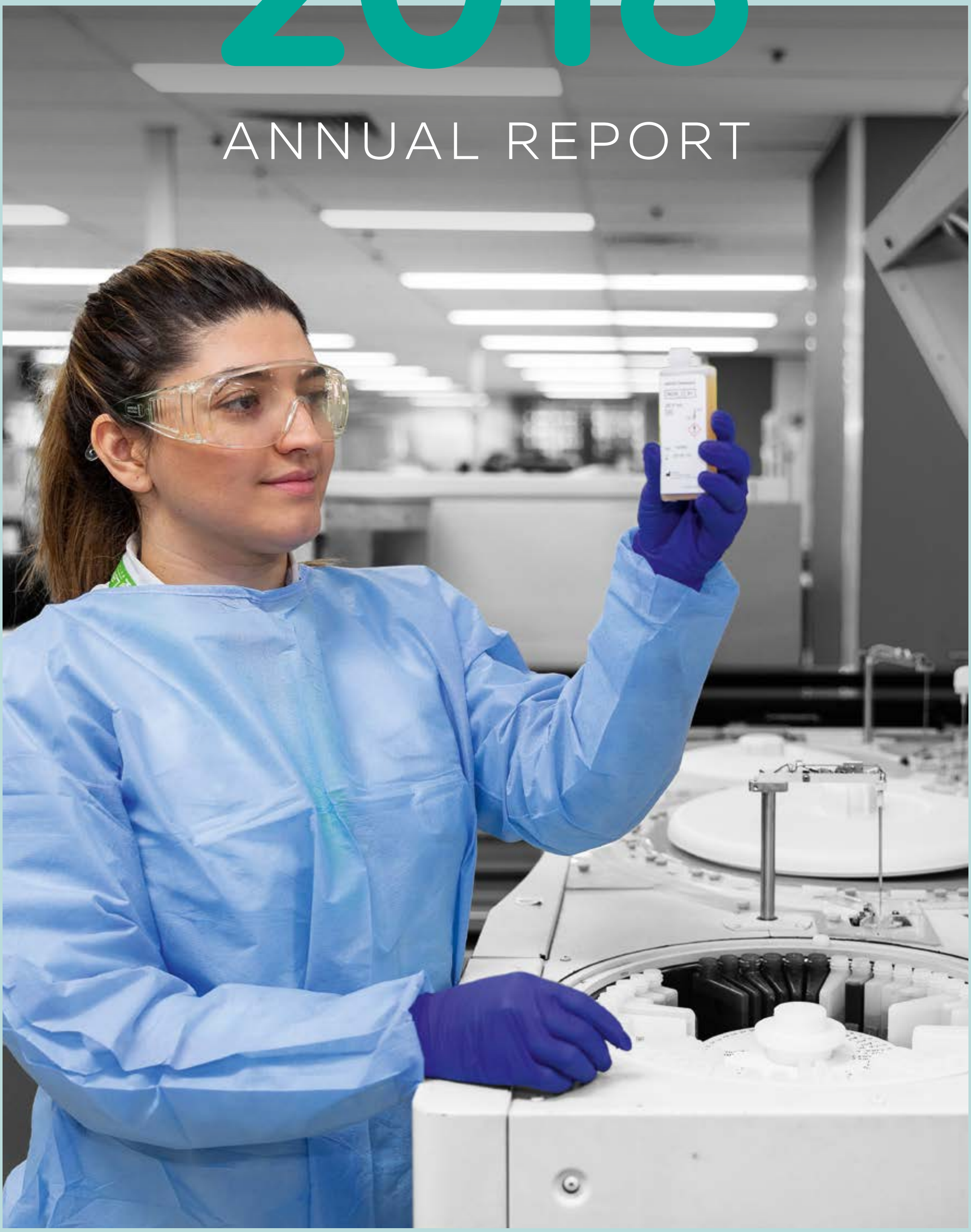
2018 ANNUAL REPORT



PRIMARY
HEALTH CARE LIMITED

ACN 064 530 516

Contents

For over 30 years Primary Health Care has been one of Australia's leading listed healthcare companies with a commitment to supporting quality, affordable and accessible healthcare.

Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world class facilities and support services to independent general practitioners, radiologists and other healthcare professionals, enabling them to deliver quality care to their patients in partnership with Primary's pathologists, nurses and other employees. Primary's 'medical hub' model makes healthcare services easily accessible and cost efficient, while supporting the coordination and continuity of quality patient care.

A Market Leading Network

Driven to excel in quality care outcomes, we aspire to strengthen our position as a leader in frontline care in Australia, creating greater value for investors, consumers, employees and the communities in which we operate, through our connected network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres.

FINANCIAL STATS

$1.7 billion
REVENUE

$146.6 million
FREE CASH FLOW

10.6 cps
DIVIDEND

OTHER STATS

MEDICAL CENTRES
8 million
PATIENT CONSULTS

IMAGING
3 million
RADIOGRAPHY EXAMINATIONS

PATHOLOGY
1 in 3
PATHOLOGY SAMPLES TESTED IN OUR LABORATORIES

NT
21
Total Sites
21 Pathology

WA
217
Total Sites
7 Medical Centres
206 Pathology
4 Imaging

SA
62
Total Sites
7 Medical Centres
50 Pathology
5 Imaging

TAS
23
Total Sites
23 Pathology

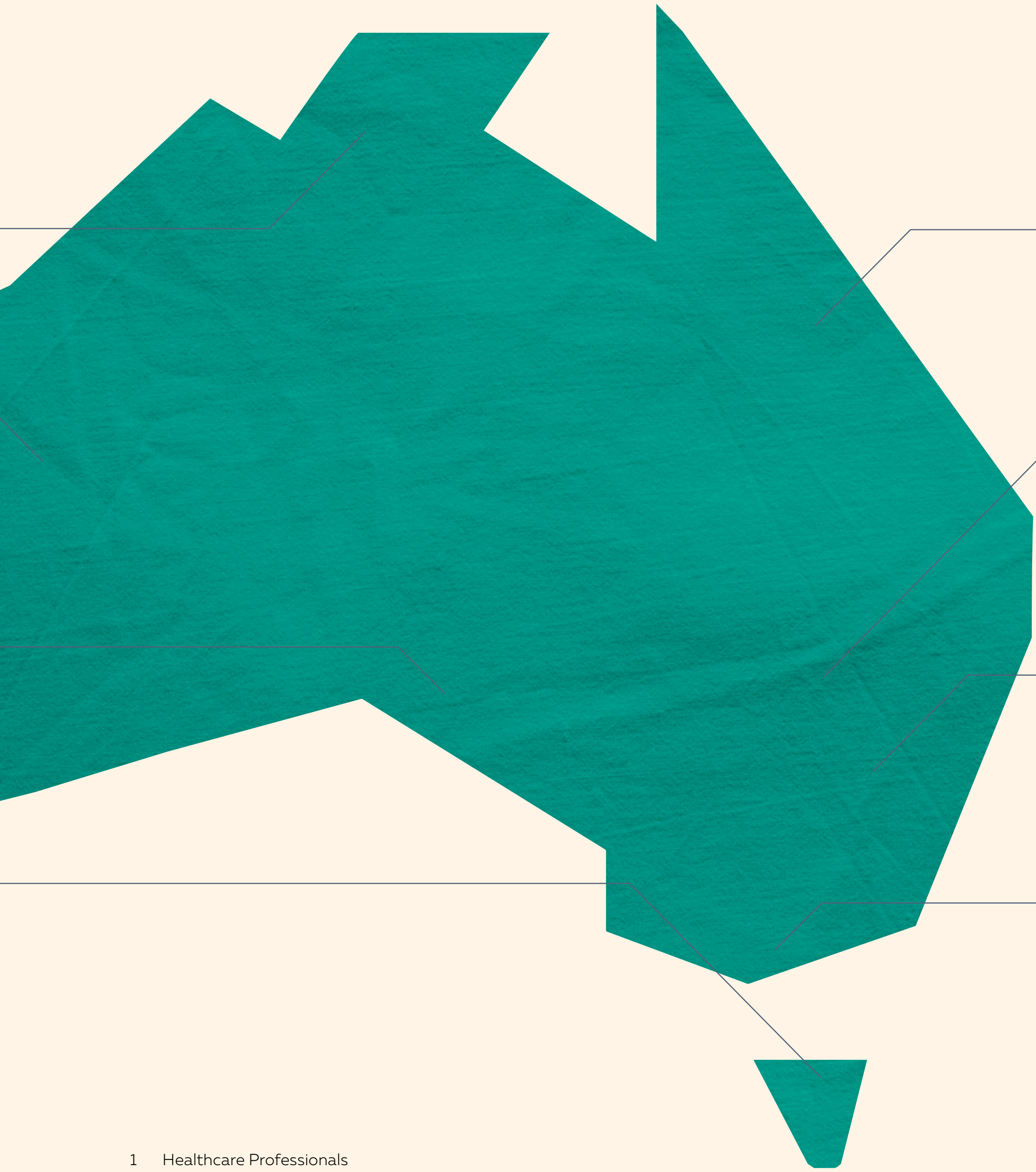
As at August 2018

AUSTRALIA WIDE

12,000+
EMPLOYEES

1,500+
INDEPENDENT HCPs[1]

2,604
LOCATIONS



QLD
671
Total Sites
16 Medical Centres
621 Pathology
34 Imaging

NSW
861
Total Sites
34 Medical Centres
764 Pathology
63 Imaging

ACT
39
Total Sites
2 Medical Centres
34 Pathology
3 Imaging

VIC
710
Total Sites
18 Medical Centres
658 Pathology
34 Imaging

1 Healthcare Professionals

Key Milestones

Dr Malcolm Parmenter commences as CEO of Primary Health Care Ltd

Kawana Medical Imaging centre opens

Dr Tim Haggett appointed CE of Medical Centres

First Primary IVF – Brisbane baby born

Primary Medical Centre Craigieburn, VIC opens

Primary acquires Brisbane Private Imaging

Online appointments launched at Rockingham Medical Centre, WA

Primary Medical Centre Greensborough, VIC opens

Primary Medical Centre Narellan, NSW opens

Patient appointment HaloGP App launched

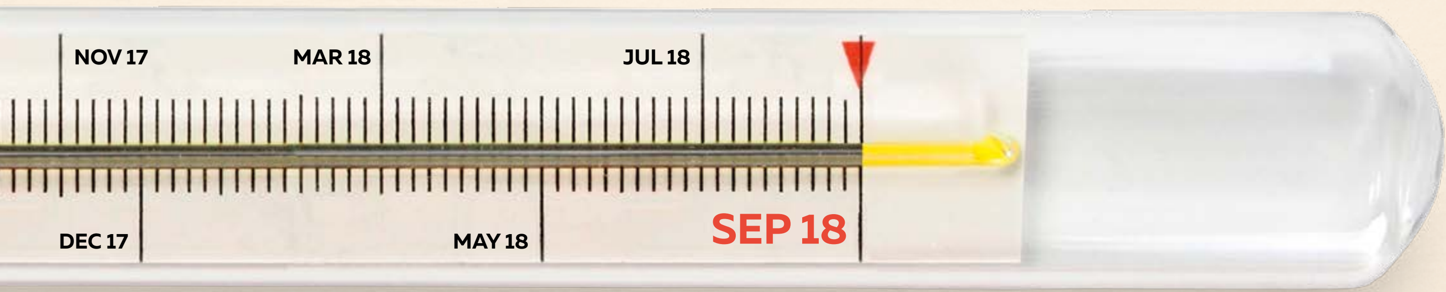
Purpose, Mission, Values launched

Primary Medical Centre Robina, QLD opens

Primary IVF Craigie (WA's first bulk billed IVF clinic) opens

Primary Day Surgery, Craigie, WA opens

Robert Ferguson retires as Chair of the Board and Robert Hubbard is elected as the new Chair



$250m Capital Raising

Acquisition of Montserrat Day Hospitals

Chair and CEO's Letter

Robert Hubbard and Malcolm Parmenter – visiting one of the new Montserrat Day Hospital development sites.

Dear fellow Shareholder,

We are pleased to present you with Primary's 2018 Annual Report.

It has been a busy year in which we have introduced new Purpose, Mission and Values to underpin the type of company we aspire to become. We have continued to improve the culture and engagement with our people and with the healthcare professionals who practise in our clinics. In Medical Centres, we have undertaken a revamp of our recruitment teams and contracts for GPs, and commenced the roll-out of appointments into all our centres. We have continued to invest in growth capital expenditure including Brisbane Private Imaging (BPI) and in an improved technology platform in the Imaging division.

Most importantly, we have undertaken a complete review of the businesses and developed a clear vision of where Primary is heading and a comprehensive plan to get there. With the announcement of our full year results in August, we undertook a $250 million capital raising to help fund our strategic growth initiatives, including the comprehensive repositioning of our Medical Centres, referred to as Project Leapfrog, on-going upgrades to our technology platforms, and the acquisition of Montserrat Day Hospitals.

In this report we provide a review of FY 2018 and outline the strategic initiatives your Board and management team have endorsed to deliver excellence in healthcare and maximise value creation for shareholders in a sector that is going through a period of significant change.

2018 IN REVIEW

During FY 2018, Primary delivered underlying revenue of $1.7 billion, up 4.9% on the prior year, and underlying net profit after tax of $87.5 million. A slow-down in referral activity in the market at the end of the year prevented Pathology and Imaging from delivering even stronger results and from the Group reaching the higher end of its guidance. In addition on 14 September 2018, we announced that the Fair Work Commission released a Decision and draft Workplace Determination regarding support employees within Dorevitch, Primary's Victorian pathology business. While not yet final, the financial impact was larger than expected and accordingly Primary has made a subsequent event adjustment to reduce its after-tax underlying earnings for FY 2018 by $4.8 million, from $92.3 million to $87.5 million.

Free cash flow during the period increased just over 5%, to $146.6 million before growth expenditure of $76.6 million. The growth expenditure was used primarily to fund the acquisition of BPI and new clinics in Health & Co, fit-out costs and equipment for four new medical centres, an IVF and day surgery in Perth, Kawana Imaging Centre, as well as other hospital and high-end Imaging sites. The divisions have shown discipline in only spending what they generate. At a Group level, our focus is on balancing a sustainable level of gearing with competing capital demands for investment in essential infrastructure, in the turnaround of the Medical Centres and in dividends.

The underlying results reflect our true, or core, operating performance. Reported results in the year were impacted by a number of factors in particular impairments and provisions of $49.5 million, mainly relating to the recognition of onerous leases and other asset write-offs at three medical centres following a site-by-site review of our centres in preparation for Project Leapfrog.

We also invested $40.9 million in restructuring and strategic initiatives which will deliver cost savings and mitigate risks and recorded $5.1 million of non-recurring items. As a result, we recorded a FY 2018 statutory profit after tax of $4.1 million, up from the impairment-driven loss of $516.9 million in FY 2017.

Your Directors have approved a final, fully franked dividend of 5.5 cents per share. This brings total dividends to 10.6 cents per share fully franked, including an interim dividend of 5.1 cents per share.

OPERATIONAL PERFORMANCE

Our largest business, Pathology, continued to perform well for the Group. Despite the loss of the National Bowel Screening contract from 1 January 2018, the division reported revenue growth of 5% assisted by increases in both volume and average fee per episode and growth in niche specialities of histopathology, genetics and vet pathology.

EBIT grew around 4%, when adjusted for the disposal of the old Healthscope Approved Collection Centres (ACCs), and the aforementioned subsequent event adjustment in connection with the Fair Work Commission's Decision and draft Workplace Determination relating to support employees within Dorevitch. Importantly, property costs as a percentage of revenue reduced in the year due to disciplined ACC rental negotiations. Pathology will continue to look to further optimise its ACC portfolio, grow its niche specialities, and progress its ambition to grow in Asia.

Medical Centres division's contribution for the year declined as we near the bottom of profit contraction due to the repositioning of our GP contracts, with about a quarter of our cohort still on the original capital-heavy five year contracts. The new contracts are less capital-intensive for Primary resulting in a significant decline in capital expenditure on upfront payments to GPs. To balance the value proposition, the revenue sharing arrangements have increased in favour of the GP, which together with more sustainable and flexible working hours has seen a reduction in average working hours for the average GP.

During the year we recruited a record 159 GPs across the country. Ensuring we have the right culture in our clinics, nearly half of the 139 GPs that departed the business were due to Primary's initiatives including importantly a quality reset in the centres. We have also laid the foundations for strong, successful recruitment by: creating regionally-based recruitment teams who are focused on placing the right GP into the right centre; shortening and simplifying contracts; rolling-out appointments in 22 of our centres with more to come; extending and enhancing training for registrars and existing GPs; and creating a clinically enabling environment.

Medical Centres continues to diversify its service offerings including in dental, occupational health and integrated care to meet patients' growing needs and to move away from a dependency on the Medicare Benefits Schedule (MBS). Patient-centricity remains core to our long-term aims, with work underway to deliver an enhanced patient experience in our clinics.

EBIT contracted by $13.8 million for the year, with around half of this due to the opening of four new medical centres which have a three-year ramp-up profile and a fourth IVF clinic and day surgery opening in Perth.

As at 30 June 2018, the Health & Co network comprised 11 clinics with 100 GPs. The practices under the Health & Co network have maintained 100% retention of existing GPs and an average EBITDA growth of around 16% during their first year in the network.

Looking at the Imaging division, the 2018 financial year continued to see good growth, with EBIT up 17% on the back of an 11% increase in revenue. This growth was underpinned by our focus on the hospital and Medical Centres channels and on high-margin MRI and CT modalities.

Our radiologists have told us that we have been missing out on referrals due to our old technology. We are in the midst of rolling out our new Imaging platform – the iCAR system, which will provide significant improvements to referrals, patient and healthcare professional experience.

Each and every day our people play a leading role in helping Australians access high quality, affordable healthcare. We want Primary to be an inspiring place to work so we continue to focus on our people and provide them with the right tools and proper support to operate efficiently in a caring environment.

OUR PEOPLE

During the 2018 year a range of initiatives were rolled out for both our employees and independent healthcare professionals, focused on culture, engagement, leadership and development, as we work towards delivering a more rewarding and engaging environment for all our people.

Your Board is committed to continuous improvement in remuneration governance to ensure appropriate alignment of our people and the Company's performance. As such the Board continued to refine the remuneration governance framework during the year. More information on this framework is provided in the Remuneration Report.

BOARD CHANGES

During the 2018 year, Mr Brian Ball retired from the Board and Committees in November 2017. Mr Ball was a Non-executive Director, and a member of the Audit Committee and Nomination and Remuneration Committee since 1994. Brian's depth of knowledge and experience will be missed.

Since 30 June 2018, we have seen additional changes to the Board, in particular the retirement of Mr Robert Ferguson, our long-standing Non-executive Chair of the Board, for personal reasons on 24 July 2018. Rob was highly regarded by his colleagues and will be missed in the boardroom.

Ms Sally Evans joined the Primary Board as a Non-executive Director on 21 August 2018. Sally brings over 30 years' experience in private, government and social enterprise sectors and Australasian and UK experience.

MANAGEMENT CHANGES

There have been several changes in the senior management ranks during the year including Dr Tim Haggett joining Primary as Chief Executive of the Medical Centres division, replacing Dr John Houston, in October 2017.

Mr Scott Beattie also joined Primary in November 2017 in a newly created role as Group Executive Commercial Solutions, responsible for developing and implementing commercial strategies across the Group.

INVESTING FOR SUSTAINABLE GROWTH

Consumers are increasingly demanding better and more convenient ways of accessing healthcare, aided by technology. At the same time demand for care is growing, as are the costs of providing it.

To best meet continuing demand for quality, affordable and easy-to-access community-based healthcare, Primary has a comprehensive plan for transformation and improvement, including a complete overhaul of the Medical Centres model, development of best-in-class technology and services in Pathology and Imaging, and growth and diversification through investment in non-MBS revenue sources.

The recently completed $250 million capital raising, together with free cash flow will fund these new and accelerated strategic growth initiatives, and support our purpose, vision and strategy. By investing in its people, processes and property, Primary will create a great environment for doctors and staff to work in and will meet and exceed the expectations of consumers in accessing healthcare when, where and how they need it.

GOVERNMENT POLICY

Primary believes that a well-supported and funded frontline health system is key to delivering efficient and effective healthcare. The Government's healthcare policy settings point to a relatively stable regulatory environment in the near-term. However, with Government healthcare costs on the increase, funding pressures will remain for the industry and 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.

The MBS Review, which was established in 2015 to consider how the MBS schedule could be aligned with contemporary clinical evidence and improve health outcomes, is continuing. We have nominated experts to various committees and will take part in public consultations on their findings.

In June 2018 Primary, along with other private Australian pathology providers, formed a new national peak body for private pathology services in Australia, created to speak with one voice. Australian Pathology represents more than 95 percent of private pathology in Australia and is committed to the provision of high quality, affordable, safe and accessible pathology services to all Australians.

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.

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 player in the sector are becoming increasingly important in this context.

The new and accelerated investment initiatives will redefine 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 GPs, while consumers will encounter an enhanced range of services and better delivery. The development of new platforms in Pathology and Imaging will develop modern, efficient infrastructure to support future growth.

With the acquisition of Montserrat, we have a scale platform to grow our non-MBS revenue, deliver synergies into our other divisions including Pathology and IVF, and lift the performance of our existing day hospitals. We see this division rapidly becoming a significant contributor to the Group.

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

Please read more details of all our activities in the divisional business reviews in this Annual Report.

On behalf of the Board of Directors we would like to thank Primary's management team, healthcare professionals and employees for their hard work and commitment over the last twelve months. We would also like to thank you, our shareholders, for your continued support.

ROBERT HUBBARD
CHAIR

MALCOLM PARMENTER
CEO

Executive Leadership Team

Driving the Primary Group in delivery of its strategic objectives.

Top Row: Yvette Cachia, Tim Haggett, Dean Lewsam, Scott Beattie, Maxine Jaquet, Wesley Lawrence, Ryan Fahy, Janet Payne.
Seated: Malcolm Ashcroft, Malcolm Parmenter.

Malcolm Parmenter

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER (CEO)

Dr Parmenter joined Primary Health Care as Managing Director and Chief Executive Officer in September 2017. He has a wealth of knowledge and practical experience in the operation of medical centres, with over nine years' tenure as CEO of Independent Practitioner Network Limited, both as a listed company and under the ownership of Sonic Healthcare Limited, and subsequently two years as CEO of Sonic Clinical Services.

Malcolm has a strong understanding of healthcare, both in Australian and abroad, and spent more than 20 years as a General Practitioner. His experience in healthcare policy regulation is extensive, and he was most recently a member of the Federal Goverment's Primary Healthcare Advisory Group into chronic and complex illnesses.

Malcolm Ashcroft

CHIEF FINANCIAL OFFICER

Mr Ashcroft was appointed Chief Financial Officer (CFO) in July 2015, subsequently assuming Group Executive responsibility for Strategy, Mergers and Acquisitions (M&A), Property and Risk Management in July 2016. Malcolm was acting CEO for the period May to September 2017.

Malcolm joined Primary from the CIMIC Group Limited, where he was Deputy CFO. Malcolm was also previously at KPMG. He has a proven track record in financial management and business transformation in Australia, Asia, the Middle East and the USA.

Wesley Lawrence

CHIEF EXECUTIVE PATHOLOGY

Appointed as Chief Executive for Pathology in late 2016, Mr Lawrence has 30 years' experience in the pathology industry. He joined Primary in 1992 as a lab scientist and has since worked in several key operational and business development roles.

Wes was the CEO of Laverty Pathology, a market leader in Pathology collection and testing in both NSW and the ACT. His proven experience in the industry, coupled with his strong leadership capability and commitment to continuous improvement, will help the Pathology business deliver on its market leading strategy.

Tim Haggett

CHIEF EXECUTIVE MEDICAL CENTRES

Dr Haggett joined Primary Health Care in October 2017, as Chief Executive of the Medical Centres division. He has practised medicine in Australia and the UK and brings over 30 years' experience as a GP, business executive and entrepreneur to his Primary role.

Tim founded and operated two pioneering medical services operations in Australia, namely Gemini Medical Services and Apollo Health. He is currently the Deputy Chair and Non-executive Director of Centric Health, Ireland's largest provider of GP services. Tim is also Chair and Non-executive Director of Healthlab Online which delivers scientifically-based online health and wellness programs.

Maxine Jaquet

CHIEF EXECUTIVE HEALTH & CO

Ms Jaquet joined Primary Health Care in July 2015, as Group Director – Commercial. In March 2016 she was appointed Chief Executive for Health & Co. Maxine has extensive commercial and operational line management experience in the consumer goods and industrials sectors.

Maxine has managed a number of significant transformations and has a depth of expertise in developing customer-centric growth, having led a customer transformation program in a global FMCG and managed the Qantas Group's multi-brand commercial structure.

Dean Lewsam

CHIEF EXECUTIVE IMAGING

Mr Lewsam joined Primary Health Care in April 2012, holding various operational management roles in the Imaging division. In October 2015, Dean was appointed Chief Executive where he has continued to advocate for the expansion and advancement of Primary's Imaging network.

Dean has over 30 years' experience in the Australian healthcare sector having previously held executive management roles with major listed groups in the pathology, general practice and diagnostic imaging industries.

Scott Beattie

GROUP EXECUTIVE COMMERCIAL SOLUTIONS

Mr Beattie joined Primary Health Care in November 2017, as Group Executive, Commercial Solutions and is responsible for developing and implementing commercial strategies across the Group including business development, marketing, customer experience, major partner relations and IVF and Specialists/Day Hospitals.

Scott brings over 15 years' experience in the frontline healthcare sector, having held a range of senior roles at Sonic Clinical Services and IPN. These have included line management responsibility, strategy and development, service innovation and cross business integration.

Yvette Cachia

GROUP EXECUTIVE PEOPLE AND LEGAL

Ms Cachia was appointed Group Executive People and Legal in July 2017, responsible for Human Resources and group-wide legal services. Yvette's role is focused on building the capabilities required to meet organisational objectives, including organisational design and development capability, talent strategy, workforce planning, employment policy and employee relations.

Prior to this Yvette was Group Director, Human Resources (from 2015), General Manager People and Governance (from 2010) and Company Secretary (from 2008), with Group responsibility across corporate governance, company secretariat, human resources, insurance and incident management.

Ryan Fahy

CHIEF INFORMATION OFFICER

Mr Fahy joined Primary Health Care in April 2017, tasked with developing and implementing operational IT processes and technical delivery disciplines. Ryan has significant experience in bringing business and technology together to deliver strategic outcomes and change management.

A former strategy consultant for the Boston Consulting Group, Ryan has also held senior roles at Woolworths and the Commonwealth Bank where he had responsibility for delivering strategic business change.

Janet Payne

GROUP EXECUTIVE CORPORATE AFFAIRS

Appointed as Group Executive Corporate Affairs in July 2015, Ms Payne joined Primary Health Care from CIMIC Group Ltd where she was head of investor relations. Janet has worked in a range of roles, including investor and media advisory and board advisory.

Janet managed the Initial Public Offering and established investor relations at Qantas Airways Limited. Her former corporate roles were in the finance industry, having started her career at KPMG in London and Sydney.

Our Business Model

BUSINESS MODEL

One of Australia's leading healthcare companies, Primary Health Care is synonymous with affordable and accessible healthcare for all Australians. Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world-class facilities and support services to independent general practitioners, radiologists and other healthcare professionals, enabling them to deliver quality care to their patients in partnership with Primary's pathologists, nurses and other employees. Primary's 'medical hub' model makes healthcare services easily accessible and cost efficient, while supporting the coordination and continuity of quality patient care.

PATHOLOGY

Primary's Pathology division, Specialist Diagnostic Services or SDS, is one of Australia's leading providers of private medical laboratory and pathology services.

SDS operates over 100 medical laboratories and over 2,200 patient collection centres across metropolitan, regional and remote Australia. Each year, it provides one in every three pathology services in Australia, extending from exclusively servicing some of Australia's largest and most complex private and public hospitals to small and remote Australian Aboriginal communities.

SDS offers its medical laboratory and pathology services through a variety of different geographically-based and specialty brands, including specialised practices dedicated to niche human and veterinary pathology.

MEDICAL CENTRES

Primary partners with over 1,500 independent General Practitioners (GPs), dentists, specialists and other healthcare professionals who address both acute and chronic conditions in their patients.

Primary provides a range of professional and support services to healthcare professionals enabling them to focus on the provision of quality care for their patients.

In order to manage our centres, Primary employs nurses, practice managers, centre support staff and corporate staff.

Primary has over 70 Medical Centres across Australia which are generally open 365 days a year, 7am to 10pm, and offer appointments and walk-in services. The majority of services provided by the independent healthcare professionals in these centres are bulk-billed.

Primary's large-scale, multi-disciplinary Medical Centres are equipped with treatment rooms, nursing support, pathology, and radiology. Many centres have an on-site chemist and a range of specialist services including: Dental, Physiotherapy, Occupational Health, Allied Health Services, IVF, Eye Specialists, Skin Specialists, Skin Cancer Checks and Consultant Specialist Doctors.

HEALTH & CO

Health & Co is the brand under which Primary is building a network of established GP practices.

Health & Co partners with independent doctors who want to continue to run their own practices with the benefit of its support. Health & Co helps practice owners to further build their businesses through smarter services and network advantages.

IMAGING

Primary's Imaging division, through its brands Healthcare Imaging Services (HIS) and Queensland Diagnostic Imaging (QDI), operates a network of sites across the country, in partnership with over 110 independent radiologists. These professionals undertake a full range of imaging services including specialist women's, cardiac, neurology, vascular, musculoskeletal and dental imaging.

Imaging currently manages over 140 sites in total which are made up of stand-alone specialist and community imaging centres, imaging facilities located within Primary's medical centres, and private and public hospitals.

Approximately three million radiography examinations are conducted by independent radiologists in Primary's sites each year.

The division provides professional and support services to radiologists enabling them to focus on the provision of quality care for their patients. The division also employs a highly trained team of radiographers, sonographers, nuclear medicine technologists, nurses, centre support staff and corporate staff.

A full suite of modalities and services are delivered including: X-ray, ultrasound, computerised tomography (CT), mammography, magnetic resonance imaging (MRI), nuclear medicine, positron emission tomography (PET) and interventional radiology.

THE MEDICAL HUB

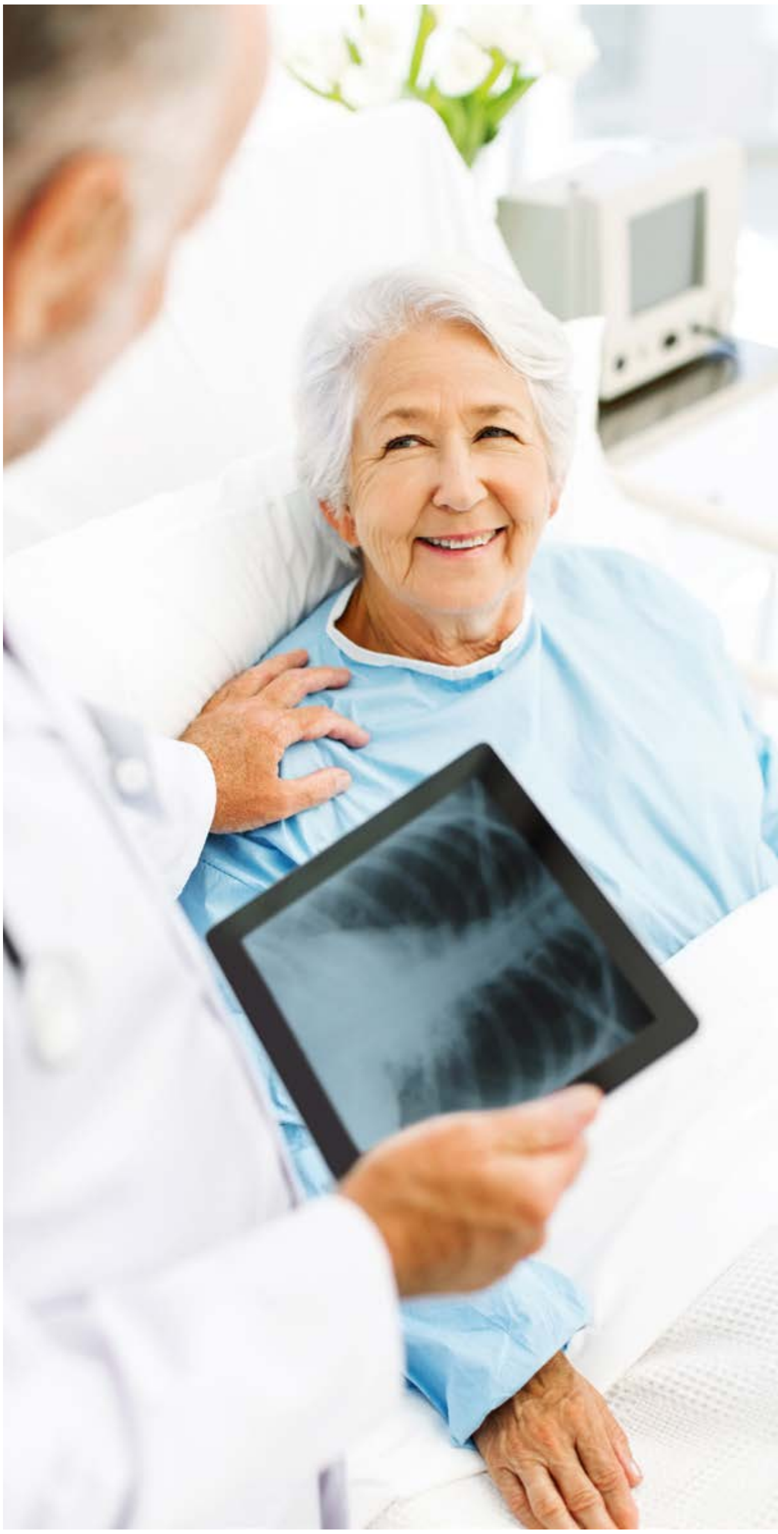
Primary's 'medical hub' model makes healthcare services easily accessible and cost efficient, while supporting the coordination and continuity of quality patient care. Co-location of services under one roof enables superior coordination and continuity of care.

Our Strategy and Vision

Primary is committed to delivering excellence in healthcare and maximising value creation for shareholders by providing accessible, high-quality, consumer-centric services in frontline community care. The Group has the scale, people and drive to lead the frontline care sector.

During FY 2018, the Company undertook a detailed review of all its businesses to ensure it can meet these aims. It now has a comprehensive plan for transformation and improvement, including a complete overhaul of the Medical Centres model (called Project Leapfrog), development of best-in-class technology and services in Pathology and Imaging, and growth and diversification through investment in non-MBS revenue sources in the day hospital sector. By investing in its people, processes and property, Primary will create a great environment for doctors and staff to work in and will meet and exceed the expectations of consumers in accessing healthcare when, where and how they need it.

The recently completed $250 million capital raising together with free cash flow will help fund this comprehensive plan.



STRATEGIC INITIATIVES

A snapshot of Primary's strategic initiatives is set out below:

STRATEGY	PEOPLE WORKPLACE OF CHOICE	PROCESS ORGANISATIONAL EFFICIENCY	PROPERTY YIELD OPTIMISATION
GROUP	■ Introduction of new Purpose, Mission and Values ■ Further development of performance management framework	■ Modernisation of corporate support services infrastructure	■ Outsourcing of facilities and lease management ■ Property cost optimisation program
Pathology	■ Staff engagement ■ LIS[1]/SWA[2] delivering improved referrer experience and enhanced brand	■ LIS[1] delivering efficiencies and improved patient experience ■ Optimisation of pre-analytical processes ■ Technology upgrade to SWA[2]	■ ACC[5] network optimisation ■ Laboratory uplifts ■ Specialty services expansion ■ ACC enhancement in Medical Centres
Medical Centres	■ Quality reset to deliver the right culture ■ Attract HCPs[4] with simplified contracts, career pathways, skills development, the appointment model, and a new recruitment team ■ New streams of HCPs via young professionals, Barefoot GPs, and roll-in acquisitions ■ Improve nursing and support staff	■ Re-engineering clinic and corporate support workflows ■ Improve integration to reduce leakage ■ Modernise HCP[4] billing practices ■ Better consumer experience: online access via websites and apps, e-recalls, and continuity of care	■ Modernise, improve and extend 52 Medical Centres ■ Expand service offerings including urgent care
Imaging	■ Staff engagement ■ iCAR[3] delivering improved radiologist experience and enhanced brand	■ Labour and operating model optimisation in dispersed community network ■ iCAR[3] delivering efficiencies and improved patient experience	■ Revitalisation of community sites ■ Optimisation of hospitals including NBH[6] ■ Development of high-end sites ■ Upgrade Imaging sites in Medical Centres

1 Laboratory Information System.
2 Serum Work Area.
3 Imaging Core Application Refresh.
4 Healthcare Professionals.
5 Approved Collection Centres.
6 Northern Beaches Hospital.

Purpose, Mission and Values

Primary has committed to transform its business, and key to this transformation is engaging our employees, creating true partnerships with healthcare professionals and delivering whole of patient care.

Core to this transformation was the creation and launch of our performance management framework "MyPulse".

Following "MyPulse" we worked closely with teams from across the business to find out what matters most to them and brings them to work each day. This resulted in the development of our recently launched Purpose, Mission and Values that embodies what Primary stands for and the culture we aspire to create.

WE CARE was the common theme from our people and has become the heart of our Purpose, Mission and Values.

The culture of care and empathy that we create for practitioners and our employees is the same care and empathy that patients demand from them.

OUR PURPOSE

We are inspired to care for your health and wellbeing at every stage of life.

OUR MISSION

We share a mission to seek and sustain life-enhancing healthcare delivered by people who care.

OUR VALUES

WORK IT TOGETHER

We believe when we bring out the best in each other, there's no limit to what we can do.

EMPATHY FOR EVERYONE

We believe we build better relationships when we take the time to understand and care about each other.

COMMITTED TO EXCELLENCE

We believe we should always go above and beyond for patients, customers and each other.

ACT WITH INTEGRITY

We believe in trusting each other and always supporting those who are fair and honest.

RECOGNISE SUCCESS

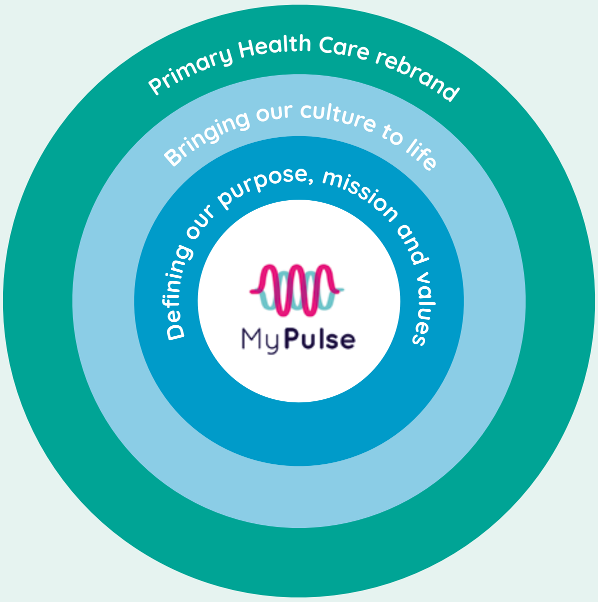
We believe the hard work we put in every single day deserves to be acknowledged and celebrated.

EMBRACE INNOVATION

We believe everything we do can benefit from a different perspective. Great ideas can come from anywhere.

BRINGING OUR CULTURE TO LIFE

Following the launch of the Purpose, Mission and Values these will now be incorporated into the business ensuring they are brought to life in a meaningful way to influence behaviours and inspire action.



BRAND

Primary has grown to be a diversified business supported by many independent brands that cover a vast footprint across Australia. We will continue to create scale through diversification within healthcare and experiment with new delivery methods.

To better align with our diversification and the healthcare services we deliver every day, the next step in our transformation is the name creation and brand identity for Primary and some of its sub-brands.

Rebranding work is well under way. Our new name and identity will acknowledge the past, the present and future whilst staying in-step with our Purpose, Mission and Values and cultural DNA.

We will be coming back to our shareholders with more details on the brand in the lead up to the 2018 Annual General Meeting in November.

Our People

Primary's people play a key role in supporting the health and wellbeing of the Australian community and we are proud of the quality of our 12,000 staff and over 1,500 independent healthcare professionals.

During the 2018 year, Primary continued to focus on engagement, education and communication.

ENGAGEMENT – SURVEYS & RESULTS

A second Engagement and Culture Survey was conducted during the 2018 year, following on from the first survey in 2016. While we have seen a positive shift in our results, we still have a way to go to achieve our goal or making Primary a Workplace of Choice.

We are more than ever committed to making Primary a Workplace of Choice as our success depends on our people and the teams we partner with. We are in the process of developing better leadership capabilities, improved goal-setting and a reward, recognition and benefits scheme.

A key driver of our culture change program is the new Purpose, Mission and Values, created from feedback about what gives our Primary team a sense of purpose. We will also launch a new brand identity to signal this change and underpin our culture and values.

GP RECRUITMENT

Under a revised recruitment plan there are many initiatives underway ensuring we have the right culture in our clinics. A key part of creating the right culture is ensuring we provide greater flexibility and have the right mix of GPs in the right locations. To achieve this Primary has:

- decentralised the recruitment team and created regionally-based recruitment teams who are focused on placing the right GP into the right centre;
- continued with a quality reset of GPs;
- created shorter, more flexible and simplified contracts; and
- commenced rolling out online appointments into our centres, allowing GPs to either maintain a patient following, choose to see only walk-in patients, or opt for a mix of both.

Barefoot GP program

In March 2018 the Barefoot GP program was launched to support the recruitment of GPs across our network of medical centres, initially focused on recruiting GPs from the UK to work in Australia. The program has since expanded to include Australian GPs and will soon be extended to GPs from New Zealand.

The program provides an opportunity for GPs to participate in a working holiday through a rotational placement program over 15 months, where they will gain the invaluable experience of working across both city and regional locations around Australia, where GP services are most needed.

The Barefoot GPs are required to work evenings and weekends ensuring there is appropriate GP coverage during our extended opening hours, in exchange for travel and accommodation costs being covered, a salary, three consecutive days off per week and four weeks' annual leave.

TRAINING INSTITUTES & EDUCATION

Primary recognises the importance of education and training and has self-funded training programs utilising the expertise of in-house specialists.

Primary Health Care Institute

The Primary Health Care Institute (PHCI) is one of the largest hosts of registrars and young doctors in Australia, delivering a range innovative training programs and hands-on workshops, in partnership with leading global educators.

We had another record intake of GP registrars in 2018, with over 100 taking placements in a Primary medical centre. This is an increase from last year's 90 GP registrars.

The PHCI has continued to expand its partnerships throughout the year and now includes a unique educational partnership with the General Practice Registrars Association where Primary and our Pathology division deliver workshops to young doctors focused on exam preparation and dermoscopy and skin cancer management. We continue to work closely with the Department of Defence and all three armed services to host defence registrars and support Defence GPs in gaining clinical experience.

In March 2018, Primary joined a Re-entry to Practice Pilot Program with the Royal Australian College of General Practitioners (RACGP), designed to offer clinical and educational mentoring to GPs who have been out of practice for an extended period. Under the program Primary will offer short and longer-term engagements to GPs in one of our large range of practice locations, supported by a dedicated group of supervisors to deliver customised educational programs that meet the needs of the individuals returning to work.

FORWARD by Primary Dental

Ensuring clinicians stay at the forefront of oral care and remain within the Primary Dental network, FORWARD by Primary Dental was developed during the year and officially launched in July 2018.

FORWARD by Primary Dental is a new Continuing Professional Development education program offering workshops and continuous learning programs in areas clinicians would like to develop further. The program has been developed in collaboration with industry leaders ADA NSW, Prime Practice and Henry Schein Halas, ensuring the educational content is relevant to everyday modern practice.

Pathology

Kossard Dermatophathology provides team-wide direct teaching as well as training and education programs to pathology registrars through its Centre of Excellence for skin pathology.

The Pathology team provides training and education initiatives for pathology registrars along with team-wide direct teaching, made possible with an in-house 21-head microscope.

Imaging

Committed to supporting training, research and professional development, Healthcare Imaging Services (HIS) hosts an accredited Annual National Imaging Conference. HIS also offers fellowship training programs allowing graduate radiologists to continue their clinical career through a sub-speciality training in MRI, International and Women's Imaging in our larger hospital sites.

HIS provides training and support programs for all our International Medical Graduates and through HIS affiliations registrars can train to become radiologists.

Group Performance

GROUP PERFORMANCE

YEAR END $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	**160.1**	174.6	**64.6**	(469.7)
NPAT	**87.5**	92.1	**4.1**	(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

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.

2 Free cash flow is defined as operating cash flow less maintenance capital expenditure.

UNDERLYING RESULTS

Primary's revenue grew by 4.9% in FY 2018. Its underlying Net Profit After Tax (NPAT) was $87.5 million after adjusting for the subsequent event in connection with the Fair Work Commission's Decision and draft Workplace Determination on 13 September 2018, regarding support employees within Dorevitch Pathology in Victoria. While not yet final, the financial impact of the Determination was larger than the amount provided for in the Group's accounts and accordingly a subsequent event adjustment has been made to reduce after-tax underlying and reported earnings for FY 2018 by $4.8 million.

The results incorporate the start-up costs of four greenfield medical centres, an IVF and day surgery in Western Australia and a new Imaging site. Primary assumes a three-year ramp-up for these greenfield sites. Health & Co was also in ramp-up phase during the year but exited FY 2018 at break-even. Overall Underlying NPAT was up 2.6% compared to FY 2017, on a same-site basis.

On a divisional basis, improved contributions from Imaging and Corporate partially offset a decline in Medical Centres, where the financial results reflect the progressive transitioning to new GP contracts. A comprehensive program under Project Leapfrog aims to deliver growth in the future by recruiting significantly more healthcare professionals, increasing capacity, improving efficiency, and modernising the centres. The underlying EBIT by division is set out in the tables below, with more detailed narrative on divisional performance on pages 23 to 31.

	30 JUNE 2018				
$M	PATHOLOGY	MEDICAL CENTRES	IMAGING	CORPORATE	GROUP
Revenue[1]	**1,090.6**	**319.6**	**368.4**	**–**	**1,740.3**
EBITDA	**138.7**	**95.2**	**57.0**	**(15.6)**	**275.3**
Depreciation	**(19.0)**	**(18.0)**	**(14.0)**	**(2.5)**	**(53.5)**
Amortisation	**(5.6)**	**(45.6)**	**(9.2)**	**(1.3)**	**(61.7)**
EBIT	**114.1**	**31.6**	**33.8**	**(19.4)**	**160.1**

	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

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

REPORTED RESULTS

At a reported level, Primary's EBIT turned from a loss of $469.7 million into a profit of $64.6 million. Primary considers its underlying results properly reflect the trading results of the business, normalised for restructuring and strategic initiatives, one-off items and impairment charges. A reconciliation is set out below:

$M	30 JUNE 2018	30 JUNE 2017
Reported EBIT	**64.6**	(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	**160.1**	174.6

Impairments and provisions relate to the write-off of leases and other assets at three Medical Centres, following the site-by-site review of Medical Centres in preparation for Leapfrog's comprehensive modernisation and expansion program.

Strategic initiatives include iCAR ($2.0 million), Leapfrog ($1.9 million), Pathology platforms ($1.6 million), and corporate functions including IT ($6.8 million), Finance ($3.7 million), Property ($2.1 million), and Human Resources ($1.1 million). They also include business set-up costs ($5.5 million) and redundancy and restructuring costs ($9.3 million). The strategic initiatives are set out in more detail in the relevant divisional sections and are expected to reap future benefits. At the corporate level, Primary is focused on the modernisation of its support functions to deliver best-in-class services in IT, Finance, Property and Human Resources 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.

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

TAX EXPENSE

The Group reported an income tax expense for FY 2018 of $25.4 million, which equated to an overall effective tax rate of 86.1% 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 an 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 (1H 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 (before subsequent events in connection with the Dorevitch draft Workplace Determination described above). This ratio was set to reflect the Company's growth strategy.

Group Performance (cont)

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 $M
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). The latter 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; and
- 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

The Group had $3.1 billion in assets, including $2.3 billion in goodwill, and $1.8 billion of shareholders equity at 30 June 2018. The Group has a net current asset deficiency of $122.2 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 $M
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)	**2.79x**	2.52x	
Bank interest ratio (covenant >3.0x)	**8.83x**	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 2.79 compared to a ceiling covenant requirement of 3.5x. The bank interest ratio was at 8.83, 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.

Pathology

UNDERLYING PERFORMANCE

	30 JUNE 2018 $M	30 JUNE 2017 $M	BETTER/(WORSE) %
Revenue	**1,090.6**	1,038.4	5.0
EBITDA	**138.7**	146.0	(5.0)
Depreciation	**(19.0)**	(18.8)	(1.1)
Amortisation	**(5.6)**	(7.7)	27.3
EBIT	**114.1**	119.5	(4.5)
Capital expenditure (before capital recycling)	**21.1**	26.9	21.6

Primary's Pathology division is the Group's largest business. It operates 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 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 $114.1 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, and the subsequent event adjustment in connection with the Fair Work Commission's Decision and draft Workplace Determination on 13 September 2018, regarding support employees within Dorevitch. While not yet final, Primary has made a subsequent event adjustment to reduce Pathology's after-tax underlying and reported earnings for FY 2018 by $4.8 million ($6.9 million before tax).

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 threefold 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.

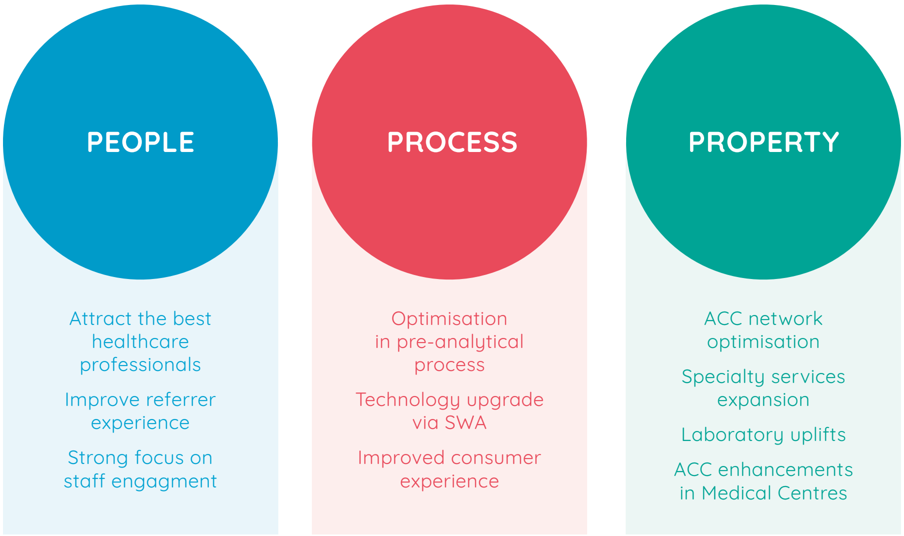
STRATEGY

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 specialty services. 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 better engage with stakeholders.

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

UNDERLYING PERFORMANCE

	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
Total capital expenditure	**57.6**	56.4	(2.1)

Medical Centres is central to Primary's integrated health services strategy and drives value to the rest of the Group. General practice remains at the core of Australian healthcare with GPs retaining their vital gatekeeper role.

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 around 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 increased gross billings 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 chronic disease management were also expanded during the year. All these initiatives represent an investment in the future.

DENTAL, IVF, SPECIALISTS AND OTHER REVENUE

Dental

The dental business is one of the top four dental operators in the country, with 137 full time equivalent (FTE) dentists working at 61 of Primary's centres. The division, which is reported as part of Medical Centres, performed strongly with revenue and EBIT up 8% to $34.2 million and $4.6 million respectively.

Patient experience has been key to Primary Dental's philosophy and commitment to digital transformation. With self-service check-in stations and online appointments available to patients, there is a strong focus on the expansion and redesign of a number of clinics, including the addition of dental chairs to meet patient demand. These enhancements will be incorporated in the Leapfrog program, set out below.

IVF

Primary's IVF business model has disrupted the IVF sector and opened up the opportunity for more Australians to have a family. 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.

With demand for IVF treatments, the Sydney laboratory was doubled in size earlier in the year to accommodate the additional capacity requirements, and a fourth clinic was opened

Medical Centres (cont)

in Perth, a first for the couples on the west coast of Australia. Further opportunities for growth are being explored around the country.

The growth of Primary IVF has meant that starting a family is now within reach for thousands of Australians who could previously not afford this opportunity. Patients undertaking IVF through Primary are only required to pay the out-of-pocket expenses that are incurred for items that are not covered by Medicare.

Through Primary's whole-of-patient care philosophy, patients have access to highly qualified independent IVF specialists who working alongside a dedicated team of GPs, nurses and scientists to provide the best support and strongest clinical outcomes to achieve pregnancies and healthy babies. At the end of the June 2018, Primary IVF had welcomed over 2,000 babies.

OTHER REVENUE

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. In September 2018 Primary announced the acquisition of Montserrat, a high-quality day hospital operator, as part of its growth strategy. For further details refer to the section on Day Hospitals.

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

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 Project 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 Project 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 mergers and acquisitions (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.

Process: 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 (PMS), 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.

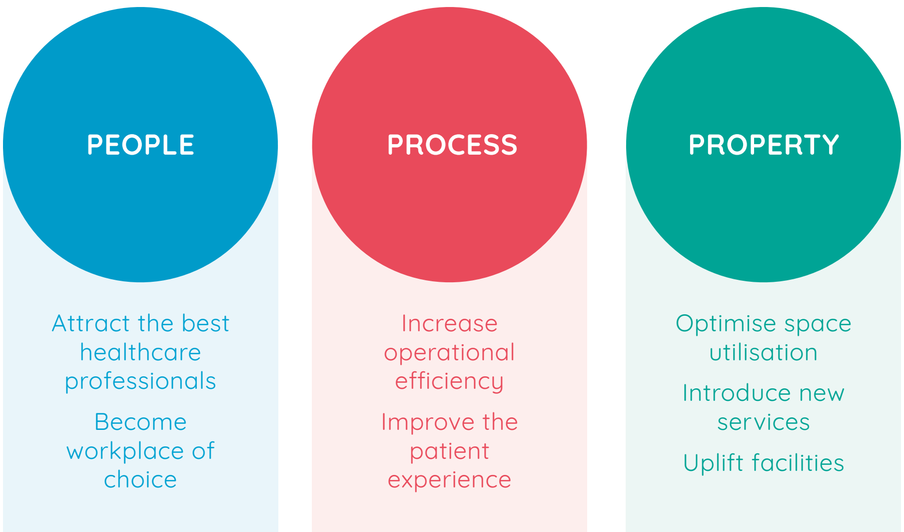
At 30 June 2018, 22 of Primary's large-scale centres were offering appointments, with the remaining 51 to offer appointments during FY 2019. Some centres will need to transition onto a different PMS as part of this process, enabling the whole division to be on a single PMS.

During a six-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 and urgent care.



Health & Co

UNDERLYING PERFORMANCE

	30 JUNE 2018 $M	30 JUNE 2017 $M
Revenue	**6.2**	1.8
EBITDA	**(4.1)**	(2.3)
Depreciation	**(0.0)**	(0.0)
Amortisation	**(0.1)**	(0.0)
EBIT	**(4.2)**	(2.3)
Capital expenditure	**9.8**	8.4

Building a leading connected network of health professionals united by the common goal of delivering patient-centred care.

The Health & Co network now comprises 11 clinics, with practices in NSW, VIC, QLD, SA and 100 GPs or 64 Full Time Equivalents (FTEs). Health & Co has a stronger weighting towards mixed billing with an average fee per patient of $82. EBITDA has grown on average by 16% for practices during their first year with Health & Co. With a focus on both operational and clinical engagement with HCPs, the Health & Co team has built a positive reputation with its partners. This is evidenced with 100% retention of GPs during the transition period and growth in new patient numbers. Health & Co has developed a customer analytics framework to drive better patient retention and Net Promoter Score (NPS), achieving a network-wide NPS of 77% in FY 2018.

Overall Health & Co recorded a loss of $4.2 million in FY 2018 reflecting the ramp-up of mergers and acquisitions (M&A) capabilities within the team and phasing of acquisitions. The division achieved a break-even run rate at the end of the year.

Strategic direction: During 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 Project Leapfrog.

BUSINESS REVIEW

Imaging

UNDERLYING PERFORMANCE

	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
Total capital expenditure (before capital recycling)	**36.9**	28.2	(30.9)

Primary's Imaging division 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 and through its independent radiologists and staff, is one of the largest providers of imaging services to public and private hospitals, Medical Centres and community locations across Australia.

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 $33.8 million. The division's strategy to focus on the hospital sector, Primary medical centres and high-end specialised sites underpinned this growth. 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.

The decline in EBITDA was due to the impact of an equipment sale and leaseback and the sale of property into the real estate investment trust (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 (NBH), and on its IT platform, iCAR.

Imaging (cont)

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 in FY 2019 is on the NBH contract in New South Wales, due to commence in October 2018. The team will provide imaging services 24 hours a day 7 days a week in this state-of-the-art centre using the latest equipment.

Efficient, modern infrastructure: Imaging Core Application Refresh (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, through high quality auto-streaming imaging and speech recognition for radiology reporting and quicker turnaround times in accessing results.

PEOPLE

Staff engagement

Brand enhancement

Improved radiologist experience

PROCESS

Operational efficiency

Improved referral delivery channels

Patient experience improvements

PROPERTY

Uplift to community & medical centre sites

Development of high-end sites

Optimise hospitals

Day Hospitals

ACQUISITION OF MONTSERRAT DAY HOSPITALS

As part of the strategy to diversify and grow in non-MBS revenue sources, on 10 September 2018 Primary announced it had entered into a binding Heads of Agreement for the acquisition of Montserrat Day Hospitals (Montserrat).

Montserrat is a unique and high quality business with modern, well-run facilities that are strategically located with accessibility to both specialists and patients.

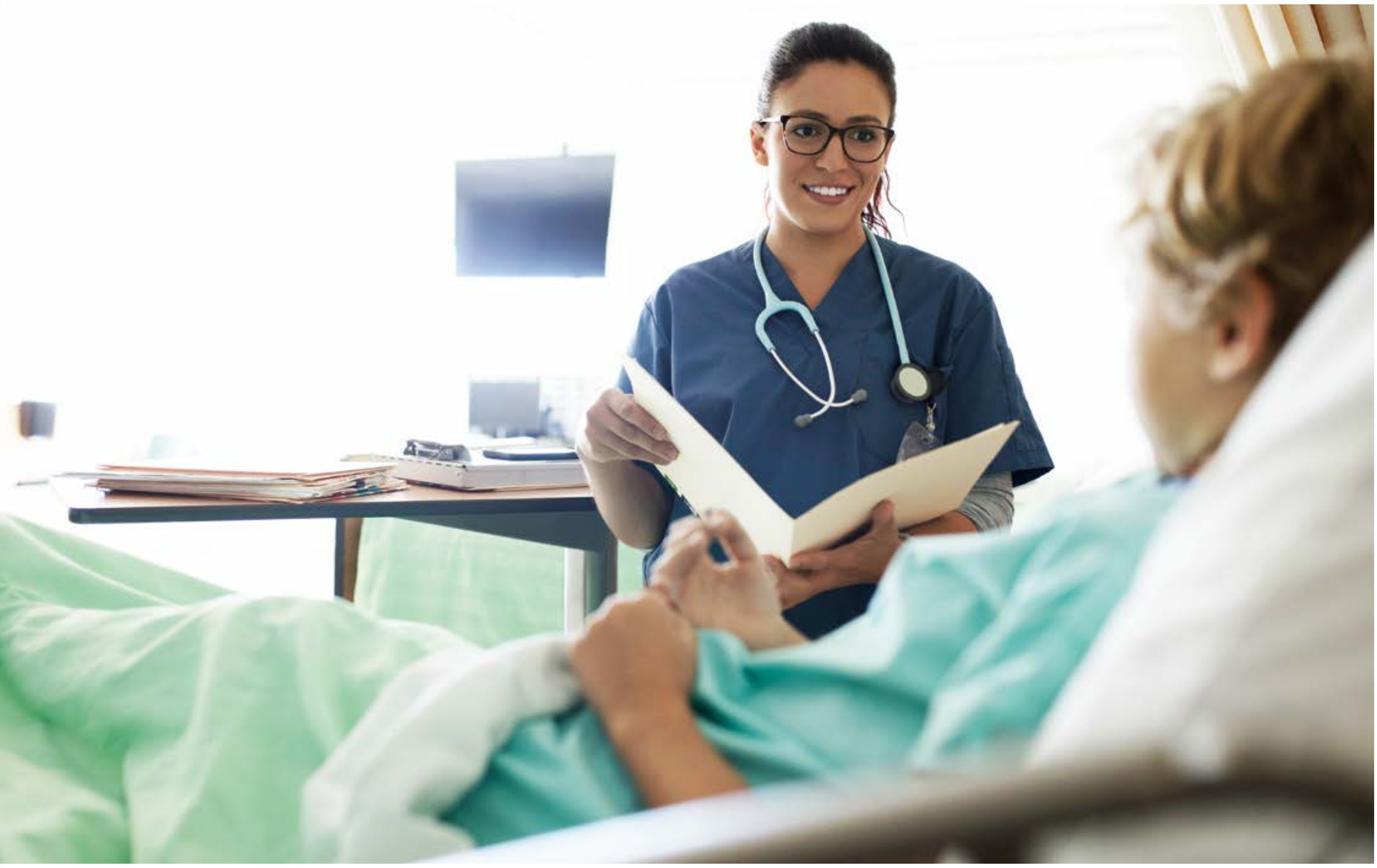
Driven by improving surgical technology and superior patient outcomes, the healthcare industry has seen a shift away from higher cost overnight procedures toward a greater number of procedures in day hospitals. With the number of private day hospital admissions doubling in the last ten years, there are significant growth opportunities in this sector through acquisitions and consolidation of what is currently a fragmented market.

Upon completion, the existing Montserrat management team along with the seven existing specialist day hospitals and haematology/oncology clinics across Queensland, Western Australia and New South Wales, will join Primary. Montserrat is also in the advanced stages of developing three new facilities in South East Queensland and Western Australia and has agreed to purchase a private hospital in Western Australia.

Montserrat will form the nucleus of a new Primary Day Hospital division which derives its revenue outside the Medicare Benefits Schedule. It will continue to be operated by the existing management team that has driven its growth since 2010.

In combination with Primary's five existing day surgery facilities, the acquisition of Montserrat will provide a scale platform to diversify funding and grow non-MBS revenues in a segment underpinned by favourable macro trends. Importantly, Montserrat with its combination of haematology / oncology clinics and day hospitals, will deliver synergies to the benefit of both our pathology and IVF divisions.

The acquisition of Montserrat is expected to be completed in November 2018, subject to the satisfaction of standard conditions precedent.



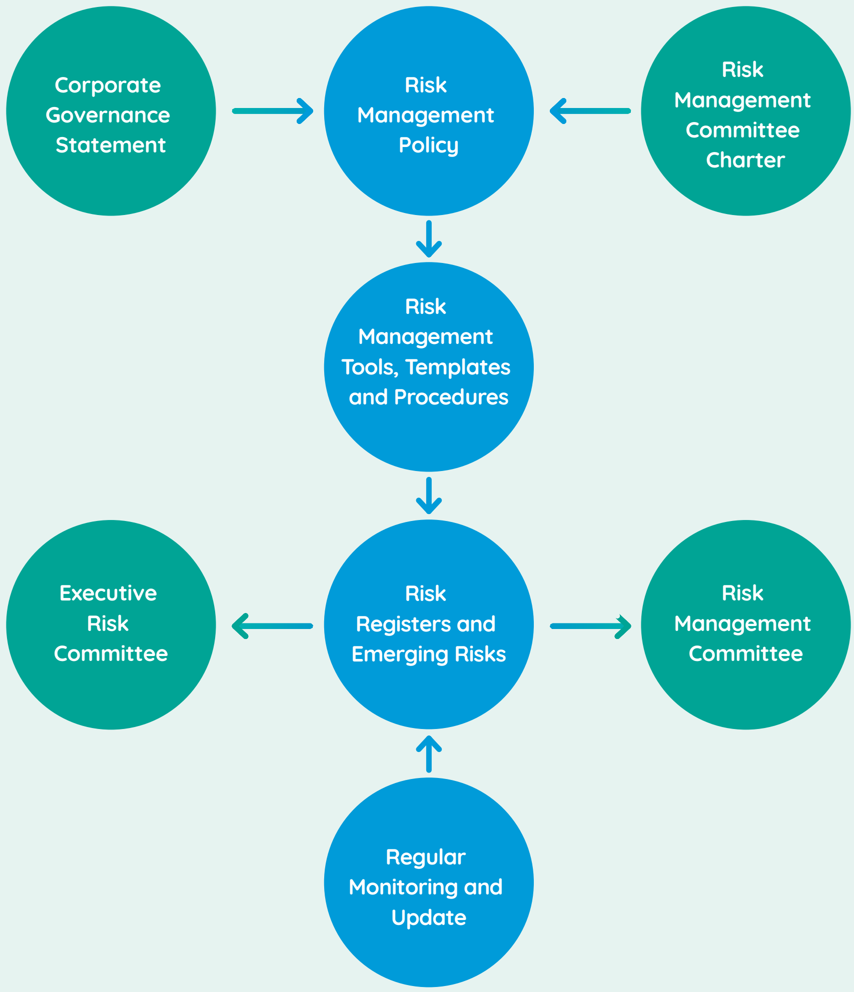
Risk Management

Primary has designed a Risk Management Framework consistent with current best practice while meeting the needs of Primary.

The Risk Management Framework formalises the approach adopted by all of Primary's businesses to manage risk. The future performance of Primary, including share performance, may be influenced by a range or risk factors, many of which are outside the control of Primary and its Directors. A non-exhaustive list of key risks, including those specific to Primary and those of a more general nature, is set out in this section. Primary's business, financial condition, or results of operations could be affected by any of these risks, either individually or in combination.

Identifying and mitigating risk is key to Primary achieving its objectives and protecting shareholder value. By following the Risk Management Framework Primary has a consistent risk management methodology that can be applied to all strategic, operational and contractual objectives.

The elements of the Primary Risk Management Framework are:



Risk Management – Principles and Guidelines:

Primary has adopted the International Organisation for Standardisation AS/NZS ISO31000:009 "Risk Management – Principles and Guidelines" approach to risk management, ensuring each division considers risk when making key decisions that drive our business, and maintains a disciplined focus on operational excellence and effective risk management.

Risk Management (cont)

Primary systematically assesses the consequence and likelihood of risks in all areas including health and safety, environment, operations, finance, legal and compliance, and reputation.

Material business risks with the potential to adversely impact achievement of the Group's strategic initiatives and business objectives, are summarised below, along with relevant mitigation strategies. These risks are not listed in order of significance, nor are they all encompassing:

CONTEXT	RISK	MITIGATION
Regulatory Compliance	Primary operates in sectors which are subject to extensive laws and significant levels of regulations relating to the development, licencing and accreditation of facilities and services.	Primary maintains high quality standards and audit processes to ensure we continually meet licencing and accreditation standards across all business units.
Medicare Benefits Schedule	Primary is committed to providing affordable, accessible and quality healthcare, with bulk-billing a key feature of the service delivery. Any changes to Medicare Benefits Schedule (MBS) or other government funding initiatives may impact profitability through reductions in Government revenue, and reduced patient numbers due to out-of-pocket expense increases impacting affordability.	Primary maintains tight control over costs and continually reviews the range of integrated service offerings available to patients. Primary is continuing to diversify into other service areas to generate non-MBS revenue streams. Primary's Group Executive Government Relations monitors legislative and regulatory developments and engages proactively to manage this risk.
Healthcare professionals	Primary contracts to provide services to healthcare professionals (HCPs), including general practitioners, specialists and radiologists. A significant component of Primary's revenue is dependent upon service fees paid by HCPs providing services to patients. Failure to maintain strong relationships with these parties may impact our ability to retain and recruit HCPs. This may impact growth prospects, revenue earned, the cost structure and profitability of Primary's businesses.	Primary has managers and staff dedicated to maintaining relationships, increasing engagement and addressing any issues with HCPs on a timely basis. Primary also has Clinical Councils in place as a forum to share ideas and information with HCPs.
Referrers	Primary is reliant upon doctors continuing to choose a pathology or diagnostic imaging services provider affiliated with Primary. A reduction or loss of referrals may impact the financial performance of Primary.	Primary has managers and staff dedicated to maintaining service levels, increasing engagement and addressing any issues with HCPs, referrers and non-doctor clients on a timely basis. Under the "Medical Hub" model, Primary works closely with partner business units to share ideas and information between businesses.
People	Primary is dependent on the quality of its staff, their skills, expertise and commitment to the Group. A loss of key staff may risk the loss of significant corporate knowledge.	Primary has developed staff engagement and leadership programs to increase the level of employee engagement across the Group, and identified key staff for programs that focus on retention and succession planning for the Group.

CONTEXT	RISK	MITIGATION
Industrial Relations	Many of Primary's employees are covered by awards, enterprise bargaining agreements and other workplace agreements which periodically require classification, renegotiation and renewal. Negotiations could result in issues which may lead to disruptions to Primary's operations and increased direct and indirect labour costs. These may adversely impact the financial performance and reputation of Primary.	Primary has developed staff engagement programs to increase the level of employee engagement within areas of the business covered by awards and agreements. Primary believes in negotiating sustainable and equitable agreements.
IT Systems	Primary relies on effective information technology systems. Operations may be significantly impacted by disruption to a core IT platform.	Primary has IT support systems in place to underpin business operations.
Cyber Security	Primary maintains sensitive clinical and financial information and its databases may be at risk from cyber attacks.	Primary has an on-going program to strengthen defences against unauthorised access, and to protect patient and financial data.
Competition	Competition may come from new entrants into the market, existing competitors attempting to increase market share or from new disruptive technologies that may change the way services are delivered. A change in competition may impact Primary's profitability, its ability to attract and retain HCPs and secure attractive locations for its businesses.	Primary maintains its competitive edge through our low-cost operating model, our extensive footprint of centres, our investment in quality and innovation in healthcare services. In addition, senior management stays attuned to market developments to respond to any competitive threats.
Business strategies and transformation projects	Primary is undergoing significant transformation as it seeks to position itself for future growth and sustainability. There is a risk that significant change may impact current operational focus and ineffective implementation, misguided strategies or industry changes of initiatives and strategies, may impact the financial performance of the business.	Primary is applying portfolio management to prioritise and align change initiatives to Primary's business strategy, in order to mitigate this risk.
Reputation	Primary's reputation may be impacted by a future event that creates adverse perception of the Group for the public, investors, regulators, or rating agencies that directly or indirectly impacts earnings or value.	Primary maintains stringent quality standards, audit processes and effective involvement of executive and senior management in decision making to ensure we continue to provide quality healthcare and minimise the risk of reputational damage.

Board
of Directors

Robert Ferguson
B.Ec (Hons)
NON-EXECUTIVE CHAIR
(Until 24 July 2018)

Mr Ferguson was appointed Non-executive Chair of the Board on 1 July 2009. During FY 2018, he was Chair of the Board, Chair of the Nomination and Remuneration Committee and a member of the Audit Committee. Mr Ferguson retired as Chair of the Nomination and Remuneration Committee on 17 July 2018 and as Non-executive Chair of the Board and as a Non-executive Director on 24 July 2018.

Robert Hubbard
BA (Hons), FCA
NON-EXECUTIVE CHAIR
(From 24 July 2018)

Mr Hubbard was appointed as a Non-executive Director in December 2014 and Chair of the Audit Committee in February 2015. Mr Hubbard was appointed Chair of the Board on 24 July 2018, at which time he retired as Chair of the Audit Committee. He remains a member of the Audit Committee, recently joined the Nomination and Remuneration Committee (from 24 July 2018) and was a member of Risk Management Committee (until 24 July 2018).

Mr Hubbard holds a Bachelor of Accounting (Honours) degree from the University of Birmingham. He is a Fellow of the Institute of Chartered Accountants in Australia. Mr Hubbard previously held partnership positions in the accounting, corporate finance, assurance and audit divisions of PricewaterhouseCoopers and acted as external auditor for some of Australia's largest ASX listed companies.

Malcolm Parmenter
MB, BS, MAICD
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

Dr Parmenter joined Primary Health Care as Managing Director and Chief Executive Officer (CEO) in September 2017. He has a wealth of knowledge and practical experience in the operation of medical centres, with over nine years' tenure as CEO of Independent Practitioner Network Limited, both as a listed company and under the ownership of Sonic Healthcare Limited, and subsequently two years as CEO of Sonic Clinical Services.

Dr Parmenter has a strong understanding of healthcare, both in Australia and abroad, and spent more than 20 years as a General Practitioner. His experience in healthcare policy regulation is extensive, and he was most recently a member of the Federal Goverment's Primary Healthcare Advisory Group into chronic and complex illnesses.

Gordon Davis
MBA, GAICD
NON-EXECUTIVE DIRECTOR

Mr Davis was appointed as a Non-executive Director in August 2015. He was appointed as a member of the Risk Management Committee in March 2016. He was appointed as Chair and member of the Audit Committee on 24 July 2018.

Mr Davis holds a Bachelor of Forest Science (Honours) and a Master of Business Administration from the University of Melbourne and a Master of Agricultural Science from the University of Tasmania. He is a Graduate of the Australian Institute of Company Directors. Prior to becoming a Non-executive Director, Mr Davis was Managing Director of AWB Limited between 2006 and 2010. He has also served in a senior capacity on various industry associations.

Sally Evans
BHSc, FAICD, GAIST
NON-EXECUTIVE DIRECTOR
(From 21 August 2018)

Ms Evans was appointed as a Non-executive Director on 21 August 2018. She was appointed as a member of the Nomination and Remuneration Committee and of the Risk Management Committee on the same day. Ms Evans has over 30 years' experience in private, government and social enterprise sectors and has worked in Australia, New Zealand, the United Kingdom and Hong Kong with responsibilities across the broader Asia Pacific region.

Ms Evans is a Fellow of the Australian Institute of Company Directors, Graduate of the Australian Institute of Superannuation Trustees, holds a MSc in Business Leadership from the Compass Group and a Bachelor of Applied Science from the University of Otago.

Paul Jones
MB, BS, FAMA
NON-EXECUTIVE DIRECTOR

Dr Jones was appointed as a Non-executive Director in 2010. During FY 2018, he was a member of the Audit Committee and the Risk Management Committee.

Dr Jones has over 30 years' experience in a broad range of general medical practice, including 13 years' experience in the Primary Group's medical centres. Dr Jones originally trained at the Repatriation and General Hospital, Concord NSW and subsequently at Calvary Public Hospital, Bruce ACT. He has been a Director and Federal Councillor of the Australian Medical Association (AMA), a past President of AMA ACT and a member of the Federal AMA Council of General Practice. He was formerly a general practitioner adviser to Calvary Public Hospital and held roles as GPVMO and Director, Medical Education Program. Dr Jones is a former Chair of ACT GP Workforce Working Group and was a member of the ACT Health Minister's GP Task Force in 2009. In 2010 he was awarded Fellowship of the AMA.

Errol Katz
MPP, MB, BS (Hons), LLB (Hons)
NON-EXECUTIVE DIRECTOR

Dr Katz was appointed as a Non-executive Director in 2010. He is Chair of the Risk Management Committee and a member of the Nomination and Remuneration Committee.

Dr Katz has degrees in Medicine and Law from Monash University, and a Masters in Public Policy from Harvard University, where he was a Menzies Scholar. He has worked as a doctor at the Alfred Hospital, as a strategy consultant at the Boston Consulting Group and in strategy and operational roles at Visy Industries. Dr Katz currently works in private equity and investments.

Arlene Tansey
JD, MBA, BBUS (ADMIN), FAICD
NON-EXECUTIVE DIRECTOR

Ms Tansey was appointed as a Non-executive Director in 2012. During FY 2018, she was a member of the Audit Committee and the Nomination and Remuneration Committee. Ms Tansey was appointed as Chair of the Nomination and Remuneration Committee on 17 July 2018.

Previously, Ms Tansey worked in commercial and investment banking in Australia and in investment banking and law in the United States, including senior roles at Macquarie Bank and ANZ. Ms Tansey has a Juris Doctorate (Law) from University of Southern California and an MBA in finance and international business from New York University. She is a Member of Chief Executive Women and a Fellow of the Australian Institute of Company Directors.

Directors' Report

The Directors of Primary Health Care Limited (referred to as "Primary" or "the Company") submit their Report for the financial year ended 30 June 2018 (referred to as "the year" or "FY 2018"), accompanied by the Financial Report of Primary and the entities it controlled (referred to as "the Primary Group" or "the Group") from time to time during the year. Pursuant to the requirements of the *Corporations Act 2001* (Cth) (Corporations Act), the Directors report as follows:

Directors

Continuing Directors during FY 2018

- Robert Ferguson
- Robert Hubbard
- Gordon Davis
- Paul Jones
- Errol Katz
- Arlene Tansey

New Directors during FY 2018

- Malcolm Parmenter (from 6 September 2017)

Directors who ceased during FY 2018

- Brian Ball (retired 23 November 2017)

Director changes from 30 June 2018 to publication

- Robert Ferguson (retired as Chair and Director 24 July 2018)
- Robert Hubbard (appointed Chair 24 July 2018)
- Sally Evans (appointed 21 August 2018)

Qualifications and experience of Directors

New and continuing Directors

The qualifications and experience of Directors for the whole of the financial year and newly appointed Directors are set out on pages 36 to 37 of this Annual Report.

Former Directors

Brian Ball B.Ec.

Non-executive Director

Mr Ball was a Non-executive Director of the Primary Board, a member of the Nomination and Remuneration Committee and the Audit Committee. Mr Ball retired from the Board and Committees on 23 November 2017. Mr Ball also recently retired as a part-owner of the private equity management company, Advent Private Capital Pty Ltd. Mr Ball joined Advent in 1986 and was the Chair or a Director of over 25 investee businesses receiving equity capital from funds managed by the Advent Group, as well as the Advent IV and Advent V private equity management funds. Mr Ball served as Advent's joint Managing Director for the 12 years up to his retirement.

Group Company Secretary

Qualifications and experience of Company Secretary during FY 2018

Charles Tilley B.Sc (Hons) LLB (Hons) FGIA FCIS

Mr Tilley has been Group Company Secretary since February 2015. Mr Tilley joined Primary in 2014 as a Senior Legal Counsel, advising the Primary Group on various matters concerning litigation and employment law. Prior to joining Primary, Mr Tilley had fifteen years' experience in the financial services industry, advising a Big Four institution on corporate law, litigation, commercial and employment law.

Directors' meetings during FY 2018

The number of meetings of the Board and of each Board committee held during FY 2018 and the number of meetings attended by each Director are set out below:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		NOMINATION AND REMUNERATION COMMITTEE		RISK MANAGEMENT COMMITTEE	
FY 2018	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
Robert Ferguson [1,2]	9	8	4	3	4	3	N/A	N/A
Brian Ball [1]	5	4	1	1	1	1	N/A	N/A
Gordon Davis	10	10	N/A	N/A	N/A	N/A	4	4
Robert Hubbard	10	10	4	4	N/A	N/A	4	4
Paul Jones	10	10	4	4	N/A	N/A	4	4
Errol Katz	10	10	N/A	N/A	4	4	4	4
Malcolm Parmenter	8	8	N/A	N/A	N/A	N/A	N/A	N/A
Arlene Tansey	10	10	4	4	4	4	N/A	N/A

1 Robert Ferguson and Brian Ball were granted leave of absence from one Board of Directors meeting.

2 Robert Ferguson was granted leave of absence from one Audit Committee meeting and one Nomination and Remuneration Committee meeting.

The Audit Committee for FY 2018 comprised: Robert Hubbard (Chair), Brian Ball (retired 23 November 2017), Robert Ferguson, Paul Jones and Arlene Tansey.

The Nomination and Remuneration Committee for FY 2018 comprised: Robert Ferguson (Chair), Brian Ball (retired 23 November 2017), Errol Katz and Arlene Tansey.

The Risk Management Committee for FY 2018 comprised: Errol Katz (Chair), Gordon Davis, Paul Jones and Robert Hubbard.

Further meetings occurred during the year, including meetings of the Chair with the CEO and meetings of Directors with management.

From time to time, Directors attend meetings of committees of which they are not currently members.

Directorships of other listed companies held by members of the Board

DIRECTOR	COMPANY	POSITION	DATE APPOINTED	DATE CEASED
Robert Ferguson	GPT Management Holdings Limited	Director and Chair	25/05/2009	02/05/2018
	Watermark Market Neutral Fund Limited	Director	07/06/2013	
Gordon Davis	Nufarm Limited	Director	31/05/2011	
	Midway Limited	Director	06/04/2016	
Sally Evans	Gateway Lifestyle Operations Limited	Director	29/03/2018	
	Oceania Healthcare Limited	Director	23/03/2018	
Robert Hubbard	Bendigo and Adelaide Bank Limited	Director	02/04/2013	
	Central Petroleum Limited	Director and Chair	06/12/2013	14/05/2018
	Orocobre Limited	Director and Chair	30/11/2012	
Arlene Tansey	Adelaide Brighton Limited	Director	05/04/2011	
	Aristocrat Leisure Limited	Director	21/07/2016	
	Future Fibre Technologies Limited	Director	11/03/2015	13/10/2016
	Urbanise.com Limited	Director	27/06/2014	13/10/2016

Significant change in the state of affairs

There was no significant change in the state of affairs of the Group during the year.

Directors' Report
for the year ended 30 June 2018

Principal activities

During the year, the principal continuing activities of the Group were:

- a medical centre operator;
- a provider of diagnostic imaging services; and
- a provider of pathology services.

As a medical centre operator, the Group provides a range of services and facilities to general practitioners, dentists, physiotherapists, specialists, and other healthcare professionals who provide services from its medical centres. Its medical centre operations also include the provision of day surgery and assisted reproductive technology services by healthcare professionals.

Review and results of operations

A review of the operations of the Group during the year, and the results of those operations, can be found on pages 20 to 31 of this report.

Events after the end of the year

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 the subsequently announced acquisition of Montserrat Day Hospitals.

On 10 September 2018, Primary announced the acquisition of the Montserrat Day Hospitals, an operator of seven specialist day hospitals and haematology and oncology clinics across Queensland, Western Australia and New South Wales.

On 13 September 2018, the Fair Work Commission issued a Decision and draft Workplace Determination regarding support employees within Dorevitch Pathology in Victoria. The financial impact of the draft Workplace Determination was larger than expected and accordingly Primary has made an adjustment to reduce after-tax underlying and reported earnings for FY 2018 by $4.8 million.

Other than these events there has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operation of the Group, the results of these operations, or the state of affairs on the Group in future financial years.

Future developments

Apart from the information provided on the 2018 Outlook on page 9 of this report, disclosure of information regarding likely developments in the operations of the Group in future financial years (including the Group's business strategies) and the expected results of those operations other than that disclosed in this report is likely to result in unreasonable prejudice to the Group. Accordingly, no further information is included in this report.

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of Primary by a member or other person entitled to do so under section 237 of the Corporations Act.

Dividends

In respect of FY 2018:

- an interim dividend of 5.1 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 27 March 2018; and
- a final dividend of 5.5 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 17 September 2018.

Primary operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). These plans were suspended effective close of business on 16 February 2016 until further notice and consequently no shares were issued in FY 2018 under either the DRP or the BSP.

Rounding of amounts

Primary is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the Directors' Report and the Financial Report are rounded off to the nearest hundred thousand dollars, or where the amount is $500,000 or less, zero.

Shares under option

Options are held by both employees and independent contractors of the Group. Details of all unissued ordinary shares of Primary under option at the date of this report are set out below. No option holder has any right under the options to participate in any other share issue of Primary or of any other entity.

	OPENING BALANCE	EXERCISED SINCE PRIOR ANNUAL REPORT	LAPSED SINCE PRIOR ANNUAL REPORT	CLOSING BALANCE
Issue 16	120,000	–	(120,000)	–
Issue 114	677,500	–	(452,500)	225,500
Issue 115	170,000	–	(90,000)	80,000
Balance as at date of this report	967,500	–	(662,500)	305,000

Shares issued on the exercise of options

No ordinary shares of Primary were issued during, or since the end of, FY 2018 on the exercise of options.

Indemnification of officers and auditors

Subject to the following, no insurance premium was paid during or since the end of FY 2018 for a person who is or has been an officer or auditor of the Group.

During the year, Primary paid a premium in respect of a contract insuring the Directors and Executive Officers of Primary and of any related body corporate, against liability incurred that is permitted to be covered by section 199B of the Corporations Act. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified, and the amount of the premium, not be disclosed.

The Constitution of Primary provides that each officer of Primary must be indemnified by Primary against any liability incurred by that person in that capacity. However, Primary must not indemnify that person if to do so would be prohibited by section 199A of the Corporations Act, any other statutory provision, or judge-made law. Pursuant to this requirement, each Director of Primary is party to Deeds of Indemnity, Board Papers Inspection and D&O Coverage, which provide for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute.

Primary has not otherwise, during or since the end of FY 2018, indemnified or agreed to indemnify an officer or auditor of Primary or any related body corporate against a liability as such an officer or auditor.

Past employment with external auditor

Ernst & Young (EY) were appointed as Primary's external auditor with effect from 23 November 2017. (Deloitte Touche Tohmatsu (Deloitte) was Primary's external auditor until 23 November 2017.) There is no person who has acted as an officer of the Group during the year who has previously been a partner at EY when that firm conducted Primary's audit.

Non-audit services

During the year Deloitte and EY performed certain other services in addition to their statutory duties as auditor.

The Audit Committee reviews the non-audit services performed by the auditor on a case-by-case basis. In accordance with advice received from the Audit Committee, the Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act. The Directors are so satisfied because the Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the auditor's independence.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in this report. Details of amounts paid or payable to the auditor of the Group for audit and non-audit services provided during the year are given in Note E7 on page 118 of this report.

Management of safety risks

Primary is committed to ensuring that the health and safety of employees, contractors and all people attending Primary's facilities is given the highest priority. Primary's goal is to continually improve the safety environment for our employees, contractors and patients. Primary's Workplace Health and Safety (WHS) performance is monitored through regular monthly reports being provided to senior management, a monthly WHS Dashboard provided to the Board and quarterly performance reporting to the Board. WHS is incorporated into business planning, purchasing and contracting policies and the design of workplaces.

In order to improve Primary's health and safety performance, resources are allocated to the maintenance and improvement of the WHS management system. Professional health and safety staff work very closely with the Employee Representative Committees which have been established over a number of years in order to incorporate employee representation and consultation into health and safety initiatives as well as a forum for disseminating information to improve health and safety across all business units. During FY 2018 there was a detailed review of the resources devoted to the management of the WHS Systems to ensure resourcing remains appropriate to the requirements of operations.

Primary recognises our responsibilities to contractors. As part of our health and safety procedures, contractors are required to provide evidence that they have WHS management systems in place and we have monitoring procedures in place for addressing any health and safety issues that may arise from contractor performance. Workplace induction is provided to contractors prior to the commencement of any work through our on-line Contractor Induction Program.

Key health and safety performance indicators are as follows:

	FY 2018	FY 2017
Number of WHS prosecutions	**ZERO**	ZERO
Number of sites subject to WHS Internal Audit	**46**	46
Lost time incidents per million hours worked	**5.6**	6.2

For FY 2018, all incidents were investigated and there was no systematic breakdown in the WHS Management System.

Primary has a comprehensive program of health and safety internal audits that are conducted over all business units during the course of the year. Audit findings may be either areas of non-conformance with WHS procedures or be areas for improvement. All findings are discussed with auditees before being finalised. The final reports are presented to senior management and include the findings, recommendations to address findings, persons responsible for implementation of recommendations and timeframes for implementation.

Training in health and safety is provided to staff at induction to ensure staff perform their duties safely. There is an established training program that provides regular training, refresher training and information. Further training is provided when specific issues are identified through regular workplace supervision, hazard reporting and risk assessment.

Primary is engaged in continuous improvement to raise health and safety standards. During the year, there was a comprehensive review of percutaneous exposure events and a detailed review of the current process for the management of asbestos in shared tenancies. In FY 2019 Primary is planning a number of strategic projects including a group wide review of occupational violence events and a detailed root cause analysis of manual handling incidents. Strategic projects are identified through the monitoring of incidents trends, employee feedback and WHS audit findings.

Environmental regulation

The operations of the Group are not subject to any site-specific environmental licences or permits which would constitute particular or significant environmental regulation under the laws of the Australian Government or an Australian Territory.

Primary, through its internal policy and processes, is committed to managing operations in an environmentally sustainable manner to maximise resource efficiency in relation to the consumption of energy and natural resources and minimise waste.

Remuneration Report

1 Letter from the Chair of the Nomination and Remuneration Committee

Dear Shareholder,

On behalf of your Board of Directors, I am pleased to present the Remuneration Report for the financial year ended 30 June 2018 (FY 2018). This report details the remuneration framework and outcomes for Primary's Key Management Personnel (KMP) in FY 2018.

Over the last three years, the Board has restructured your Company's approach to remuneration in direct response to stakeholder feedback, with an enhanced policy rolled out in FY 2016 and further refinements in both FY 2017 and this year.

Primary's remuneration framework aims to ensure that Total Remuneration Packages of our executive KMP are linked to Company performance and shareholder value, balancing the near term focus on current year results and sustainable long-term value creation. The individual balanced scorecard approach for STI awards includes financial, non-financial and behavioural Key Performance Indicators. It takes a holistic view of KMP performance, implementation of strategic initiatives, culture and risk management. The LTI awards are linked directly to Total Shareholder Return and Return on Invested Capital to align with shareholder outcomes.

We have tried to simplify our Remuneration Report this year to make it easier to understand and more readable, including a summary of key decisions and outcomes for FY 2018 and a non-statutory table of what each of the executive KMP was awarded and paid this year.

Apart from the information in this report, you can find further details of Primary's remuneration framework on our website. I encourage you to read the material in conjunction with this report. I also invite any feedback from shareholders regarding the ongoing implementation of and disclosure around Primary's remuneration framework. This can be done via the contact form on our website at www.primaryhealthcare.com.au/invest-in-us/investor-services/contact-us/

We are entering a period of significant change which will see us invest in the evolution of our Medical Centres model, in core IT platforms and growth initiatives in all divisions, and in the modernisation of our corporate support functions. At a time when consumers are increasingly demanding better ways to access healthcare services, this strategy aims to create a substantial improvement in our value proposition putting us at the forefront of healthcare in the Australian Community and delivering sustainable long-term shareholder returns.

The Board believes the current executive team are the best people for the job at this time of significant change. As a result, the Board is also considering alternatives for a Strategic Incentive Plan (SIP) to motivate, incentivise and retain the existing senior team to deliver on these strategic imperatives while maintaining the alignment of the team's "at risk" remuneration with shareholder outcomes.

As Chair of the Nomination and Remuneration Committee I thank you for your ongoing support. I hope you will continue to support us by voting to adopt this Remuneration Report at our upcoming 2018 Annual General Meeting.

Yours sincerely

Arlene M Tansey

Arlene Tansey
Independent Non-executive Director
Chair of the Nomination and Remuneration Committee

2 Key decisions and outcomes in FY 2018

Current executive KMP

- Malcolm Parmenter — Managing Director & Chief Executive Officer (CEO) (from 6 September 2017)
- Malcolm Ashcroft — Chief Financial Officer (CFO)
Acting CEO (23 May 2017–5 September 2017)
- Wesley Lawrence — Chief Executive Pathology
- Timothy Haggett — Chief Executive Medical Centres (from 23 October 2017)
- Maxine Jaquet — Chief Executive Health & Co
- Dean Lewsam — Chief Executive Imaging

Base pay/fees

- Annual review of base pay resulted in no across-the-board increases in executive KMP base pay for FY 2018.
- Tim Haggett was recruited on an annual base pay of $800,000 recognising his extensive experience and expertise in setting up and running medical centres and his ability to effectively execute on strategies to evolve Primary's medical centres model.
- An independent remuneration review identified that Non-executive Director committee fees were below comparative group. As a result, the following increases occurred:

FUNCTION	ROLE	FY 2017 ($)	FY 2018 ($)
Audit Committee	Chair	30,000	30,000
	Member	10,000	15,000
Nomination and Remuneration Committee and Risk Management Committee	Chair	20,000	25,000
	Member	10,000	12,500

Short-term Incentives (STI)

- Executive KMP received an average of 47% of the stretch award opportunity for STIs based on the assessment of performance against a balanced scorecard of financial, non-financial and behavioural key performance indicators (KPIs) in FY 2018.

Long-term Incentives (LTI)

- The FY 2016 LTI plan was tested on 30 June 2018, the first time an LTI award has been tested under the new remuneration framework. None of the Performance Rights vested as neither criteria were met, being Primary's total shareholder return measured against a comparator group (rTSR) or cumulative returns on investment (ROIC).

Retention Bonuses

- In order to facilitate continuity of senior management through an extended CEO transition which coincided with ongoing significant turn-around and investment in the business, the Board decided to pay one-off retention bonuses to certain senior executives totalling 50% of their annual base pay in FY 2017. These bonuses vested after a 12 months service period in February 2018 and are disclosed in this report. No such bonuses have been awarded for FY 2018.

Disclosure

- Primary has included both statutory and non-statutory information in this report, with the aim of giving shareholders an accurate, complete and simple-to-read understanding of Primary's approach to KMP remuneration. In FY 2018, additional disclosures have been made around:
  - non-financial and behavioural KPIs for STI awards; and
  - ROIC performance hurdles for LTI awards.

3 Setting Senior Executive remuneration

3.1 Overview of the design

Total Remuneration Package (TRP)

- Attract, reward and retain calibre Senior Executives including executive KMP
- Align the rewards of these Executives to performance and sustained shareholder value
- Support the business strategy and reinforce Primary's new Purpose Mission and Values

Base Package

- 50% of TRP at Target (46% for CEO and CFO)
- Externally benchmarked against relevant comparator companies
- Set around the mid-point at which 50% of relevant comparator companies lie below
- Annually reviewed re: competency, responsibilities and performance
- Management of exceptions, for example when particular talent needs to be retained or there is an individual with unique expertise who needs to be acquired

Variable Pay
Short-term Incentives (STI) and Long-term Incentives (LTI)

- 50% of TRP at Target 'at risk' (54% for CEO and CFO)
- Links executive reward to Company performance and shareholder value, while balancing current year results and cash flow with longer-term value creation
- Creates executive equity ownership with 25% of STIs and 100% of LTIs granted in equity
- Delivers returns over an extended period with STI equity deferred for one to two years and LTI equity measured after three years
- Some financial metrics determined against scalable measures at Threshold (80% probability of achievement), Target (50%–60% probability) and Stretch (10%–20% probability). Aims to incentivise Senior Executives to continue to outperform when a lower goal has been achieved

STI

- 25% of TRP at Target (27% for CEO and CFO)
- Measured against an individual's balanced scorecard which includes financial, non-financial and behavioural KPIs, and takes an holistic view of performance, strategic implementation, culture and risk management
- Comprises cash (75%) and deferred equity (25%) in the form of Service Rights

LTI

- 25% of TRP at Target (27% for CEO and CFO)
- Determined by rTSR and ROIC
- Comprises deferred equity in the form of Performance Rights

3.2 Notable components

3.2.1 Link between Senior Executive remuneration and Company performance

The remuneration of Senior Executives is designed to deliver a link between executive reward and Company performance and to balance current year performance with longer-term sustained value creation.

The link is achieved through the variable pay elements of an executive's package which represent 50% or more of total remuneration (at Target levels). 70% of the potential STI award is dependent on the achievement of annual targets for underlying net profit after tax (UNPAT) and cash flow. All of the potential LTI award is linked to rTSR and ROIC and hence to the longer-term performance of the Group.

Senior Executives' rewards are further linked to shareholder returns through the fact that 25% of STI awards and 100% of LTI awards are issued in equity rather than cash.

3.2.2 Realistic financial targets set for STIs and LTIs

In selecting the UNPAT and cash flow targets for STIs and the ROIC portion of LTIs, the Board generally relies on the annual budget which is set around May each year for the following financial year. The Board is confident that annual budget strikes an appropriate balance between being sufficiently challenging and achievable for Senior Executives.

The rigour of the budget-setting culture can be demonstrated by the fact that no STI payments were made in FY 2016 or FY 2017 relating to Group UNPAT, as the budgeted Group UNPAT target was not achieved. Additionally no LTI Rights vested in FY 2018 relating to FY 2016 year, as the cumulative budgeted ROIC targets for the three-year measurement period were not met.

3.2.3 Why underlying NPAT is used for STI targets

Primary is currently undergoing a period of significant transition and reinvestment. In order to ensure that the right investment decisions are made to drive Long-term growth irrespective of Short-term impacts, the Board considers it appropriate to use UNPAT as the measure of STI targets rather than statutory NPAT. Specifically, UNPAT excludes items which do not form part of the core trading performance of the Group and which are not expected to recur frequently, albeit they may be multi-year projects.

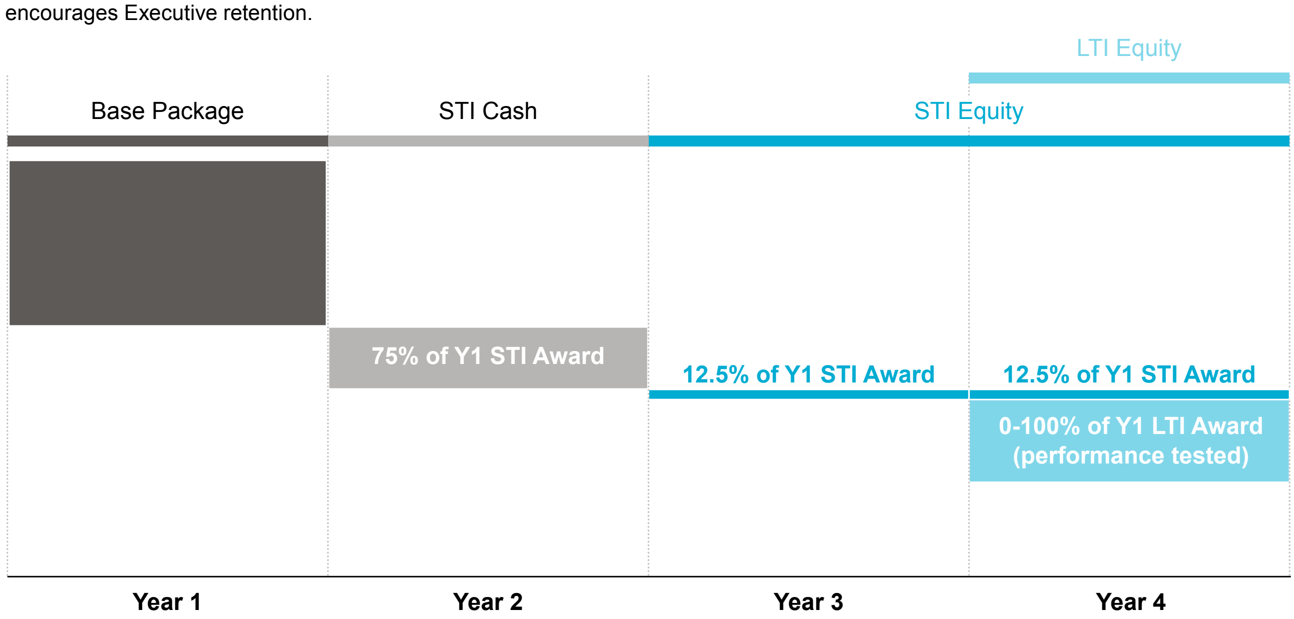
Current adjustments to reported results include the costs of investing in core operating platforms in each of the divisions, the major strategic initiatives to turn around the Medical Centres business, and the modernisation of corporate support functions including IT, Property, HR and Finance.

These form the strategic projects upon which management achievement of their role-specific strategic objectives component of STI are substantially measured. Project management, cost control and benefits realisation of these strategic projects are therefore incorporated into the remuneration considerations through this mechanism.

The Board ensures that the impact of normalisation is not skewed to unfairly advantage Senior Executives. As an example, the ROIC targets for LTI awards for FY 2017 onwards are calculated on an invested capital amount before the impairment of goodwill announced that year, in order to prevent the artificial easing of the original target.

3.2.4 Multi-year vesting of equity

Rights granted in a given year as part of STI and LTI awards will not vest, if at all, until later. STI equity is deferred for one and two years and LTI rights are measured and vest after three years and then only if targets are met. The rolling nature of remuneration payments encourages Executive retention.



3.2.5 Clawback provisions for STIs and LTIs

Payments or vesting related to STI and LTI in the prior three financial years are subject to Primary's clawback policy if it transpires that they were based on materially incorrect performance information or that actions taken by the relevant Senior Executive to secure a benefit were, are or will be detrimental to the best interests of Primary.

3.2.6 Stretch performance target for STIs and LTIs

Where a Stretch performance target is included in an STI or LTI assessment criteria, it generally has only 10%–20% probability of achievement and is intended to equate to exceptional performance. It creates an incentive for Senior Executives to continue to outperform even when the Target level of performance has been achieved.

The 10–20% probability a Stretch award is particularly important to understand in connection with the issue of LTI Performance Rights. These are issued at Stretch amounts even though the probability that the full amount will eventually vest is low.

3.2.7 Re-testing of LTIs

Re-testing of LTI awards is potentially contentious as it can be viewed as a "second bite of the cherry". However, Primary's re-testing provisions are in fact a measurement period extender, designed to give management an opportunity to be rewarded for a stellar performance which has delivered a strong increase in shareholder value for one year beyond the original period. Importantly, re-testing will only result in vesting of Rights if the original three years' hurdles plus another year's hurdle have been met. The vesting scale will have pro-rata increase in the difficulty to account for the extra year. It recognises that, due to the large fixed-cost nature of the business, improved performance can occur quite rapidly once measures have begun to gain traction. For FY 2019 and following the Board has decided not to retain this measurement period extender as part of the LTI Plan.

3.2.8 Positive gate for rTSR

In order to align remuneration with shareholder outcomes, a positive TSR gate applies to the award of LTIs relating to Primary's TSR performance against its comparator group. No award can be made if Primary's TSR over the measurement period is zero or negative, even if it has performed better than the comparator group.

3.2.9 Comparator group for rTSR

The comparator group for the assessment of rTSR vesting conditions was selected from healthcare companies listed on the ASX, with assistance from external remuneration consultants and using the following broad parameters:

- be broadly defined to avoid "cherry-picking";
- be large enough to produce valid statistics and small enough to be reasonably specific;
- include direct competitors for capital, talent or market share of comparable scale;
- include companies from the healthcare sector of comparable scale where direct competitors are not sufficient;
- be sufficiently liquid to ensure that TSR results are reliable; and
- be balanced in terms of market capitalisation between smaller and larger companies.

4 Executive KMP – remuneration outcomes for FY 2018

4.1 Key Management Personnel

KMP are the Non-executive Directors, the executive Director and employees who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The following roles and individuals are addressed as executive KMP for FY 2018 in this report, with Non-executive Directors addressed in section 6:

4.1.1 Current Executive KMP

NAME	POSITION	DATES
Malcolm Parmenter	Managing Director & Chief Executive Officer (CEO)	6 September 2017
Malcolm Ashcroft	Chief Financial Officer (CFO)	13 July 2015
	Acting Chief Executive Officer	23 May 2017 to 5 September 2017
Wesley Lawrence	Chief Executive Pathology	8 December 2016
Timothy Haggett	Chief Executive Medical Centres	23 October 2017
Maxine Jaquet	Chief Executive Health & Co	1 March 2016
Dean Lewsam	Chief Executive Imaging	23 October 2015

4.1.2 Former Executive KMP

John Houston	Chief Executive Medical Centres	1 March 2016 to 17 October 2017

4.2 Executive KMP – opportunities and outcomes for FY 2018

The following table provides shareholders with a picture of:

- remuneration opportunities of executive KMP in FY 2018, at Target performance;
- the total remuneration of executive KMP **awarded** in respect of FY 2018 performance, some of which may be paid or vest during subsequent financial years; and
- the total remuneration of executive KMP **received** during FY 2018, some of which may represent incentive awards from earlier financial years.

We believe this information is helpful to assist shareholders in understanding the cash and other benefits actually received by KMP from the various components of their remuneration during FY 2018.

Please see section 5 for Primary's statutory remuneration disclosures for FY 2018.

4 Executive KMP – remuneration outcomes for FY 2018 (continued)

4.2 Executive KMP – opportunities and outcomes for FY 2018

			BASE PACKAGE		SHORT-TERM INCENTIVE (STI) (75% CASH; 25% DEFERRED EQUITY) TARGET STI OPPORTUNITY
POSITION	NAME	YEAR	ANNUAL BASE PACKAGE INCLUDING SUPER ($)	BASE PACKAGE ACTUALLY PAID IN FY 2018 ($)	TARGET STI AMOUNT ($)[4]
1	2	3	4	5	6
CEO	Malcolm Parmenter[1, 7]	**FY 2018**	**1,650,000**	**1,351,731**	**788,799**
	Peter Gregg[2]	FY 2017	1,497,700	1,546,162	873,160
CFO	Malcolm Ashcroft[3, 8]	**FY 2018**	**1,031,482**	**1,031,482**	**601,015**
		FY 2017	979,212	979,212	570,880
CE Pathology	Wesley Lawrence[8]	**FY 2018**	**750,000**	**750,000**	**375,000**
		FY 2017	421,346	421,346	210,673
CE Medical Centres	Timothy Haggett[1]	**FY 2018**	**800,000**	**560,000**	**280,000**
CE Health & Co	Maxine Jaquet[8]	**FY 2018**	**600,000**	**600,000**	**300,000**
		FY 2017	525,000	525,000	300,000
CE Imaging	Dean Lewsam[8]	**FY 2018**	**580,000**	**580,000**	**290,000**
		FY 2017	505,000	505,000	290,000
Previous executive KMP					
CE Medical Centres	John Houston[8,9]	**FY 2018**	**750,000**	**231,283**	**N/A**
		FY 2017	750,000	750,000	375,000
CE Pathology	James Bateman	FY 2017	780,500	75,048	N/A
TOTAL		**FY 2018**	**6,161,482**	**5,104,496**	**2,634,814**
		FY 2017	5,458,758	4,801,768	2,619,713

Guide to using the Table

1 **Column 14** is the **total remuneration PAID OR AWARDED for FY 2018 performance** to the relevant KMP (with FY 2017 comparison), some of which may be paid in future periods. It is the sum of **columns 5 and 7** and in respect of Malcolm Parameter only, the ex-gratia payment included in **column 13.** While the number of Rights granted in FY 2018 under Primary's LTIP is set out in section 5.1 of this report, the value of vested Rights (if any) relating to the FY 2018 LTI award will not be known until the measurement period ends at the close of FY 2020 and the applicable performance criteria are tested. Consequently, no amount is included in this table for FY 2018 LTI.

2 **Column 15** is the **total remuneration RECEIVED during FY 2018** by the relevant KMP (with FY 2017 comparison), some of which relates to past periods. It is the sum of **columns 5, 9, 10, 12 and 13**. Where part of these amounts involve the valuation of vested Rights, the dollar value is calculated based on the closing share price on the day that shares are issued for the vested rights.

SHORT-TERM INCENTIVE (STI) (75% CASH; 25% DEFERRED EQUITY)				LONG-TERM INCENTIVE (LTI) (100% DEFERRED EQUITY)		OTHER PAYMENTS	TOTAL REMUNERATION	
STI OUTCOME FOR FY 2018 (TO BE PAID IN FOLLOWING YEARS)[5]		STI FROM PRIOR YEARS (PAID IN FY 2018)		TARGET LTI OPPORTUNITY (ONLY AWARDED AFTER 3 YEAR MEASUREMENT PERIOD IF HURDLES ARE MET)	LTI FROM PRIOR YEARS (VESTED IN FY 2018)			
STI AWARDED ($)	STI AWARDED/ FORFEITED (% OF TARGET)	CASH STI PAYMENT FROM PRIOR YEAR ($)	VALUE OF STI EQUITY VESTED FROM PRIOR YEARS ($)	TARGET LTI AMOUNT ($)[6]	LTI VESTED FROM PRIOR YEARS ($)	OTHER PAYMENTS RECEIVED IN FY 2018 ($)	TOTAL REMUNERATION AWARDED FOR FY 2018 (FY 2017) PERFORMANCE (EXC LTI) ($)	TOTAL REMUNERATION RECEIVED DURING FY 2018 (FY 2017) ($)
7	8	9	10	11	12	13	14	15
532,439	**68%/32%**	**N/A**	**N/A**	**788,799**	**N/A**	**63,462**	**1,947,632**	**1,415,193**
300,000	34%/66%	261,381	Nil	873,160	N/A	Nil	1,846,162	1,807,543
310,003	**52%/48%**	**162,508**	**17,836**	**601,015**	**Nil**	**474,322**	**1,341,485**	**1,686,148**
216,677	38%/62%	135,909	Nil	570,880	Nil	Nil	1,195,889	1,115,121
169,350	**45%/55%**	**153,441**	**7,610**	**375,000**	**Nil**	**397,479**	**919,350**	**1,308,530**
144,831	69%/31%	N/A	Nil	210,673	Nil	Nil	566,177	421,346
183,540	**66%/34%**	**N/A**	**N/A**	**280,000**	**N/A**	**Nil**	**743,540**	**560,000**
112,200	**37%/63%**	**121,500**	**10,568**	**300,000**	**Nil**	**317,981**	**712,200**	**1,050,049**
162,000	54%/46%	80,543	Nil	300,000	Nil	Nil	687,000	605,543
156,024	**54%/46%**	**162,038**	**10,347**	**290,000**	**Nil**	**291,248**	**736,024**	**1,043,633**
216,050	75%/25%	78,850	Nil	290,000	Nil	Nil	721,050	583,850
N/A	**N/A**	**105,469**	**17,615**	**N/A**	**Nil**	**407,879**	**231,283**	**762,246**
140,625	38%/62%	134,239	Nil	375,000	Nil	27,733	890,625	911,972
N/A	N/A	181,213	N/A	N/A	Nil	Nil	75,048	256,261
1,463,556	**56%/44%**	**704,956**	**63,976**	**2,634,814**	**Nil**	**1,952,371**	**6,631,513**	**7,825,799**
1,180,183	45%/55%	872,135	Nil	2,619,713	Nil	27,733	5,981,951	5,701,636

Notes

1 Column 4 – Base Package and target amounts are shown on an annual basis. As Malcolm Parmenter and Tim Haggett commenced during the FY 2018 year these amounts were not paid in full in FY 2018. Column 5 shows the pro-rata amount actually paid in FY 2018.

2 Column 5 – Peter Gregg back pay. As disclosed in the FY 2017 Remuneration Report, Peter Gregg's FY 2017 Base Package included back pay of $48,462. For further details of the STI awarded to Peter Gregg for 2017 please refer to section 12.3 of Primary's 2017 Remuneration Report.

3 Malcolm Ashcroft was Acting CEO between 23 May 2017 and 5 September 2018, during which period his base salary and incentive arrangements were equivalent to the current CEO level on a pro rata basis.

4 Columns 6 – Stretch STI is up to 112% of Target STI.

5 Column 7 and 8 – STI outcomes for FY 2018 (granted on 19 September 2018) will be paid as follows: 75% in cash in FY 2019, 12.5% in equity in FY 2020 and 12,5% in equity in FY 2021.

6 Column 11 – Stretch LTI is up to 200% of Target LTI. Performance Rights for FY 2018 LTI were granted on 18 September 2018.

7 Column 13 – The amount included for Malcolm Parmenter is an ex gratia payment of $63,462 granted by the Board in relation to a two week orientation period undertaken in August 2017.

8 Column 13 – The amounts included for Malcolm Ashcroft, Wesley Lawrence, Maxine Jaquet, Dean Lewsam and John Houston are for retention payments. In FY 2017, the Board determined to pay one-off retention bonuses to certain executives in order to facilitate continuity of management through an extended CEO transition, which coincided with ongoing significant turnaround and investment in the business. The amount disclosed is the sum of the cash payment received in February 2018 and the value of the Rights that vested in February 2018 calculated based on the closing share price on the day that shares were issued for the vested Rights. Whilst the retention payment received by John Houston was paid after he ceased as KMP it related to his KMP role and has been included in the table above. As the amounts disclosed in the 2017 Remuneration Report were reported on an accruals basis they have been adjusted in the 2017 comparatives above in order to report the relevant amounts in the period they were actually received. As the retention payments were one-off in nature, no such bonuses have been awarded for FY 2018.

9 Column 13 – The amount reported for John Houston includes an amount of $10,400 (FY 2017: $27,733) for the vesting of cash amounts under legacy LTI arrangements (FY 2013–FY 2014).

4 Executive KMP – remuneration outcomes for FY 2018 (continued)

4.3 Executive KMP – Base package outcomes for FY 2018 and rationale

4.3.1 Annual review of base pay

Annual review of base pay resulted in no across-the-board increases in executive KMP base pay for FY 2018.

4.3.2 Chief Executive Medical Centres

Tim Haggett, who was appointed as Chief Executive of Medical Centres on 23 October 2017, was awarded an annual base pay of $800,000 in recognition of his extensive experience and expertise in setting up and running medical centres and his ability to effectively execute on strategies to evolve Primary's medical centres.

4.4 Executive KMP – STI outcomes for FY 2018 and rationale

Executive KMP STI outcomes are measured against an individual's balanced scorecard which includes financial, non-financial and behavioural KPIs, and takes an holistic view of performance, strategic implementation, culture and risk management. Set out at 4.5 below are the balanced scorecard for each member of the executive KMP in FY 2018.

Executive KMP received an average of 47% of the Stretch award opportunity for STIs based on the assessment of performance against their balanced scorecard in FY 2018 and 53% of the Target award opportunity.

4.4.1 Group and Divisional UNPAT and Group Cash Flow

Group and divisional UNPAT and Group cash flow were selected by the Board as being the most appropriate method of measuring the Company's FY 2018 financial performance.

Primary has incorporated Threshold, Target and Stretch goals into the UNPAT metrics, in order to incentivise Senior Executives to continue to achieve once a lower goal has been achieved.

4.4.2 Role-specific strategic objectives

Role-specific strategic objectives ensure KMP are measured and rewarded for initiatives over which they have responsibility, which contribute directly to the Company's strategic plan and which aim to deliver increased shareholder value. They are focused on specific KPIs that are both measurable and tied directly to the Group's strategy and they have been set to be sufficiently challenging to each member of the KMP.

4.4.3 Leadership behavioural KPIs

Primary has developed and promulgated its new Purpose, Mission and Values this financial year, as set out on page 16 of the Annual Report. These values underscore the behavioural KPIs required of executive KMP in FY 2018.

4.5 KMP Balanced Scorecards

4.5.1 CEO Malcolm Parmenter

FY 2018 STIP STATEMENT				
STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	60%	$473,279	$236,640
	Operating Cash Flow	10%	$78,880	$59,160
Role-specific Strategic Objectives	1 **Leadership** Coach and develop Executive Team to ensure clarity of vision and delivery of strategic outcomes 2 **Culture** Design and bring to life Purpose, Mission and Values across the organisation, and be the ambassador for cultural alignment 3 **Stakeholder Engagement** Engage Stakeholders in a timely and transparent manner 4 **Strategic Portfolio** Lead planning and development of market-leading healthcare delivery focused on: – developing existing operating models – operational efficiencies and improved consumer experience by investment in digital/technology infrastructure – identifying growth opportunities	20%	$157,760	$157,759
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$78,880	$78,880
TOTAL			**$788,799**	**$532,439**

4 Executive KMP – remuneration outcomes for FY 2018 (continued)

4.5.2 CFO – Malcolm Ashcroft

FY 2018 STIP STATEMENT

STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	60%	$360,609	$123,328
	Operating Cash Flow	10%	$60,101	$15,386
Role-Specific Strategic Objectives	**1 Finance** a) Oversee Finance Transformation Strategy initiatives b) Debt Refinance **2 Strategy** Oversee and facilitate strategic planning **3 Property** Successful implementation of property facilities management and lease administration outsourcing **4 Risk** Effective oversight of risk management function, framework and reporting	20%	$120,203	$114,193
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$60,101	$57,096
TOTAL			**$601,014**	**$310,003**

4.5.3 CE Pathology – Wesley Lawrence

FY 2018 STIP STATEMENT

STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	20%	$75,000	$25,650
	Operating Cash Flow	10%	$37,500	$9,600
Divisional Profitability	Underlying Net Profit After Tax	40%	$150,000	$44,100
Role-Specific Strategic Objectives	1 Undertake a national people/process re-structure to support strategy 2 Develop comprehensive business case for a new Laboratory Information System 3 Improve return on capital through business improvement initiatives 4 Develop and commence national employee engagement plan	20%	$75,000	$52,500
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$37,500	$37,500
TOTAL			**$375,000**	**$169,350**

4.5.4 CE Medical Centres – Tim Haggett

FY 2018 STIP STATEMENT

STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	20%	$56,000	$27,600
	Operating Cash Flow	10%	$28,000	$20,700
Divisional Profitability	Underlying Net Profit After Tax	40%	$112,000	$55,200
Role-Specific Strategic Objectives	1 Project Leapfrog – develop strategic plans for each Medical Centre site including: – appropriate acquisition opportunities – workforce planning – patient experience through enablers such as digital appointments – re-modelling metrics for focus areas such as billing, care coordination and occupational health 2 Develop and commence roll-out of strategic plan for doctor recruitment, including new recruitment team and doctor relationship management	20%	$56,000	$52,440
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$28,000	$27,600
TOTAL			**$280,000**	**$183,540**

4 Executive KMP – remuneration outcomes for FY 2018 (continued)

4.5.5 CE Imaging – Dean Lewsam

	FY 2018 STIP STATEMENT			
STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	20%	$58,000	$19,836
	Operating Cash Flow	10%	$29,000	$7,424
Divisional Profitability	Underlying Net Profit After Tax	40%	$116,000	$62,064
Role-Specific Strategic Objectives	1 Undertake a national people/ process re-structure to support strategy, including recruitment of COO 2 Implement and/or integrate key business initiatives including Imaging Core Application Refresh and Brisbane Private Imaging 3 Develop strategy for community centres, including retail brand architecture 4 Develop strategy for imaging business with medical centres 5 Develop and commence national employee engagement plan	20%	$58,000	$40,600
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$29,000	$26,100
TOTAL			**$290,000**	**$156,024**

4.5.6 CE Health & CO – Maxine Jaquet

	FY 2018 STIP STATEMENT			
STRATEGIC OBJECTIVE	MEASURES	WEIGHTING	TARGET OPPORTUNITY	ACTUAL OUTCOME
Group Profitability	Underlying Net Profit After Tax	20%	$60,000	$20,520
	Operating Cash Flow	10%	$30,000	$7,680
Divisional Profitability	Underlying Net Profit After Tax	40%	$120,000	$0
Role-Specific Strategic Objectives	1 Ensure the run-rate free cash flow is positive by 30 June 2018 2 Acquisitions to meet business case return hurdles 3 Develop service standards and ensure practices adhere to Group Risk Framework and accreditation standards 4 Develop & deliver endorsed integration plan 5 Positive Net Promoter Score on testimonials for acquired practices 6 Health & Co brand awareness	20%	$60,000	$54,000
Leadership Behaviours	■ Collaboration ■ Empathetic leadership ■ Committed to excellence ■ Act with integrity ■ Recognise success ■ Embrace innovation	10%	$30,000	$30,000
TOTAL			**$300,000**	**$112,200**

4.6 Executive KMP – LTI opportunity for FY 2018 and rationale

4.6.1 Measurement period for FY 2018

LTI awards relating to FY 2018 will be made after a three year measurement period starting on 1 July 2017 and ending on 30 June 2020. Primary issues Performance Rights for LTI awards. These Rights will not vest unless and until:

- the relevant predetermined measurement period set by the Board ends;
- the Company's performance is assessed against performance criteria; and
- the level of vesting is determined by the Board based on the Company's performance.

4.6.2 rTSR and ROIC criteria for FY 2018

LTI awards for all executive KMP will be determined based on two equally-weighted criteria:

- 50% based on rTSR; and
- 50% based on ROIC.

rTSR was selected by the Board to motivate Senior Executives to drive returns which outperform those of comparable companies and thereby make Primary a superior investment. rTSR is calculated as follows:

PRY TSR	Share price movement + dividends (14-day Volume Weighted Average Price)
Comparator Group	See table in 8.3
Linear vesting scale	Nil below Target 50% at Target, being point at which 50% of comparator group lie below 100% at Stretch, being point at which 75% of comparator group lie below
Positive Gate	Nil if Primary's TSR is zero or negative

ROIC was selected by the Board to motivate Senior Executives to focus on projects which generate strong returns on capital invested and thereby increase shareholder value. ROIC is calculated as follows:

ROIC	Underlying EBIT as a percentage of average invested capital (net debt plus equity). Calculated annually and then averaged over the three year measurement period
Goodwill	Inclusive of goodwill
Performance criteria	Threshold, Target and Stretch levels set by the Board at the start of the measurement period using Primary's budget and cost of capital
Linear vesting scale	Nil below Threshold 25% at Threshold 50% at Target 100% at Stretch

ROIC performance criteria for LTI awards (FY 2016–FY 2018 inclusive)

	ROIC						
AWARD YEAR	THRESHOLD %	TARGET %	STRETCH %	ACHIEVED[1] %	MEASUREMENT PERIOD	VESTING DATE (IF TARGETS ACHIEVED)	AWARD OUTCOME
FY 2018	**8.2**	**8.4**	**8.6**	**6.1**	**FY 2018–2020**	**After 1 July 2020**	**Open**
FY 2017	8.2	8.4	8.6	6.3	FY 2017–2019	After 1 July 2019	Unlikely
FY 2016	7.2	7.4	7.6	6.6	FY 2016–2018	After 1 July 2018	Nil

1 These figures are based on Primary's actual performance in the completed financial years of the relevant measurement period.

4.7 Executive KMP – LTI outcome for FY 2016

FY 2016 was the first year in which executive KMP were eligible to receive an LTI grant under Primary's new remuneration framework. The measurement period for FY 2016 LTI awards was FY 2016–FY 2018. The LTI performance criteria set by the Board for FY 2016 and Primary's results for FY 2016–FY 2018 inclusive, are set out in the following table:

LTI PERFORMANCE MEASURE	TARGET PERFORMANCE	ACTUAL RESULT	OUTCOME
rTSR	P50 of comparator group	PRY TSR -22.38% P [N/A] of comparator group	Below Threshold/Target Nil award
ROIC	7.4%	PRY ROIC 6.6%	Below Threshold Nil award

As the performance criteria were not met, there will be no LTI in relation to FY 2016. All Performance Rights issued to executive KMP in relation to the FY 2016 LTI will lapse.

5 Executive KMP remuneration in detail

5.1 Executive KMP remuneration – Statutory disclosure for FY 2018

The following tables outline the remuneration received by Primary's executive KMP during FY 2018 prepared according to statutory disclosure requirements and applicable accounting standards.

		SHORT-TERM EMPLOYEE BENEFITS				
NAME	YEAR	CASH SALARY ($)	CASH STI ($)	NON-MONETARY BENEFITS[2] ($)	ANNUAL LEAVE[3] ($)	CASH RETENTION ($)
Current Executive KMP						
Malcolm Parmenter (from 6 September 2017)	**2018**	**1,335,306**	**399,329**	**1,864**	**59,496**	**–**
Malcolm Ashcroft [1]	**2018**	**1,011,433**	**232,503**	**2,331**	**(13,078)**	**175,004**
	2017	959,596	162,508	2,581	10,095	93,496
Timothy Haggett (from 23 October 2017)	**2018**	**545,966**	**137,655**	**1,031**	**41,123**	**–**
Maxine Jaquet	**2018**	**579,951**	**84,150**	**2,331**	**869**	**117,321**
	2017	505,384	121,500	2,322	(8,923)	62,679
Wesley Lawrence	**2018**	**729,951**	**127,013**	**2,331**	**(13,790)**	**146,652**
	2017	410,256	108,623	2,322	21,164	78,348
Dean Lewsam	**2018**	**559,951**	**117,018**	**2,331**	**(19,920)**	**113,411**
	2017	485,384	162,038	2,322	(2,154)	60,589
Former Executive KMP						
Peter Gregg (until 29 May 2017)	2017	1,630,384	387,127	2,581	(91,141)	–
James Bateman (until 8 August 2016)	2017	73,162	–	259	(121,433)	–
John Houston (until 17 October 2017)	**2018**	**224,600**	**–**	**1,300**	**(96,222)**	**69,013**
	2017	730,384	105,469	2,322	45,071	78,348
Total KMP Remuneration	**2018**	**4,987,158**	**1,097,668**	**13,519**	**(41,522)**	**621,401**
	2017	4,794,550	1,047,265	14,709	(147,321)	373,460

1 On 12 September 2016 Malcolm Ashcroft was awarded Service Rights to the value of $250,000 pursuant to a sign on arrangement. Included within LTI for 2017 and 2018 is an amount to reflect the three year service period associated with the Service Rights and which has been calculated in accordance with AASB 2 Share-based Payments.

2 Represents the taxable value of fringe benefits for the respective FBT year ended 31 March.

3 Changes in accrued leave represent annual leave and long service leave accrued or utilised during the financial year. Negative amounts represent the utilisation of annual leave for continuing and the reversal of leave balances for former employees.

4 The amount reported of other is an ex gratia payment granted by the Board, paid on 14 December 2017, in relation to a two week orientation period undertaken by Malcolm Parmenter in August 2017.

5 Relates to the rights granted in respect of the 2016, 2017 and 2018 Plans and calculated in accordance with AASB 2 Share-based Payments. Credit amounts reported above relate to grants that have been forfeited due to an individual ceasing to be employed by Primary and have also been calculated in accordance with AASB 2.

6 Termination benefits include annual leave, long service leave and pay in lieu of notice.

	POST-EMPLOYMENT BENEFITS	LONG-TERM EMPLOYEE BENEFITS	EQUITY SETTLES SHARE-BASED PAYMENTS				
OTHER[4] ($)	SUPER CONTRIBUTIONS ($)	LONG SERVICE LEAVE[3] ($)	STI[5] ($)	LTI[5] ($)	RETENTION ($)	TOTAL ($)	TERMINATION BENEFITS[6] ($)
63,462	**16,425**	**22,918**	**55,462**	**262,933**	**–**	**2,217,195**	**–**
–	**20,049**	**39,724**	**61,389**	**448,323**	**114,677**	**2,092,354**	**–**
–	19,616	4,308	38,950	177,942	61,265	1,530,357	–
–	**14,034**	**9,596**	**19,119**	**92,000**	**–**	**860,524**	**–**
–	**20,049**	**25,124**	**32,358**	**178,887**	**76,877**	**1,117,917**	**–**
–	19,616	2,714	26,579	46,790	41,071	819,732	–
–	**20,049**	**36,567**	**56,537**	**180,468**	**96,099**	**1,381,877**	**–**
–	11,090	6,457	19,051	69,255	51,341	777,907	–
–	**20,049**	**29,348**	**42,347**	**172,525**	**63,231**	**1,100,291**	**–**
–	19,616	9,559	32,007	45,266	33,781	848,408	–
–	19,616	(7,209)	(36,303)	(320,650)	–	1,584,405	972,073
–	1,886	(70,725)	1,047	(60,642)	–	(176,446)	966,243
–	**6,683**	**(29,824)**	**6,541**	**34,943**	**45,223**	**262,257**	**895,601**
–	19,616	10,832	30,826	57,150	51,341	1,131,359	–
63,462	**117,338**	**133,453**	**273,753**	**1,370,079**	**396,107**	**9,032,415**	**895,601**
–	111,056	(44,064)	112,157	15,111	238,799	6,515,722	1,938,316

5.2 Executive KMP – Service and Performance Rights awarded, vested and lapsed during FY 2018

All equity awards relating to FY 2018 are made in the form of Rights:

1 **Service Rights** are used for the equity portion of STI awards and, once issued, are subject to the relevant Senior Executive remaining employed by Primary for a predetermined period; at the end of which the Service Rights vest and one ordinary Share is issued for each vested Right. 50% of Service Rights vest after one year and the remaining 50% vest after two years. A Service Right is used for the equity portion of the STI award in order to enable deferral of a portion of the STI award to promote Senior Executive retention; and

2 **Performance Rights** are used for LTI awards and, once issued, are subject to various predetermined performance criteria being met by the Company over the measurement period. At the end of the measurement period, if the Board determines that the performance criteria have been met, the Performance Rights vest and one ordinary Share is issued by the Company for each vested Right. If the performance criteria have not been met then the Rights lapse and no Shares are issued.

Rights are granted for nil monetary consideration and do not have an exercise price.

5 Executive KMP Remuneration in detail (continued)

5.2.1 Service Rights

NAME	GRANT	RIGHTS AWARDED DURING YEAR (NO.)	AWARD DATE [1]	FAIR VALUE PER RIGHT AT AWARD DATE [1] ($)
Current Executive KMP				
Malcolm Ashcroft	FY 2017 STI – Tranche 1	8,037	31 August 2017	$3.30
	FY 2017 STI – Tranche 2	8,308	31 August 2017	$3.19
	FY 2016 STI – Tranche 1	–	–	–
	Retention	–	–	–
Maxine Jaquet	FY 2017 STI – Tranche 1	6,009	31 August 2017	$3.30
	FY 2017 STI – Tranche 2	6,212	31 August 2017	$3.19
	FY 2016 STI – Tranche 1	–	–	–
	Retention	–	–	–
Wesley Lawrence	FY 2017 STI – Tranche 1	7,589	31 August 2017	$3.30
	FY 2017 STI – Tranche 2	7,845	31 August 2017	$3.19
	FY 2016 STI – Tranche 1	–	–	–
	Retention	–	–	–
Dean Lewsam	FY 2017 STI – Tranche 1	8,014	31 August 2017	$3.30
	FY 2017 STI – Tranche 2	8,284	31 August 2017	$3.19
	FY 2016 STI – Tranche 1	–	–	–
	Retention	–	–	–
Former Executive KMP				
John Houston [5]	FY 2017 STI – Tranche 1	5,216	31 August 2017	$3.30
	FY 2017 STI – Tranche 2	5,392	31 August 2017	$3.19
	FY 2016 STI – Tranche 1	–	–	–

5.2.2 Performance Rights

NAME	GRANT	RIGHTS AWARDED DURING YEAR (NO.)	AWARD DATE	FAIR VALUE PER RIGHT AT AWARD DATE ($)
Current Executive KMP				
Malcolm Ashcroft	FY 2017 LTI – ROIC	153,694	31 August 2017	$3.19
	FY 2017 LTI – rTSR	153,694	31 August 2017	$1.60
Maxine Jaquet	FY 2017 LTI – ROIC	80,863	31 August 2017	$3.19
	FY 2017 LTI – rTSR	80,863	31 August 2017	$1.60
Wesley Lawrence	FY 2017 LTI – ROIC	80,323	31 August 2017	$3.19
	FY 2017 LTI – rTSR	80,323	31 August 2017	$1.60
Dean Lewsam	FY 2017 LTI – ROIC	78,167	31 August 2017	$3.19
	FY 2017 LTI – rTSR	78,167	31 August 2017	$1.60
Former Executive KMP				
John Houston	FY 2017 LTI – ROIC	101,078	31 August 2017	$3.19
	FY 2017 LTI – rTSR	101,078	31 August 2017	$1.60

1 Award date and fair value per Right calculated in accordance with the principles of AASB 2 *Share-based Payment*.
2 For Rights awarded during the year the vesting date is the first day after the end of the measurement period, which is the first day on which ordinary shares could be issued once the relevant Rights have vested. For Rights that have vested during the year the vesting date is the actual date on which ordinary shares were issued for the vested Rights.
3 Calculated based on the closing share price on the day that ordinary shares are issued for vested Rights (the vesting date in the tables above) being $3.11 on 6 September 2017 and $3.76 on 23 February 2018.
4 No Service Rights or Performance Rights lapsed during the year for any current or former executive KMP.
5 Rights awarded and vested during the period up until John Houston ceased as KMP on 17 October 2017.
6 The LTI allows for the retesting of Performance Rights, extending the measurement period (and therefore the vesting date) by one year compared to the dates in the above table.
7 None of the Performance Rights on issue vested during FY 2018.

VALUE OF RIGHTS AWARDED DURING YEAR ($)	VESTING DATE[2]	RIGHTS VESTED DURING YEAR (NO.)	VALUE OF RIGHTS VESTED DURING YEAR[3] ($)	RIGHTS LAPSED DURING YEAR[4] (NO.)
26,522	1 July 2018	–	–	–
26,503	1 July 2019	–	–	–
–	6 September 2017	5,735	17,836	–
–	23 February 2018	54,740	205,822	–
19,830	1 July 2018	–	–	–
19,816	1 July 2019	–	–	–
–	6 September 2017	3,398	10,568	–
–	23 February 2018	36,697	137,981	–
25,044	1 July 2018	–	–	–
25,026	1 July 2019	–	–	–
–	6 September 2017	2,447	7,610	–
–	23 February 2018	45,872	172,479	–
26,446	1 July 2018	–	–	–
26,426	1 July 2019	–	–	–
–	6 September 2017	3,327	10,347	–
–	23 February 2018	31,183	117,248	–
17,213	1 July 2018	–	–	–
17,200	1 July 2019	–	–	–
–	6 September 2017	5,664	17,615	–

VALUE OF RIGHTS AWARDED DURING YEAR ($)	VESTING DATE[2,6]	RIGHTS VESTED DURING YEAR[7] (NO.)	VALUE OF RIGHTS VESTED DURING YEAR ($)	RIGHTS LAPSED DURING YEAR[3] (NO.)
490,284	1 July 2019	–	–	–
245,910	1 July 2019	–	–	–
257,953	1 July 2019	–	–	–
129,381	1 July 2019	–	–	–
256,230	1 July 2019	–	–	–
128,517	1 July 2019	–	–	–
249,353	1 July 2019	–	–	–
125,067	1 July 2019	–	–	–
322,439	1 July 2019	–	–	–
161,725	1 July 2019	–	–	–

5 Executive KMP Remuneration in detail (continued)

5.3 Executive KMP – Equity holdings in FY 2018

5.3.1 Ordinary Shares

The table below details movements during the year in the number of ordinary Shares in Primary held by KMP, their close family members, and entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

NAME	BALANCE AT BEGINNING OF YEAR (NO.)	VESTING OF RIGHTS (SHARES ISSUED) (NO.)	SHARES PURCHASED/(SOLD) (NO.)	BALANCE AT END OF YEAR (NO.)
Current Executive KMP				
Malcolm Parmenter	–	–	50,000	50,000
Malcolm Ashcroft	35,000	60,475	–	95,475
Maxine Jaquet	–	40,095	–	40,095
Wesley Lawrence	–	48,319	–	48,319
Dean Lewsam	–	34,510	–	34,510
Former Executive KMP				
John Houston [1]	274	5,664	–	5,938

1 Number held on cessation as KMP on 17 October 2017.

Tim Haggett did not hold any ordinary shares during the period from when he was appointed as KMP until 30 June 2018.

5.3.2 Rights

The table below details movements during the year in the number of Rights in Primary held by KMP, their close family members, and entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

NAME	CLASS	BALANCE AT BEGINNING OF YEAR (NO.)	RIGHTS AWARDED AS COMPENSATION DURING YEAR [1] (NO.)	RIGHTS VESTED DURING YEAR (NO.)	RIGHTS LAPSED DURING YEAR (NO.)	BALANCE AT END OF YEAR (NO.)
Current Executive KMP						
Malcolm Ashcroft	Service Rights	135,070	16,345	60,475	–	90,940
	Performance Rights	286,696	307,388	–	–	594,084
Maxine Jaquet	Service Rights	43,600	12,221	40,095	–	15,726
	Performance Rights	123,626	161,726	–	–	285,352
Wesley Lawrence	Service Rights	50,843	15,434	48,319	–	17,958
	Performance Rights	43,956	160,646	–	–	204,602
Dean Lewsam	Service Rights	37,941	16,298	34,510	–	19,729
	Performance Rights	118,132	156,334	–	–	274,466
Former Executive KMP						
John Houston	Service Rights	57,378	10,608	5,664	–	62,322 [2]
	Performance Rights	206,044	202,156	–	–	408,200 [2]

1 Service Rights and Performance Rights awarded as compensation during the year relate to the FY 2017 STI and FY 2017 LTI plans respectively.

2 Number held on cessation as KMP on 17 October 2017.

Malcolm Parmenter and Tim Haggett did not hold any Service Rights or Performance Rights during the period from when they were appointed as KMP until 30 June 2018.

5.4 Company performance

5.4.1 Five-year performance table

The following provides a summary of the key financial results for the Company over the FY 2018 period and the previous four financial years in accordance with the requirements of the Corporations Act:

							SHORT TERM CHANGE IN SHAREHOLDER VALUE OVER 1 YEAR (SP INCREASE + DIVIDENDS)		LONG TERM (CUMULATIVE) 3 YEARS CHANGE IN SHAREHOLDER VALUE		
FY	REVENUE ($M)	REPORTED PROFIT/ (LOSS) AFTER TAX ($M)[1]	UNDER-LYING PROFIT/ (LOSS) AFTER TAX ($M)[2]	CLOSING SHARE PRICE ($)	CHANGE IN SHARE PRICE ($)	DIVIDENDS ($)[3]	AMOUNT ($)	%	AMOUNT ($)	%	3 YEAR TOTAL RETURN (DIVIDENDS ASSUMED TO BE REINVESTED)
FY 2018	1,740	4	87	3.37	–0.27	0.16	–0.11	–3.22	–1.15	–22.93	–22.38
FY 2017	1,659	(517)	92	3.64	–0.31	0.16	–0.15	–3.80	–0.25	–5.57	–6.95
FY 2016	1,637	75	104	3.95	–1.09	0.20	–0.89	–17.63	–0.06	–1.19	–2.44
FY 2015	1,618	136	112	5.04	0.50	0.29	0.79	17.31			
FY 2014	1,524	115	n/a	4.54	–0.24	0.29	0.05	0.96			

1 Statutory or reported profit.

2 Underlying profit from continuing and discontinued operations.

3 Cash amount (after franking credits).

5.4.2 Link between Remuneration Outcomes and Financial Performance

The remuneration of Senior Executives is designed to deliver a link between executive reward and Company performance while balancing current year performance with longer-term sustained value creation. The link is achieved through the variable pay elements of an executive's package which represent 50% or more of total remuneration (at Target levels).

Currently, 70% of the potential STI award is dependent on the achievement of annual budgeted metrics for Group and divisional UNPAT and cash flow. No STI payments were made in FY 2016 or FY 2017 relating to Group UNPAT, as the budgeted Group UNPAT target was not achieved and performance in the relevant years declined.

All of the LTI award potential is currently linked to the longer-term performance of the Group with half of the award based on rTSR and half on ROIC. No LTI Rights vested relating to FY 2016 year, as neither rTSR nor ROIC targets for the three-year measurement period were met. This reflects the fact that total shareholder returns have not been positive during this period.

6 Non-executive Directors (NEDs)

6.1 Non-executive Director remuneration policy

The NED Remuneration Policy, which applies to NEDs of the Company in their capacity as Directors, can be found at www.primaryhealthcare.com.au/about-us/corporate-governance

- Board fees, committee fees, superannuation, other benefits, and securities (if issued).
- The aggregate annual fee limit for NED remuneration is $1.4 million, as approved by shareholders in 2008.
- Externally benchmarked against relevant comparator companies.
- Board fees, including superannuation, are set around the point at which 50% of relevant comparator companies lie below.
- NEDs are required by Primary's Constitution to resign at least every three years and may, if they wish to do so, stand for re-election. A third of NEDs on the Board (other than casual appointees and alternate Directors) must also retire at each annual general meeting.
- Primary does not have an equity holding policy applicable to NEDs; the adoption of such a policy remains under consideration by the Board.

6.2 Non-executive Director fees

The following table sets out the fees applicable to NEDs for FY 2018. During FY 2017, the Board engaged independent executive remuneration consultants (ERCs) to benchmark NED remuneration which indicated that committee fees were below comparable market standards. They were adjusted in FY 2018, as shown below, with increases of 50% for Audit Committee membership fees and 25% for Nomination and Remuneration and Risk Committee chair and membership fees:

FUNCTION	ROLE	FEE (INCL SUPER) FY 2018 ($)	FEE (INCL SUPER) FY 2017 ($)
Main Board	Chair	300,000 [1]	265,000 [1]
	Member	130,000	130,000
Audit Committee	Chair	30,000	30,000
	Member	15,000	10,000
Nomination and Remuneration Committee and Risk Management Committee	Chair	25,000	20,000
	Member	12,500	10,000

1 The Chair's remuneration is all-inclusive and the Chair is not entitled to receive any additional remuneration for chairing, or being a member of, any committee of the Board.

6.3 Other Non-executive Director benefits

Non-executive Directors do not participate in Primary's LTI or STI plans, nor are they eligible to receive any performance-based remuneration such as cash incentives or equity awards.

Primary pays superannuation to NEDs in accordance with Australian superannuation guarantee legislation. Termination benefits other than those accrued through superannuation contributions are not provided to NEDs.

6.4 Non-executive Director remuneration during FY 2018

The following table outlines the remuneration received by Primary's NEDs during FY 2018 prepared according to statutory disclosure requirements and applicable accounting standards.

NAME	YEAR	BOARD FEES ($)	COMMITTEE FEES ($)	SUPERANNUATION CONTRIBUTIONS ($)	TOTAL ($)
Robert Ferguson Chair	**2018**	**279,951**	**–**	**20,049**	**300,000**
	2017	245,384	–	19,616	265,000
Brian Ball (until 23 November 2017)	**2018**	**50,765**	**9,167**	**5,694**	**65,626**
	2017	116,986	20,000	13,014	150,000
Gordon Davis	**2018**	**117,637**	**12,500**	**12,363**	**142,500**
	2017	117,854	10,000	12,146	140,000
Robert Hubbard	**2018**	**115,034**	**42,500**	**14,966**	**172,500**
	2017	115,251	40,000	14,749	170,000
Paul Jones	**2018**	**116,336**	**27,500**	**13,664**	**157,500**
	2017	116,986	20,000	13,014	150,000
Errol Katz	**2018**	**115,468**	**37,500**	**14,532**	**167,500**
	2017	116,119	30,000	13,881	160,000
Arlene Tansey	**2018**	**116,336**	**27,500**	**13,664**	**157,500**
	2017	116,986	20,000	13,014	150,000
Total	**2018**	**911,527**	**156,667**	**94,932**	**1,163,126**
	2017	945,566	140,000	99,434	1,185,000

Non-executive Directors do not sit on any subsidiary Boards at Primary.

6.5 Non-executive Director equity holdings in FY 2018

		OPENING BALANCE	PURCHASED/OTHER	CLOSING BALANCE
NAME	INSTRUMENT	NUMBER	NUMBER	NUMBER
Robert Ferguson	Shares	190,800	100,000	290,800
Brian Ball [1]	Shares	137,000	–	137,000
Gordon Davis	Shares	30,000	–	30,000
Robert Hubbard	Shares	21,000	10,000	31,000
Paul Jones	Shares	31,652	2,400	34,052
Errol Katz	Shares	10,000	–	10,000
Arlene Tansey	Shares	10,000	–	10,000

1 Closing Balance for Brian Ball is the balance as at the date of cessation as a Director (23 November 2017).

There were no shares granted to or forfeited by NEDs during FY 2018 in connection with their remuneration. No NEDs held rights or options over Primary shares in FY 2018.

7 Primary's Remuneration Governance

Primary's Remuneration Governance Framework and the Charter of the Nomination and Remuneration Committee are available on the Company's remuneration governance portal at: www.primaryhealthcare.com.au/about-us/corporate-governance

In summary the remuneration governance framework is as follows:

Primary Board

Ultimate responsibility for all remuneration-related matters

↕

Nomination and Remuneration Committee

Arlene Tansey – Chair | Sally Evans | Robert Hubbard | Errol Katz

Appointed and authorised by the Board to assist in fulfilling its statutory and fiduciary duties.

The Committee is responsible for making recommendations to the Board about:

- Senior Executive remuneration, recruitment, retention, performance evaluation, incentives and termination.
- Remuneration framework for Non-executive Directors.
- Board succession planning and leadership development.
- Performance evaluation of the Board, its committees and Directors.
- Required competencies of Directors.
- Appointment and re-election of Directors.

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Officers or employees | **External Consultants inc. remuneration consultants** | **Other stakeholders**

- To assist it in meeting its responsibilities, the Committee has the authority to seek information and retain legal, accounting or other advisers, consultants or experts.
- The Committee communicates with Senior Executives about remuneration-related matters, to ensure that Senior Executives are aware of the Board's performance expectations and the connection between the achievement of the Board's strategy for Primary, shareholder value and financial rewards for management.
- The Committee consults widely with stakeholders including shareholders, proxy advisers and other stakeholders on their views on remuneration policy and disclosures.

8 Remuneration details relating to FY 2018

8.1 Senior Executive employment terms

KEY TERM	SUMMARY OF KEY TERM
Employing company	Idameneo (No.789) Ltd. (This is the service company in the Primary Group and a large number of Group employees are employed by this entity.)
Basis of employment	Permanent full time. No fixed or maximum term.
Period of notice	12 months, from either party.
Termination without notice	Primary may terminate the Senior Executive's employment without notice if, in the opinion of Primary, the Senior Executive engages in misconduct, fraud, commits a serious or persistent breach of the agreement, or other specified circumstances occur.
Termination payments	Capped at 12 months Base Package (Primary is not required to pay or provide, or procure the payment or provision, of any payment or benefit to the Senior Executive which would require shareholder approval). The treatment of incentives under the STIP and LTIP in the case of termination is addressed in separate sections of this report.

8 Remuneration details relating to FY 2018 (continued)

8.2 Short-term Incentive Plan (STIP) details

<table>
<tr><th>PERIOD</th><th>1 JULY 2017–30 JUNE 2018 INCLUSIVE</th></tr>
<tr><td>Eligibility</td><td>Senior Executives comprising the CEO, other KMP who hold executive roles, other direct reports to the CEO, and other persons selected by the Board.</td></tr>
<tr><td>Plan gate
& Board discretion</td><td>The Board retains the discretion to either abandon the plan or modify outcomes to ensure that they are appropriate given the circumstances that have prevailed over the measurement period (this is intended to ensure alignment between performance and reward outcomes).

A specified “gate” condition may apply to offers of STI such that no award will be payable in relation to any KPI if the gate condition is not met or exceeded.

FY 2018
No gate was specified by the Board.

FY 2019 invitations
To be determined.</td></tr>
<tr><td>Termination
of employment</td><td>The following conditions apply to termination of employment of an executive KMP during FY 2018.
<table>
<tr><th>NATURE OF TERMINATION OF EMPLOYMENT</th><th>TREATMENT OF STIP ENTITLEMENT FOR THE MEASUREMENT PERIOD IN WHICH THE TERMINATION OCCURS</th><th>DEFERRED STI AWARDS (RIGHTS)</th></tr>
<tr><td>Dismissal</td><td>All entitlements in relation to the measurement period are forfeited.</td><td>Any unvested Rights related to prior STI awards are forfeited (excluding Rights that resulted from salary sacrifice).</td></tr>
<tr><td>Resignation</td><td>All entitlements in relation to the measurement period are forfeited, unless otherwise determined by the Board. If the Board determines entitlements will not be fully forfeited, the amounts that may earned under the STI award will be reduced pro-rata to reflect the period of the measurement period not served, and will generally be paid at the same time as other participants receive payments.</td><td>Any unvested Rights related to prior STI awards are forfeited (excluding Rights that resulted from salary sacrifice).</td></tr>
<tr><td>Other Termination of Employment e.g. death, total & permanent disablement, redundancy, retrenchment, retirement with the prior written consent of the Board.</td><td>Termination does not affect a participant’s entitlement in respect of the measurement period other than that the award opportunity will be reduced proportionately to reflect the portion of the measurement period during which the participant was employed. The actual STI award earned will be determined following the end of the measurement period along with the determination of awards for other participants.</td><td>Any unvested Rights related to prior STI awards are unaffected by the termination and any service test will be deemed to have been met, unless otherwise determined.</td></tr>
</table></td></tr>
<tr><td>Change of Control
including takeover</td><td>In the event of a Change of Control (defined in section 8.3) the Board may in its discretion decide to:
terminate the STIP for the measurement period and pay pro-rata awards based on the completed proportion of the measurement period and taking into account performance up to the date of the Change of Control; or
continue the STIP but make interim non-refundable pro-rata awards based on the completed proportion of the measurement period and taking into account performance up to the date of the Change of Control; or
allow the STIP to continue.</td></tr>
</table>

8.3 Long-term Incentive Plan (LTIP) details

Measurement period	The measurement period will include three financial years unless otherwise determined by the Board (which would only apply in exceptional circumstances). **FY 2016 LTI** The measurement period is from 1 July 2015 to 30 June 2018. **FY 2017 LTI** The measurement period is from 1 July 2016 to 30 June 2019. **FY 2018 LTI** The measurement period will be from 1 July 2017 to 30 June 2020. **FY 2019 LTI** The measurement period will be from 1 July 2018 to 30 June 2021 (to be confirmed).
Eligibility	**Senior Executives** comprising the CEO, other KMP who hold executive roles, other direct reports to the CEO, and other persons selected by the Board.
Issue of Performance Rights	Primary issues a sufficient number of Performance Rights to accommodate the maximum possible LTI award being a Stretch target award, regardless of how likely or unlikely such an award may be.
Vesting and exercise of Performance Rights	When a Performance Right (or Services Right) vests, it is automatically exercised, that is, for each Right that vests, the Company issues one ordinary Share to the relevant participant. Rights do not carry dividend or voting rights. On vesting or exercise of a Right, the Board may determine in its absolute discretion whether to deliver the value of the Right in the form of Shares (either through a new issue or on market acquisition), cash or a combination of Shares and cash. Each Right will be granted for nil monetary consideration and will not have an exercise price. No Shares acquired by participants on vesting or exercise may be disposed of if to do so would breach the Company's share trading policy or insider trading prohibitions. In addition, Shares allocated on vesting of Right may be subject to specified disposal restrictions (as set out in the terms of the relevant award) which prevent the acquired Share being disposed of for a specified period following acquisition. If Rights in a tranche have not vested and there is no opportunity for those Rights to vest at a later date, they will lapse. Other than in limited circumstances, Rights may not be disposed of, transferred or otherwise dealt with, and lapse immediately on a purported disposal, transfer or dealing.
Retesting	For FY 2018 LTI the Board that has determined that no retesting of Performance Rights will be available. For FY 2016 LTI and FY 2017 LTI retesting of Performance Rights is at the Board's discretion. The LTIP allows for the retesting of Performance Rights, extending the measurement period by one year (to four years), provided that: ■ only one retest is allowed per tranche of Performance Rights; ■ retesting may only be done of if no vesting has occurred at the end of the relevant measurement period; and ■ retesting requires the vesting scale reflect a pro-rata increase in the difficulty of the hurdle to account for the additional time. The retesting provision is designed to allow the Board to give management an opportunity to reward stellar performance – beyond the original vesting level – with a one year extension to the original measurement period. Retesting for a further year will only result in vesting if the original three years' hurdles plus another year's hurdle have been met. The aim is to reward management for a stellar performance in a given year which has delivered a commensurate increase in shareholder value.
Vesting scales for rTSR portion of LTI	

PERFORMANCE LEVEL	PRIMARY'S TSR RELATIVE TO COMPARATOR GROUP TSRs	% OF rTSR-RELATED TARGET LTI AWARD VALUE	% OF rTSR-RELATED PERFORMANCE RIGHTS WHICH VEST
Stretch	≥P75	200	100
Between Target and Stretch	>P50 but <P75	Pro-rata 100–200	Pro-rata 50–100
Target	P50	100	50
Below Target	<P50	Nil	Nil

8 Remuneration details relating to FY 2018 (continued)

Comparator group for rTSR portion of LTI

ASX CODE	NAME	INDEX CODE & DESCRIPTION
AHZ	Admedus Limited	30 All Ordinaries
ANN	Ansell Limited	52 S&P/ASX 300
API	Australian Pharmaceutical Ind	52 S&P/ASX 300
CAJ	Capitol Health Limited	52 S&P/ASX 300
COH	Cochlear Limited	52 S&P/ASX 300
EHE	Estia Health Limited	52 S&P/ASX 300
FPH	Fisher & Paykel Healthcare Corp	52 S&P/ASX 300
GID	Gi Dynamics Inc	30 All Ordinaries
GXL	Greencross Limited	52 S&P/ASX 300
HSO	Healthscope Limited	52 S&P/ASX 300
IPD	Impedimed Limited	52 S&P/ASX 300
JHC	Japara Healthcare Limited	52 S&P/ASX 300
NAN	Nanosonics Limited	52 S&P/ASX 300
ONT	1300 Smiles Limited	30 All Ordinaries
PME	Pro Medicus Limited	30 All Ordinaries
PSQ	Pacific Smiles Group Limited	30 All Ordinaries
REG	Regis Healthcare Limited	52 S&P/ASX 300
RHC	Ramsay Health Care Limited	52 S&P/ASX 300
RMD	ResMed Inc	52 S&P/ASX 300
SHL	Sonic Healthcare Limited	52 S&P/ASX 300
SIP	Sigma Pharmaceuticals Limited	52 S&P/ASX 300
SOM	SomnoMed Limited	30 All Ordinaries
VRT	Virtus Health Limited	52 S&P/ASX 300

Vesting scales for ROIC portion of LTI

PERFORMANCE LEVEL	PRIMARY'S AVERAGE ROIC FOR FY 2018–FY 2020	% OF ROIC TARGET LTI AWARD VALUE	% OF ROIC-RELATED PERFORMANCE RIGHTS WHICH VEST
Stretch	8.6%	200	100
Between Target and Stretch	>8.4% <8.6%	Pro-rata 100–200	Pro-rata 50–100
Target	8.4%	100	50
Between Threshold and Target	>8.2% <8.4%	Pro-rata 50–100	Pro-rata 25–50
Threshold	8.2%	50	25
Below Threshold	<8.2%	Nil	Nil

Termination of employment

If an LTIP participant ceases to be an employee of the Primary Group, and the termination of their employment is in circumstances other than Special Circumstances (defined below), then all unvested Rights held by the participant will be forfeited and lapse unless and to the extent otherwise determined by the Board.

If an LTIP participant's termination is in Special Circumstances, then Performance and Service Rights granted under the LTIP in the financial year of termination will be forfeited in the same proportion that the remainder of the financial year bears to the full financial year, unless otherwise determined by the Board.

Performance Rights and Service Rights that do not lapse at the termination of employment will continue to be held by participants with a view to testing for vesting at the end of the relevant measurement period.

Special Circumstances means death, total and permanent disablement as determined by the Board, retirement with the prior consent of the Board, redundancy, retrenchment or other Company-initiated terminations other than for cause.

Change of Control including takeover	Unless otherwise determined by the Board, in the event of a Change of Control (defined below), the vesting conditions attached to a tranche of Rights at the time of the relevant Change of Control offer will cease to apply and: ■ unvested Performance Rights granted in the final year of the Change of Control will lapse in the proportion that the remainder of the financial year bears to the full financial year; ■ all remaining unvested Performance Rights will vest in accordance with the application of the following formula (noting that negative results will be taken to be nil): $$\textit{unvested Performance Rights} \times \frac{\textit{Share Price at the Change of Control} - \textit{Offer Share Price}}{\textit{Offer Share Price}}$$ where: **Share Price at the Change of Control** means the volume weighted average share price (VWAP) at which the Company's shares were traded on ASX in the 14 days prior to the date of calculation (i.e. the date on which the Change of Control (defined below) occurs). **Offer Share Price** means the VWAP at which the Company's shares traded on ASX in the 14 days following announcement of the most recent annual results of the Company, or such other date determined by the Board. ■ any remaining unvested Performance Rights that do not vest in accordance with the above formula will lapse unless otherwise determined by the Board; ■ all unvested Service Rights will vest; and ■ any disposal restrictions applied to deferred Rights by the Company and specified as part of the LTI Award will be lifted (including the removal of any Company-initiated CHESS holding lock if applicable), unless otherwise determined by the Board. A **Change of Control** occurs when the Board advises participants that one or more persons acting in concert have acquired, or are likely to imminently acquire "control" of the Company as defined in section 50AA of the Corporations Act.

8 Remuneration details relating to FY 2018 (continued)

8.4 Remuneration-related policies

Securities Trading Policy

KMP may only trade during a "trading window" (with some limited exceptions as set out in the policy). The following periods in a calendar year are "trading windows", unless otherwise determined by the Board:

- four weeks commencing one trading day after the day of release of the Appendix 4D (half-year report), typically in mid-February;
- four weeks commencing one trading day after the day of release of the Appendix 4E (preliminary final report), typically in mid-August;
- four weeks commencing one trading day after the day of Primary's Annual General Meeting, typically in mid-late November;
- the duration of the offer period for an offer of securities made pursuant to a prospectus or cleansing statement; and
- any other period declared by the Board in its discretion to be a trading window.

Equity holding Policy

- Primary does not currently have an equity holding policy applicable to KMP; the adoption of such a policy remains under consideration by the Board.

Executive Remuneration Consultant (ERC) Policy and Payments

- Primary's policy requires that ERCs are approved and engaged by the Board before any advice is received. This policy enables the Board to state whether or not the advice received from ERCs has been independent and why. Interactions between management and the ERC must be approved, and are supervised by the Nomination and Remuneration Committee when appropriate.
- During FY 2018, the Board approved and engaged ERCs to provide KMP remuneration recommendations and advice as listed below:

ERC	WORK PERFORMED	AMOUNT
KPMG	■ Review of reward framework. ■ Transformation Reward Plan advice.	$58,425
Godfrey Remuneration Group Pty Limited	■ Medical Centre Partner Plan. ■ Drafting assistance on 2017 Remuneration Report.	$30,500

- The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related because:
  - the Board is confident that the policy for engaging ERCs is being adhered to and is operating as intended;
  - the Board has been closely involved in all dealings with ERCs; and
  - each KMP remuneration recommendation received during the year was accompanied by a declaration from the ERC to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

8.5 Transactions with KMP

Transactions with current KMP	■ During the years ended 30 June 2018 and 30 June 2017 the Primary Group provided medical centre management services (Services) to Dr Paul F Jones Pty Ltd, a company controlled by Paul Jones, a Non-executive Director of Primary. The Services were provided to Dr Jones’ general medical practice, which is conducted at one of Primary’s medical centres, on ordinary arm’s length terms. The Service fees received by the Group for FY 2018 were $96,219 (FY 2017: $118,785). This Service fee revenue was accounted for by Primary in the same way as revenue from other healthcare practices. Under the terms of the most recent extension of the agreement between Dr Jones’ company and the Group, Dr Jones’ company is entitled to receive a lump sum amount in three instalments from the Group. The FY 2018 instalment was $40,000 (FY 2017: $40,000). There were no amounts payable or receivable as at 30 June 2018 (30 June 2017: nil) and the provision of the Services continues as at the date of this report. ■ During the years ended 30 June 2018 and 30 June 2017, Primary contracted with Slick Azz Auto Detailing Pty Ltd, a company controlled by a child of Wesley Lawrence, for provision of car wash services for the QML Pathology courier fleet. The contract is on ordinary arm’s length terms and was awarded following a tender process. Mr Lawrence was not a member of the management line that awarded the contract. The fees for services rendered by Primary for the above period were $83,800 (FY 2017: $99,380). The expenses for these services were accounted for by Primary in the same way as expenses from other operational expenditure. As at 30 June 2018, $16,054 was payable to Slick Azz (30 June 2017: $1,537). ■ From time to time, KMPs (and their personally-related entities) enter into transactions with the Primary Group, including the use or provision of services under normal customer, supplier or employee relationships. These transactions: – occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the Group would have adopted if dealing at arm’s length with an unrelated person; – do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the KMP; and – are trivial or domestic in nature.
Loans to current KMP	■ No loans were made to any of the KMP or their related parties during FY 2018.
Transactions with former KMP	■ *James Bateman (former General Manager, Pathology)* As disclosed in the FY 2017 Remuneration Report, the Primary Group engaged Mr Bateman’s services as a consultant for an 18 month period following cessation of his employment on 5 August 2016. During FY 2018 the amount paid to Mr Bateman for consultancy services was $854,832 (FY 2017: $1,174,748).

Signing of Directors’ Report

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors.

Robert Hubbard
Chair

27 September 2018

Corporate Governance Statement

Primary is committed to ensuring that its policies and practices reflect a high standard of corporate governance.

The Board has adopted a comprehensive framework of Corporate Governance Guidelines. Throughout FY 2018, Primary's governance arrangements were generally consistent with the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

In accordance with ASX Listing Rule 4.10.3, Primary's FY 2018 Corporate Governance Statement can be viewed at: www.primaryhealthcare.com.au/about-us/corporate-governance

Auditor's Independence Declaration

Ernst & Young
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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Primary Health Care Limited

As lead auditor for the audit of Primary Health Care Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Douglas Bain

Douglas Bain
Partner

27 September 2018

Independent Auditor's Report

to the members of Primary Health Care Limited

Building a better working world

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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Primary Health Care Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Independent Auditor's Report

to the members of Primary Health Care Limited

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Carrying Value of Goodwill

WHY SIGNIFICANT	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
As disclosed in Note B2 of the financial report and in accordance with the requirements of AASB 136 *Impairment of Assets*, the Group performed an annual impairment review of the Medical Centres, Pathology, Imaging and Health & Co goodwill carrying values to ensure that the recoverable value of the goodwill exceeds the carrying amount at 30 June 2018. A fair value less cost of disposal model is used to calculate the recoverable amount of each cash generating unit ("CGUs"). This matter was considered a Key Audit Matter due to the level of judgement required to estimate the forecast cash flows, growth rates, discount rates and terminal growth rates.	Our audit procedures included the following: ■ We assessed whether the methodology used by the Group met the requirements of Australian Accounting Standards. ■ We tested the mathematical accuracy of the cash flow models. ■ We assessed the Group's cash flow forecasts including consideration of the historical accuracy of previous forecasts. ■ We assessed the discount rates, growth rates and the terminal growth rates applied, with involvement from our valuation specialists. ■ We evaluated the sensitivity analysis performed by the Group focusing on the CGUs where a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and therefore indicate impairments may be required. ■ We evaluated the adequacy of the disclosures relating to the goodwill carrying values in the financial report, including those made with respect to judgements and estimates.

Other Asset Impairment and Other Related Items

WHY SIGNIFICANT	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
As disclosed in Note A3 of the financial report, an amount of $49.5 million has been recorded in respect of the following: ■ onerous lease provisions ($33.6 million); ■ impairment of property, plant and equipment ($4.0 million); ■ impairment of other intangible assets ($2.5 million); and ■ other asset impairments ($9.4 million). These impairments and associated provisions have resulted from an annual site-by-site review undertaken by the Group. The assessment of the recoverable amount of property, plant and equipment and other intangible assets was performed using a Value in Use model, and determination of site specific onerous lease liabilities was performed utilising a discounted cash flow model based on the site's cash flow assumptions and discount rates. This matter was considered a Key Audit Matter due to the level of judgement required to estimate the forecast cash flows, and growth and discount rates used.	Our audit procedures included the following: ■ We assessed whether the methodology used by the Group met the requirements of Australian Accounting Standards. ■ We tested the mathematical accuracy of the cash flow models. ■ We assessed the basis for the cash flow forecasts including review of lease terms and consideration of the historical site performance. ■ We evaluated the sensitivity analysis performed at an individual site level. ■ We assessed the discount rates and growth rates. ■ We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

to the members of Primary Health Care Limited

Building a better working world

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 43 to 73 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Primary Health Care Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Douglas Bain
Partner

Vida Virgo
Partner

Sydney
27 September 2018

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Directors' Declaration

The Directors of Primary Health Care Limited (Primary) declare that:

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

(B) in the Directors' opinion, the financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including section 296 (compliance with accounting standards) and section 297 (true and fair view); and

(C) the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board as provided in the introduction to the Notes to the consolidated financial statements; and

(D) there are reasonable grounds to believe that Primary and the controlled entities identified in Note D2 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between Primary and those controlled entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785; and

(E) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors made pursuant to section 295(4) of the *Corporations Act 2001*.

On behalf of the Directors

Robert Hubbard
Chair

27 September 2018

Financial Statements

Consolidated statement of profit or loss

for the year ended 30 June 2018

	NOTE	2018 $M	2017 $M
Revenue	A2	**1,740.3**	1,658.6
Employee benefits expense[1]	A3	**842.0**	777.9
Property expenses	A3	**262.9**	261.6
Consumables		**197.5**	176.4
IT expenses		**24.9**	16.9
Impairment and other related items	A3	**49.5**	587.0
Other expenses		**183.7**	171.9
Depreciation	B3	**53.5**	59.2
Amortisation of intangibles	B4	**61.7**	77.4
Earnings before interest and tax		**64.6**	(469.7)
Finance costs	A3	**35.1**	43.1
Profit/(loss) before tax		**29.5**	(512.8)
Income tax expense[1]	A4	**25.4**	4.1
Profit/(loss) for the year		**4.1**	(516.9)
Attributable to:			
Equity holders of Primary Health Care Limited		**4.1**	(516.8)
Non-controlling interest		**–**	(0.1)
Profit/(loss) for the year[1]		**4.1**	(516.9)

	NOTE	2018 CENTS PER SHARE	2017 CENTS PER SHARE
Basic and diluted earnings/(loss) per share	A5	**0.8**	(99.1)

1 Refer to note E9 for details in relation to adjusting subsequent event.

Notes to the financial statements are included on pages 87 to 120.

Consolidated statement of other comprehensive income for the year ended 30 June 2018

	2018 $M	2017 $M
Profit/(loss) for the year[1]	**4.1**	(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 available-for-sale financial assets	**(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[1]	**1.6**	(503.7)
Attributable to:		
Equity holders of Primary Health Care Limited	**1.6**	(503.6)
Non-controlling interest	–	(0.1)
	1.6	(503.7)

1 Refer to note E9 for details in relation to adjusting subsequent event.

FINANCIAL REPORT

Notes to the financial statements are included on pages 87 to 120.

Consolidated statement of financial position

as at 30 June 2018

	NOTE	30 JUNE 2018 $M	30 JUNE 2017 $M
Current assets			
Cash		**84.0**	95.5
Receivables	B1	**146.5**	136.2
Consumables		**22.2**	25.1
Tax receivable	E2	**–**	9.7
Total current assets		**252.7**	266.5
Non-current assets			
Receivables	B1	**3.9**	3.8
Goodwill	B2	**2,348.7**	2,315.5
Property, plant and equipment	B3	**297.5**	299.0
Other intangible assets	B4	**148.4**	166.6
Other financial assets		**10.5**	11.9
Deferred tax asset[1]	E2	**64.6**	50.8
Total non-current assets[1]		**2,873.6**	2,847.6
Total assets[1]		**3,126.3**	3,114.1
Current liabilities			
Payables	B5	**227.1**	225.2
Tax liabilities	E2	**7.9**	–
Provisions[1]	B6	**138.6**	105.3
Other financial liabilities		**0.5**	0.8
Interest bearing liabilities	C1	**0.8**	0.3
Total current liabilities[1]		**374.9**	331.6
Non-current liabilities			
Payables	B5	**14.1**	7.9
Provisions	B6	**55.8**	26.1
Other financial liabilities		**2.6**	–
Interest bearing liabilities	C1	**860.0**	879.4
Total non-current liabilities		**932.5**	913.4
Total liabilities[1]		**1,307.4**	1,245.0
Net assets[1]		**1,818.9**	1,869.1
Equity			
Issued capital	C2	**2,424.2**	2,422.8
Reserves		**12.9**	10.5
Accumulated losses[1]		**(618.2)**	(565.7)
Equity attributable to equity holders[1]		**1,818.9**	1,867.6
Non-controlling interest		**–**	1.5
Total equity[1]		**1,818.9**	1,869.1

1 Refer to note E9 for details in relation to adjusting subsequent event.

Notes to the financial statements are included on pages 87 to 120.

Consolidated statement of changes in equity

for the year ended 30 June 2018

$M	ISSUED CAPITAL	AVAILABLE-FOR-SALE 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[1]	–	–	–	–	–	–	4.1	4.1	–	4.1
Exchange differences arising on translation of foreign operations	–	–	–	0.1	–	–	–	0.1	–	0.1
Fair value loss on available-for-sale financial assets	–	(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)**	**(1.5)**	**0.1**	**–**	**–**	**4.1**	**1.6**	**–**	**1.6**
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[1]	**2,424.2**	**6.4**	**(2.1)**	**(0.9)**	**8.3**	**1.2**	**(618.2)**	**1,818.9**	**–**	**1,818.9**

$M	ISSUED CAPITAL	AVAILABLE-FOR-SALE 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 available-for-sale financial assets	–	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 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

Notes to the financial statements are included on pages 87 to 120.

1 Refer to note E9 for details in relation to adjusting subsequent event.

Consolidated statement of cash flow

for the year ended 30 June 2018

	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	E1	**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 and subsidiaries		**(13.3)**	(8.4)
Payment for Imaging healthcare professionals		**(2.8)**	(4.3)
Payment for Imaging practices and subsidiaries		**(16.6)**	–
Payment for Pathology healthcare practices and subsidiaries		**(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		**84.0**	95.5

Elements of prior comparative period investing activities have been re-stated.

Notes to the financial statements are included on pages 87 to 120.

Notes to the financial statements

for the year ended 30 June 2018

About this Report

Overview

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

Statement of compliance

The financial report is a general purpose financial statement which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis of preparation

The 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 financial report has been prepared on a going concern basis.

Net current liability position

The Group has a net current asset deficiency of $122.2[1] million (30 June 2017: $65.1 million). The Group generates significant operating cash flows and as per note C4, had access to $260 million of unused financing facilities at the end of the reporting period. Refer to note E9 for details of the capital raising which occurred subsequent to year-end.

Rounding of amounts

Primary is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

Significant accounting policies

Accounting policies have been consistently applied to all the years presented, unless otherwise stated. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Significant accounting policies are included within the relevant notes to the financial statements.

Preparation of the financial report requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future period. Information on key accounting estimates and judgements can be found in the following notes:

ACCOUNTING ESTIMATE AND JUDGEMENT	NOTE	PAGE
Recoverability of goodwill	B2	96
Recognition and recoverability of other intangible assets	B4	99
Provisions	B6	100

Basis of consolidation – Subsidiaries

Subsidiaries are those entities controlled by Primary. The financial statements of subsidiaries are included in the consolidated financial report from the date that control is obtained until the date that control ceases. All inter-entity transactions, balances and any unrealised gains and losses arising from inter-entity transactions have been eliminated on consolidation. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and consolidated statement of financial position respectively.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Investments in subsidiaries are carried at their cost of acquisition in the parent company's financial statements.

1 Refer to note E9 for details in relation to adjusting subsequent event.

A. Group performance

This section contains details of the way the business measures performance for the purpose of internal reporting along with details of the key elements of the consolidated statement of profit or loss, earnings per share and accounting policies and key assumptions relevant to the consolidated statement of profit or loss.

A1. 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 financial performance of the business to assess 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 healthcare professionals 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 non-underlying items relating to:

- 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.

A1. 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[1,4]	**138.7**	**95.2**	**57.0**	**(15.6)**	**275.3**
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[2,4]	**114.1**	**31.6**	**33.8**	**(19.4)**	**160.1**
Finance costs					**35.1**
Profit before tax[4]					**125.0**
Income tax expense[3,4]					**37.5**
Profit for the year					**87.5**

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.
4 Refer to note E9 for details in relation to adjusting subsequent event.

A1. Segment information (continued)

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

	SEGMENT RESULT	
	2018 $M	2017 $M
Total segment result from continuing operations before tax[1]	**125.0**	131.5
Impairment and related provisions (refer Note A3)	**(49.5)**	(587.0)
Restructuring and strategic initiatives	**(40.9)**	(39.2)
Non-recurring items	**(5.1)**	(18.1)
Total profit/(loss) before tax[1]	**29.5**	(512.8)

1 Refer to note E9 for details in relation to adjusting subsequent event.

Further information on the reconciliation between reported and underlying performance can be found in the Group Performance on pages 20 and 21.

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 on pages 23 to 31. All strategic initiatives are expected to reap future benefits.

A2. Revenue

	2018 $M	2017 $M
Trading revenue	**1,740.3**	1,658.6

Revenue is recognised at the fair value of consideration received or receivable.

Revenue is generated from the rendering of health-related services and is recognised once the services have been provided.

A3. Expenses

Employee benefits expense

	2018 $M	2017 $M
Employee benefits[1]	**779.9**	718.0
Defined contribution superannuation	**56.7**	56.4
Share-based payments (refer to note E4)	**5.4**	3.5
	842.0	777.9

1 Refer to note E9 for details in relation to adjusting subsequent event.

Primary and its related entities meet their obligations under the *Superannuation Guarantee Charge Act 1992* by making superannuation contributions, at the statutory rate, to complying defined contribution superannuation funds on behalf of their employees. Contributions to defined contribution funds are recognised as an expense as they become payable.

Property expenses

	2018 $M	2017 $M
Operating leases	**219.0**	220.6
Other property expenses	**43.9**	41.0
	262.9	261.6

Operating lease payments, including fixed rate increases to lease payments, are recognised as an expense on a straight-line basis over the lease term.

The benefits of operating lease incentives are recognised as a reduction of rental expense on a straight-line basis over the lease term. An asset or liability is recognised for the difference between the amount paid and the lease expense recognised in earnings on a straight-line basis.

Contingent rentals arising under operating leases, for example CPI linked increases to lease payments, are recognised as an expense in the period in which they are incurred.

Impairment and other related items

	2018 $M	2017 $M
Goodwill impairment (refer to note B2)	–	**468.5**
Other asset impairments, provisions and related items	**49.5**	**118.5**
	49.5	**587.0**

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 Project Leapfrog's comprehensive modernisation and expansion program and $10.1 million of other items.

A3. Expenses (continued)

Finance costs

	2018 $M	2017 $M
Interest expense	**31.5**	39.8
Amortisation of borrowing costs	**3.6**	3.3
	35.1	43.1

Interest expense comprises the interest expense on interest-bearing liabilities and gains/losses arising on interest rate swaps accounted for as cash flow hedges and reclassified from equity.

Other borrowing costs associated with arranging interest bearing liabilities are initially recognised in the consolidated statement of financial position (refer Note C1) and are subsequently amortised through the consolidated statement of profit or loss on a straight line basis over the term of the interest bearing liability they relate to.

A4. Income tax expense

	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[1]	**29.5**	(512.8)
Income tax calculated at 30% (2017: 30%)	**8.8**	(153.8)
Tax effect of amounts which are not deductible in calculating taxable income:		
ATO settlement of healthcare practices and practitioner liabilities	**–**	(0.1)
Amortisation of pre FY15 contractual relationship intangibles	**8.4**	13.3
Goodwill impairment	**–**	140.6
Hospital contract intangible assets	**2.0**	–
Other items	**5.2**	4.3
	15.6	158.1
Under/(over) provision in prior years	**1.0**	(0.2)
Income tax expense[1]	**25.4**	4.1
Comprising:		
Current tax	**39.3**	31.6
Deferred tax	**(14.3)**	(23.7)
Under/(over) provision in prior years	**0.4**	(3.8)
	25.4	4.1

1 Refer to note E9 for details in relation to adjusting subsequent event.

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

ATO objection decisions – years 2003-2007

The Commissioner of Taxation has disallowed 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. Primary is currently in the process of considering its position in respect to the Commissioner's decision and evaluating its options. No amounts have been recognised in relation to this matter in either the current or comparative periods.

A5. Earnings per share

Basic and diluted earnings per share

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 consolidated statement of profit or loss as follows:		
Profit/(loss) attributable to equity holders of Primary Health Care Limited	**4.1**	(516.8)

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 from continuing operations	**0.8**	(99.1)

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.

B. Operating assets and liabilities

This section provides information on the assets used by the Group to generate operating profits and the liabilities incurred.

B1. Receivables

	2018 $M	2017 $M
Measured at amortised cost		
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
Non-current		
Other receivables and prepayments	**3.9**	3.8
	3.9	3.8
Ageing of trade receivables		
Current	**62.9**	57.4
30-60 days	**14.4**	13.7
60-90 days	**10.9**	4.8
90 days +	**30.8**	24.3
	119.0	100.2
Movement in allowance for doubtful debts		
Balance at beginning of year	**13.6**	12.6
Provision for the year	**3.7**	6.7
Amounts written off during the year as uncollectable	**(3.8)**	(5.7)
	13.5	13.6

Trade and other receivables are initially recognised at fair value and subsequently are carried at amortised cost, using the effective interest rate method, less an allowance for impairment.

No interest is charged on trade receivables. The Group's policy requires customers to pay the Group in accordance with agreed payment terms. All credit and recovery risk associated with trade receivables has been provided for in the consolidated statement of financial position. Trade receivables have been aged according to their original due date in the above ageing analysis.

The Group has used the following basis to assess the allowance for doubtful debts:

- a collective impairment based on historical bad debt experience;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

Further discussion of the credit risk associated with trade receivables is included in Note C4.

B2. Goodwill

	2018 $M	2017 $M
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
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

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the CGUs, or Group of CGUs, expected to benefit from the synergies of the business combination.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

Impairment of goodwill and other non-financial assets

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 of disposal calculation, under a five year discounted cash flow model cross checked to available market data (level 3 fair value measurement in the fair value hierarchy – refer note C4 for further details on the hierarchy). 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.

B2. Goodwill (continued)

The key assumptions in the Group's discounted cash flow model as at 30 June 2018 are as follows:

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%) Forecast revenue in the current year has 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%)

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 CGUs 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%

Accounting estimates and judgements: Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value of the CGUs or Group of CGUs to which goodwill has been allocated. The valuation model used to estimate the fair value of each CGU or Group of CGUs requires the Directors to estimate the future cash flows expected to arise from the CGU or Group of CGUs and a suitable discount rate in order to calculate net present value. The key assumptions used to estimate fair value of the Group's CGUs are disclosed above.

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for the year ended 30 June 2018

B3. 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 and impairment	**(301.4)**	**(196.6)**	**–**	**(498.0)**
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 and impairment	(320.1)	(228.0)	–	(548.1)
Closing balance	96.2	172.3	30.5	299.0

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation commences once an asset is available for use and is calculated on a straight-line basis so as to write off the net cost of each asset to its estimated residual value over its expected useful life. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period. Where as a result of this review there is a change in the estimated remaining useful life of an asset, it is accounted for on a prospective basis with depreciation in future periods based on the written down value of the asset as at the date the change in useful life is determined.

The following estimated useful lives are used in the calculation of depreciation:

CLASS OF PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE
Leasehold improvements	1 – 20 years
Plant and equipment	3 – 20 years

Property, plant and equipment is reviewed at each reporting period to determine whether there is any indication that the assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs of disposal and value in use. An impairment loss is recognised in profit or loss for the amount by which an asset's carrying amount exceeds its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Further disclosure relating to the assessment of the recoverable amount of the Group's CGUs is provided in Note B2.

B4. 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 and impairment	**(171.2)**	**(93.6)**	**(28.8)**	**–**	**(293.6)**
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 and impairment	(202.9)	(83.9)	(28.1)	–	(314.9)
Closing balance	115.4	35.9	7.4	7.9	166.6

Intangible assets acquired separately or developed internally are recognised initially at cost. Intangible assets acquired in a business combination are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition intangible assets are recognised at cost less amortisation and impairment (if any).

An internally-generated intangible asset arising from development is only recognised once the feasibility, intention and ability to complete the intangible asset can be demonstrated. Any expenditure on research activities is recognised as an expense when incurred.

All intangible assets have a finite life and are amortised on a straight-line basis over their estimated useful life. The estimated useful lives and amortisation methods are reviewed at the end of each annual reporting period. Where as a result of this review there is a change in the estimated remaining useful life of an asset, it is accounted for on a prospective basis with amortisation in future periods based on the net written down value of the asset as at the date the change in useful life is determined. The following estimated useful lives have been used for each class of asset:

CLASS OF OTHER INTANGIBLES	USEFUL LIFE
HCP contractual relationships	Life of the contractual agreement (typically 5 years)
IT software	3 – 10 years
Licences	3 – 8 years

Intangible assets are reviewed at each reporting period to determine whether there is any indication that the assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs of disposal and value in use. An impairment loss is recognised in profit or loss for the amount by which an asset's carrying amount exceeds its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Further disclosure relating to the assessment of the recoverable amount of the Group's CGUs is provided in Note B2.

Notes to the financial statements

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B4. Other intangible assets (continued)

Accounting estimates and judgements – Other intangible assets

Judgement must be exercised when determining whether it is appropriate to capitalise costs related to internally developed intangible assets, in particular costs related to the development of IT software. Judgement is also required when estimating the expected useful life of other intangible assets and the period over which these assets are amortised.

Details of estimation uncertainty relating to the assessment as to whether other intangible assets are impaired are set out in Note B2.

B5. Payables

	2018 $M	2017 $M
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
Non-current		
Trade payables and accruals	**3.2**	4.0
Deferred consideration	**10.9**	3.9
	14.1	7.9

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Deferred consideration relates to a number of acquisitions and is generally payable based on the future financial performance of the business being acquired. The calculation of deferred consideration has been determined based on management budgets and business plans.

B6. Provisions

	2018 $M	2017 $M
Current		
Provision for employee benefits[1]	**100.2**	82.1
Self-insurance provision	**3.2**	4.2
Onerous contract provision	**8.0**	5.0
Make good provision	**1.4**	1.6
Other provisions	**25.8**	12.4
	138.6	105.3
Non-current		
Provision for employee benefits	**9.5**	8.8
Self-insurance provision	**3.0**	1.2
Onerous contract provision	**38.0**	10.7
Make good provision	**5.3**	5.4
	55.8	26.1

1 Refer to note E9 for details in relation to adjusting subsequent event.

2018	SELF-INSURANCE $M	ONEROUS CONTRACT $M	MAKE GOOD $M	OTHER $M	TOTAL $M
Opening balance	**5.4**	**15.7**	**7.0**	**12.4**	**40.5**
Arising during the year	**5.4**	**34.9**	**–**	**1.4**	**41.7**
Reclassification	**–**	–	**–**	**12.0**	**12.0**
Utilised	**(4.6)**	**(5.1)**	**(0.3)**	**–**	**(10.0)**
Unwinding of discount	**–**	**0.5**	**–**	**–**	**0.5**
Closing balance	**6.2**	**46.0**	**6.7**	**25.8**	**84.7**

B6. Provisions (continued)

Provisions are recognised when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that the Group will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

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

Employee benefits

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

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Self-insurance

The Group is self-insured for workers' compensation. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis and having regard to actuarial valuations.

Onerous contract provision

The Group recognises onerous contract provisions whereby the unavoidable cost of future payments under non-cancellable contracts, being primarily in relation to property operating leases, exceeds the future economic benefits expected to be obtained under the contract.

Make good provision

The Group recognises make good provisions where under certain lease agreements the Group has an obligation to restore the leased premises to a specified condition at the end of the lease term.

Accounting estimates and judgements – Onerous contract provision

The calculation of the onerous contract provision requires management to estimate the future economic benefits expected to be obtained under each of the relevant contracts.

C. Financing and capital structure

This section contains details of the way the business is financed including details around debt and equity, the key financial risks that Primary faces and how they are managed, and accounting policies and key assumptions relevant to the borrowings and equity.

C1. Interest-bearing liabilities

	2018 $M	2017 $M
Measured at amortised cost		
Current		
Finance lease liabilities	**0.8**	0.3
	0.8	0.3
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

Changes in liabilities arising from financing activities

2018	LEASE LIABILITIES $M	GROSS BANK LOANS $M	UNAMORTISED BORROWING COSTS $M	TOTAL $M
Opening balance	**0.3**	**885.0**	**(5.6)**	**879.7**
Cash payments	**(0.6)**	**(20.0)**	**(4.0)**	**(24.6)**
New leases	**2.0**	–	**–**	**2.0**
Amortisation	**–**	–	**3.6**	**3.6**
Other	**–**	–	**0.1**	**0.1**
Closing balance	**1.7**	**865.0**	**(5.9)**	**860.8**

Interest-bearing liabilities are recorded initially at fair value (usually the amount of the proceeds received) less transaction costs. Subsequent to initial recognition, interest-bearing liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the term of the interest-bearing liability using the effective interest method.

Interest rate sensitivity and liquidity analysis disclosures relating to the Group's interest-bearing liabilities are disclosed in Note C4.

C2. 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	**521,853**	521,433	**2,424.2**	2,422.8

Issued capital consists of fully paid ordinary shares carrying one vote per share and the right to dividends.

Transaction costs that are incurred directly in connection with the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

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.

C2. Issued capital (continued)

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 and October 2019 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

C3. 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 28 August 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 the interim dividend for the year ended 30 June 2017 was 100% franked.

FRANKING ACCOUNT	2018 $M	2017 $M
Closing balance as at 30 June	**58.9**	43.5

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables recognised for income tax and dividends as at the reporting date.

C4. Financial instruments

Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk, including interest rate, currency and price risk

This note presents information about the Group’s exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of risk management and this is delegated through the Group's:

- Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies (excluding financial reporting risks); and
- Audit Committee, which is responsible for developing and monitoring the Group’s financial reporting risk management policies.

The committees report regularly to the Board of Directors on their activities.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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C4. Financial Instruments (continued)

The Group's Risk Management Committee (in relation to material business risks excluding financial reporting risks) and Audit Committee (in relation to financial reporting risks) oversee how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial asset held by the Group fails to meet its contractual obligations under the terms of the financial asset (to deliver cash to the Group).

The Group's exposure to credit risk arises principally from cash and derivatives held with financial institutions and trade receivables due from external customers. The credit risk on cash and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies. The Group's maximum exposure to credit risk from trade receivables is equal to the carrying amount of the Group's trade receivables as at the reporting date of $119.0 million (30 June 2017: $100.2 million). The ageing of the Group's trade receivables and an analysis of the Group's provision for doubtful debts is provided in Note B1.

The Group's exposure to credit risk is influenced mainly by the bulk billing of services by medical practitioners to whom the Group charges service fees for use of medical centre and imaging facilities. A large proportion of the Group's receivables are due from Medicare Australia (bulk-billed services) and health funds. The remaining trade receivables are due from individuals. The concentration of credit risk relating to this remaining debt is limited due to the customer base being large and unrelated.

Liquidity risk

Liquidity risk refers to the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial liability.

The Group manages liquidity risk by continually monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and financial liabilities and ensuring that sufficient unused facilities are in place should they be required to refinance any short term financial liabilities.

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

	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

On 20 December 2017 Primary announced the extension and amendment of its syndicated bank 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 in January 2021 and the second tranche of $625.0 million in January 2023.

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

The following tables detail the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The tables include the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows except for expected interest payments which have already been recorded in trade and other payables. The cash flows for the interest rate swaps represent the net amounts to be paid.

C4. Financial Instruments (continued)

The repayment of contractual cash flows due in the period less than one year from 30 June 2018 will be met through the ordinary working capital cycle of the Group, including the collection of trade receivables (30 June 2018: $119.0m) and the unused headroom in the Syndicated Debt Facility (30 June 2018: $260.0m).

2018	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS TOTAL $M	LESS THAN 1 YEAR $M	1 TO 5 YEARS $M
Consolidated				
Non-derivative financial liabilities				
Gross bank loan	**865.0**	**988.1**	**31.3**	**956.8**
Payables	**241.1**	**241.1**	**227.0**	**14.1**
Finance lease liabilities	**1.4**	**1.4**	**0.6**	**0.8**
	1,107.5	**1,230.6**	**258.9**	**971.7**
Derivative financial liabilities				
Interest rate swaps	**3.1**	**3.3**	**1.3**	**2.0**

2017	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS TOTAL $M	LESS THAN 1 YEAR $M	1 TO 5 YEARS $M
Consolidated				
Non-derivative financial liabilities				
Gross bank loan	885.0	938.0	27.8	910.2
Payables	226.4	226.4	218.5	7.9
Finance lease liabilities	0.3	0.3	0.3	–
	1,111.7	1,164.7	246.6	918.1
Derivative financial liabilities				
Interest rate swaps	0.8	0.7	0.7	–

Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates plus a fixed margin. Interest rate risk is managed by the Group by the use of interest rate swap contracts (cash flow hedges), executed by authorised representatives of the Group within limits approved by the Risk Management Committee.

The following table details the Group's exposure to interest rate risk on non-derivative financial assets and financial liabilities as at 30 June 2018.

2018	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE $M	FIXED INTEREST RATE LESS THAN 1 YEAR $M	FIXED INTEREST RATE 1 TO 5 YEARS $M	TOTAL $M
Financial assets					
Cash	**1.83**	**84.0**	**–**	**–**	**84.0**
Financial liabilities					
Finance leases	**3.23**	**–**	**(0.8)**	**(0.9)**	**(1.7)**
Gross bank loan	**3.36**	**(865.0)**	**–**	**–**	**(865.0)**
		(781.0)	**(0.8)**	**(0.9)**	**(782.7)**

2017	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE $M	FIXED INTEREST RATE LESS THAN 1 YEAR $M	FIXED INTEREST RATE 1 TO 5 YEARS $M	TOTAL $M
Financial assets					
Cash	1.51	95.5	–	–	95.5
Financial liabilities					
Finance leases	5.66	–	(0.3)	–	(0.3)
Gross bank loan	3.04	(885.0)	–	–	(885.0)
		(789.5)	(0.3)	–	(789.8)

C4. Financial Instruments (continued)

The Group uses interest rate swaps to hedge its interest rate risks. The following table details the notional principal amounts and the remaining terms of interest rate swap contracts outstanding at the end of the reporting period. The average interest rate disclosed in the table is the average rate payable by the Group on the notional principal value hedged using cash flow hedges plus the fixed margin on the underlying debt which reflects the cost of funds to the Group.

2018	AVERAGE CONTRACTED FIXED INTEREST RATE %	NOTIONAL PRINCIPAL $M	FAIR VALUE $M
Interest Rate Swaps			
Less than 1 year	**3.18**	**200.0**	**0.1**
1 to 2 years	**–**	**–**	**–**
2 to 5 years	**3.80**	**600.0**	**(3.2)**
			(3.1)

The aggregate notional principal amount of the outstanding interest rate swap contracts as at 30 June 2018 was $800 million. Included in this amount is $200 million of forward dated interest rate swap contracts which commence in the 2019 financial year.

2017	AVERAGE CONTRACTED FIXED INTEREST RATE %	NOTIONAL PRINCIPAL $M	FAIR VALUE $M
Interest Rate Swaps			
Less than 1 year	4.50	700.0	(0.8)
1 to 2 years	–	–	–
			(0.8)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the Group's exposure to variable interest rates during the financial year, projecting a reasonably possible change taking place at the beginning of the financial year, held constant throughout the financial year and applied to variable interest payments made throughout the financial year. A 50 basis point increase represents management's assessment of a reasonably possible change in interest rates. If interest rates had been 50 basis points higher or lower and all other variables were held constant, the impact on the profit after tax and other comprehensive income would have been as follows:

	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME	
	50BP INCREASE $M	50BP DECREASE $M	50BP INCREASE $M	50BP DECREASE $M
Consolidated				
30 June 2018 – variable rate instruments	**(0.3)**	**0.3**	**9.5**	**(9.5)**
30 June 2017 – variable rate instruments	(0.8)	0.8	**–**	**–**

Cash flow hedges (Interest rate swap contracts)

The Group uses interest rate swap contracts to hedge its interest rate risks, predominantly arising from financing activities. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the cash flow exposures on the variable rate debt and are accounted for as cash flow hedges. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below.

The Group's cash flow hedges settle on a monthly basis. The Group settles the difference between the fixed and floating interest rate payable/(receivable) under each cash flow hedge on a net basis.

C4. Financial Instruments (continued)

Accounting policy

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from variable interest rates on its Gross Bank Loan.

Interest rate swap contracts are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The effective part of any gain or loss on the interest rate swap is recognised directly in equity. Any gain or loss relating to the ineffective portion (if any) of the interest rate swaps is recognised immediately in the consolidated statement of profit or loss.

Payments under the interest rate swaps and the interest payments on the underlying financial liability occur simultaneously and the amount accumulated in equity is reclassified to the statement of profit or loss over the period that the floating rate interest payments on the underlying financial liability affect the statement of profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is immediately recognised in the consolidated statement of profit or loss.

Fair value of financial instruments

Basis for determining fair value

The determination of fair values of the Group's financial instruments that are not measured at cost or amortised cost in the financial statements are summarised as follows:

(i) Available-for-sale financial assets

From time to time, certain investments held by the Group are classified as being available-for-sale and are stated at fair value less any impairment.

(ii) Cash flow hedges (interest rate swap contracts)

The fair value of the Group's cash flow hedges are measured as the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates at the end of the financial year.

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).
- 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

2018 $M	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets				
Other investments	**–**	**9.7**	**–**	**9.7**
Financial Liabilities				
Interest rate swaps	**–**	**3.1**	**–**	**3.1**

2017 $M	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets				
Other investments	0.7	11.2	–	11.9
Financial Liabilities				
Interest rate swaps	–	0.8	–	0.8

Fair value of other financial instruments

The fair value of cash, receivables and payables approximates their carrying amount. The fair value of the non-current interest bearing liabilities approximates the carrying amount of the gross bank loans of $865.0 million (2017: $885.0 million).

C4. Financial Instruments (continued)

Other risks

Currency risk

The Group transacts predominately in Australian dollars and has a relatively small exposure to offshore assets or liabilities. The Group predominately uses the spot foreign currency market to service any foreign currency transactions. A sensitivity analysis has not been performed on the currency risk as this is not considered material.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance and providing a stable capital base from which Primary can pursue its corporate strategic objectives.

The capital structure of the Group consists of debt, which includes the interest-bearing liabilities disclosed in Note C1, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group's policy is to borrow centrally on a long term basis from committed long term revolving bank facilities and through recycling capital in order to meet anticipated funding requirements.

C5. Commitments for expenditure

	2018 $M	2017 $M
Non-cancellable operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases not recognised as liabilities, payable:		
Within 1 year	**196.2**	204.3
Later than 1 year but not later than 5 years	**334.5**	383.0
Later than 5 years	**91.1**	73.0
	621.8	660.3
Capital commitments		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
Within 1 year	**20.5**	9.6
Later than 1 year but not later than 5 years	**1.6**	–
	22.1	9.6

Operating lease terms

Operating leases relate to:

- Premises for medical centres, pathology and imaging sites as well as corporate offices have lease terms of between one and twenty years; and
- Diagnostic imaging equipment with lease terms of between one and five years.

Note E8 summarises management's view as to the likely impact on the Group Financial Statements of AASB 16 *Leases* when it comes into effect in the year ended 30 June 2020 (including comparatives for the prior financial period).

D. Group structure

This section contains details of the way the business is structured including details of controlled entities and changes to the group structure during the year and the financial impact of these changes.

D1. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

NAME OF SUBSIDIARY	PLACE OF INCORPORATION AND OPERATION	PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP 2018 %	2017 %
Primary Health Care Limited	Australia		
Australian Medical Partners Pty Ltd	Australia	**100**	100
Former AP Pty Ltd	Australia	**100**	100
Former SDS Pty Limited	Australia	**100**	100
The Sydney Diagnostic Services Unit Trust	Australia	**100**	100
Health & Co Pty Ltd	Australia	**100**	100
Brindabella Medical Services Pty Ltd	Australia	**100**	100
Coburg Medical Services Pty Ltd [1]	Australia	**100**	–
Cooper Street Clinic Pty Ltd	Australia	**100**	100
Bourke Street Clinic Pty Ltd	Australia	**100**	100
Healthyu Corporation Pty Ltd	Australia	**100**	100
Park Family Practice Services Pty Ltd	Australia	**100**	100
Medical Centre Services Pty Ltd [2]	Australia	**100**	100
Idameneo (No. 123) Pty Ltd	Australia	**100**	100
ACN 138 935 403 Pty Ltd [3]	Australia	**100**	100
Digital Diagnostic Imaging Pty Ltd	Australia	**100**	100
John R Elder Pty Ltd	Australia	**100**	100
Primary Health Care Institute Pty Ltd	Australia	**100**	100
The Artlu Unit Trust	Australia	**100**	100
Idameneo (No. 124) Pty Ltd	Australia	**100**	100
Idameneo (No. 125) Pty Ltd	Australia	**100**	100
Idameneo (No. 789) Ltd	Australia	**100**	100
ACN 008 103 599 Pty Ltd	Australia	**100**	100
ACN 063 535 884 Pty Ltd	Australia	**100**	100
ACN 063 535 955 Pty Ltd	Australia	**100**	100
MGSF Pty Ltd	Australia	**100**	100
Occupational Health Holdings Pty Ltd [4]	Australia	**100**	–
PHC Employee Share Acquisition Plan Pty Ltd	Australia	**100**	100
Symbion Employee Share Acquisition Plan Trust	Australia	**100**	100
Symbion Executive Short-term Incentive Plan Trust	Australia	**100**	100
Senior Executive Short-term Incentive Plan Trust	Australia	**100**	100
PHC Finance (Australia) Pty Ltd	Australia	**100**	100
PHC Healthcare Holdings Pty Ltd	Australia	**100**	100
PHC Diagnostic Imaging Holdings Pty Ltd	Australia	**100**	100
Amokka Java Pty Limited	Australia	**100**	100
Brystow Pty Ltd	Australia	**100**	100
Healthcare Imaging Services (SA) Pty Ltd	Australia	**100**	100
Healthcare Imaging Services (Victoria) Pty Ltd	Australia	**100**	100
Healthcare Imaging Services (WA) Pty Ltd	Australia	**100**	100
Healthcare Imaging Services Pty Ltd	Australia	**100**	100
Campbelltown MRI Pty Ltd	Australia	**100**	100
Queensland Diagnostic Imaging Pty Ltd	Australia	**100**	100
Northcoast Nuclear Medicine (QLD) Pty Ltd [5]	Australia	**100**	77

D1. Subsidiaries (continued)

NAME OF SUBSIDIARY	PLACE OF INCORPORATION AND OPERATION	PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP 2018 %	2017 %
ACN 088 631 949 Pty Ltd [6]	Australia	**100**	100
Orana Service Unit Trust	Australia	**100**	100
PHC Medical Centre Holdings Pty Ltd	Australia	**100**	100
Larches Pty Ltd	Australia	**100**	100
Kelldale Pty Ltd	Australia	**100**	100
Pacific Medical Centres Pty Ltd	Australia	**100**	100
Sidameneo (No. 456) Pty Ltd	Australia	**100**	100
PHC Pathology Holdings Pty Ltd	Australia	**100**	100
AME Medical Services Pty Ltd	Australia	**100**	100
Jandale Pty Ltd	Australia	**100**	100
Integrated Health Care Pty Ltd	Australia	**100**	100
PHC Pathology Holdings Asia Pty Ltd	Australia	**100**	100
SDS Pathology (Singapore) Private Limited	Singapore	**100**	100
Queensland Specialist Services Pty Ltd	Australia	**100**	100
Specialist Diagnostic Services Pty Ltd	Australia	**100**	100
Moaven & Partners Pathology Pty Ltd	Australia	**100**	100
Pathways Unit Trust	Australia	**100**	100
Queensland Medical Services Pty Ltd	Australia	**100**	100
SDS Healthcare Solutions Inc. [7]	Philippines	**99.98**	99.98
Specialist Diagnostic Services Pathology (India) Private Limited [8]	India	**100**	100
Specialist Haematology Oncology Services Pty Ltd	Australia	**100**	100
Specialist Veterinary Services Pty Ltd	Australia	**100**	100
Primary (Camden) Pty Ltd	Australia	**100**	100
Primary (Camden) Property Trust	Australia	**100**	100
Primary (Richmond) Pty Ltd	Australia	**100**	100
Primary (Greensborough) Property Sub Trust	Australia	**100**	100
Primary PST Pty Ltd	Australia	**100**	100
Primary (Richmond) Property Trust	Australia	**100**	100
Primary (Robina) Property Sub Trust	Australia	**100**	100
Primary Millers Point Pty Ltd	Australia	**100**	100
Primary Millers Point Property Trust	Australia	**100**	100
PSCP Holdings Pty Ltd	Australia	**100**	100
Saftsal Pty Ltd	Australia	**100**	100
Aksertel Pty Ltd	Australia	**100**	100
Onosas Pty Ltd	Australia	**100**	100
Sumbrella Pty Ltd	Australia	**100**	100
Primary Health Insurance Pty Ltd	Australia	**100**	100
The Ward Corporation Pty Ltd	Australia	**100**	100
Symbion International BV	Netherlands	**100**	100
Mayne Nickless Incorporated	United States	**100**	100
Symbion Holdings (UK) Ltd	United Kingdom	**100**	100
Idameneo UK Ltd	United Kingdom	**100**	100
Wellness Holdings Pty Ltd	Australia	**100**	100
PHC (No. 01) Pty Ltd	Australia	**100**	100
PHC Nominees Pty Ltd	Australia	**100**	100
Primary Health Care Network Pty Ltd	Australia	**100**	100
Primary Training Institute Pty Ltd	Australia	**100**	100
Transport Security Insurance (Pte) Limited	Singapore	**100**	100

D1. Subsidiaries (continued)

1 Coburg Medical Services Pty Ltd incorporated on 18 January 2018.
2 Name changed from HCO Services Pty Limited to Medical Centre Services Pty Ltd on 29 January 2018.
3 Name changed from Austrials Pty Ltd to ACN 138 935 403 Pty Ltd on 29 January 2018.
4 Occupational Health Holdings Pty Ltd incorporated on 7 June 2018.
5 Ownership of the company increased from 77% to 100% on 8 September 2018.
6 Name changed from Orana Services Pty Ltd to ACN 088 631 949 Pty Ltd on 19 January 2018.
7 Entity has a 31 December year end.
8 Entity has a 31 March year end.

All entities are domiciled in their country of incorporation. No controlled entities carry on material business operations other than in their country of incorporation.

No Australian controlled entities are required to prepare financial statements or to be audited for statutory purposes. These entities have obtained relief from these requirements because;

- they have entered into a Deed of Cross Guarantee (refer Note D2); or
- they are small proprietary companies; or
- their trust deeds do not specify these requirements.

D2. Deed of cross guarantee

Pursuant to ASIC Corporations Instrument (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the relevant holding entity and each of the relevant subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that each holding entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries in each Group under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, each holding entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that each holding entity is wound up.

Primary Health Care Group – Deed of Cross Guarantee

Primary Health Care Limited has entered into a Deed of Cross Guarantee with certain of its wholly-owned subsidiaries. The holding entity and subsidiaries, subject to the Deed of Cross Guarantee as at 30 June 2018 are as follows:

Australian Medical Partners Pty Ltd
ACN 138 935 403 Pty Ltd
Bourke Street Clinic Pty Ltd
Brindabella Medical Services Pty Ltd
Cooper Street Clinic Pty Ltd
Digital Diagnostic Imaging Pty Ltd
Former AP Pty Ltd
Former SDS Pty Ltd
Health & Co Pty Ltd
Healthcare Imaging Services (SA) Pty Ltd
Healthcare Imaging Services (Victoria) Pty Ltd
Healthcare Imaging Services (WA) Pty Ltd
Healthcare Imaging Services Pty Ltd
Healthyu Corporation Pty Ltd
Idameneo (No.123) Pty Ltd
Idameneo (No 124) Pty Ltd
Idameneo (No 125) Pty Ltd
Idameneo (No.789) Limited
Integrated Health Care Pty Ltd
Medical Centre Services Pty Ltd
Moaven & Partners Pathology Pty Ltd
Pacific Medical Centres Pty Ltd
Park Family Practice Services Pty Ltd
PHC Diagnostic Imaging Holdings Pty Ltd
PHC Healthcare Holdings Pty Ltd
PHC Medical Centre Holdings Pty Ltd
PHC Pathology Holdings Pty Ltd
Primary Health Care Limited (holding entity)

D2. Deed of cross guarantee (continued)

Primary Training Institute Pty Ltd
Queensland Diagnostic Imaging Pty Ltd
Queensland Medical Services Pty Ltd
Sidameneo (No.456) Pty Ltd
Specialist Diagnostic Services Pty Ltd
Specialist Haematology Oncology Services Pty Ltd
Specialist Veterinary Services Pty Ltd

Consolidated income statements and consolidated balance sheets, comprising holding entities and subsidiaries which are parties to the above Deed, after eliminating all transactions between parties to the Deed, at 30 June 2018 are materially consistent with the Group's consolidated statement of profit or loss and consolidated statement of financial position disclosed elsewhere in this financial report.

D3. Parent entity disclosures

The accounting policies of the parent entity, Primary Health Care Limited, which have been applied in determining the information shown below, are the same as those applied in the consolidated financial statements except in relation to Investments in subsidiaries which are accounted for at cost less any impairment losses in the financial statements of Primary Health Care Limited.

The summary statement of financial position of Primary Health Care Limited at the end of the financial year is as follows:

STATEMENT OF FINANCIAL POSITION	2018 $M	2017 $M
Assets		
Current	**–**	10.0
Non-current	**2,579.6**	2,543.2
Total assets	**2,579.6**	2,553.2
Liabilities		
Current	**8.9**	5.5
Non-current	**873.4**	890.6
Total liabilities	**882.3**	896.1
Net assets	**1,697.3**	1,657.1
Equity		
Issued Capital	**2,444.1**	2,442.7
Accumulated losses	**(793.0)**	(793.3)
Other reserves	**46.2**	7.7
Total equity	**1,697.3**	1,657.1

The statement of comprehensive income of Primary Health Care Limited for the financial year is as follows:

STATEMENT OF COMPREHENSIVE INCOME	2018 $M	2017 $M
Profit/(loss) for the year	**93.3**	(145.0)
Other comprehensive (loss)/income	**(1.5)**	7.4
Total comprehensive income/(loss)	**91.8**	(137.6)

E. Other disclosures

This section contains details of other items required to be disclosed in order to comply with accounting standards and other pronouncements.

E1. Notes to the statement of cash flows

	2018 $M	2017 $M
Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities		
Profit/(loss) for the year[1]	**4.1**	(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[1]	**63.0**	35.2
Deferred revenue	**(6.6)**	0.2
Income tax and deferred taxes[1]	**3.8**	(21.3)
Decrease (increase) in:		
Consumables	**2.9**	0.4
Receivables and prepayments	**(10.4)**	1.3
Net cash provided by operating activities[1]	**202.2**	212.2

1 Refer to note E9 for details in relation to adjusting subsequent event.

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.

Businesses acquired

	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)

E1. Notes to the statement of cash flows (continued)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the fair value of identifiable assets and liabilities, applying judgement in their identification, classification and measurement in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that has been classified as an asset or a liability are recognised in profit or loss.

E2. Tax balances

Current tax balances

	2018 $M	2017 $M
Income tax (payable)/receivable is attributable to:		
Entities in the Tax Consolidated Group	**(7.2)**	10.0
Other	**(0.7)**	(0.3)
	(7.9)	9.7

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be paid to or recovered from the taxation authorities based on the current year's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Reconciliation of deferred tax balances

2018 $M	1 JULY 2017 OPENING BALANCE	CREDITED/ (CHARGED) TO INCOME	CREDITED/ (CHARGED) TO EQUITY	ACQUISITIONS	30 JUNE 2018 CLOSING BALANCE
Receivables	**(3.3)**	**1.0**	**–**	**–**	**(2.3)**
Consumables	**(6.4)**	**(0.1)**	**–**	**–**	**(6.5)**
Prepayments	**(1.5)**	**(0.1)**	**–**	**(0.1)**	**(1.7)**
Investments	**(3.2)**	**–**	**0.5**	**–**	**(2.7)**
Property, plant and equipment	**25.9**	**(1.1)**	**–**	**–**	**24.8**
Intangibles	**(11.6)**	**(3.3)**	**–**	**(1.8)**	**(16.7)**
Capitalised costs	**(11.3)**	**(0.3)**	**–**	**–**	**(11.6)**
Payables	**16.6**	**2.3**	**–**	**–**	**18.9**
Provisions[1]	**43.7**	**15.9**	**–**	**0.2**	**59.8**
Other financial liabilities	**0.1**	**–**	**0.7**	**–**	**0.8**
Net temporary differences[1]	**49.0**	**14.3**	**1.2**	**(1.7)**	**62.8**
Tax losses – revenue	**1.8**	**–**	**–**	**–**	**1.8**
Deferred tax asset[1]	**50.8**	**14.3**	**1.2**	**(1.7)**	**64.6**

1 Refer to note E9 for details in relation to adjusting subsequent event.

2017 $M	1 JULY 2016 OPENING BALANCE	CREDITED/ (CHARGED) TO INCOME	CREDITED/ (CHARGED) TO EQUITY	ACQUISITIONS	30 JUNE 2017 CLOSING BALANCE
Receivables	(2.6)	(0.7)	–	–	(3.3)
Consumables	(6.2)	(0.2)	–	–	(6.4)
Prepayments	(2.1)	0.6	–	–	(1.5)
Available-for-sale financial assets	–	–	(3.2)	–	(3.2)
Property, plant and equipment	12.3	13.6	–	–	25.9
Intangibles	(10.1)	(1.5)	–	–	(11.6)
Capitalised costs	(12.6)	1.3	–	–	(11.3)
Payables	12.2	4.4	–	–	16.6
Provisions	37.5	6.2	–	–	43.7
Other financial liabilities	3.3	–	(3.2)	–	0.1
Net temporary differences	31.7	23.7	(6.4)	–	49.0
Tax losses – revenue	1.8	–	–	–	1.8
Deferred tax asset	33.5	23.7	(6.4)	–	50.8

E2. Tax balances (continued)

Deferred tax arises when there are temporary differences between the carrying amount of assets and liabilities and the corresponding tax base of those items. Deferred taxes are not recognised for temporary differences relating to:

- the initial recognition of assets and liabilities that is not a business combination which affects neither taxable income nor accounting profit;
- the initial recognition of goodwill; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable amounts will be available against which the assets can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by reporting date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

Primary Health Care Limited and its wholly-owned Australian entities elected to form an income tax consolidated group as of 1 July 2002. The entities in the income tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the entities' joint and several liability in the case of an income tax payment default by the head entity, Primary Health Care Limited.

The entities have also entered into a tax funding agreement under which the entities fully compensate Primary Health Care Limited for any current income tax payable assumed and are compensated by Primary Health Care Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Primary Health Care Limited under the income tax consolidation legislation.

E3. Contingent liabilities

	2018 $M	2017 $M
Treasury bank guarantees		
Workers compensation statutory requirement	**15.4**	13.8
Property related	**11.5**	10.9
	26.9	24.7

E4. Share-based payments

The Group uses both Performance Rights and Service Rights to remunerate Senior Executives.

Performance Rights are subject to both service and performance conditions whilst Service Rights are subject to service conditions only. Details of service conditions and performance conditions for each share-based payment plan are set out below. Rights will vest if the relevant conditions are met. Each Performance Right or Service Right is an entitlement to one fully-paid ordinary share in Primary.

Performance Rights and Service Rights carry no rights to dividends and no voting rights. On vesting Performance Rights and Service Rights are exercised automatically for nil consideration and convert to fully-paid ordinary shares in Primary unless the Board exercises its discretion to settle the Rights in the form of cash.

If a participant ceases employment any unvested Rights will lapse unless otherwise determined by the Board.

The group operate the following share-based payment plans:

(a) Long Term Incentive Plan (LTIP) – Performance Rights Plan

The purpose of the LTIP is to motivate Senior Executives to achieve long-term objectives linked to shareholder value creation over the long term and to create a strong link between performance and reward over the long term. The LTIP is granted in the form of Performance Rights which are subject to continued employment throughout the measurement period and the following performance conditions:

- 50% of the Performance Rights are subject to a relative total shareholder return (rTSR) performance condition; and
- 50% of the Performance Rights are subject to return on invested capital (ROIC) performance condition.

The measurement period for Performance Rights granted under the FY 2018 award is 1 July 2017 to 30 June 2020 (FY 2017 award: 1 July 2016 to 30 June 2019). If the performance conditions are not met over the measurement period the tranche can be retested once by extending the measurement period by one year.

Further details of the LTIP can be found in the Remuneration Report.

E4. Share-based payments (continued)

(b) Short Term Incentive Plan (STIP)

The purpose of the STIP is to motivate Senior Executives to achieve the short-term annual objectives linked to Company success and shareholder value creation and to create a strong link between performance and reward. Awards made under the STIP are subject to various financial and non-financial performance conditions (KPIs) measured over a 12 month period ending 30 June. 75% of awards are paid in cash. The remaining 25% of awards are granted in the form of Service Rights with 50% of this deferred amount subject to a service period of 12 months following the end of the measurement period and 50% of this deferred amount subject to a service period of 24 months following the end of the measurement period.

(c) Retentions

At the Board's discretion, eligible Senior Executives may be granted Service Rights that may vest at the end of a specified retention period provided that the Executive remains employed by the Group at the vesting date.

Set out below are summaries of the rights granted under each of the plans as at 30 June 2018:

DESCRIPTION	GRANT DATE [1]	BALANCE AS AT 1 JULY 2017 NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	FORFEITED DURING THE YEAR NUMBER	BALANCE AS AT 30 JUNE 2018 NUMBER
FY 2016 LTIP	20 September 2016	2,328,522	–	–	(33,626)	**2,294,896**
FY 2016 STIP	30 January 2017	183,866	–	(90,516)	(622)	**92,728**
Service Rights [2]	12 September 2016	68,681	–	–	–	**68,681**
Retentions	23 February 2016	329,510	–	(329,510)	–	–
FY 2017 LTIP	18 September 2017	–	2,858,400	–	(95,440)	**2,762,960**
FY 2017 STIP	31 August 2017	–	264,651	–	(6,554)	**258,097**

1 Grant date has been determined in accordance with the requirements of AASB 2 *Share-based Payment*. These dates may differ from the dates on which notice was given to the ASX of the proposed issue of securities.

2 These Service Rights were awarded pursuant to a sign on arrangement.

In accordance with the definition of grant date in AASB 2 the rights under the FY 2018 STIP and LTIP had not been granted as at 30 June 2018 and accordingly are excluded from the table above. Based on the known participants in each plan an estimate of the rights that will be granted has been made in order to account for the plans in accordance with the requirements of AASB 2 for the year ended 30 June 2018.

Fair value of Rights granted

The fair value of Service Rights and Performance Rights that are subject to a non-market based performance condition was estimated based on the market price of Primary's shares on the grant date, with a downward adjustment to take into account the value of dividends that will not be received during the vesting period. The fair value of the Performance Rights subject to the rTSR market based performance condition has been calculated using a Black-Scholes option pricing model.

The fair values of Rights granted during the year are set out below:

DESCRIPTION	TRANCHE	GRANT DATE	GRANT DATE FAIR VALUE PER RIGHT $
FY 2017 LTI	rTSR	18 September 2017	1.60
FY 2017 LTI	ROIC	18 September 2017	3.19
FY 2017 STI	12 month service period	31 August 2017	3.30
FY 2017 STI	24 month service period	31 August 2017	3.19

Accounting policy

Performance Rights and Service Rights granted to employees are measured at the fair value of the equity instruments at the grant date. The fair value is recognised as an employee benefits expense on a straight-line basis over the vesting period with a corresponding increase in the share-based payments reserve. The fair value of the rights granted includes any market performance conditions such as rTSR and the impact of any non-vesting conditions, but excludes the impact of service and non-market performance conditions such as ROIC.

At the end of each reporting period, in relation to service and non-market performance conditions, the Group revises its estimate of the number of rights that are expected to vest. The impact of the revision to the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Notes to the financial statements

for the year ended 30 June 2018

E5. Related party disclosures

Transactions within the wholly-owned Group

Loans between wholly-owned entities in the Group are repayable at call. If both parties to the loan are within the same tax consolidated Group, no interest is charged on the loan. If this is not the case, interest is charged on the loan at normal commercial rates.

During the financial year rental of premises occurred between wholly-owned entities within the Group at commercial rates.

E6. Key management personnel disclosures

Key management personnel compensation

Key management personnel compensation details are set out in the Remuneration Report section of the Directors' Report.

	2018 $000	2017 $000
Short-term employee benefits	**6,742**	6,083
Post-employment benefits	**117**	111
Other long-term employee benefits	**133**	(44)
Termination payments	**896**	1,938
Share-based payments	**2,040**	366
	9,928	8,454

Transactions with Dr Paul Jones

During the years ended 30 June 2018 and 30 June 2017 the Group provided medical centre management services (Services) to Dr Paul F Jones Pty Limited, a company controlled by Paul Jones, a Non-executive Director of Primary. The Services were provided to Dr Jones' general medical practice, which is conducted at one of Primary's medical centres, on ordinary arm's length terms.

The Service fees received by the Group for FY 2018 were $96,219 (FY 2017: $118,785). This Service fee revenue was accounted for by Primary in the same way as revenue from other healthcare practices. Under the terms of the most recent extension to the agreement between Dr Jones' company and the Group, Dr Jones' company is entitled to receive a lump sum amount in three instalments from the Group. The FY 2018 instalment was $40,000 (FY 2017: $40,000).

There were no amounts payable or receivable as at 30 June 2018 (30 June 2017: nil) and the provision of the Services continues as at the date of this financial report.

Transactions with Mr Wesley Lawrence

During the year ended 30 June 2018, Primary contracted with Slick Azz Auto Detailing Pty Limited, a company controlled by a child of Wesley Lawrence for provision of car wash services for the QML Pathology courier fleet. The contract is on ordinary arm's length terms and was awarded following a tender process. Mr Lawrence was not a member of the management line that awarded the contract. The fees paid by Primary for the above period were $83,800 (FY 2017: $99,380). As at 30 June 2018, $16,054 was payable to Slick Azz (30 June 2017: $1,537).

Other transactions with key management personnel

From time to time, Directors and Group Executives (and their personally-related entities) enter into transactions with entities in the Group, including the use or provision of services under normal customer, supplier or employee relationships. These transactions:

- occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the Group would have adopted if dealing with the Director or Executive or their personally-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Director or Executive; and
- are trival or domestic in nature.

Notes to the financial statements
for the year ended 30 June 2018

E7. Remuneration of auditor

	2018 $000	2017 $000
Amounts received or due and receivable by auditor of financial statements [1]		
Audit and other assurance services		
Auditing and review of financial statements	**650**	865
Internal controls and compliance	**–**	209
Total remuneration for audit and other assurance services	**650**	1,074
Taxation services		
Tax consulting	**198**	18
Other services		
Due diligence	**125**	–
Advisory	**–**	489
	973	1,581
Network firms of Ernst & Young Australia		
Audit and other assurance services		
Audit and review of financial statements of overseas entities	**11**	–
	11	–
Network firms of Deloitte Touche Tohmatsu Australia		
Audit and other assurance services		
Audit and review of financial statements of overseas entities	**31**	29
Taxation services		
Tax consulting	**10**	8
	41	37

1 The auditor of the group is Ernst & Young Australia (2017: Deloitte Touche Tohmatsu Australia).

Notes to the financial statements

for the year ended 30 June 2018

E8. Adoption of new and revised standards

Standards affecting amounts reported in the current period (and/or prior periods)

A number of amendments to AASBs issued by the Australian Accounting Standards Board (AASB) are mandatorily effective for an accounting period that begins on or after 1 July 2017 and are therefore relevant for the current year end. None of these amendments have had a material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Standards on issue not yet adopted

At the date of authorisation of the financial statements, a number of Standards and Interpretations were on issue but not yet effective for the Group. In the Directors' opinion, the following Standards on issue but not yet effective, are most likely to impact the amounts reported by the Group in future financial periods:

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 16 *Leases*	1 January 2019	30 June 2020

AASB 16 will remove the distinction between operating and finance leases resulting in almost all leases being recognised by lessees as an asset and a liability on the statement of financial position except for short-term leases and leases of low value assets. The income statement impact for leases currently classified as operating leases will be both to the classification of the expense (interest and depreciation rather than property rental expense) and timing of recognition (the overall expense for an individual contract will be higher in the earlier periods when the interest expense which is calculated on the outstanding liability is higher).

The new standard also provides enhanced guidance on identifying whether a contract contains a lease and includes enhanced disclosure requirements.

The impact of this standard is expected to be material to the Group. As at the reporting date, the undiscounted amount of the Group's operating lease commitments is $621.8 million as disclosed in Note C5. Some of these leases will expire prior to adoption of AASB 16 whilst other new leases will commence. Work is ongoing to assess and quantify the impact of the new standard for the Group including an assessment of the options and practical expedients that are available on initial application.

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 9 *Financial Instruments and the relevant amending standards*	1 January 2018	30 June 2019

AASB 9 introduces new requirements for the classification and measurement of financial assets, impairment of financial assets and hedge accounting.

The application of AASB 9 is not expected to have a material impact on the financial results of the Group.

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 15 *Revenue from Contracts with Customers*	1 January 2018	30 June 2019

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes current revenue recognition guidelines.

The key principle of this standard is that an entity will recognise revenue when it transfers promised goods or services to customers for an amount that reflects its expected consideration. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Standard introduces far more prescriptive and detailed implementation guidance than was included in the revenue recognition guidance that it will replace.

A preliminary assessment of the likely impact of AASB 15 has been performed and whilst the application of AASB 15 is not expected to have a material impact on the financial results of the Group work continues to quantify the financial impact (if any).

E9. Subsequent events

On 20 August 2018 Primary announced a capital raising of $250 million to fund Project Leapfrog, the upgrade to the laboratory information system in Pathology and the acquisition of Montserrat Day Hospitals (which was announced on 10 September 2018). Upon completion of the acquisition, upfront consideration of $75.0 million will be payable on a cash and debt free basis. Total consideration payable is capped at $138.5 million.

During the period since the results announcement and release of the Appendix 4E Preliminary Final Report to the Australian Stock Exchange on 20 August 2018 the following event has occurred which has impacted both the reported and segment result of Primary for the year ended 30 June 2018.

On 14 September 2018 Primary announced via the ASX that the Fair Work Commission had released a Decision and draft Workplace Determination (Determination) relating to the support employees within Dorevitch, Primary's Victorian pathology business. While not yet final, Primary does not expect the substance of the Determination to change significantly.

The financial impact of the Determination was larger than the amount provided for in the Appendix 4E and accordingly a subsequent event adjustment has been made. The financial impact for the year ended 30 June 2018 and the consequential adjustments made to the results as released in the Appendix 4E are summarised below.

	2018 APPENDIX 4E $M	2018 ADJUSTMENT $M	2018 FINANCIAL STATEMENTS $M
Consolidated statement of profit or loss			
Employee benefits expense	835.1	6.9	842.0
Income tax expense	27.5	(2.1)	25.4
Profit for the year	8.9	(4.8)	4.1
Basic and diluted earnings per share	1.7	(0.9)	0.8
Total comprehensive income for the year	6.4	(4.8)	1.6
Consolidated statement of financial position			
Deferred tax asset	62.5	2.1	64.6
Current provisions	131.7	6.9	138.6
Net assets	1,823.7	(4.8)	1,818.9
Accumulated losses	(613.4)	(4.8)	(618.2)
Total equity	1,823.7	(4.8)	1,818.9

Other than these events there has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs on the Group in future financial years.

Shareholder Information

Number of Shareholders

As at 31 August 2018 there were 584,411,628 fully paid ordinary shares held by 14,072 shareholders.

Distribution of Ordinary Shares as at 31 August 2018

NUMBER OF SHARES HELD	INDIVIDUALS
1–1,000	3,876
1,001–5,000	6,670
5,001–10,000	2,159
10,000–100,000	1,290
100,001–999,999,999	77
Total	**14,072**

929 shareholders hold less than a marketable parcel of shares.

Number of Rights holders as at 31 August 2018

As at 31 August 2018, there were 5,408,681 Rights held by 77 persons.

Distribution of Rights as at 31 August 2018

NUMBER OF RIGHTS HELD	INDIVIDUALS
1–1,000	0
1,001–5,000	28
5,001–10,000	1
10,000–100,000	38
100,001–999,999,999	10
Total	**77**

Number of options holders as at 31 August 2018

As at 31 August 2018, there were 335,000 options held by 21 persons.

Distribution of options as at 31 August 2018

NUMBER OF RIGHTS HELD	INDIVIDUALS
1–1,000	0
1,001–5,000	1
5,001–10,000	3
10,000–100,000	17
100,001–999,999,999	0
Total	**21**

Shareholder Information

Top 20 shareholders as at 31 August 2018

RANK	NAME	SHARES	% OF SHARES
1	HSBC Custody Nominees (Australia) Limited	171,103,309	29.28
2	J P Morgan Nominees Australia Limited	114,493,564	19.59
3	Jangho Health Care Australia Pty Limited	83,139,070	14.23
4	National Nominees Limited	49,986,250	8.55
5	Citicorp Nominees Pty Limited	30,684,982	5.25
6	BNP Paribas Noms Pty Ltd <DRP>	11,632,679	1.99
7	Argo Investments Limited	9,307,750	1.59
8	CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	6,828,794	1.17
9	CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	6,102,777	1.04
10	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	4,328,246	0.74
11	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,757,440	0.47
12	HSBC Custody Nominees (Australia) Limited – GSCO ECA	2,505,364	0.43
13	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,158,327	0.37
14	Rinrim Pty Limited	1,962,000	0.34
15	Bainpro Nominees Pty Limited	1,930,448	0.33
16	Charado Pty Ltd	1,235,488	0.21
17	AMP Life Limited	1,117,374	0.19
18	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,065,230	0.18
19	National Nominees Limited <N A/C>	973,000	0.17
20	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	962,831	0.16
Total		**504,274,923**	**86.28**

Substantial shareholders as at 31 August 2018

NAME	NUMBER OF FULLY PAID ORDINARY SHARES	% OF TOTAL ISSUED CAPITAL AS AT THE DATE OF EACH NOTICE
Jangho Health Care Australia Ltd and its related bodies corporate	83,139,070	14.23%
T Rowe Price International	54,168,645	9.26%
Harris Associates LP and its related bodies corporate	34,889,397	6.68%
Dimensional Entities	30,282,418	5.36%

Information in the table above is as per the most recent substantial holder notices received by Primary as at 31 August 2018.

Shareholder Information

Securities Exchange Listing

Primary Health Care Limited is a listed public company, incorporated and operating in Australia. The shares of Primary Health Care Limited are listed on the Australian Securities Exchange Limited (ASX) under the code 'PRY'.

Voting Rights

Votes of members are governed by Primary's Constitution. In summary, each member is entitled either personally or by proxy or attorney or representative, to be present at any general meeting of Primary and to vote on any resolution on a show of hands or upon a poll. Every member present in person, by proxy or attorney or representative, has one vote for every share held.

Primary fully paid ordinary shares carry voting rights of one vote per share.

Primary options carry no voting rights.

Primary Rights carry no voting rights.

Financial Calendar

2018	
Half Year results announcement	16 February
Record date for interim dividend	19 March
Interim dividend payable	27 March
Full year results announcement	20 August
Record date for final dividend	28 August
Final Dividend payable	17 September
Annual General Meeting	22 November

2019	
Half year results announcement	15 February
Year end	30 June
Full year results announcement	16 August
Annual General Meeting	21 November

Corporate Information

Auditor

Ernst & Young
The EY Centre
200 George Street
SYDNEY NSW 2000

Company's Registered Office

Level 6
203 Pacific Highway
ST LEONARDS NSW 2065
(02) 9432 9400

Company's Principal Administrative Office

(and location of Register of Option Holders)

Level 6
203 Pacific Highway
ST LEONARDS NSW 2065
(02) 9432 9400

Share Registry

(and location of Register of Rights Holders)

Computershare Investor Services Pty Ltd
Level 4, 60 Carrington Street
SYDNEY NSW 2000
GPO Box 7045
SYDNEY NSW 1115
Sydney Office: (02) 8234 5000
Investor Enquiries: 1300 855 080

Primary Health Care Brands

Group

PRIMARY HEALTH CARE LIMITED

Medical Centres

1800BULKBILL

Primary IVF

Primary Occupational Health

Primary Dental

Primary Physio

SYDNEY EYE CLINIC

Health & Co

Health&Co

Pathology

Dorevitch Pathology

Western Diagnostic Pathology

Laverty Pathology

QML Pathology.

Abbott Pathology

Genomic Diagnostics LEADING THE WAY TO IMPROVE HEALTH

KOSSARD DERMATOPATHOLOGISTS

Gastrolab GUT DIAGNOSIS

IQ PATHOLOGY

TML Pathology

Imaging

Healthcare Imaging Services

Queensland Diagnostic Imaging

Education

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