care is the best and most effective means of delivering healthcare and large-scale multi-disciplinary medical centres are lower-cost, efficient providers of this frontline care. These centres also make medical services accessible and coordinated, enabling a level of continuity of care which is especially important for people with chronic conditions. The current Government drive to reduce overall healthcare spend ultimately supports the corporatized model as the lowest cost provider of healthcare services.

The Group aims to drive growth by becoming the partner of choice for Healthcare Practitioners, supported by the wider range of recruitment models and the roll out of further large-scale medical centres. By growing the size of its network and cementing its position as an efficient front-line care provider, Primary will be ideally placed to adapt and thrive amid the increasing healthcare needs of an ageing population and the changing healthcare landscape in this country.

Combining this with more diversified revenue streams, a more flexible cost base, lower leverage and greater focus on returns on investment, the Group will be positioned to deliver a pathway for growth.

FY 2016 guidance

The Group currently expects a stronger second half of FY 2016 underpinned by profit improvement initiatives underway. It expects to report FY 2016 results in line with the trading update issued on 20 November 2015 which equates to UNPAT of $110-$115 million, subject to trading conditions in the remainder of the year and the outcome of the various Government reviews.

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The Board of Directors
Primary Health Care Limited
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17 February 2016

Dear Board Members

Primary Health Care 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 Primary Health Care Limited.

As lead audit partner for the review of the financial statements of Primary Health Care Limited for the half year ended 31 December 2015, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

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Independent Auditor's Review Report to the members of Primary Health Care Limited

We have reviewed the accompanying half year financial report of Primary Health Care Limited, which comprises the statement of financial position as at 31 December 2015, and the statement of profit or loss, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the half year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half year or from time to time during the half year as set out on pages 16 to 34.

Directors' Responsibility for the Half Year Financial Report

The directors of the company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Primary Health Care Limited's financial position as at 31 December 2015 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Primary Health Care Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent auditor’s review report

To the Members of Primary Health Care Limited

Auditor’s Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Primary Health Care Limited, would be in the same terms if given to the directors as at the time of this auditor’s review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Primary Health Care Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity’s financial position as at 31 December 2015 and of its performance for the half year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 17 February 2016

Directors' declaration
For the Half-Year ended 31 December 2015

The Directors declare that:

(a) in the Directors' opinion, the attached financial statements and notes are in accordance with the Corporations Act 2001, including section 304 (compliance with Accounting Standards) and section 305 (true and fair view); and

(b) in the Directors' opinion, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

Peter Gregg
Managing Director & Chief Executive Officer

Sydney, 17 February 2016

Condensed consolidated statement of profit or loss

For the Half-Year ended 31 December 2015

	Note	**31 December 2015 $000**	31 December 2014 $000
Revenue		**835,047**	798,581
Employee benefits expense		**360,652**	345,152
Property expenses		**105,849**	94,718
Consumables		**82,458**	78,212
Other expenses		**82,077**	84,378
EBITDA		**204,011**	196,121
Depreciation		**34,460**	37,212
Amortisation of intangibles		**46,215**	46,681
EBIT		**123,336**	112,228
Finance costs	3	**30,515**	33,332
Profit before tax		**92,821**	78,896
Income tax expense	4	**24,251**	25,525
Profit for the period		**68,570**	53,371
Attributable to:			
Equity holders of Primary Health Care Limited		**68,585**	53,356
Non-controlling interest		**(15)**	15
Profit for the period		**68,570**	53,371

Earnings per share	**2015 Cents per share**	2014 Cents per share
Basic and diluted earnings per share	**13.2**	10.5

Notes to the financial statements are included on pages 22 to 34

Condensed consolidated statement of comprehensive income
For the Half-Year ended 31 December 2015

	31 December 2015 $000	31 December 2014 $000
Profit for the period	**68,570**	53,371
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value gain (loss) on cash flow hedges	**4,596**	(5,525)
Reclassification adjustments relating to available-for-sale financial assets disposed in the period	**(5,423)**	-
Fair value (loss) on available-for-sale financial assets	**-**	(1,036)
Exchange differences arising on translation of foreign operations	**(159)**	107
Income tax relating to items that may be reclassified subsequently to profit and loss	**248**	1,968
Other comprehensive (loss) for the period, net of income tax	**(738)**	(4,486)
Total comprehensive income for the period	**67,832**	48,885
Attributable to:		
Equity holders of Primary Health Care Limited	**67,847**	48,870
Non-controlling interest	**(15)**	15
	67,832	48,885

Notes to the financial statements are included on pages 22 to 34

Condensed consolidated statement of financial position

As at	Note	31 December 2015 $000	30 June 2015 $000
Current assets			
Cash		**64,233**	49,969
Receivables		**152,799**	147,265
Consumables		**30,714**	28,215
Other financial assets		**2,434**	3,186
Tax receivable		**23,657**	42,113
Assets classified as held for sale		**39,298**	39,171
Total current assets		**313,135**	309,919
Non-current assets			
Receivables		**2,893**	4,143
Goodwill	5	**2,835,525**	2,832,087
Property, plant and equipment	6	**452,357**	468,880
Other intangible assets	7	**300,613**	289,970
Other financial assets		**8,257**	34,161
Investment in joint ventures		**-**	1,953
Deferred tax asset		**1,310**	4,378
Total non-current assets		**3,600,955**	3,635,572
Total assets		**3,914,090**	3,945,491
Current liabilities			
Payables		**165,908**	180,692
Provisions		**78,449**	76,356
Other financial liabilities		**9,866**	11,740
Interest bearing liabilities		**3,297**	155,537
Total current liabilities		**257,520**	424,325
Non-current liabilities			
Payables		**4,073**	6,787
Provisions		**8,343**	9,640
Other financial liabilities		**4,688**	7,409
Interest bearing liabilities		**1,159,356**	1,049,946
Total non-current liabilities		**1,176,460**	1,073,782
Total liabilities		**1,433,980**	1,498,107
Net assets		**2,480,110**	2,447,384
Equity			
Issued capital	10	**2,422,811**	2,407,309
Reserves		**(6,589)**	(5,901)
Retained earnings		**62,125**	44,198
Equity attributable to equity holders		**2,478,347**	2,445,606
Non-controlling interest		**1,763**	1,778
Total equity		**2,480,110**	2,447,384

Notes to the financial statements are included on pages 22 to 34

Condensed consolidated cash flow statement
For the Half-Year ended 31 December 2015

	Note	**31 December 2015 $000**	31 December 2014 $000
Cash flows from operating activities			
Receipts from customers		**840,774**	811,375
Payments to suppliers and employees		**(666,632)**	(624,929)
Cash generated from operating activities		**174,142**	186,446
Interest paid		**(32,756)**	(32,390)
Net income tax received (paid)		**7,148**	(35,996)
Interest received		**428**	231
Net cash provided by operating activities	13(b)	**148,962**	118,291
Cash flows from investing activities			
Payments for healthcare practices – businesses	13(d)	**(6,545)**	(13,481)
Payments for healthcare practices – intangibles		**(41,532)**	(32,319)
Net payments for subsidiaries acquired		**-**	(9,531)
Payments for property plant and equipment		**(53,709)**	(80,653)
Proceeds from sale of property plant and equipment		**23,410**	98
Payments for other intangibles		**(13,128)**	(10,407)
Net proceeds from (payments for) investments		**36,714**	(5,350)
Net cash (used in) investing activities		**(54,790)**	(151,643)
Cash flows from financing activities			
Repayment of borrowings		**(251,759)**	(76,361)
Proceeds from borrowings		**207,273**	145,000
Dividends paid		**(35,156)**	(27,191)
Other finance costs		**(489)**	(1,135)
Net cash (used in) provided by financing activities		**(80,131)**	40,313
Net increase in cash held		**14,041**	6,961
Cash at the beginning of the period		**49,969**	27,460
Effect of exchange rate movements on cash held in foreign currencies		**223**	63
Cash at the end of the period	13 (a)	**64,233**	34,484

Notes to the financial statements are included on pages 22 to 34

Condensed consolidated statement of changes in equity

For the Half-Year ended 31 December 2015

$000	Issued capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2015	**2,407,309**	**3,796**	**(13,405)**	**941**	**2,767**	**44,198**	**2,445,606**	**1,778**	**2,447,384**
Profit for the period	-	-	-	-	-	68,585	68,585	(15)	68,570
Exchange differences arising on translation of foreign operations	-	-	-	(159)	-	-	(159)	-	(159)
Reclassification adjustments relating to available-for-sale financial assets disposed in the period	-	(5,423)	-	-	-	-	(5,423)	-	(5,423)
Fair value (loss) on cash flow hedges	-	-	4,596	-	-	-	4,596	-	4,596
Income tax relating to components of other comprehensive income	-	1,627	(1,379)	-	-	-	248	-	248
Total comprehensive income for the period	-	(3,796)	3,217	(159)	-	68,585	67,847	(15)	67,832
Payment of dividends	-	-	-	-	-	(50,658)	(50,658)	-	(50,658)
Share based payments	-	-	-	-	50	-	50	-	50
Movement in share capital (Note 10)	15,502	-	-	-	-	-	15,502	-	15,502
Balance at 31 December 2015	**2,422,811**	**-**	**(10,188)**	**782**	**2,817**	**62,125**	**2,478,347**	**1,763**	**2,480,110**

$000	Issued capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance as at 1 July 2014	2,366,276	6,798	(9,814)	900	10,089	81,127	2,455,376	1,778	2,457,154
Profit for the period	-	-	-	-	-	53,356	53,356	15	53,371
Exchange differences arising on translation of foreign operations	-	-	-	107	-	-	107	-	107
Fair value (loss) on available-for-sale investments	-	(1,037)	-	-	-	-	(1,037)		(1,037)
Fair value (loss) on cash flow hedges	-	-	(5,525)	-	-	-	(5,525)	-	(5,525)
Income tax relating to components of other comprehensive income	-	311	1,658	-	-	-	1,969	-	1,969
Total comprehensive income for the period	-	(726)	(3,867)	107	-	53,356	48,870	15	48,885
Payment of dividends	-	-	-	-	-	(52,829)	(52,829)	-	(52,829)
Share based payments	-	-	-	-	75	-	75	-	75
Movement in share capital	25,638	-	-	-	-	-	25,638	-	25,638
Balance at 31 December 2014	2,391,914	6,072	(13,681)	1,007	10,164	81,654	2,477,130	1,793	2,478,923

Notes to the financial statements are included on pages 22 to 34

1. Significant accounting policies

Primary Health Care Limited ("Primary" or "the Company") is a for-profit entity domiciled in Australia. The condensed consolidated financial statements of Primary for the half-year ended 31 December 2015 comprises Primary and its subsidiaries (together referred to as "the consolidated entity" or "the Group) and the consolidated entity's interests in joint ventures.

Statement of compliance

This half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* This financial report does not include all of the notes normally included within the annual financial report and should be read in conjunction with the 30 June 2015 annual financial report of Primary Health Care Limited.

Basis of preparation

This financial report has 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.

The accounting policies and methods of computation adopted in the preparation of the Half-Year financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 their operations and effective for the current year.

Comparative information

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current period disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current period disclosures, where considered material, are referred to separately in the Half-Year report or notes thereto.

2. Segment information

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

For internal management reporting purposes, the Group is organised into the four major operating segments described below:

Medical Centres – This division provides a range of services and facilities to general practitioners, specialists and other healthcare providers. This segment includes Transport Health.

Pathology – This division provides pathology services.

Imaging – This division provides imaging and scanning services from stand-alone imaging sites and from within the consolidated entity's medical centres.

Health Technology (MedicalDirector) – This division develops, sells and supports health-related software products.

Inter-segment sales

The Medical Centres division charges the Group's Imaging and Pathology divisions a fee for use of its facilities and services. These charges are eliminated on consolidation.

Presentation of segment revenue and results

During the current period the basis of preparation of internal reports used by the Board (the chief operating decision-makers) has been amended to include both reported and underlying results for each of the divisions (operating segments). Previously only reported results were used by the Board.

Underlying results for 1H 2016 exclude the impact of non-underlying items relating to:

– Gain on disposal of Vision Eye Institute shareholding, and other non cash gains on dissolution of a Joint Venture.
– Finalisation of ATO Settlement relating to potential Healthcare Practitioners tax liabilities.
– Other non cash fair value adjustments and one off items associated with implementation of the various restructuring and strategic initiatives set out in Primary's strategic update released in August and November 2015.

In order to provide comparatives on a consistent basis, as underlying profit was not reported for the six months ended 31 December 2014, non-underlying adjustments have been recognised in the disclosures at note 2(d) below. Underlying results for 1H 2015 exclude the impact of the following items:

– Gain on sale of shares in Vision Eye Institute.
– Non-recurring depreciation of $8.6m from accelerated asset write downs.
– Other non-underlying items.

Segment revenues and segment results on both an as reported and underlying basis are provided below.

2. Segment information (continued)

(a) Statutory

31 December 2015	Medical Centres $000	Pathology $000	Imaging $000	Health Technology $000	Other $000	Total $000
Segment Revenue	165,256	482,294	164,942	20,988	17,558	851,038
Intersegment sales						(15,991)
Total Statutory Revenue						835,047
EBITDA	87,169	71,087	30,666	9,368	5,721	204,011
Depreciation	10,065	9,505	13,921	212	757	34,460
Amortisation of intangibles	30,268	3,805	6,169	2,344	3,629	46,215
EBIT	46,836	57,777	10,576	6,812	1,335	123,336
Finance costs	-	-	-	-	30,515	30,515
Profit before tax	46,836	57,777	10,576	6,812	(29,180)	92,821

(b) Underlying

31 December 2015	Medical Centres $000	Pathology $000	Imaging $000	Health Technology $000	Other $000	Total $000
Segment Revenue	165,256	482,294	162,075	20,988	592	831,205
Intersegment sales						(15,991)
Total Underlying Revenue						815,214
EBITDA	87,735	73,353	30,547	9,368	(19,136)	181,867
Depreciation	9,165	9,505	13,921	212	697	33,500
Amortisation of intangibles	30,268	3,805	6,169	2,344	3,629	46,215
EBIT	48,302	60,043	10,457	6,812	(23,462)	102,152
Finance costs	-	-	-	-	30,515	30,515
Profit before tax	48,302	60,043	10,457	6,812	(53,977)	71,637

The reconciliation of Statutory Profit before tax to Underlying Profit before tax is contained in the Review of Operations.

2. Segment information (continued)

(c) Statutory

31 December 2014	Medical Centres $000	Pathology $000	Imaging $000	Health Technology $000	Other $000	Total $000
Segment Revenue	161,496	459,549	173,739	18,691	1,314	814,789
Intersegment sales						(16,208)
Total Statutory Revenue						798,581
EBITDA	90,049	73,044	39,326	9,805	(16,103)	196,121
Depreciation	11,200	8,532	14,234	217	3,029	37,212
Amortisation of intangibles	27,176	3,694	4,880	3,722	7,209	46,681
EBIT	51,673	60,818	20,212	5,866	(26,341)	112,228
Finance costs	-	-	-	-	33,332	33,332
Profit before tax	51,673	60,818	20,212	5,866	(59,673)	78,896

(d) Underlying

31 December 2014	Medical Centres $000	Pathology $000	Imaging $000	Health Technology $000	Other $000	Total $000
Segment Revenue	160,496	456,249	165,539	18,691	914	801,889
Intersegment sales						(16,208)
Total Underlying Revenue						785,681
EBITDA	86,749	69,769	38,404	9,805	(16,706)	188,021
Depreciation	10,200	8,332	13,834	217	629	33,212
Amortisation of intangibles	27,176	3,694	4,380	3,722	3,109	42,081
EBIT	49,373	57,743	20,190	5,866	(20,444)	112,728
Finance costs	-	-	-	-	33,332	33,332
Profit before tax	49,373	57,743	20,190	5,866	(53,776)	79,396

3. Finance costs	**31 December 2015 $000**	31 December 2014 $000
Interest expense	**28,201**	30,672
Amortisation of borrowing costs	**2,488**	2,847
Capitalised interest	**(174)**	(187)
	30,515	33,332

4. Income tax expense	**31 December 2015 $000**	31 December 2014 $000
The prima facie income tax expense on the continuing operations pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax expense	**92,821**	78,896
Income tax calculated at 30% (2014: 30%)	**27,846**	23,669
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
ATO settlement of healthcare practitioner tax liabilities	**(4,060)**	-
Amortisation of healthcare practitioner contractual relationships intangible	**7,538**	7,383
Other items	**(2,239)**	(3,150)
	1,239	4,233
ATO settlement for the cost of acquiring healthcare practices now deductible	**(1,832)**	-
(Over) provision in prior years	**(3,002)**	(2,377)
Income tax expense	**24,251**	25,525

Amortisation of healthcare practitioner contractual relationships intangible

On 30 June 2015, the Deputy Commissioner of Taxation ("ATO") advised Primary that the cost of acquiring medical and healthcare practices was tax deductible.

For any acquisitions that occurred prior to 30 June 2015 (that is, prior to the date the above tax treatment was advised by the ATO), no deferred tax liability was recognised in relation to the intangible assets and the amortisation expense on these acquisitions is therefore a non-deductible (permanent) difference for the purpose of calculating income tax expense (benefit) in the statement of profit or loss.

This accounting treatment ordinarily increases the notional effective tax rate for Primary above 30% throughout the period the intangible assets continue to be amortised. Once these intangible assets have been fully amortised (which will occur progressively over the next 4.5 years) these historical practice acquisitions will have no ongoing impact on the effective tax rate for Primary.

Primary's expectation is that the groups long term effective tax rate will approximate 30% (based on the current structure and nature of our business).

5. Goodwill	**31 December 2015 $000**	30 June 2015 $000
Opening balance – beginning of financial year	**2,832,087**	2,798,239
Acquisition of subsidiaries	**2,883**	9,888
Acquisition of businesses	**555**	23,960
	2,835,525	2,832,087

The Group has tested the carrying amount of goodwill for impairment as at 31 December 2015.

In its impairment assessment, the Group determines the recoverable amount based on a fair value less costs to sell calculation, under a five year Discounted Cash Flow model cross checked to available market data. The five year Discounted Cash Flow uses the FY2016 reforecast budget as year one in the five year cash flow. The FY2016 reforecast budget formed the basis of the trading update that the Group made to the market in November 2015.

For FY2017-FY2018, the Group assumes growth rates that reflect the subdued industry volumes across the Medical Centres, Pathology and Imaging CGUs during the six months ended 31 December 2015, offset where appropriate by the impact of the Group's response through the implementation of cost reduction initiatives.

For FY2019-FY2020, the Group assumes a long term growth rate consistent with the historic industry trend levels. A terminal value growth rate of 3.0% has been presumed for all CGUs (30 June 2015: 3.0%).

The key assumptions in the Group's Discounted Cash Flow model as at 31 December 2015 are as follows:

ASSUMPTION	HOW DETERMINED
Forecast Revenue	Forecast revenue has been calculated assuming FY2017-FY2020 growth rates as follows: - Medical Centres – 4.0%-5.0% (30 June 2015: 6.0%-8.0%) - Pathology – 3.5%-5.5% (30 June 2015: 5.5%) - Imaging – 4.0%-6.0% (30 June 2015: 6.0%) Changes to forecast revenue in the current year have been determined with reference to historical company experience and industry data.
Terminal value growth rate	The terminal value growth rate assumed for all CGUs is 3.0% (30 June 2015: 3.0%).
Weighted Average Cost of Capital (WACC)	Post-tax discount rates for each CGU reflect the Group's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for business risks specific to that CGU. The post-tax discount rate for each CGU is: - Medical Centres – 8.5%-9.0% (30 June 2015: 8.5%-9.0%). - Pathology – 8.0%-8.5% (30 June 2015: 8.0%-8.5%) - Imaging – 8.5%-9.0% (30 June 2015: 8.5%-9.0%)

5. Goodwill (continued)

Sensitivity analysis

The Group has conducted sensitivity analysis on the assumptions above to assess the effect on the recoverable amount of changes in the key assumptions.
The following table sets out the change in each of the key assumptions that would be required in order for the carrying value of the CGU to equal the recoverable amount.

	Increase / (decrease) in assumptions required for recoverable amount to equal carrying amount	
CGU	**Revenue growth per annum**	**WACC**
Medical Centres	(1.0%)	0.7%
Imaging	(1.9%)	1.2%
Pathology	(0.3%)	0.4%

6. Property, plant and equipment

31 December 2015 $000	Freehold Land and Building	Leasehold Improvement	Plant and Equipment	Asset under construction	Total
Net book value					
Opening balance	**4,064**	**225,987**	**184,865**	**53,964**	**468,880**
Additions	**136**	**1,474**	**11,171**	**28,343**	**41,124**
Capitalised borrowing costs	**-**	**174**	**-**	**-**	**174**
Capitalisation of assets under construction	**18,959**	**14,959**	**2,710**	**(36,628)**	**-**
Disposals	**(22,135)**	**(1,021)**	**(205)**	**-**	**(23,361)**
Depreciation expense	**(154)**	**(12,658)**	**(21,648)**	**-**	**(34,460)**
Closing balance	**870**	**228,915**	**176,893**	**45,679**	**452,357**
Cost	**1,103**	**378,557**	**551,600**	**45,679**	**976,939**
Accumulated depreciation	**(233)**	**(149,642)**	**(374,707)**	**-**	**(524,582)**
Closing balance	**870**	**228,915**	**176,893**	**45,679**	**452,357**

31 December 2014 (1) $000	Freehold Land and Building	Leasehold Land and Building	Leasehold Improvement	Plant and Equipment	Asset under construction	TOTAL
Net book value						
Opening balance	837	-	210,028	177,579	39,478	427,922
Additions	66	39,350	1,677	19,810	19,750	80,653
Capitalised borrowing costs	-	-	187	-	-	187
Capitalisation of Assets Under Construction	-	-	3,103	2,914	(6,017)	-
Disposals	-	-	(27)	(185)	-	(212)
Depreciation expense	(11)	-	(11,123)	(26,078)	-	(37,212)
Closing balance	892	39,350	203,845	174,040	53,211	471,338
Cost	1,103	39,350	336,305	517,124	53,211	947,093
Accumulated depreciation	(211)	-	(132,460)	(343,084)	-	(475,755)
Closing balance	892	39,350	203,845	174,040	53,211	471,338

(1) Comparative information has been provided for the 6 months ended 31 December 2014 in order to provide a meaningful comparison for movements in property, plant and equipment during the 6 month period. Comparative information for the 12 months ended 30 June 2015 can be found in the Group's 2015 annual report.

7. Other intangible assets

31 December 2015 $000	HCP Contractual Relationship	IT Software	Intangible Under Construction	Licences	Copyright in Computer Software Program	Total
Net book value						
Opening balance	**167,397**	**88,231**	**19,468**	**14,874**	**-**	**289,970**
Additions	**43,772**	**2,225**	**10,720**	**141**	**-**	**56,858**
Capitalisation of intangible assets under construction	**-**	**8,955**	**(8,955)**	**-**	**-**	**-**
Amortisation expense	**(33,354)**	**(10,337)**	**-**	**(2,524)**	**-**	**(46,215)**
Closing balance	**177,815**	**89,074**	**21,233**	**12,491**	**-**	**300,613**
Cost	**671,417**	**190,288**	**21,233**	**45,179**	**46,500**	**974,617**
Accumulated amortisation	**(493,602)**	**(101,214)**	**-**	**(32,688)**	**(46,500)**	**(674,004)**
Closing balance	**177,815**	**89,074**	**21,233**	**12,491**	**-**	**300,613**

31 December 2014 (1) $000	HCP Contractual Relationship	IT Software	Intangible Under Construction	Licences	Copyright in Computer Software Program	Total
Net book value						
Opening balance	156,958	88,220	19,107	6,363	1,705	272,353
Additions	40,204	2,947	6,843	281	-	50,275
Capitalisation of intangible assets under construction	-	4,944	(4,944)	-	-	-
Amortisation expense	(29,698)	(13,069)	-	(2,209)	(1,705)	(46,681)
Closing balance	167,464	83,042	21,006	4,435	-	275,947
Cost	521,438	163,049	21,006	31,922	46,500	783,915
Accumulated amortisation	(353,974)	(80,007)	-	(27,487)	(46,500)	(507,968)
Closing balance	167,464	83,042	21,006	4,435	-	275,947

(1) Comparative information has been provided for the 6 months ended 31 December 2014 in order to provide a meaningful comparison for movements in intangibles during the 6 month period. Comparative information for the 12 months ended 30 June 2015 can be found in the Group's 2015 annual report.

8. Net tangible asset backing	31 December 2015 $	30 June 2015 $
Net tangible asset backing per share	(1.26)	(1.32)

9. Contingent liabilities

There were no material changes in contingent liabilities since 30 June 2015.

10. Issued capital	No. of Shares December 2015 000's	No. of Shares June 2015 000's	31 December 2015 $000	30 June 2015 $000
Opening balance	**515,999**	505,660	**2,407,309**	2,366,276
Shares issued via Dividend Reinvestment Plan	**3,899**	8,881	**15,502**	41,033
Shares issued via Bonus Share Plan	**1,535**	1,458	**-**	-
Closing balance	**521,433**	515,999	**2,422,811**	2,407,309

11. Dividends on equity instruments	2015 Cents per share	2014 Cents per share	31 December 2015 $000	30 June 2015 $000
Recognised amounts				
Final dividend – previous financial year	**11.0**	11.0	**56,760**	55,625
Dividend forgone under the Bonus Share Plan	**-**	-	**(6,102)**	(2,796)
Total dividends paid	**11.0**	11.0	**50,658**	52,829
Unrecognised amounts				
Interim dividend – current financial period	**5.6**	9.0		

The Directors have approved the payment of an interim dividend of 5.6 cps 50% franked, to the holders of fully paid ordinary shares, the record date being 21 March 2016 and payable on 29 March 2016.

The Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) have been suspended effective 16 February 2016 until further notice.

The final dividend for the year ended 30 June 2015 was 50% franked (2014: 100% franked).

12. Financial instruments

This note provides information about how the Group determines fair values of various financial instruments, all of which are measured at fair value on a recurring basis:

Fair value measurement - valuation methods

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The definition of each "level" below is as required by accounting standards as follows:

- 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 asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 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).

	Carrying amount			
31 December 2015	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets				
Other investments	-	-	1,268	1,268
Financial liabilities				
Interest rate swaps	-	14,496	-	14,496
Foreign exchange forwards	-	58	-	58

30 June 2015	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets				
Available-for-sale investments	26,670	-	-	26,670
Other investments	-	-	1,268	1,268
Financial liabilities				
Interest rate swaps	-	19,149	-	19,149

There were no transfers between levels during the period.

13. Notes to the cash flow statement	31 December 2015 $000	31 December 2014 $000

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	31 December 2015 $000	31 December 2014 $000
Cash	**64,233**	34,484

(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities

	31 December 2015 $000	31 December 2014 $000
Profit attributable to equity holders	**68,585**	53,356
Depreciation of plant and equipment	**34,460**	37,212
Amortisation of intangibles	**46,215**	46,681
Amortisation of borrowing costs	**2,488**	2,847
Share based payments expense	**50**	75
Non-controlling Interest	**(15)**	15
(Profit) on sale of other investments	**(16,965)**	(1,020)
Increase (decrease) in liabilities;		
Trade payables and accruals	**(3,043)**	(947)
Provisions	**796**	15,104
Deferred revenue	**1,650**	(2,438)
Tax balances	**21,525**	(12,899)
Decrease (increase) in assets;		
Consumables	**(2,499)**	(3,325)
Receivables and prepayments	**(4,285)**	(16,370)
Net cash provided by operating activities	**148,962**	118,291

(c) Non cash investing and financing

During the period 3,899,358 (2014: 5,834,917) and 1,534,600 (2014: 635,689) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively.

These transactions are not reflected in the statement of cash flows.

13. Notes to the cash flow statement (continued)

(d) Businesses acquired

(i) Healthcare practices

Members of the Group continued to acquire healthcare practices to expand their existing businesses.

It is not practical to show the impact of the individual medical practices acquired during the period on the Group's results for the period (as required by AASB 3 *Business Combinations*), as it is impractical to allocate the costs associated with the Group's multi-disciplinary medical centres to the individual medical practices acquired.

The goodwill arising from the business combinations (in the absence of any other identifiable intangibles, 70% of the purchase price) is attributable to the significant likelihood of the patients of the healthcare practice acquired attending a Primary Medical Centre following the acquisition.

(ii) Summary – healthcare practices

The net outflow of cash to acquire healthcare practices is reconciled as follows:	**31 December 2015 $000**	31 December 2014 $000
Fair value of identifiable net assets acquired		
Healthcare practices	**283**	3,674
Goodwill		
Healthcare practices	**555**	11,073
Consideration – cash paid to acquire healthcare practices		
Healthcare practices	**838**	14,747
Decrease (Increase) in deferred consideration relating to healthcare practices	**5,707**	(1,266)
	6,545	13,481
Cash paid for healthcare practices	**6,545**	13,481
Less cash acquired	**-**	-
Net payments for the purchase of healthcare practices	**6,545**	13,481

14. Subsequent events

On 13 November 2015, Primary announced to the ASX it had entered into an agreement to sell its Barangaroo office site at Millers Point for $40 million, conditional upon consent from the landlord (Barangaroo Development Authority), as to the assignment of Primary's lease.

On 9 February 2016, the landlord executed the deed of consent to assignment of the leasehold interest. Accordingly, the sale contract is now unconditional and the purchaser is required to complete the contract by 24 March 2016.

Other than the execution of the above deed of consent, there has not been any other matter or circumstance that has arisen since the end of the period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.