Results for announcement to the market

Primary Health Care Limited

ACN 064 530 516

Appendix 4E – Preliminary Final Report (Unaudited)

For the year ended 30 June 2018

CONTENTS	**PAGE**

Primary Health Care Limited

Appendix 4E – Preliminary Final Report

Results for announcement to the market
For the year ended 30 June 2018

$m	% change 2018 vs 2017	2018 Total	2017 Total
Revenue	**+4.9%**	**1,740.3**	1,658.6
Profit / (loss) for the year after tax	**N/A**	**8.9**	(516.9)
Profit / (loss) attributable to members of the parent entity	**N/A**	**8.9**	(516.8)
Underlying profit for the year after tax [1]	**+0.2%**	**92.3**	92.1

CENTS PER SHARE	2018 Total	2017 Total
Basic and diluted earnings / (loss) per share	**1.7**	(99.1)
Underlying basic and diluted earnings per share	**17.7**	17.6
Final dividend [2, 3]	**5.5**	5.8
Interim dividend [4]	**5.1**	4.8
	10.6	10.6

[1] Underlying results for the year ended 30 June 2018 exclude the impact of non-underlying items relating to (i) restructuring and strategic initiatives, (ii) nonrecurring items, and (iii) impairment of assets and other related items. Refer section titled "Reconciliation of reported and underlying performance".

[2] The 2018 final dividend will be 100% franked at the corporate income tax rate (2017: 100% franked).

[3] The record date for determining entitlement to the final dividend is 1 September 2018 and is payable on 17 September 2018.

[4] The 2018 interim dividend was 100% franked (2017: 100%).

Review of operations *for the year ended 30 June 2018*

The results for Primary Health Care ("Primary") for the year ended 30 June 2018 ("FY 2018") are set out in this review of operations compared to the year ended 30 June 2017 ("FY 2017").

Year ended $M	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017
Performance	**Underlying [1]**		**Reported**	
Revenue	**1,740.3**	1,658.6	1,740.3	1,658.6
EBIT	**167.0**	174.6	71.5	(469.7)
NPAT	**92.3**	92.1	8.9	(516.9)
Dividend cps			10.6	10.6
As at $M			**30 June 2018**	30 June 2017
Financial position				
Free cash flow [2]			**146.6**	141.5
Net Debt			**776.8**	784.2

- Primary is committed to delivering excellence in consumer-centred frontline healthcare and to maximising value creation for shareholders.
- New Purpose, Mission and Values set out what Primary stands for.
- A review of branding is underway to better align our brand with our strategic vision.
- The significance of Primary's network cannot be understated. With over eight million patient consultations, a third of all private pathology tests and over three million diagnostic imaging examinations each year, Primary delivers healthcare every day at more than 2,600 sites around Australia.

FY2018 performance

- Primary's revenue for FY 2018 was up 4.9%.
- Improved EBIT contributions from Pathology (+1.3%), Imaging (+16.6%) and Corporate partially offset a decline in Medical Centres, where Project Leapfrog aims to deliver growth.
- Underlying NPAT was in line with last year with benefits of balance sheet and cash flow initiatives. However, it grew when normalised for start-up costs of greenfield sites and Health & Co[3].
- Free cash flow, before growth capital expenditure, was $146.6 million, an improvement on FY 2017.
- Primary's reported EBIT includes $49.5 million in impairments and other related items, $40.9 million of investment in strategic initiatives and restructuring, and $5.1 million in non-recurring items.
- A final dividend of 5.5 cps, 100% franked, has been approved, on a payout ratio of 60% of Underlying NPAT.

Outlook

- The long-term drivers for healthcare remain positive. There is strong underlying demand for healthcare in Australia, underpinned by a growing and ageing population, increasing numbers of people living for longer with chronic illness, rising patient expectations and expanding wealth per capita.
- Australia is at an important juncture in the delivery of healthcare with consumers increasingly demanding better, more convenient and more cost-effective ways to access care.
- Healthcare delivery in the future is expected to move away from expensive overnight hospital facilities and into homes and communities.

---

[1] Underlying results for the year ended 30 June 2018 exclude the impact of non-underlying items relating to (i) restructuring and strategic initiatives, (ii) nonrecurring items, and (iii) impairment of assets and other related items. Refer section titled "Reconciliation of reported and underlying performance".

[2] Free Cash Flow is defined as operating cash flow less maintenance capital expenditure. Refer section titled "Cash Flow".

[3] This adjusts for three-year ramp-up costs of greenfield sites and the start-up costs in Health & Co. Refer section titled "Business as Usual".

Strategy

- Primary is constructing a substantial shift in its value proposition to healthcare professionals ("HCPs") and consumers alike, to place the company at the forefront of service delivery for community-based healthcare.
- In order to best meet the continued demand for high quality community health services and to deliver profitable growth, Primary is undertaking a number of initiatives across the Group.
- Key among these is Project Leapfrog which aims to comprehensively renew the operating model in Medical Centres.
- A re-platforming in Pathology and Imaging will develop modern, efficient infrastructure to support future growth.
- On completion, Primary expects these initiatives to deliver material operational and clinical benefits as well as a significantly enhanced financial performance.

$250 million capital raising and potential acquisition

- On 20 August 2018, Primary announced a capital raising of $250 million to fund Project Leapfrog, the upgrade to its IT platform in Pathology and a potential acquisition of a leading day surgery operator.
- Primary is in exclusive negotiations to acquire an operator of day surgeries with completion expected in September or October 2018.
- The potential acquisition is a high-quality business run by an experienced management team in a strongly growing sector.
- The operator is aligned to Primary's core business of providing frontline community healthcare outside of an overnight hospital setting.
- Primary is already invested in day surgeries. The potential acquisition will provide a platform for future growth and improved performance in this segment.
- It will deliver opportunities for integration with Primary's IVF business and for growing pathology. It also further diversifies Primary's sources of funding in non-Medicare revenues.
- Refer Capital Raising presentation lodged on 20 August 2018 for details.

FY 2019 Guidance

- Primary currently expects underlying NPAT in FY 2019 to be at or above FY 2018 underlying NPAT, prior to the impact of the capital raising and potential acquisition.
- Based on current trading activity, industry growth is expected to be slower in 1H 2019 and then normalise to long-term growth rates.
- Assuming successful capital raising and completion of the potential acquisition, Primary anticipates the following adjustments to FY2019 underlying NPAT:

    - Interest expense savings resulting from the $250 million proceeds of the capital raising
    - Contribution from the potential acquisition from the date of completion (expected to be September-October 2018)

- A further update regarding Primary's trading and outlook will be provided at the AGM in November 2018.

GROUP PERFORMANCE

This review of operations focuses on the FY 2018 underlying results and adjusts for several items which Primary considers do not form part of the core trading performance of the relevant divisions and/or are not expected to occur frequently. A reconciliation is set out in the section titled "Reconciliation of reported and underlying performance".

			30 June 2018		
$M	**Pathology**	**Medical Centres**	**Imaging**	**Corporate**	**Group**
Revenue [1]	1,090.6	319.6	368.4	-	1,740.3
EBITDA	145.6	95.2	57.0	(15.6)	282.2
Depreciation	(19.0)	(18.0)	(14.0)	(2.5)	(53.5)
Amortisation	(5.6)	(45.6)	(9.2)	(1.3)	(61.7)
EBIT	121.0	31.6	33.8	(19.4)	167.0
Finance Costs					(35.1)
PBT					131.9
Tax					(39.6)
UNPAT					92.3

			30 June 2017		
$M	**Pathology**	**Medical Centres**	**Imaging**	**Corporate**	**Group**
Revenue [1]	1,038.4	319.6	333.5	0.1	1,658.6
EBITDA	146.0	123.5	57.8	(16.1)	311.2
Depreciation	(18.8)	(20.8)	(16.8)	(2.8)	(59.2)
Amortisation	(7.7)	(55.4)	(12.0)	(2.3)	(77.4)
EBIT	119.5	47.3	29.0	(21.2)	174.6
Finance Costs					(43.1)
PBT					131.5
Tax					(39.4)
UNPAT					92.1

DIVISIONAL PERFORMANCE

The underlying EBIT performance of each operating division is set out in the following section together with the strategies and initiatives which underpin this performance.

PATHOLOGY

	30 June 2018 $M	30 June 2017 $M	Better/(worse) %
Revenue	1,090.6	1,038.4	5.0
EBITDA	145.6	146.0	(0.3)
Depreciation	(19.0)	(18.8)	(1.1)
Amortisation	(5.6)	(7.7)	27.3
EBIT	121.0	119.5	1.3
Capital expenditure (before capital recycling)	21.1	26.9	21.6

[1] $38.3m of inter-company revenue/expenses have been eliminated at the Group level (FY 2017 $33.0m).

The Pathology division is Primary's largest business. It provides leading medical laboratory and pathology services covering key diagnostic activities of anatomical pathology (histopathology and cytology), clinical pathology (chemistry, haematology, immunology, and microbiology), genomic diagnostics and veterinary pathology. It is a tribute to the efficiency of Pathology operations that it has been able to grow profitably over a long period of time, while the government-reimbursed revenue-per-test in real terms is lower than 20 years ago.

The Pathology division grew in revenue and EBIT in FY 2018 despite the loss of the National Bowel Screening contract from 1 January 2018. Revenue was up 5.0% with increases in both volume and average fee per episode and a strong performance in the niche specialities of genetics, veterinary pathology and the new Human Papillomavirus testing. This increase was underpinned by good market growth for the majority of the year, with softer market demand in May and June 2018.

EBIT was up 1.3% to $121.0 million in the year. Growth would have been 4% but for the impact of divesting the old Healthscope collection centres in Queensland and northern New South Wales, now complete. Importantly, Pathology reduced its property costs as a percentage of revenue, with a strong focus on disciplined Approved Collection Centre ("ACC") rental negotiations. Higher consumable costs were driven by growth in higher-value tests, such as non-invasive pre-natal genetic testing which has increased nearly three-fold in the year, and greater rates of coning. Coning is the arrangement whereby only the top three items by value in a single patient episode are paid for under the Medicare Benefits Schedule when requested by a GP for out-of-hospital services

Cash flow: Pathology continued to contribute strongly to the Group's cash position. Capital expenditure in the division was down 21.6% with on-going discipline around new ACCs.

Strategy

Growth: The division is focusing on further optimising ACC performance through reduced rental costs and improved service delivery. It is targeting top-line organic growth through the expansion of its Medical Centres footprint and improved visibility under the Leapfrog initiative and developing speciality service. It also aims to optimise hospital contracts and partner with specialists in these hospitals. In South East Asia, Primary is looking to develop a footprint through capital-light partnerships.

Stakeholder engagement: Pathology is focusing on ongoing improvements to employee engagement, in particular with front-line staff. Primary, together with the other major providers, has established an industry body to negotiate with one voice with the Government.

Efficient, modern infrastructure: The division is developing a modern infrastructure platform that will provide significant clinical, operational and financial benefits to support future growth:

- An upgrade to the chemistry, immunoassay and serology instrumentation, known as the Serum Work Area, which cover around 60% of all pathology testing. This will increase automation and deliver leading-edge clinical methodologies while also being at a lower cost per reportable.

- New Laboratory Information System ("LIS") to be implemented by staged deployment by 2022 by a dedicated team. The division presently uses four incumbent systems that are not standardised. The LIS program will revolutionise processes, reporting and service delivery. It will enable Primary to lead the way in consumer-centred pathology with a single, integrated information system, increased functionality and efficiency, and digital results for referrers and consumers. It will be positioned to undertake more complex processes and analysis in genomics and personalised medicine, artificial intelligence, and big data health analytics. The preferred system has already been used by high-quality international pathology providers for a number of years.

- LIS will also enable some standardisation and automation in the pre-analytical processes before the specimen reaches the analysers, including in collection, courier, data entry, and specimen reception areas. LIS will improve service levels to patients and referrers, and reduce risk and costs.

- The LIS program is expected to deliver significant clinical and operational benefits, including cost savings and efficiencies. Overall Primary is expecting a net benefit of around $20 million per year once LIS is embedded in the business. Furthermore, an improved ability to meet referrers' needs will enable Primary to increase its market share in higher-margin and fast growth complex tests such as genetics and histopathology.

MEDICAL CENTRES

Medical Centres are central to Primary's integrated health services strategy and drive value to the rest of the Group, with GPs being the gatekeepers of referrals in the community and throughout the healthcare system.

Medical Centres can be analysed as follows:

	30 June 2018			**30 June 2017**		
$M	PRY Medical Centres	Health & Co	**Medical Centres**	PRY Medical Centres	Health & Co	**Medical Centres**
Revenue	313.4	6.2	**319.6**	317.8	1.8	**319.6**
EBITDA	99.3	(4.1)	**95.2**	125.8	(2.3)	**123.5**
Depreciation	(18.0)	-	**(18.0)**	(20.8)	-	**(20.8)**
Amortisation	(45.5)	(0.1)	**(45.6)**	(55.4)	-	**(55.4)**
EBIT	35.8	(4.2)	**31.6**	49.6	(2.3)	**47.3**

PRIMARY MEDICAL CENTRES

	30 June 2018 $M	30 June 2017 $M	Better/(worse) %
Revenue	313.4	317.8	(1.4)
EBITDA	99.3	125.8	(21.1)
Depreciation	(18.0)	(20.8)	13.5
Amortisation	(45.5)	(55.4)	17.9
EBIT	35.8	49.6	(27.8)
HCP capital expenditure	26.8	30.3	11.6

With the division now three years through its five year process of transitioning GPs onto new contract models following the 2015 Australian Tax Office ruling, there are around one-quarter of GPs left on the old contracts. The new flexible, capital-light contracts have appealed to a wider cohort of GPs and are delivering a more capital efficient recruitment process. To balance the value proposition, the revenue sharing arrangements have increased in favour of the GP, and through more sustainable and flexible working hours Primary is also seeing reduced working hours for the average GP.

Overall GP recruitment was at a record number of 159 in FY 2018. 139 GPs departed, of which nearly half left due to Primary's initiatives around quality reset in the centres, holding the line on the revenue share offered to existing GPs, and the closure of two small unprofitable centres. These initiatives are deemed essential to set the right culture and develop the platform for strong recruitment in the future. The retention rates, excluding Primary's initiatives, are on a par with industry norms.

As at 30 June 2018, Primary had 1,056 GPs practising in its centres. The Project Leapfrog strategy, outlined below, aims to facilitate significant growth in GP numbers over the medium term.

GP gross billings rose from $416.0 million to $425.2 million with higher contracted hours per GP and greater non-Medicare fees generated per patient. In line with the new contract models, Primary's average share of revenue declined which drove a decrease in GP revenue from $183.2 million to $171.5 million. However, this was partially offset by growth in dental and IVF revenue.

EBIT contracted by $13.8 million compared to FY 2017. Approximately half of this was due to the costs of greenfield centres which have a three-year ramp-up profile. Normalising for these costs, EBIT declined $6.9 million as the division continued to invest in HCP recruitment, nursing capabilities and in employee engagement. Service offerings in dental, occupational health and integrated care were also expanded during the year. All these initiatives represent an investment in the future.

Dental, IVF, specialists and other revenue

The dental business is one of the top four dental operations in the country, with 137 FTE dentists working at 61 of Primary's centres. The division performed strongly with revenue and EBIT up 8% to $34.2 million and $4.6 million respectively. Expansion of capacity is targeted as part of the Leapfrog program, set out below.

Primary's IVF business model has disrupted the IVF sector and opened up the opportunity for more Australians to have a family. During the year, IVF doubled the size of its laboratory in Sydney and opened its fourth clinic in Perth. Revenue and cycles were both up over 30%. EBIT was at break-even with mature sites, Sydney and Melbourne, delivering good returns while Brisbane was in ramp-up. Primary sees opportunities for future growth including larger laboratories, more clinics and targeted marketing in FY 2019.

Other medical services including Specialist, Day Surgeries and Allied Health generated $29.6 million in revenue. Non-medical revenue including rental income and grants accounted for $66.9 million. Both areas were broadly in line with FY 2017.

Primary contracts with a significant number of specialists and there are opportunities to grow in specialist medicine beyond simply having specialists provide services in Primary's Medical Centres.

Primary operates five day surgery units. It is targeting greater utilisation of the day surgeries in particular through IVF, gastroenterology and ophthalmology. Primary is in exclusive negotiations to acquire an operator of day surgeries with completion expected in September or October 2018. The potential acquisition is a high-quality business run by an experienced management team in a strongly growing sector. The operator is aligned to Primary's core business of providing frontline community health care outside of an overnight hospital setting. The potential acquisition will provide a platform for future growth and improved performance in Primary's existing day surgery units. It will also deliver opportunities for integration with Primary's IVF business, for growing pathology and for further diversifying Primary's sources of funding in non-Medicare revenues.

Cash flow

Capital expenditure on upfront payments to HCPs was $26.8 million in the year which was less than half the comparable cost in FY 2015 prior to the introduction of new contracts. Of the GP cohort, 14% of new FTE GPs elected for 'upfront' contracts, utilising $8.6 million of capital, and a further $11.4 million was spent on upfronts for re-signing of existing GPs. Total capital expenditure of $57.6 million also included the fit-out of the new centres and IVF expansions.

Strategy: Project Leapfrog

Primary has a unique portfolio of large-scale clinics with competitive advantages in terms of size, location, accessibility and range of services. Through these clinics, Primary aims to develop new ways to deliver care when, where and how consumers want it, supported by technology that makes accessing care and managing health more straightforward. This will substantially change Primary's value proposition and place the company at the forefront of service delivery for community-based healthcare. Growth will also come from a better integration of services to optimise value under a whole-of-Primary approach.

Project Leapfrog is the program which will deliver this comprehensive renewal of the operating model. It is underpinned by three initiatives around people, processes and property. Overall Leapfrog is targeting to deliver an average of $1 million EBIT across all 73 centres and greater than 20% return on capital in three years.

People: Recruitment of significantly larger numbers of GPs is a key part of Leapfrog through a multi-channel approach. Primary is targeting approximately a 45% increase in GP FTE numbers over the next three years, net of normal attrition.

With the quality reset program largely complete, Primary will continue to focus on creating a good workplace culture. The recruitment team is an integral part of regional operations, knowing the skill-sets required for each centre and targeting recruitment of the right GPs to the right centre.

Contracts have been shortened and simplified as Primary is committed to providing an environment in which HCPs want to work with less emphasis placed on restraints. A clinically-enabling environment along with new skills training aim to make Primary a Workplace of Choice.

Primary's thriving Clinical Institute is an invaluable pipeline of young GPs who want opportunities to build their business supported by up-to-date technology, build a patient base and achieve a work-life balance.

Additionally, Primary is developing a strong pipeline from its Barefoot GP initiative which offers GPs a 15-month rotating working program in Australia undertaking the evening and weekend shifts which are more challenging to fill with local GPs. Barefoot has been launched in the UK and Australia and is about to be launched in New Zealand.

As Primary seeks to increase both GP and patient numbers the Health & Co M&A team has been focusing its capabilities on acquiring local clinics to roll into the Primary centres, in addition to more stand-alone clinics for the Health & Co network. The increased opportunity for M&A has been made possible with the introduction of appointments, enabling GPs to provide greater continuity of care for their existing patient base. A nine FTE GP practice was recently acquired close to Primary's new Narellan centre, and there is a strong pipeline of potential targets in other large-scale Medical Centre catchment areas.

Processes:
Through significantly increasing operational efficiency, Project Leapfrog will transform the way things are done in the practices and thereby deliver financial benefits. Digitisation and re-engineering of workflows, including online appointment availability and a single practice management system, will underpin these improvements and allow GPs to develop their practice.

The introduction of online appointments will enable GPs to deliver continuity of care, build their practice, improve clinical outcomes and create a better overall GP experience. It will create a more consistent patient flow throughout the day and also pave the way for selected private billing where a GP can demonstrate sufficient demand for his or her services.

An enhanced consumer experience will attract and help to retain patients by offering online access, e-recalls as well as comfortable and modern facilities.

At 30 June 2018, 22 of Primary's large-scale centres were offering appointments with the remaining 51 to offer appointments during FY 2019. Some centres will need to transition onto a different practice management system ("PMS") as part of this process, enabling the whole division to be on a single PMS.

During a 6-week trial period, Leapfrog centres increased their gross billings per hour compared to non-Leapfrog centres, providing promising data on the financial and productivity benefits that will accrue from the use of appointments to smooth patient flows. Primary is targeting an uplift of 10-15% in average gross billings per hour by FY 2021.

Property:
Project Leapfrog aims to substantially improve both the utilisation and the experience within Primary's unique footprint of medical centres through space optimisation, facilities improvements and the introduction of expanded and new services where the local demand is evident.

65 centres will undergo facilities uplift in a phased approach to investment strategy. Of these, 52 centres will receive additional investment in the modernisation and expansion of services through better utilisation of the centre footprint, creating 90+ new consultation rooms, 40+ new dentist surgeries and the expansion and relocation of 40+ pathology collection centres, as well as an uplift to treatment rooms, urgent care facilities, theatres and staff rooms. This program, which will deliver equivalent to four new large-scale centres without any incremental rent overhead, will be staged over three years.

The improvements are expected to capture an increased proportion of pathology, imaging and dental flows and to allow for expansion of services, such as IVF, occupational health, urgent care.

HEALTH & CO

	30 June 2018 $M	30 June 2017 $M
Revenue	6.2	1.8
EBITDA	(4.1)	(2.3)
Depreciation	-	-
Amortisation	(0.1)	-
EBIT	(4.2)	(2.3)
Capital expenditure	9.8	8.4

The Health & Co network now comprises 11 clinics, with practices in NSW, VIC, QLD, SA and 100 GPs or 64 FTEs. EBITDA has grown on average by 16% for practices during their first year with Health & Co, with 100% retention of GPs during the transition period and growth in new patient numbers.

Overall Health & Co recorded a loss of $4.2 million in FY 2018 reflecting the ramp-up of M&A capabilities and phasing of acquisitions. Importantly in FY 2019, Health & Co's M&A capabilities will support both the expansion of the Health & Co network and the acquisition of adjacent GP and specialist clinics to be rolled into Primary's large medical centres under Leapfrog.

IMAGING

	30 June 2018 $M	30 June 2017 $M	Better/(worse) %
Revenue	368.4	333.5	10.5
EBITDA	57.0	57.8	(1.4)
Depreciation	(14.0)	(16.8)	16.7
Amortisation	(9.2)	(12.0)	23.3
EBIT	33.8	29.0	16.6
HCP capital expenditure	2.8	4.3	34.9
Capital expenditure (before capital recycling)	36.9	28.2	(30.9)

Primary's Imaging division, Healthcare Imaging Services, partners with 112 independent radiologists to undertake a full range of medical imaging services including cardiac, neurological, vascular, musculoskeletal and dental imaging. The division operates a network of 143 sites. In January, Imaging acquired Brisbane Private Imaging (BPI), the on-site provider of imaging services at Brisbane Private Hospital which has a 15-year lease and has added four high-quality radiologists to the Primary team.

Imaging grew revenue by 10.5%, with continued strength in the hospital segment and in CT and MRI modalities, and on-going strong market demand with MBS five-year rates at 6.2%. The division recorded some slow-down in May and June referrals.

Imaging reported another good performance, increasing EBIT by 16.6% to $33.8m. The division's strategy to focus on the hospital sector, Primary medical centres and high-end specialised sites underpinned this growth. The decline in EBITDA was due to the impact of an equipment sale and leaseback and the sale of property into the REIT, which moved costs up into operating expenses. Both of these initiatives freed up cash for investment and are net neutral to Primary. Normalised EBITDA grew by approximately 4% on FY 2017.

Cash flow: Imaging continued to invest in new sites and technology with growth capital expenditure on BPI, Northern Beaches Hospital, and on its IT platform, iCAR.

Strategy

Growth: Imaging will modernise the brand, marketing and customer value proposition in its community sites which are currently lower margin than the hospital and Medical Centre channels. Further operational improvements will focus on labour optimisation and development of a standard operating model throughout the division.

Imaging is continuing to optimise its hospital channel to deliver growth. After two years of improved contributions, the focus is on The Northern Beaches Hospital (NBH) contract in New South Wales, due to commence in October 2018.

Efficient, modern infrastructure: iCAR which will bring a new radiology information system ("RIS") and a new picture archiving and communication solution ("PACS") is currently being rolled-out in the business. Together, these platforms will deliver substantial efficiencies and enhance the way the division interacts with referrers and their patients.

CORPORATE

	30 June 2018 $M	30 June 2017 $M	Better/(worse) %
EBITDA	(15.6)	(16.1)	3.1
Depreciation	(2.5)	(2.8)	10.7
Amortisation	(1.3)	(2.3)	43.5
EBIT	(19.4)	(21.2)	8.5

FY 2018 corporate costs have decreased by a net $1.8 million, reflecting savings from Head Office streamlining. Primary is focused on the modernisation of its support functions to deliver best-in-class services in IT, Finance, Property and HR including the outsourcing of property maintenance and lease management, the centralisation and automation of the purchasing process, and the establishment of modern IT platforms. These programs will deliver cost savings, efficiencies and risk mitigation from FY 2019 onwards.

BUSINESS AS USUAL

Underlying results incorporate the costs of four new medical centres, an IVF clinic and day surgery, and an imaging site which were opened in FY 2018. Primary assumes a three-year ramp-up for these greenfield sites. Health & Co is also in ramp-up phase. Underlying EBIT was up 0.8% and Underlying NPAT was up 7.6% compared to FY 2017, on a same-site basis as follows:

	30 June 2018 $M	30 June 2017 $M	Better/(worse) %
EBIT	167.0	174.6	(4.4)
New centres / Health & Co	14.8	5.7	
Normalised EBIT	181.8	180.3	0.8

RECONCILIATION OF REPORTED AND UNDERLYING PERFORMANCE

The financial report sets out the reported results for Primary for FY 2018. Underlying results reflect the trading results of the business, normalised for restructuring and strategic initiatives, one-off items and impairment charges ("Non-Underlying items").

$M	**30 June 2018**	**30 June 2017**
Reported EBIT	**71.5**	**(469.7)**
Impairment and related provisions	49.5	587.0
Restructuring and strategic initiatives	40.9	39.2
Non-recurring items	5.1	18.1
Underlying EBIT	**167.0**	**174.6**

Impairments and provisions of $49.5 million relate to the write-off of leases and other assets at three Medical Centres, following the comprehensive site-by-site review of Medical Centres in preparation for Leapfrog's comprehensive modernisation and expansion program. Strategic initiatives of $40.9 million include iCAR ($2.0 million), Leapfrog ($1.9 million), Pathology platforms ($1.6 million), corporate functions including IT ($6.8 million), Finance ($3.7 million), Property ($2.1 million), HR ($1.1 million) and business set-up costs ($5.5 million), and restructuring costs ($9.3 million).The strategic initiatives have been set out in the relevant divisional sections. All strategic initiatives are expected to reap future benefits.

Non-underlying items in FY 2019 are expected to be for major projects including Leapfrog in Medical Centres, technology platforms in Pathology and Imaging and the modernisation programs in corporate support functions.

OTHER P&L ITEMS

FINANCE COSTS

Total finance costs in FY 2018 were $35.1 million, down 18.6% from $43.1 million in FY 2017. The savings were predominately due to a lower weighted average cost of debt compared to FY 2017 and a lower average debt balance.

TAX EXPENSE

The Group reported an income tax expense for FY 2018 of $27.5 million, which equated to an overall effective tax rate of 75.5% and was $16.6 million above a prima facie tax expense calculated at 30% of profit before tax. The increase was primarily due to the $8.4 million permanent tax difference associated with amortisation of healthcare practice acquisitions prior to 30 June 2015. There will be additional accounting tax expense while these acquisitions continue to be amortised for a further two years, as follows:

$M	FY 2019	FY 2020
Additional accounting tax expense	4.5	2.2

Primary's expectation is that the Group's effective tax rate will revert to 30% in the long term once the above amortisation is fully charged, assuming the current structure and nature of the business. As a result, an effective tax rate of 30% has been adopted for underlying results.

DIVIDENDS

The directors have approved a final dividend of 5.5 cps 100% franked (2H 2017: 5.8 cps 100% franked). An interim dividend of 5.1 cps (HY 2017: 4.8 cps 100% franked) was paid in March 2018. Total dividends of 10.6 cps (FY 2017: 10.6 cps) equate to a payout ratio of 60% of UNPAT. This ratio was set to reflect the company's growth strategy.

CASH FLOW

Group cash flow for FY 2018 is set out below in comparison to FY 2017:

$M	**30 June 2018**	30 June 2017	Movement $
Operating cash flows	**202.2**	212.2	(10.0)
Maintenance capex	**(55.6)**	(70.7)	15.1
Free cash flow	**146.6**	141.5	5.1
Growth capex	**(76.6)**	(57.9)	(18.7)
Cash flow after growth capex	**70.0**	83.6	(13.6)
Capital recycling	**-**	10.9	(10.9)
Dividends	**(56.9)**	(58.4)	1.5
Debt reduction / finance costs	**(24.6)**	(22.8)	(1.8)
Net increase in cash held	**(11.5)**	13.3	(24.8)
Opening cash	**95.5**	82.3	13.2
F/X	**0.0**	(0.1)	0.1
Closing cash	**84.0**	95.5	(11.5)

The $146.6 million free cash flow is before $76.6 million in growth capital expenditure (FY 2017 $57.9 million). It related to:

- Acquisition of new clinics in Health & Co and Primary Medical Centres
- PP&E costs on the four new medical centres, Perth IVF and day surgery and Kawana Imaging Centre
- Brisbane Private Imaging and other imaging subsidiaries, the iCAR project, PP&E costs on Northern Beaches Hospital and Highfields both of which are due to open in FY 2019

BALANCE SHEET AND NET DEBT

The Group had $3.1 billion in assets, including $2.3 billion in goodwill, and $1.8 billion of shareholders equity as 30 June 2018. The Group has a net current asset deficiency of $115.3 million (FY 2017 $65.1 million). However, the Group generates significant operating cash flows and has access to unused financing facilities which can be drawn on.

Group net debt at 30 June 2018 was $776.8 million compared to $784.2 million in FY 2017, analysed as follows:

$M	**30 June 2018**	30 June 2017	Movement $
Bank and finance debt	**860.8**	**879.7**	18.9
Cash	**(84.0)**	**(95.5)**	(11.5)
Net debt	**776.8**	**784.2**	7.4
Bank gearing ratio (covenant <3.5x)	**2.72x**	**2.52x**	
Bank interest ratio (covenant >3.0x)	**9.04x**	**7.86x**	
Gearing (net debt: net debt + equity)	**29.9%**	**29.5%**	

On 20 December 2017 Primary announced the extension and amendment of its syndicated bank debt facility reducing its facility limit by $125.0 million and extending the maturity date of the facility. The first tranche of the facility of $500.0 million is due to mature in January 2021 and the second of $625.0 million in January 2023. As part of the transaction all unamortised borrowing costs ($1.5 million) relating to the first tranche were expensed.

The bank gearing ratio for the syndicated bank facility at 30 June 2018 was 2.72 compared to a ceiling covenant requirement of 3.5x. The bank interest ratio was at 9.04, well above the floor of 3.0x.

The divisions have shown discipline in only spending what they generate. At the group level, the main focus is to balance gearing and dividends with competing capital demands of investing in essential infrastructure and turnaround of the Medical Centres including GP acquisitions.

OUTLOOK

The long-term drivers for healthcare remain positive. There is strong underlying demand for healthcare in Australia, underpinned by a growing and ageing population, increasing numbers of people living for longer with chronic illness, rising patient expectations and expanding wealth per capita. Healthcare delivery in the future will occur more in the home and community facilities rather than in expensive overnight hospital facilities.

The Government's healthcare policy settings remain relatively stable in the short-term. However, with Government healthcare costs on the increase, funding pressures will remain for the industry and the private sector providers must be agile. Primary will continue to drive diversification of revenue, targeting non-MBS services including day hospitals, specialty Pathology services and national contracts with Government and major partners.

Australia is at an important juncture in the delivery of healthcare services. Increasingly, the drivers of cost, convenience and technology will see a shift in consumer demands for better ways to access care. Primary aims both to influence policy debate and to lead the change in healthcare delivery, with the scale, the people and the drive to deliver this. The unique footprint and the services Primary provides as a major corporate player in the sector are becoming increasingly important in this context.

The new and accelerated investment initiatives will reformulate our value proposition and put Primary at the forefront of the industry. In Medical Centres, Project Leapfrog will create a Workplace of Choice environment to attract a broader demographic of GP, while consumers will encounter an enhanced range of services and better delivery. A re-platforming in Pathology and Imaging will develop modern, efficient infrastructure to support future growth.

On completion, Primary considers these initiatives will deliver material clinical and operational benefits as well as a significantly enhanced financial performance.

Statement of profit or loss for the year ended 30 June 2018

	Note	CONSOLIDATED 2018 $m	2017 $m
Revenue		**1,740.3**	1,658.6
Employee benefits expense	3	**835.1**	777.9
Property expenses	3	**262.9**	261.6
Consumables		**197.5**	176.4
IT expenses		**24.9**	16.9
Impairment and other related items	3	**49.5**	587.0
Other expenses		**183.7**	171.9
Depreciation	7	**53.5**	59.2
Amortisation of intangibles	8	**61.7**	77.4
EBIT		**71.5**	(469.7)
Finance costs	3	**35.1**	43.1
Profit / (loss) profit before tax		**36.4**	(512.8)
Income tax expense	4	**27.5**	4.1
Profit / (loss) for the year		**8.9**	(516.9)
Attributable to:			
Equity holders of Primary Health Care Limited		**8.9**	(516.8)
Non-controlling interest		-	(0.1)
Profit / (loss) for the year		**8.9**	(516.9)

	Note	CONSOLIDATED 2018 Cents Per Share	2017 Cents Per Share
Basic and diluted (loss) / earnings per share	13	**1.7**	(99.1)

Statement of other comprehensive income *for the year ended 30 June 2018*

	CONSOLIDATED	
	2018 **$m**	2017 $m
Profit / (loss) for the year	**8.9**	(516.9)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value loss on cash flow hedges	**(4.5)**	(2.4)
Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss	**2.3**	13.0
Fair value (loss) / gain on investments	**(1.5)**	10.7
Exchange differences arising on translation of foreign operations	**0.1**	(1.7)
Income tax relating to items that may be reclassified subsequently to profit or loss	**1.1**	(6.4)
Other comprehensive (loss) / income for the year, net of income tax	**(2.5)**	13.2
Total comprehensive income / (loss) for the year	**6.4**	(503.7)
Attributable to:		
Equity holders of Primary Health Care Limited	**6.4**	(503.6)
Non-controlling interest	**-**	(0.1)
	6.4	(503.7)

Statement of financial position *as at 30 June 2018*

		CONSOLIDATED	
	Note	**30 June 2018 $m**	30 June 2017 $m
Current assets			
Cash	15(a)	**84.0**	95.5
Receivables	5(a)	**146.5**	136.2
Consumables		**22.2**	25.1
Tax receivable		**-**	9.7
Total current assets		**252.7**	266.5
Non-current assets			
Receivables	5(b)	**3.9**	3.8
Goodwill	6	**2,348.7**	2,315.5
Property, plant and equipment	7	**297.5**	299.0
Other intangible assets	8	**148.4**	166.6
Other financial assets		**10.5**	11.9
Deferred tax asset		**62.5**	50.8
Total non-current assets		**2,871.5**	2,847.6
Total assets		**3,124.2**	3,114.1
Current liabilities			
Payables	9(a)	**227.1**	225.2
Tax liabilities		**7.9**	-
Provisions	10(a)	**131.7**	105.3
Other financial liabilities		**0.5**	0.8
Interest bearing liabilities	11(a)	**0.8**	0.3
Total current liabilities		**368.0**	331.6
Non-current liabilities			
Payables	9(b)	**14.1**	7.9
Provisions	10(b)	**55.8**	26.1
Other financial liabilities		**2.6**	-
Interest bearing liabilities	11(b)	**860.0**	879.4
Total non-current liabilities		**932.5**	913.4
Total liabilities		**1,300.5**	1,245.0
Net assets		**1,823.7**	1,869.1
Equity			
Issued capital	12	**2,424.2**	2,422.8
Reserves		**12.9**	10.5
Accumulated deficit		**(613.4)**	(565.7)
Equity attributable to equity holders		**1,823.7**	1,867.6
Non-controlling interest		**-**	1.5
Total equity		**1,823.7**	1,869.1

Statement of changes in equity *for the year ended 30 June 2018*

CONSOLIDATED $m	Issued Capital	Investment Revaluation Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share-Based Payments Reserve	Other Reserves	Accumulated Losses	Attributable to Owners of the Parent	Non-Controlling Interest	Total
Balance at 1 July 2017	**2,422.8**	**7.5**	**(0.6)**	**(1.0)**	**4.6**	**-**	**(565.7)**	**1,867.6**	**1.5**	**1,869.1**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**8.9**	**8.9**	**-**	**8.9**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**	**-**	**0.1**
Fair value loss on investments	**-**	**(1.5)**	**-**	**-**	**-**	**-**	**-**	**(1.5)**	**-**	**(1.5)**
Fair value (loss) on cash flow hedges	**-**	**-**	**(4.5)**	**-**	**-**	**-**	**-**	**(4.5)**	**-**	**(4.5)**
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	**-**	**-**	**2.3**	**-**	**-**	**-**	**-**	**2.3**	**-**	**2.3**
Income tax relating to components of other comprehensive income	**-**	**0.4**	**0.7**	**-**	**-**	**-**	**-**	**1.1**	**-**	**1.1**
Total comprehensive income	**-**	**(1.1)**	**(1.5)**	**0.1**	**-**	**-**	**8.9**	**6.4**	**-**	**6.4**
Payment of dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(56.9)**	**(56.9)**	**-**	**(56.9)**
Share-based payment	**-**	**-**	**-**	**-**	**5.4**	**-**	**-**	**5.4**	**-**	**5.4**
Transfers	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**0.3**	**-**	**-**	**-**
Acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**1.2**	**-**	**1.2**	**(1.5)**	**(0.3)**
Shares issued via Short Term Incentive Plan	**0.4**	**-**	**-**	**-**	**(0.4)**	**-**	**-**	**-**	**-**	**-**
Shares issued via Retention Plan	**1.0**	**-**	**-**	**-**	**(1.0)**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2018	**2,424.2**	**6.4**	**(2.1)**	**(0.9)**	**8.3**	**1.2**	**(613.4)**	**1,823.7**	**-**	**1,823.7**

CONSOLIDATED $m	Issued Capital	Investment Revaluation Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share-Based Payments Reserve	Retained Earnings/ (Accumulated Losses)	Attributable to Owners of the Parent	Non-Controlling Interest	Total
Balance at 1 July 2016	2,422.8	-	(8.0)	0.7	2.1	8.5	2,426.1	1.6	2,427.7
Loss for the year	-	-	-	-	-	(516.8)	(516.8)	(0.1)	(516.9)
Exchange differences arising on translation of foreign operations	-	-	-	(1.7)	-	-	(1.7)	-	(1.7)
Fair value gain on investments	-	10.7	-	-	-	-	10.7	-	10.7
Fair value (loss) on cash flow hedges	-	-	(2.4)	-	-	-	(2.4)	-	(2.4)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	-	-	13.0	-	-	-	13.0	-	13.0
Income tax relating to components of other comprehensive income	-	(3.2)	(3.2)	-	-	-	(6.4)	-	(6.4)
Total comprehensive income	-	7.5	7.4	(1.7)	-	(516.8)	(503.6)	(0.1)	(503.7)
Payment of dividends	-	-	-	-	-	(58.4)	(58.4)	-	(58.4)
Share-based payment	-	-	-	-	3.5	-	3.5	-	3.5
Transfers	-	-	-	-	(1.0)	1.0	-	-	-
Balance as at 30 June 2017	2,422.8	7.5	(0.6)	(1.0)	4.6	(565.7)	1,867.6	1.5	1,869.1

Statement of cash flows *for the year ended 30 June 2018*

		CONSOLIDATED	
	Note	**2018 $m**	2017 $m
Cash flows from operating activities			
Receipts from customers		**1,791.2**	1,723.5
Payments to suppliers and employees		**(1,535.1)**	(1,437.7)
Gross cash flows from operating activities		**256.1**	285.8
Interest paid		**(32.5)**	(42.1)
Net income tax paid		**(22.4)**	(32.2)
Interest received		**1.0**	0.7
Net cash provided by operating activities	15(b)	**202.2**	212.2
Cash flows from investing activities			
Payment for property, plant and equipment		**(57.0)**	(74.5)
Payment for Medical Centres healthcare professionals		**(26.8)**	(30.3)
Payment for Medical Centres practices & subsidiaries	15(c)	**(13.3)**	(8.4)
Payment for Imaging healthcare professionals		**(2.8)**	(4.3)
Payment for Imaging practices & subsidiaries	15(c)	**(16.6)**	-
Payment for Pathology practices & subsidiaries	15(c)	**(0.6)**	(0.7)
Payment for other intangibles		**(16.3)**	(10.5)
Proceeds from the sale of property, plant and equipment		**1.2**	13.1
Net payments related to sale of controlled entity		**-**	(2.1)
Net cash used in investing activities		**(132.2)**	(117.7)
Cash flows from financing activities			
Repayment of borrowings and finance lease liabilities		**(20.6)**	(62.2)
Proceeds from borrowings		**-**	40.0
Dividends paid		**(56.9)**	(58.4)
Other finance costs		**(4.0)**	(0.6)
Net cash used in financing activities		**(81.5)**	(81.2)
Net (decrease) / increase in cash held		**(11.5)**	13.3
Cash at the beginning of the year		**95.5**	82.3
Effect of exchange rate movements on cash held in foreign currencies		**-**	(0.1)
Cash at the end of the year	15(a)	**84.0**	95.5

1. SIGNIFICANT ACCOUNTING POLICIES

Primary Health Care Limited ("Primary") is a for-profit entity domiciled in Australia. The preliminary financial report of Primary for the financial year ended 30 June 2018 comprises Primary and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

Statement of compliance

This preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. This preliminary financial report does not include all of the notes included with the annual financial report.

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 preliminary financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2017. These accounting policies are consistent with Australian equivalents to International Financial Reporting Standards (A-IFRS) 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 its operations and effective for the current year.

Net current liability position

The Group has a net current asset deficiency of $115.3 million (30 June 2017: $65.1 million). The Group generates significant operating cash flows and as per Note 11, had access to $260.0 million of unused financing facilities at the end of the reporting period.

Rounding of Amounts

Amounts in the preliminary financial report have been rounded to the nearest hundred thousand dollars (unless otherwise indicated).

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 preliminary financial report or notes thereto.

2. SEGMENT INFORMATION

Operating segments are identified based on the way that the Chief Executive Officer and Board of Directors (also known as the chief operating decision makers) regularly review the business to assess financial performance and determine the allocation of resources. For internal management reporting purposes, the Group is organised into the following three divisions or operating segments:

Operating Segment	Activity
Pathology	This division provides pathology services.
Medical Centres	This division provides a range of services and facilities to general practitioners, specialists, dentists, IVF specialists and other health care providers operating in the bulk billing and private billing sectors.
Imaging	This division provides imaging and scanning services from stand-alone imaging sites, hospitals and from within the consolidated entity's medical centres.

The other category comprises corporate functions.

The Group operates predominantly in Australia.

Intersegment

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

Segment revenues and segment results are presented on an underlying basis.

Underlying results for the year ended 30 June 2018 exclude the impact of non-underlying items relating to:

- Restructuring and strategic initiatives;
- Non-recurring items; and
- Impairment of assets and other related items.

Underlying results for the comparative period exclude the impact of the following items:

- Impairment of goodwill and other assets and other related items;
- Non-recurring items including indirect taxes and related imposts; and
- Items associated with restructuring and strategic initiatives.

2. SEGMENT INFORMATION (CONTINUED)

Underlying

2018	**Pathology $m**	**Medical Centres $m**	**Imaging $m**	**Other $m**	**Total $m**
Segment Revenue	**1,090.6**	**319.6**	**368.4**	**-**	**1,778.6**
Intersegment sales					**(38.3)**
Total Revenue					**1,740.3**
EBITDA [1]	**145.6**	**95.2**	**57.0**	**(15.6)**	**282.2**
Depreciation	**19.0**	**18.0**	**14.0**	**2.5**	**53.5**
Amortisation of intangibles	**5.6**	**45.6**	**9.2**	**1.3**	**61.7**
EBIT [2]	**121.0**	**31.6**	**33.8**	**(19.4)**	**167.0**
Finance costs					**35.1**
Profit before tax					**131.9**
Income tax expense [3]					**39.6**
Profit for the year					**92.3**

2017	Pathology $m	Medical Centres $m	Imaging $m	Other $m	Total $m
Segment Revenue	1,038.4	319.6	333.5	0.1	1,691.6
Intersegment sales					(33.0)
Total Revenue					1,658.6
EBITDA [1]	146.0	123.5	57.8	(16.1)	311.2
Depreciation	18.8	20.8	16.8	2.8	59.2
Amortisation of intangibles	7.7	55.4	12.0	2.3	77.4
EBIT [2]	119.5	47.3	29.0	(21.2)	174.6
Finance costs					43.1
Profit before tax					131.5
Income tax expense [3]					39.4
Profit for the year					92.1

[1] EBITDA is a non-statutory profit representing earnings before interest, tax, depreciation and amortisation.
[2] EBIT is a non-statutory profit representing earnings before interest and tax.
[3] Underlying income tax is calculated as 30% of underlying profit before tax.

2. **SEGMENT INFORMATION** (CONTINUED)

Reconciliation of underlying segment result to reported profit / (loss) before tax:

	Segment Result	
	2018 **$m**	2017 $m
Total segment result from continuing operations before tax	**131.9**	131.5
Impairment and related provisions	**(49.5)**	(587.0)
Restructuring and strategic initiatives	**(40.9)**	(39.2)
Non-recurring items	**(5.1)**	(18.1)
Total profit / (loss) before tax	**36.4**	(512.8)

Impairments and provisions of $49.5 million relate to onerous lease provisions of $33.6 million and impairment of assets of $5.8 million at three Medical Centres, following the comprehensive site-by-site review of Medical Centres in preparation for Leapfrog's comprehensive modernisation and expansion program and $10.1 million of other items.

Strategic initiatives of $40.9 million include iCAR ($2.0 million), Leapfrog ($1.9 million), Pathology platforms ($1.6 million), corporate functions including IT ($6.8 million), Finance ($3.7 million), Property ($2.1 million), HR ($1.1 million) and business set-up costs ($5.5 million), and restructuring costs ($9.3 million).The strategic initiatives have been set out in the relevant divisional sections. All strategic initiatives are expected to reap future benefits.

3. EXPENSES

	CONSOLIDATED	
	2018	2017
	$m	$m
Employee benefits expense		
Other employee benefits	**773.0**	718.0
Defined contribution superannuation	**56.7**	56.4
Share-based payments	**5.4**	3.5
	835.1	777.9
Property expenses		
Operating leases	**219.0**	220.6
Other property expenses	**43.9**	41.0
	262.9	261.6
Impairment and other related items		
Goodwill impairment (Refer note 6)	**-**	468.5
Other asset impairments and related items	**49.5**	118.5
	49.5	587.0
Finance costs		
Net interest expense	**31.5**	39.8
Amortisation of borrowing costs	**3.6**	3.3
	35.1	43.1

4. INCOME TAX EXPENSE

	CONSOLIDATED	
	2018 **$m**	2017 $m
The prima facie income tax expense on pre-tax accounting profit / (loss) reconciles to the income tax expense in the financial statements as follows:		
Profit / (loss) before tax	**36.4**	(512.8)
Prima facie income tax calculated at 30% (2017: 30%)	**10.9**	(153.8)
Tax effect of amounts which are not deductible in calculating taxable income:		
Amortisation of pre FY15 contractual relationship intangibles	**8.4**	13.3
Goodwill impairment	**-**	140.6
Contract intangibles	**2.0**	-
Other items	**5.2**	4.2
Total tax effect of amounts which are not deductible in calculating taxable income	**15.6**	158.1
Under / (over) provision in prior years	**1.0**	(0.2)
Income tax expense	**27.5**	4.1

ATO objection decision – years 2003-2007

The Commissioner of Taxation is currently in the process of considering Primary's objections for the years ended 30 June 2003 to 2007 ("Objections") in relation to medical practice acquisitions after Primary received favourable decisions in both the Administrative Appeals Tribunal and Full Federal Court of Australia to treat the Objections as if they had been lodged within the required time period. No amounts have been recognised in relation to this matter in either the current or comparative periods.

5. RECEIVABLES

	CONSOLIDATED	
	2018 **$m**	2017 $m
Measured at amortised cost		
(a) Current		
Trade receivables	**119.0**	100.2
Allowance for doubtful debts	**(13.5)**	(13.6)
	105.5	86.6
Prepayments	**14.9**	15.8
Accrued revenue	**20.4**	20.8
Other receivables	**5.7**	13.0
	146.5	136.2
(b) Non-current		
Other receivables and prepayments	**3.9**	3.8
	3.9	3.8

6. GOODWILL

	CONSOLIDATED	
	2018 $m	2017 $m
(a) Carrying value		
Opening balance	**2,315.5**	2,772.2
Acquisition of subsidiaries	**-**	11.8
Acquisition of businesses	**33.2**	-
Impairment charge	**-**	(468.5)
Closing balance	**2,348.7**	2,315.5
(b) Impairment tests		
Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:		
Medical Centres	**385.4**	381.1
Health&Co	**25.1**	11.8
Pathology	**1,581.7**	1,580.9
Imaging	**356.5**	341.7
	2,348.7	2,315.5

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. Where an asset is deemed to be impaired, it is written down to its recoverable amount.

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:

- year one cash flows derived from the FY 2019 Board approved budget; and
- for FY 2020 – FY 2023 growth rates have been determined with reference to historical company experience, industry data and a long term growth rate consistent with historic industry trend levels.

The impairment loss recognised in the prior year related to Medical Centres. The key assumptions in the Group's discounted cash flow models as at 30 June 2018 are set out in the table below.

6. **GOODWILL** (CONTINUED)

ASSUMPTION	HOW DETERMINED
Forecast revenue	Cumulative average revenue growth rates for FY 2019 – FY 2023 are as follows: • Medical Centres: 6.6% (30 June 2017: 4.4%) • Pathology: 6.2% (30 June 2017: 5.0%) • Imaging: 7.4% (30 June 2017: 8.3%) Changes to forecast revenue in the current year have been determined with reference to historical company experience, industry data and scheduled centre openings.
Terminal value growth rates	The terminal value growth rates assumed are: • Medical Centres: 2.5% (30 June 2017: 2.5%) • Pathology: 3.0% (30 June 2017: 3.0%) • Imaging: 3.0% (30 June 2017: 3.0%) The terminal value growth rates have been determined with reference to historical company experience for the CGU and expectations of long-term operating conditions. The growth rates do not exceed long-term industry growth rates for the business in which the industry operates.
Discount rates	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% (30 June 2017: 8.5%) • Pathology: 8.5% (30 June 2017: 8.5%) • Imaging: 8.5% (30 June 2017: 8.5%)

6. GOODWILL (CONTINUED)

Sensitivity analysis

The Group has conducted sensitivity analysis on the key assumptions above to assess the effect on the recoverable amount of changes in the key assumptions.

The following table sets out the change in revenue growth rates and discount rates that would be required in order for the carrying value of the Medical Centres, Pathology and Imaging CGU's to equal the recoverable amount.

	Increase / (decrease) in assumptions required for recoverable amount to equal carrying amount	
CGU	**Revenue growth per annum**	**Discount rate**
Medical Centres	(0.6%)	1.1%
Pathology	(0.3%)	0.7%
Imaging	(1.8%)	6.1%

7. PROPERTY, PLANT AND EQUIPMENT

2018 **$m**	**Plant and Equipment**	**Leasehold Improvements**	**Assets Under Construction**	**TOTAL**
Net book value				
Opening balance	**96.2**	**172.3**	**30.5**	**299.0**
Additions	**34.5**	**6.6**	**16.6**	**57.7**
Transfers	**2.8**	**17.4**	**(20.2)**	**-**
Disposals	**(1.0)**	**(0.7)**	**-**	**(1.7)**
Impairment	**(3.3)**	**(0.7)**	**-**	**(4.0)**
Depreciation expense	**(27.6)**	**(25.9)**	**-**	**(53.5)**
Closing balance	**101.6**	**169.0**	**26.9**	**297.5**
Cost	**403.0**	**365.6**	**26.9**	**795.5**
Accumulated depreciation	**(281.6)**	**(166.3)**	**-**	**(447.9)**
Impairment	**(19.8)**	**(30.3)**	**-**	**(50.1)**
Closing balance	**101.6**	**169.0**	**26.9**	**297.5**

2017 $m	Plant and Equipment	Leasehold Improvements	Assets Under Construction	TOTAL
Net book value				
Opening balance	115.0	208.3	18.9	342.2
Additions	23.9	0.7	50.6	75.2
Transfers	11.2	27.7	(38.9)	-
Disposals	(3.2)	(9.7)	(0.1)	(13.0)
Impairment	(16.5)	(29.7)	-	(46.2)
Depreciation expense	(34.2)	(25.0)	-	(59.2)
Closing balance	96.2	172.3	30.5	299.0
Cost	416.3	400.3	30.5	847.1
Accumulated depreciation	(303.6)	(198.3)	-	(501.9)
Impairment	(16.5)	(29.7)	-	(46.2)
Closing balance	96.2	172.3	30.5	299.0

8. OTHER INTANGIBLE ASSETS

2018 $m	**HCP Contractual Relationships**	**IT Software**	**Licences**	**Intangibles Under Construction**	**TOTAL**
Net book value					
Opening balance	**115.4**	**35.9**	**7.4**	**7.9**	**166.6**
Additions	**25.9**	**1.5**	**-**	**14.2**	**41.6**
Business acquisition	**1.5**	**-**	**4.7**	**-**	**6.2**
Transfers	**-**	**6.4**	**-**	**(6.4)**	**-**
Disposals	**(1.8)**	**-**	**-**	**-**	**(1.8)**
Impairment	**(2.5)**	**-**	**-**	**-**	**(2.5)**
Amortisation expense	**(50.2)**	**(10.8)**	**(0.7)**	**-**	**(61.7)**
Closing balance	**88.3**	**33.0**	**11.4**	**15.7**	**148.4**
Cost	**259.5**	**126.6**	**40.2**	**15.7**	**442.0**
Accumulated amortisation	**(148.7)**	**(93.3)**	**(28.8)**	**-**	**(270.8)**
Impairment	**(22.5)**	**(0.3)**	**-**	**-**	**(22.8)**
Closing Balance	**88.3**	**33.0**	**11.4**	**15.7**	**148.4**

2017 $m	HCP Contractual Relationships	IT Software	Licences	Intangibles Under Construction	TOTAL
Net book value					
Opening balance	164.9	38.8	8.5	8.5	220.7
Additions	37.3	2.8	-	9.5	49.6
Transfers	-	9.1	-	(9.1)	-
Disposals	(4.9)	-	(0.1)	(1.0)	(6.0)
Impairment	(20.0)	(0.3)	-	-	(20.3)
Amortisation expense	(61.9)	(14.5)	(1.0)	-	(77.4)
Closing balance	115.4	35.9	7.4	7.9	166.6
Cost	318.3	119.8	35.5	7.9	481.5
Accumulated amortisation	(182.9)	(83.6)	(28.1)	-	(294.6)
Impairment	(20.0)	(0.3)	-	-	(20.3)
Closing Balance	115.4	35.9	7.4	7.9	166.6

9. PAYABLES

	CONSOLIDATED	
	2018 **$m**	2017 $m
(a) Current		
Trade payables and accruals	**217.3**	203.3
Deferred consideration	**9.1**	14.4
Accrued interest	**0.6**	0.8
Deferred revenue	**0.1**	6.7
	227.1	225.2
(b) Non-current		
Trade payables and accruals	**3.2**	4.0
Deferred consideration	**10.9**	3.9
	14.1	7.9

10. PROVISIONS

	CONSOLIDATED	
	2018 **$m**	2017 $m
(a) Current		
Provision for employee benefits	**93.3**	82.1
Self-insurance provision	**3.2**	4.2
Onerous contract provision	**8.0**	5.0
Other provisions	**27.2**	14.0
	131.7	105.3
(b) Non-current		
Provision for employee benefits	**9.5**	8.8
Self-insurance provision	**3.0**	1.2
Onerous contract provision	**38.0**	10.7
Other provisions	**5.3**	5.4
	55.8	26.1

11. INTEREST BEARING LIABILITIES

	CONSOLIDATED	
	2018 **$m**	2017 $m
Measured at amortised cost		
(a) Current		
Finance lease liabilities	**0.8**	0.3
	0.8	0.3
(b) Non-current		
Finance lease liabilities	**0.9**	-
Gross bank loans	**865.0**	885.0
Unamortised borrowing costs	**(5.9)**	(5.6)
	860.0	879.4
Total interest bearing liabilities	**860.8**	879.7

The Group had access to the following financing facilities as at the end of the reporting period.

	CONSOLIDATED	
	2018 **$m**	2017 $m
Financing facilities		
Non-current		
Unsecured Syndicated Debt Facilities		
Amount used	**865.0**	885.0
Amount unused	**260.0**	365.0
Total financing facilities	**1,125.0**	1,250.0

Amounts unused on non-current facilities are able to be drawn during the course of the ordinary working capital cycle of the Group.

12. ISSUED CAPITAL

	2018 No. of Shares 000'S	2017 No. of Shares 000'S	**2018 $m**	2017 $m
Opening balance	**521,433**	521,433	**2,422.8**	2,422.8
Shares issued via Short Term Incentive Plan	**90**	-	**0.4**	
Shares issued via Retention Plan	**330**	-	**1.0**	-
Closing balance – Consolidated	**521,853**	521,433	**2,424.2**	2,422.8

Share options on issue

As at 30 June 2018, the company has 597,500 (2017: 1,120,000) share options on issue, exercisable on a 1:1 basis for 597,500 (2017: 1,120,000) ordinary shares of Primary at an average exercise price of $5.95 (2017: $5.91). The options expire between July 2018 and May 2019 (2017: July 2017 and May 2019) and carry no rights to dividends and no voting rights.

Rights on issue

As at 30 June 2018, the company has 419,506 (2017: 582,057) service rights on issue, exercisable on a 1:1 basis for 419,506 (2017: 582,057) ordinary shares of Primary at an exercise price of $nil. The service rights will vest between July 2018 and September 2019 subject to the satisfaction of applicable service conditions and carry no rights to dividends and no voting rights.

As at 30 June 2018, the company has 5,057,856 (2017: 2,328,522) performance rights on issue, exercisable on a 1:1 basis for 5,057,856 (2017: 2,328,522) ordinary shares of Primary at an exercise price of $nil. The performance rights will vest around October 2018 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

13. EARNINGS PER SHARE

	CONSOLIDATED	
EARNINGS	**2018 $m**	2017 $m
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the statement of profit or loss as follows:		
Profit / (loss) attributable to equity holders of Primary Health Care Limited	**8.9**	(516.8)
The earnings used in the calculation of underlying basic and diluted earnings per share are the same and can be reconciled to the statement of profit or loss as follows:		
Underlying profit for the year from continuing operations	**92.3**	92.1

WEIGHTED AVERAGE NUMBER OF SHARES	**2018 000's**	2017 000's
The weighted average number of shares used in the calculation of basic earnings per share	**521,631**	521,433
Effects of dilution from service rights	**342**	31
The weighted average number of shares used in the calculation of diluted earnings per share	**521,973**	521,464

EARNINGS PER SHARE	**2018 Cents**	2017 Cents
Basic and diluted earnings / (loss) per share	**1.7**	(99.1)
Underlying basic and diluted earnings per share	**17.7**	17.6

The share options on issue are potential ordinary shares which are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

The performance rights on issue are contingently issuable shares for which the conditions have not been met as at 30 June 2018 and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share.

14. DIVIDENDS ON EQUITY INSTRUMENTS

	2018 Cents Per Share	2017 Cents Per Share	**2018 $m**	2017 $m
Recognised amounts				
Final dividend - previous financial year	**5.8**	6.4	**30.3**	33.4
Interim dividend - this financial year	**5.1**	4.8	**26.6**	25.0
	10.9	11.2	**56.9**	58.4
Unrecognised amounts				
Final dividend - this financial year	**5.5**	5.8		

In respect of FY 2018:

- An interim dividend of 5.1cps (100% franked), was paid to the holders of fully paid ordinary shares on 27 March 2018; and
- The Directors have approved the payment of a final dividend of 5.5cps (100% franked), to the holders of fully paid ordinary shares, the record date being 1 September 2018, payable on 17 September 2018.

The Dividend Reinvestment Plan and a Bonus Share Plan were suspended effective 16 February 2016 until further notice.

The final dividend and interim dividend for the year ended 30 June 2017 were 100% franked.

15. NOTES TO THE STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	2018 **$m**	2017 $m
(a) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks.		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	**84.0**	95.5
(b) Reconciliation of profit / (loss) from ordinary activities after related income tax to net cash flows from operating activities		
Profit / (loss)	**8.9**	(516.9)
Depreciation of plant and equipment	**53.5**	59.2
Amortisation of intangibles	**61.7**	77.4
Amortisation of borrowing costs	**3.6**	3.3
Share based payment expense	**5.4**	3.5
Impairment of goodwill	**-**	468.5
Impairment of other intangibles	**2.5**	20.3
Impairment of property, plant and equipment	**4.0**	46.2
Other non-cash write-offs	**3.4**	2.8
Increase / (decrease) in:		
Trade payables and accruals	**11.3**	32.1
Provisions	**56.1**	35.2
Deferred revenue	**(6.6)**	0.2
Income tax and deferred taxes	**5.9**	(21.3)
Decrease / (increase) in:		
Consumables	**2.9**	0.4
Receivables and prepayments	**(10.4)**	1.3
Net cash provided by operating activities	**202.2**	212.2

(c) Businesses acquired

During the financial year the Group has acquired a number of healthcare practices. No controlled entities were acquired during the period.

The aggregate fair values of the identifiable assets and liabilities of the businesses acquired as at the dates of acquisition were:

	2018 $m
Current assets	0.3
Non-current assets	8.6
Current liabilities	(0.6)
Non-current liabilities	(2.0)
Total identifiable net assets at fair value	**6.3**
Non-controlling interest	0.3
Goodwill arising on acquisition	33.2
Total consideration	**39.8**
Less: Deferred consideration	(9.3)
Cash paid for acquisitions	**30.5**
Disclosed in the statement of cash flows:	
Payment for Medical Centres practices & subsidiaries	(13.3)
Payment for Imaging practices & subsidiaries	(16.6)
Payment for Pathology practices & subsidiaries	(0.6)
	(30.5)

(d) Non-cash investing and financing

During the financial year, 90,516 (2017: nil) and 329,510 (2017: nil) shares were issued pursuant to the Short Term Incentive Plan and Retention Plan respectively for nil consideration. These transactions are not reflected in the cash flow statement.

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

(e) Financing facilities

Details of financing facilities available to the Group are provided at note 11.

16. SUBSEQUENT EVENTS

On 20 August 2018 Primary announced a capital raising of $250 million to fund Project Leapfrog, the upgrade to its IT platform in Pathology and a potential acquisition of a leading day surgery operator.

17. NET TANGIBLE ASSET BACKING

	2018 **$**	2017 $
Net tangible (liability)/asset backing per share	**(1.41)**	(1.27)

Compliance Statement *for the year ended 30 June 2018*

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used	NIL

This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

This report does/~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The +accounts have been audited.	☐	The +accounts have been subject to review.
✓	The +accounts are in the process of being audited or subject to review.	☐	The +accounts have *not* yet been audited or reviewed.

If the audit report or review by the auditor is not attached, details of any qualifications ~~are attached~~/will follow immediately they are available* *(delete one)*.
The entity has/~~does not have~~* *(delete one)* a formally constituted audit committee.

Sign here: Date: 20 August 2018

(Director)
Print name: Malcolm Parmenter