PRIMARY
HEALTH CARE LIMITED

# 2017 ANNUAL REPORT

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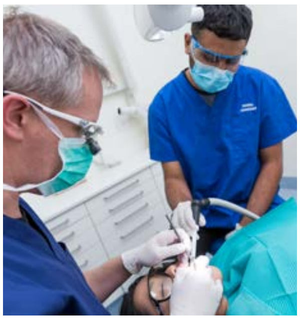
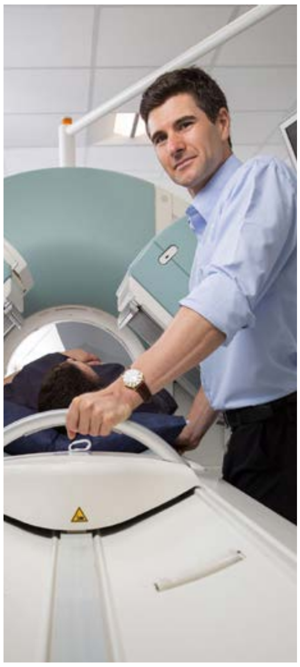




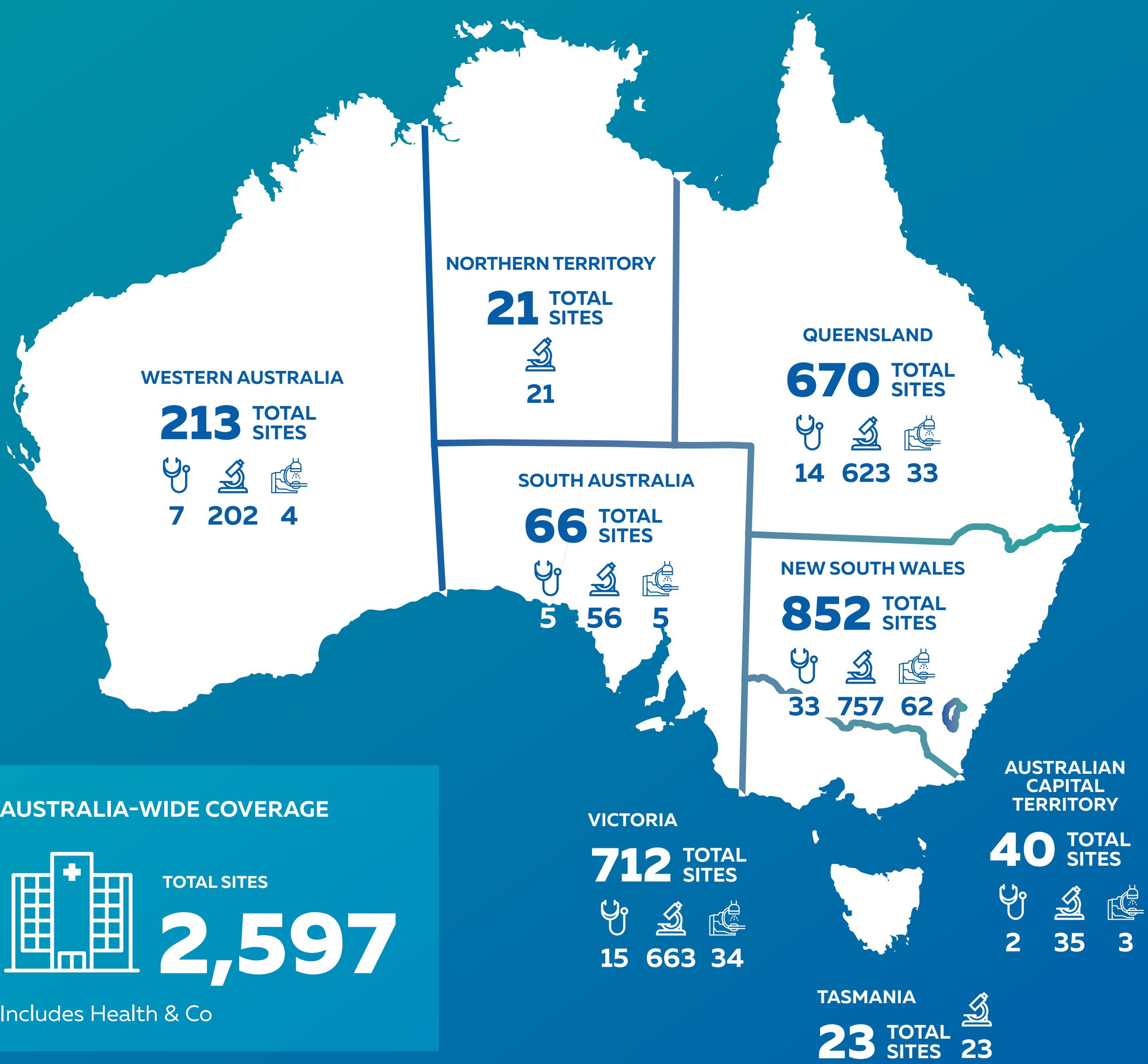
# Contents

**For over 30 years Primary Health Care has been one of Australia's leading 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 home' 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 our investors, patients, employees and the communities in which we operate, through our connected network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres.




**AUSTRALIA-WIDE COVERAGE**

TOTAL SITES

**2,597**

Includes Health & Co



As at August 2017.

**PEOPLE:**

**12,000**
employees Australia-wide

**INDEPENDENT HCPS:**

**1,300+**
Australia-wide

**LOCATIONS:**

**2,597**
sites Australia-wide

**MEDICAL CENTRES:**

**8** million
patient consults[1]

**PATHOLOGY:**

**1 in 3**
pathology samples tested in our laboratories

**IMAGING:**

**3** million
radiography examinations

**REVENUE:**

**$1.7** billion

**FREE CASH FLOW:**

**$84** million

**DIVIDEND:**

**10.6** cps

1 All numbers as at 30 June 2017.

# Key milestones

2016

### JULY 2016

- Awarded Northern Beaches Hospital contract

### NOVEMBER 2016

- Primary IVF opened third clinic in Brisbane
- Official opening of River City Imaging Centre
- Official opening of Varsity Lakes Imaging Centre

### DECEMBER 2016

- Primary Health Care Institute signs up a record 49 registrars for 2017 semester 1 intake
- Wes Lawrence appointed CEO Pathology

### FEBRUARY 2017

- Health & Co announce foundation partnership with Kerryn Phelps AM
- Official opening of Primary Medical & Dental Centre Corrimal

## MARCH 2017

- Primary signs five-year enterprise-wide RIS deal with Pro Medicus Limited

## JULY 2017

- Kawana Medical Imaging centre opens

## MAY 2017

- Announced appointment of Dr Parmenter as MD & CEO commencing in September 2017
- Federal Government announced progressive lifting of Medicare rebate freeze
- Awarded Health Care Home Trials for 12 clinics

## JUNE 2017

- Record recruitment of 153 GPs
- Net Debt reduced to $784m
- 700th IVF baby born
- Primary Health Care Institute signs up 43 registrars for 2017 semester 2 intake

# Chairman's letter

**Dear Shareholder,**

I am pleased to present you with Primary's 2017 Annual Report. In this report we outline the significant strategic initiatives your Board and management team have been undertaking to build a sustainable Primary Health Care that can scale and grow with the increasing healthcare demands of the Australian community.

**ROB FERGUSON**
CHAIRMAN

The demographics of our nation continue to shift in a way that has implications for the way Australians access – and pay for – healthcare services. Our population is both growing and ageing. We are seeing a significant increase in chronic healthcare conditions. Patient expectations are also increasing and greater connectivity is starting to change the way people monitor and manage their own health. These dynamics provide an opportunity for Primary as a leading provider of frontline healthcare services and infrastructure to the medical community and the community at large.

## 2017 IN REVIEW

During FY 2017, Primary delivered revenue of $1.7 billion, up 2.5 per cent on the prior year, and underlying net profit after tax of $92.1 million. This result reflects above-market revenue growth from the pathology division, a strong result in the imaging division, and investment for growth.

The result also reflects the continued change in the Bulk Billing Medical Centres division, including in our revenue sharing arrangements with Health Care Practitioners ("HCPs") and significant investment in recruitment, retention, support and services. These changes, which are covered in more detail in our operating and financial review, aim to deliver a more sustainable business model for the future with a larger cohort of more engaged and diverse General Practitioners ("GPs"). In the near term the metrics of the division have moved towards better cash generation but lower profit contribution.

Financial discipline remained a key priority for Primary during the year, as we worked to reduce capital expenditure with new HCP contract models, kept tight hurdles on all capital expenditure, and enhanced cash flow management. As a result, I'm pleased to report that free cash flow was up more than two and a half times the FY 2016 levels from $32.7 million to $83.6 million. Importantly, this has enabled Primary to self-fund its capital and dividend requirements while further improving its net debt position, with borrowings down by $34.9 million, before non-cash amortisation charges. This strategy will facilitate future investments in people and infrastructure and set your company on a path for sustainable growth.

The underlying results reflect our true, or core, operating performance. Reported results in the year were impacted by a number of factors in particular a non-cash impairment charge of $587.0 million, mainly relating to Medical Centres Bulk Billing goodwill and underperforming sites including some ex-Symbion sites. We also invested $39.2 million in restructuring and strategic initiatives and recorded $18.1 million of non-recurring items. As a result, we recorded a FY 2017 statutory loss after tax of $516.9 million.

Your Directors have approved a final, fully franked dividend of 5.8 cents per share. This brings total dividends to 10.6 cents per share (the interim dividend was 4.8 cents per share) and equates to a payout ratio of 60 per cent of underlying NPAT. This payout ratio has been set to reflect your company's growth strategy.

## OPERATIONAL PERFORMANCE

Within our Bulk Billing Medical Centres, Primary continues to invest in the recruitment and retention of high quality GPs. The division offers bespoke, capital-light contracts which have the dual benefit of attracting a wider cohort of HCPs and significantly reducing upfront capital expenditure. The latter halved in the year from $60.6 million to $30.3 million.

Pleasingly, we recruited a record 153 GPs across the country, up 38 per cent on the prior year. Retention rates improved to 92 per cent across the total GP cohort, evidencing the success of the GP engagement and support initiatives. As we commence 2018, we have a strong pipeline with 1,040 GPs practicing in Primary's Bulk Billing Medical Centres. With an increasing number working part time hours, this headcount equated to 960 full time equivalents.

Our first new Medical Centre in five years opened in Corrimal in New South Wales in January 2017 and our third IVF clinic opened in Queensland. Four new medical centres and an IVF clinic are in the pipeline to open in FY 2018. These investments are critical to support future growth and we expect them to deliver good returns once they have matured. 21 new GP rooms were also created from reconfiguring existing clinics and over 20 centres were refurbished, helping to optimise the division's footprint.

Medical Centres diversified its service offerings including in dental, occupational health and integrated care, as it sought 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.

Overall performance in the division reflected the impacts of the above initiatives, with significantly improved capital expenditure but reduced EBIT, the latter impacted by lower revenue from new GP contracts and near-term costs of investing in the changes underway.

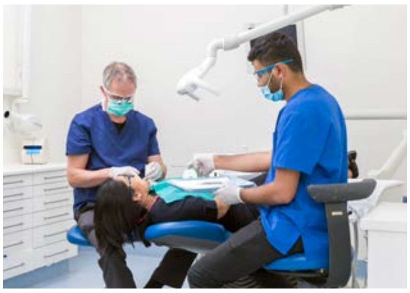
In January 2017, we launched Health & Co, a mixed billing medical centres network designed to attract practices looking to partner for scale, services and support. Health & Co has five established practices within its growing network and is benefiting from the expertise of Professor Kerryn Phelps AM who chairs the Health & Co Advisory Board and acts as the network's ambassador.

Pathology continued to perform well for the Group, reporting above market revenue growth of 4.4 per cent, compared to Medicare growth rates of approximately 2.5 per cent. This was underpinned by an increase in both volumes and average fee per episode. Cash flow contribution was also strong with a 34 per cent saving in divisional capital expenditure during the year. Investment in niche specialities contributed to revenue growth with the new Kossard Dermatopathology laboratory in New South Wales now fully operational.

EBIT grew at a more modest 1 per cent, with increased rental costs from our Approved Collection Centres ("ACCs") network driven by both annual rental rises and the expansion in the number of ACCs. Rental pressures are a major issue facing every pathology operator in the competitive domestic market. Following greater clarification on Government policy, the division has revised its strategy in this area with a focus on reducing growth in rental costs in FY 2018.

Looking to Imaging, the 2017 financial year proved to be a standout for the division, with EBIT up 30 per cent, as its strategy to realign its business model to higher margin activities delivered results. The division remained focused on growing



its high-margin CT and MRI modalities, enhancing its revenue from Primary Medical Centres and controlling its costs.

Imaging introduced new capital-light contracts with radiologists and cash flow grew strongly, with the division self-funding for the second consecutive year. The Imaging portfolio expanded with two new clinics: River City in Queensland and Holmesglen Private Hospital in Victoria. The Kawana Imaging Centre opened also on Queensland's Sunshine Coast in July 2017.

## OUR PEOPLE

Each and every day our people play a leading role in helping Australians access high quality, affordable healthcare. During the 2017 year a range of initiatives were rolled out for both our employees and independent HCPs, focused on leadership, culture and engagement, and we are working 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 seek feedback and refine the remuneration governance framework during the year. More information on this framework is provided on page 42 of the Directors' Report.

## MANAGEMENT CHANGES

In January 2017, the Board of Primary accepted the resignation of Mr Peter Gregg as Managing Director and Chief Executive Officer who, however, remained in the role until the completion of an external and internal search for a replacement. During his time at Primary, Mr Gregg successfully led Primary through a period of substantial change and balance sheet repair. On behalf of the Board I would like to thank him for his efforts.

In May 2017 we announced the appointment of Dr Malcolm Parmenter as Managing Director and Chief Executive Officer of Primary, effective 6 September 2017. We also announced the appointment of our CFO Malcolm Ashcroft as Acting CEO, for the period up until Dr Parmenter's arrival. I would like to thank Malcolm for an excellent job he has done to-date in continuing to deliver on the Group's strategy.

We look forward to the arrival of Dr Parmenter in September. He brings a wealth of knowledge and practical experience in the operations of medical centres in Australia. He has more than nine years at the helm of Independent Practitioner Network Limited and we believe he is ideally suited to lead Primary through the next period of our evolution.

## INVESTING FOR SUSTAINABLE GROWTH

Our aim is to support the delivery of quality healthcare services in Australia and provide growth to you, our shareholders. To deliver this, we aspire to become a preferred place for HCPs to practise, staff to work and patients to visit.

Primary has a range of initiatives underway to deliver improvements in the way we operate. As outlined above, in FY 2017 these included a significant increase in HCP numbers and engagement, diversification and expansion of patient offerings, portfolio growth, investment in people capabilities, optimisation of the network synergies, and improved employee engagement.

Digital innovation is becoming increasingly important, as the sector shifts from a provider-oriented to a patient-oriented service industry. Primary is rolling out investments to upgrade our IT infrastructure. These investments include a new clinical practice management software system in Medical Centres, an upgraded integrated digital system for Imaging, mobile applications and patient portals in Health & Co, and assessment of the upgrade to Pathology's laboratory systems.

## GOVERNMENT POLICY

Primary believes that a well-supported and funded frontline health system is key to delivering efficient and effective healthcare. The Federal Government's Budget released in May 2017 has provided some clarity on a range of frontline health-related policies.

Primary welcomed the progressive restoration of the MBS indexation for GPs, the indexation of selected modalities in diagnostic imaging in 2020 and the continuation of bulk billing incentive payments for pathology and imaging. Although not explicitly ruled out in the Budget, the reregulation of ACC rents appears to be off the Government's agenda, with the focus instead on improving compliance.

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 and will take part in public consultations on their findings.

Alongside this, the Government's Healthier Medicare initiative which includes the trial of healthcare homes for chronically-ill patients is underway. We have been awarded 12 Health Care Home trials and are continuing to work through the practicalities of this initiative with the Government.

Primary remains in discussions with the Federal Government, the Royal Australian and New Zealand College of Radiologists and the Australian Diagnostic Imaging Association regarding the potential introduction of a Diagnostic Imaging Quality Framework, which would see minimum radiologist attendance required for the provision of CT services. We believe the introduction of this framework as currently drafted would increase costs, decrease accessibility and not be in patients' interests.

While we now have a greater degree of certainty around the Government's healthcare policy settings which point to a more positive regulatory environment in the near-term, we will continue to diversify revenues streams to ensure we are not reliant on MBS funding.

## 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 chronic and complex conditions, rising patient expectations and expanding wealth per capita. In addition, as state governments look to manage public hospital costs, the opportunity for the private sector to partner with government is gaining momentum.

Frontline care is the best and most effective means of delivering healthcare and large-scale multi-disciplinary medical centres are lowest-cost, most efficient providers of this care. Primary has developed comprehensive, multi-disciplinary medical centres where patients can see their GP and nurse, undertake pathology and imaging tests, and visit specialists, allied health experts and the day surgery. With chronic conditions on the rise in Australia and hospital costs increasing, these multi-disciplinary centres will play a vital role in making medical services more easily accessible and more cost efficient, while enabling coordination of patients' care.

In FY 2018 and beyond Primary aims to cement its position as a leading supporter of quality healthcare services and to be at the forefront of the efficiency drive in the health sector. Combining this with more diversified revenue streams, a more flexible cost base, lower financial leverage, and greater focus on returns on investment, your company is well placed to grow in step with the escalating and evolving needs of the sector and the community.

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

**ROB FERGUSON**
CHAIRMAN

# Executive
## Leadership Team

Driving the Primary Group in delivery of its strategic objectives.

### 1. Malcolm Ashcroft

ACTING CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Mr Ashcroft was appointed to the position of Chief Financial Officer ("CFO") in July 2015 and assumed Group Executive responsibility for Information Technology, Property and Risk Management in July 2016. He was appointed Acting CEO from 23 May 2017 – 6 September 2017. Malcolm joined Primary from CIMIC Group Limited, where he was Deputy CFO since January 2013. He was previously a partner at KPMG, where he was the National Leader of the CFO Advisory practice, a member of the National Audit Leadership Executive, and was an adviser to a number of leading companies. Malcolm has a proven track record in financial management and business transformation and has international experience in Asia, the Middle East and the USA.

### 2. Dr John Houston

CHIEF EXECUTIVE MEDICAL CENTRES – BULK BILLING

Dr John Houston joined Primary in June 2012 as Chief Clinical Officer of the Medical Centres division. He has been a General Practitioner for over 27 years and has experience operating a large 22 Doctor multi-disciplinary medical centre in Ingleburn in South Western Sydney. In March 2016, he was appointed to the position of Chief Executive – Medical Centres (Bulk Billing division). Previously as Chief Clinical Officer of Primary's Medical Centres division, John was responsible for the recruitment, education and clinical standards of over 1,000 General Practitioners, Dental Practitioners and Physiotherapists, and for the supervision of three day surgery units performing over 5,000 procedures a year. He has unparalleled first-hand knowledge and understanding of the healthcare industry and of general practitioners from being a registrar, supervisor and examiner for the Royal Australian College of General Practitioners ("RACGP") and a faculty member of RACGP NSW.

### 3. Maxine Jaquet

CHIEF EXECUTIVE HEALTH & CO

Ms Jaquet joined Primary in July 2015 as Group Director – Commercial. In March 2016, she was appointed to the position of Chief Executive Health & Co. Maxine has extensive commercial and operational line management experience in both the consumer goods and industrials sectors. Maxine has managed a number of significant transformations, generating substantial margin improvement and business growth. As the former Head of Alliances, Qantas Airways Limited, she led the turnaround of the International business, underpinned by the establishment of key joint venture partnerships. Maxine has significant expertise in developing customer-centric growth, having led a customer transformation program in a global FMCG and managing the Qantas Group's multi-brand commercial structure.

### 4. Wesley Lawrence

CHIEF EXECUTIVE PATHOLOGY

Appointed as Chief Executive for Pathology in late 2016, Mr Lawrence has almost 30 years' experience in the pathology industry. He joined the group in 1992 as a laboratory scientist in Queensland, and has since worked in a number of key operational and business development roles. Most recently, Wes was the CEO of the Laverty Pathology business. Wes' 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.

### 5. Dean Lewsam

CHIEF EXECUTIVE IMAGING

Mr Lewsam is Chief Executive of the Primary Group's Imaging division, having been appointed to the role in October 2015. Since joining Primary in April 2012, he has held various operational management roles in the Imaging division and has been responsible and a key advocate for the expansion and advancement of a number of Primary imaging sites around Australia. Dean has over 25 years' experience in the healthcare sector of which 15 years have been spent in diagnostic imaging. Prior to joining Primary, Dean held several senior positions with other leading imaging providers. Dean has extensive insights and a proven history in turnaround management with a keen emphasis on people management, business engagement and technology.

### 6. Yvette Cachia

GROUP EXECUTIVE PEOPLE AND LEGAL

Ms Cachia was appointed Group Executive, People and Legal in July 2016 with responsibility for managing legal services across the Primary Group as well as for Primary's human resources strategy and management, including reward and recognition, learning and development, employment policy and employee relations. Prior to this appointment, Yvette was formerly the Group Director, Human Resources since November 2015, General Manager, People and Governance (from September 2011) and Group Company Secretary (from November 2008), with responsibilities across the Primary Group in corporate governance, company secretariat, human resources, insurance and incident management. Before joining Primary, Yvette was a barrister and a solicitor practising in commercial law and corporate governance. She has also held leadership roles in the education, mining and technology sectors.

### 7. Janet Payne

GROUP EXECUTIVE CORPORATE AFFAIRS

Ms Payne was appointed to the position of Group Executive, Corporate Affairs in July 2015 with responsibility for developing and implementing Primary's strategic interaction with investors, brokers, and media, as well as all internal communications initiatives across the Group. Janet joined Primary from CIMIC Group Limited where she was Head of Investor Relations for over three years. Previously she worked in a range of corporate and advisory roles, including investor, media, corporate governance and board advisory projects. Janet managed the Initial Public Offering and established investor relations at Qantas Airways Limited. She has a strong background in finance, having started her career at KPMG in London and Sydney, and extensive communications experience in a range of sectors, including health, oil & gas, transport and the financial sector.

## 8. Mark Neeham

GROUP EXECUTIVE
GOVERNMENT RELATIONS

Mr Neeham was appointed to the role of Group Executive, Government Relations in May 2015, with responsibility for developing and implementing Primary's relationship strategies with Commonwealth and State Governments, parliamentarians, industry and professional bodies, as well as preparing and advocating policy priorities for Primary. Mark joined Primary from the Crosby|Textor Group where he was Executive Director. Having worked in senior professional positions for political parties in Australia and the UK, Mark has extensive experience in strategy, campaigns, management, government relations and public policy, and also has extensive international experience.

## 9. David Lloyd

GROUP EXECUTIVE TRANSFORMATION

Mr Lloyd joined Primary in 2016 as Group Executive, Transformation. His role sees him working alongside the Group's divisions to drive change, with a particular focus on Medical Centres Bulk Billing and the digital services agenda. David has extensive experience in delivering business and technology programs to improve customer satisfaction, staff engagement and productivity across a range of service industries. Prior to his appointment at Primary, David worked for KPMG as a Management Consulting Partner, which saw him focused on operating model redesign and operational improvement.

## FORMER EXECUTIVES

### Peter Gregg

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr Peter Gregg served as Primary's Managing Director & Chief Executive Officer from 2 March 2015 to 29 May 2017. He was appointed in March 2015, and has a strong commercial background in transformation, change management and strategy. He led the company through a significant transition period, strengthened the balance sheet and developed a strategy for diversification. More details of Peter's experience can be found in his Director profile on page 32.

### Alex Smith

GROUP EXECUTIVE STRATEGY & GROWTH

Until his departure in July 2017, Dr Smith was Group Executive, Strategy & Growth responsible for overseeing all facets of Primary's strategic development and opportunities for long-term value creation. Alex joined Primary in February 2015 as Strategy and Investor Relations manager and was appointed to the role of Group Director, Strategy in May 2015 and Group Executive, Strategy & Growth in July 2016.

### Greg Bateman

SPECIAL COUNSEL

Mr Bateman was Special Counsel from July 2016, having served as the Primary Group's General Counsel from 2005. For the 23 years prior to that he was a partner in a law firm where he specialised in corporate and commercial law. Greg was the legal consultant to the House of Representatives Standing Committee on Legal and Constitutional Affairs which tabled its 1991 report "Corporate Practices and the Rights of Shareholders" in the Federal Parliament.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# Building
## a sustainable future

### OUR BUSINESS MODEL

Primary Health Care is one of Australia's leading healthcare companies. Through our diversity, footprint and experience we support health outcomes that are in the best interest of all Australians.

### Medical Centres – Bulk Billing

The Medical Centres – Bulk Billing division partners with over 1,300 independent general practitioners, dentists, specialists and other healthcare practitioners. The division operates 71 medical centres across Australia which are generally open 365 days a year, 7am to 10pm, and offer walk-in appointments. Primary provides a range of professional and support services to healthcare practitioners enabling them to focus on the provision of quality care for their patients. This division represents the core of our business model and drives value to the rest of the Primary group, with the 'Medical Home' model underpinning our competitive advantage by facilitating continuity of care for patients. The majority of services provided in the centres are bulk billed.

### Medical Centres – Health & Co

Health & Co is the brand under which Primary operates its private or mixed billing medical centres division. Health & Co partners with independent doctors who want to continue to run their own practices with the benefit of what a network can offer.

### Pathology

Primary's Pathology division is one of Australia's leading private medical laboratory and pathology providers. It operates over 100 medical laboratories and over 2,200 patient collection centres across metropolitan, regional and remote Australia. A business with a competitive cost base, the division enjoys strong state-based brand recognition and is a market leader in Queensland, Victoria and Western Australia.

### Imaging

Primary's Diagnostic Imaging division, through its brand Healthcare Imaging Services or HIS, operates a network of sites across the country, in partnership with over 115 independent radiologists who undertake a full range of imaging services including cardiac, neurology, vascular, musculoskeletal and dental imaging. HIS provides professional and support services to radiologists enabling them to focus on the provision of quality care for their patients. HIS employs a highly trained team of over 1,900 radiographers, sonographers, nuclear medicine technologists, nurses, centre support staff and corporate staff.

### The Medical Home

Primary's 'medical home' model makes healthcare services easily accessible and cost efficient, while supporting the coordination and continuity of quality patient care.


The Medical Home

Co-location of services under one roof enables superior coordination and continuity of care

## OUR GROUP STRATEGY

The core aim of Primary's strategy is to support the delivery of good health outcomes to patients and growth to shareholders, with the aspiration of making Primary a preferred place for healthcare practitioners to practise, for staff to work and for patients to come for treatment.

### INVEST
FOR GROWTH

- Grow pipeline of bulk billing medical centres and high-end imaging sites
- Grow Health & Co
- Selective expansion of pathology services by speciality and geography
- Invest in next-generation IT systems to drive patient-centricity and productivity improvements

### IMPROVE
RETURN ON CAPITAL

- Invest in higher performing operations
- Close or re-base any underperforming centres
- Diversify revenue streams away from reliance on Medicare Benefits Schedule
- Target accelerated payback period for new sites

### STRENGTHEN
BALANCE SHEET

- Capital recycling delivered and debt reduction achieved
- Lower capital intensity in healthcare practitioner contracts and funding centres through Primary Healthcare Property Trust
- Flexibility to drive investment from existing capital base and from free cash flow

### ENGAGE
STAKEHOLDERS

- Invest in capabilities with a range of initiatives to improve engagement with employees, and services to and engagement with healthcare practitioners
- On-going dialogue with the market, Government and professional bodies

# Our people

At Primary, we are proud of the quality of our people. With 12,000 staff and more than 1,300 independent healthcare practitioners, Primary's people play a key role in supporting the health and wellbeing of the Australian community. During the 2017 year, Primary focused on implementing a range of strategies centred on engagement, culture and communication.

## Engagement

- Created platforms for more frequent and transparent Group and divisional communication, with dedicated communication and human resource specialists employed.
- Re-structured the Group's organisational design to better reflect the cultural shift occurring across the company, help breakdown silos and create a "one Primary" mindset.

## Culture

- Designed and rolled-out MyPulse, Primary's new performance management experience.
- Developed the Leading Self-Leading Others Program for the top 100 leaders. This program focuses on building mindsets, behaviours and ways of working to achieve a patient-focused performance culture where trust and team interaction are key.

## Leadership

- Built out corporate people function with group-wide service orientation.

### OUR STRATEGY

**Aim:** To create an employee experience which engages and aligns Primary's people to deliver its business strategy.

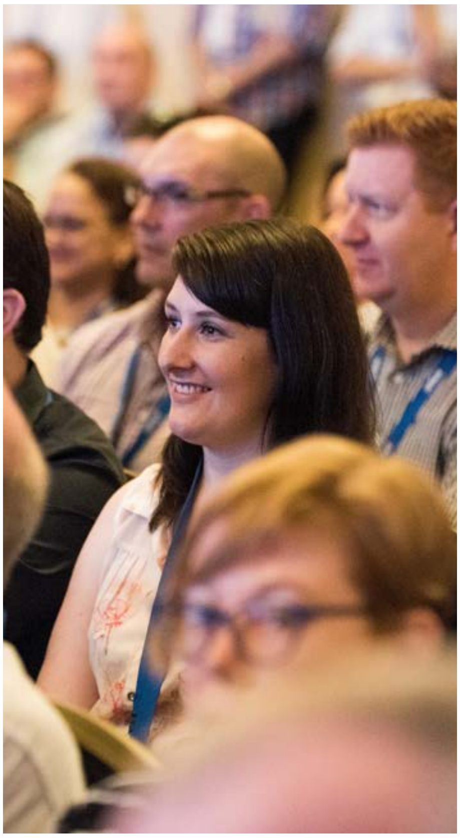
| ENGAGEMENT | STRATEGIC ALIGNMENT | INTEGRATED LEADER DEVELOPMENT | TECHNOLOGY ENABLERS |
|---|---|---|---|
| A significant shift in engagement levels across all businesses and demographics | All components of the employee lifecycle have clear, demonstrated alignment with Primary's strategic objectives | Leadership is purposeful, fosters team play and empowers others | Defined future workforce and targeted solutions to meet critical capabilities for business performance |

CASE STUDY:
## NATIONAL LEADERSHIP CONFERENCE

Building a Primary that is flexible, diversified and sustainable was the focus of the 2017 Medical Centres National Leadership Conference.

Held over two days, leaders from across Primary's Medical Centres division participated in a full agenda which included dedicated business unit workshops to gain further insights in their specific areas, a group panel discussion and presentations from Primary's key leadership team.

It was also an opportunity to collaborate and share cross-divisional learnings, with representatives from Pathology and Imaging in attendance. The conference highlighted the work we are doing to build a better Primary by investing in our people, systems and growth opportunities.



MyPulse

Being our best, through inspiring conversations

CASE STUDY:
## MYPULSE

As part of a company-wide Engagement Survey we conducted 18 months ago, our people told us that they wanted more meaningful conversations with their managers and with their teams.

That is why we have launched MyPulse – a new performance framework that has one simple purpose: 'Being our best, through inspiring conversations'.

MyPulse is about individuals and managers having regular and genuine conversations throughout the year. Conversations about goals, development and the challenges and opportunities we face in our roles. Importantly, MyPulse is about recognising great work and creating an avenue for feedback.

More than 700 managers have undergone training, with individuals building skills and knowledge in coaching techniques via scenario based teaching. MyPulse is a strategic people initiative and a key part of our commitment to delivering an improved work environment for all employees.

# Group performance

## GROUP RESULTS

| $M YEAR ENDED | UNDERLYING[1] 30 JUNE 2017 | UNDERLYING[1] 30 JUNE 2016 | REPORTED 30 JUNE 2017 | REPORTED 30 JUNE 2016 |
|---|---|---|---|---|
| **Performance** | | | | |
| Revenue | **1,658.6** | 1,618.5 | **1,658.6** | 1,641.9 |
| EBIT | **174.6** | 196.3 | **(469.7)** | 114.4 |
| **NPAT (continuing operations)[2]** | **92.1** | 96.8 | **(516.9)** | 38.2 |
| NPAT (inc. MedicalDirector) | **92.1** | 104.0 | **(516.9)** | 74.7 |

| $M AS AT | 30 JUNE 2017 | 30 JUNE 2016 |
|---|---|---|
| **Financial position** | | |
| Free cash flow[3] | **83.6** | 32.7 |
| Dividend cps | **10.6** | 12.0 |

## PERFORMANCE

### Underlying performance

Primary's underlying NPAT for FY 2017 of $92.1 million was down $4.7 million, or 4.9%, on FY 2016 continuing operations. A strong performance in Imaging, a solid performance increase in Pathology, and savings in finance costs partially offset the decline in earnings in the Medical Centres - Bulk Billing division which is undergoing a repositioning to deliver a more sustainable business model. The underlying EBIT by division is set out in the tables below, with more detailed narrative on divisional performance on pages 20 to 27:

| 30 JUNE 2017 $M | MEDICAL CENTRES | HEALTH & CO | PATHOLOGY | IMAGING | CORPORATE | GROUP |
|---|---|---|---|---|---|---|
| Revenue[4] | **317.8** | **1.8** | **1,038.4** | **333.5** | **0.1** | **1,658.6** |
| EBITDA | **125.8** | **(2.3)** | **146.0** | **57.8** | **(16.1)** | **311.2** |
| Depreciation | **(20.8)** | **(0.0)** | **(18.8)** | **(16.8)** | **(2.8)** | **(59.2)** |
| Amortisation | **(55.4)** | **(0.0)** | **(7.7)** | **(12.0)** | **(2.3)** | **(77.4)** |
| EBIT | **49.6** | **(2.3)** | **119.5** | **29.0** | **(21.2)** | **174.6** |

| 30 JUNE 2016 $M | MEDICAL CENTRES | HEALTH & CO | PATHOLOGY | IMAGING | CORPORATE | GROUP |
|---|---|---|---|---|---|---|
| Revenue[4] | 328.7 | - | 994.4 | 326.9 | 1.6 | 1,618.5 |
| EBITDA[5] | 152.8 | - | 144.9 | 61.9 | (10.3) | 349.3 |
| Depreciation | (20.0) | - | (19.1) | (25.6) | (1.6) | (66.3) |
| Amortisation | (60.9) | - | (7.5) | (13.9) | (4.4) | (86.7) |
| EBIT | 71.9 | - | 118.3 | 22.4 | (16.3) | 196.3 |

1 Underlying performance reflects Primary's core trading performance. In FY 2017 it excludes the impact of impairments, costs associated with business restructuring and transformation, and any non-recurring items.

2 NPAT (continuing operations) excludes MedicalDirector's result in FY 2016 which is separately disclosed as profit from discontinued operations.

3 Free Cash Flow is defined as operating less investing cash flow before capital recycling inflows. FY 2016 also before Australian Tax Office refund and MedicalDirector cash flows.

4 $33.0m of inter-company revenue/expenses have been eliminated at the Group level (FY 2016 $33.1m).

5 Where applicable, comparative information has been restated to ensure that the allocation of expenses to operating segments from Corporate is consistent with the current period.

## Reported performance

Primary's reported result after tax for FY 2017 was a net loss of $(516.9) million. This includes several items which Primary considers do not form part of the core trading performance of the relevant divisions and are not expected to occur frequently. These include:

- $587.0 million impairment charge which was announced in July 2017 and relates to:
  - $468.5 million Medical Centres goodwill, and
  - $118.5 million impairment of asset carrying values and associated provisions including ex Symbion sites.
- $39.2 million restructuring and strategic initiatives costs in FY 2017 further analysed as:
  - $21.9 million establishment of the transformation office, transformation programs, technology and outsourcing,
  - $11.2 million redundancies, and
  - $6.1 million set-up of private/mixed billing medical centre vehicles and pathology in SE Asia.

Reconciliation of FY 2017 reported results to underlying results:

| $M | REPORTED | IMPAIRMENT | RESTRUCTURING & STRATEGIC INITIATIVES | NON-RECURRING ITEMS | UNDERLYING |
|---|---|---|---|---|---|
| Revenue | **1,658.6** | - | - | - | **1,658.6** |
| EBIT | **(469.7)** | 587.0 | 39.2 | 18.1 | **174.6** |
| Finance Costs | **(43.1)** | - | - | - | **(43.1)** |
| PBT | **(512.8)** | 587.0 | 39.2 | 18.1 | **131.5** |
| Tax | **(4.1)** | - | - | - | **(39.4)** |
| NPAT | **(516.9)** | - | - | - | **92.1** |

Reconciliation of FY 2016 reported results to underlying results:

| $M | REPORTED | BALANCE SHEET REVIEW | RESTRUCTURING & STRATEGIC INITIATIVES | GAINS ON SALE/ DISSOLUTION | AUSTRALIAN TAX OFFICE ("ATO") TO SETTLEMENT | UNDERLYING |
|---|---|---|---|---|---|---|
| Revenue | **1,641.9** | - | - | (23.4) | - | **1,618.5** |
| EBIT | **114.4** | 85.9 | 32.9 | (23.4) | (13.5) | **196.3** |
| Finance Costs | **(58.0)** | - | - | - | - | **(58.0)** |
| PBT | **56.4** | 85.9 | 32.9 | (23.4) | (13.5) | **138.3** |
| Tax | **(18.2)** | - | - | - | - | **(41.5)** |
| NPAT continuing operations | **38.2** | - | - | - | - | **96.8** |
| NPAT inc. MedicalDirector | **74.7** | - | - | 29.3 | - | **104.0** |

## Group reported income tax expense

| $M | 30 JUNE 2017 REPORTED | 30 JUNE 2016 REPORTED |
|---|---|---|
| Loss before tax | **(512.8)** | 56.4 |
| Income tax | **(4.1)** | (18.2) |
| Net (loss)/profit after tax (continuing operations) | **(516.9)** | 38.2 |

The reported tax expense for FY 2017 was $4.1 million. The $(512.8) million reported pre-tax loss includes the aforementioned $468.5 million impairment of Medical Centres goodwill which is not deductible for taxation purposes. In addition, there is a $13.3 million permanent tax difference in FY 2017 associated with amortisation of healthcare practice acquisitions prior to 30 June 2015. Primary's expectation is that the Group's effective tax rate will revert to 30% in the long term once this amortisation is fully charged, assuming the current structure and nature of the business. For underlying results, an effective tax rate of 30% has been adopted.

## Dividends

The Directors have approved a final dividend of 5.8 cps 100% franked (2H 2016: 6.4 cps 100% franked). An interim dividend of 4.8 cps (HY 2016: 5.6 cps 50% franked) was paid in March 2017. Total dividends of 10.6 cps (FY 2016: 12.0 cps) equate to a pay-out ratio of 60% of UNPAT. This ratio was set during FY 2016 to better reflect the company's growth strategy.

## Financial position

The Group had $3.1 billion in assets and $1.9 billion of shareholders equity as 30 June 2017 and a net current asset deficiency of $65.1 million (FY 2016 $30.5 million). However, the Group generates significant operating cash flows and has access to $365.0 million of unused financing facilities which can be drawn if required. The first tranche of the two $625.0 million financing facilities is due to mature in November 2018 and the second in April 2020.

Group net debt at 30 June 2017 was $784.2 million compared to $816.0 million in FY 2016, analysed as follows:

| AS AT $M | 30 JUNE 2017 | 30 JUNE 2016 | MOVEMENT $ |
|---|---|---|---|
| Bank and finance debt | **879.7** | 898.3 | 18.6 |
| Cash | **(95.5)** | (82.3) | 13.2 |
| Net debt | **784.2** | 816.0 | 31.8 |
| Bank gearing ratio (covenant <3.5x) | **2.52x** | 2.37x | |
| Bank interest ratio (covenant >3.0x) | **7.86x** | 6.57x | |
| Gearing (net debt: net debt + equity) | **29.5%** | 25.2% | |

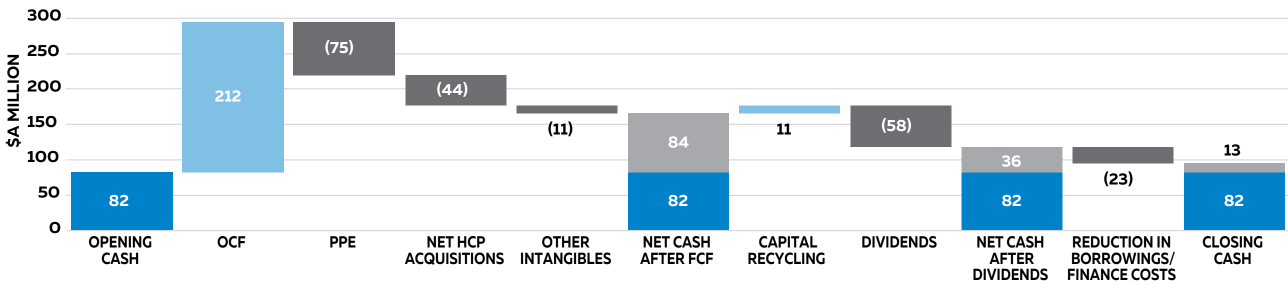
The bank gearing ratio for the syndicated bank facility at 30 June 2017 was 2.52x compared to a ceiling covenant requirement of 3.5x. The bank interest ratio was at 7.86x, well above the floor of 3.0x. Gearing (expressed as the ratio of net debt to net debt plus equity) was 29.5%. Group net debt reduced by $31.8m compared to 30 June 2016, but the gearing ratio increased due to the impact on shareholders' equity of the aforementioned $587.0 million non-cash impairment charge.

# CASH FLOW

Group cash flow for FY 2017 is set out below in comparison to FY 2016:

| AS AT $M | 30 JUNE 2017 | 30 JUNE 2016 | MOVEMENT $ |
|---|---|---|---|
| Operating cash flows | **212.2** | 225.8 | (13.6) |
| Payments for PP&E, HCPs, intangibles | **(128.6)** | (193.1) | 64.5 |
| Free cash flow | **83.6** | 32.7 | 50.9 |
| Capital recycling | **10.9** | 327.3 | (316.4) |
| ATO refund | **-** | 49.0 | - |
| MedicalDirector operating cash flow | **-** | 10.3 | - |
| MedicalDirector investing cash flow | **-** | (11.8) | - |
| Dividends | **(58.4)** | (64.4) | 6.0 |
| Debt reduction/finance costs | **(22.8)** | (310.9) | 288.1 |
| Net increase in cash held | **13.3** | 32.2 | (18.9) |
| Opening cash | **82.3** | 50.0 | 32.3 |
| F/X | **(0.1)** | 0.1 | (0.2) |
| Closing cash | **95.5** | 82.3 | 13.2 |

Group cash flow for FY 2017 can be illustrated with the following waterfall chart:




Free cash flow in FY 2017 was 2½ times FY 2016 free cash flow (before the benefit of the $327.3 million capital recycling program, ATO refund of $49 million, and $(1.5) million net cash flows from MedicalDirector which is no longer part of the Group's operations). The $50.9 million improvement in free cash flow includes:

- $41.3 million reduction in gross healthcare practitioner and practice acquisition costs across the Group from the introduction of capital light HCP contracts;
- $19.5 million saving in property, plant and equipment capital from a tighter focus on return on investment criteria;
- $3.7 million saving in capitalised IT costs;
- Partially offset by $13.6 million in lower cash flows from operating activities due to the reduced EBITDA.

It should be noted that 45% of the total invested cash above related to growth capital expenditure, including:

- Acquiring private billing clinics under the Health & Co brand;
- Opening Primary's Corrimal Medical Centre and Brisbane IVF centre, and development of four new medical centres and Perth IVF due to open in FY 2018;
- Investment in a leading-edge dermatopathology laboratory in the Pathology division; and
- Investment in River City, Holmesglen Private Hospital and Kawana in the Imaging division.

Importantly, the group self-funded its capital and dividend requirements and decreased its borrowings during the period by a net $34.9 million, before non-cash amortisation of borrowing costs.

## STRATEGIC INITIATIVES

Primary's aim is to support the delivery of quality healthcare services in Australia and provide growth to shareholders, becoming a preferred place for HCPs to practise, staff to work, and patients to visit. As the healthcare sector becomes increasingly more patient-oriented, Primary aims to prioritise delivering patient-centricity across its modalities.

Primary currently has a number of initiatives underway in all divisions to deliver change. The transformation agenda includes a significant increase in HCP numbers and engagement levels, diversification and expansion of service offerings, growth in Medical Centres and Imaging footprints, investment in technology and people capabilities, optimisation of Group synergies, better integration of service offerings across the divisions, and improvement in employee engagement. The specific initiatives are outlined in the relevant divisional sections on pages 20 to 27.

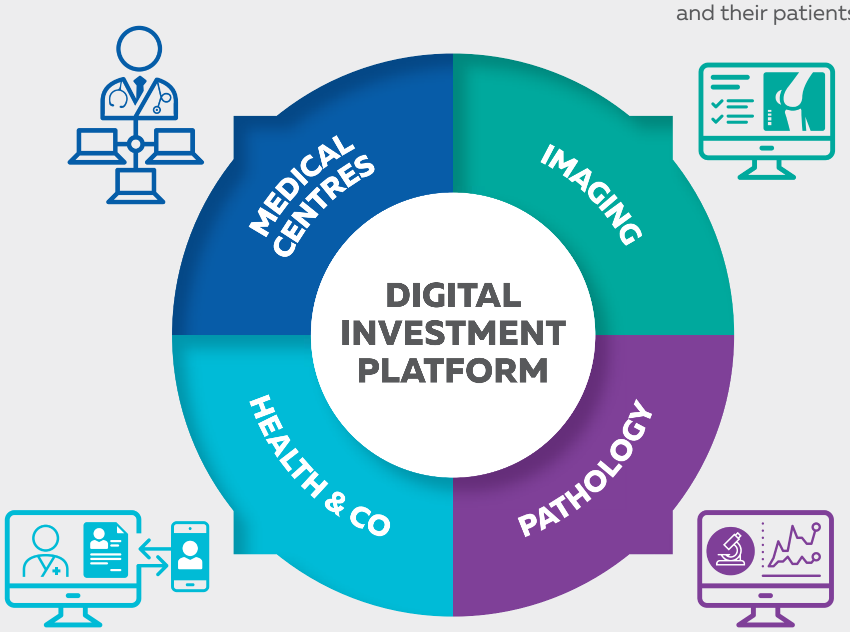
Primary believes that, while the transformation of its culture and reputation has further progress to make, the targeted outcomes are expected to deliver the pathway for sustainability and growth.

Embedded within Primary's strategy is a focus on innovation, especially digital innovation. Investments underway, or in planning, include:

### *DIGITAL INVESTMENT*

**HELIX**
Clinical and practice management software to replace current infrastructure in Medical Centres

**IMAGING CORE APPLICATION REFRESH (ICAR)**
Integrated digital systems to improve interaction with referrers and their patients




**HEALTH & CO PLATFORMS**
Development of patient-centered mobile applications, portals and clinical data integration

**PATHOLOGY LABORATORY INFORMATION SYSTEM (LIS)**
Upgrade to infrastructure platforms in planning

*Digital innovation essential, as sector continues to shift from provider-orientation to patient-orientation*

As the healthcare sector continues to shift from a provider-oriented to a patient-oriented service industry, these digital programs will be critical to the Group's future success.

# Medical Centres

## Bulk Billing business review

Medical Centres is central to Primary's integrated health services strategy and drives value to the rest of the Group, with GPs remaining the gatekeepers of referrals throughout frontline care. The results for the year reflect the consequences of repositioning the division to deliver a more sustainable business model and in particular the need for a more flexible HCP contracting model following the Australian Tax Office ruling in 2015.

**NEW CONTRACTS:** Flexible, capital-light contract models have been introduced appealing to a wider cohort of HCPs and delivering a more capital efficient approach to recruitment. However, with lower average share of billings to Primary and lower average hours worked per GP, the recruitment and retention of a higher number of GPs remains a critical success factor to the business. While the average share of billings reduced as expected, the pace of recruitment was slower than expected in particular in the early part of the year.

Pleasingly by the end of the year, the number of newly-recruited GPs was at a record of 153, representing an increase of 38% on the prior year. Retention rates also continued to improve to 92% across the cohort.

Over a third of the leavers' contracts were not renewed by Primary, as part of a quality program. At year end Primary had 1,040 GPs practising in its centres.

A more relevant measure of Primary's performance is FTE equivalent GPs, as the old contracts reduce and more part-timers join the network The cohort grew from 920 FTEs at the end of FY 2016 to 960 FTEs at the end of FY 2017 (calculated on a 40 hour week). Looking forward, the pipeline has a record level of GPs with 'contracts signed awaiting commencement' and of GPs 'in negotiations'. Primary also had a record 92 registrars in its Primary Health Care Institute program over the 12-month training cycle.

**CASH FLOW:** HCP capital expenditure reduced significantly due to the higher portion of HCPs on 'no-upfront' deals with 73% of new HCPs signed on with 'no upfront' contracts compared to 27% in FY 2016. As a result of the new contracts, gross HCP capital expenditure has reduced progressively from $79.9 million in FY 2015 to $60.6 million in FY 2016 to $30.3 million in FY 2017. Free cash flow contribution, measured as EBITDA less HCP capex, was up from $75.8 million in FY 2015 to $92.2 million in FY 2016 to $95.5 million in FY 2017. Primary believes that this is the best measure of performance until the repositioning is complete and the profit performance is more comparable year on year. In contrast to the EBIT performance, EBITDA less HCP capex shows the business has stabilised and, in fact, improved from FY 2015.

**TRANSFORMATION PROGRAM:** Performance was impacted by additional investment in capability, as the division invested in HCP recruitment, nursing capabilities and other support services for HCPs, and in employee engagement. The division also expanded its service offerings in dental, specialists, occupational health and integrated care. While these initiatives have increased costs in the near-term, they represent an important investment in the future of Medical Centres. At the end of FY 2017, the division reset its corporate overhead base to ensure alignment with the current needs of the business, with an estimated $3 million in annualised cost savings.

**PORTFOLIO OPTIMISATION:** Primary continued to invest in the growth of its Medical Centres footprint during the year with a new medical centre opened in Corrimal, New South Wales and an IVF centre in Brisbane. Four new medical centres in growth corridors and a Perth IVF clinic are due to open in FY 2018. The division optimised the existing footprint, including refurbishments of over 20 clinics, the closure of the

### BULK BILLING UNDERLYING PERFORMANCE

| | 30 JUNE 2017 $M | 30 JUNE 2016 $M | BETTER/(WORSE) % |
|---|---|---|---|
| Revenue | 317.8 | 328.7 | (3.3) |
| EBITDA | 125.8 | 152.8 | (17.7) |
| Depreciation | (20.8) | (20.0) | (4.0) |
| Amortisation | (55.4) | (60.9) | 9.0 |
| EBIT | 49.6 | 71.9 | (31.0) |
| HCP capital expenditure | 30.3 | 60.6 | 50.0 |
| EBITDA less HCP capex | 95.5 | 92.2 | 3.6 |
| Total capital expenditure (before capital recycling) | 56.4 | 83.1 | 32.1 |

underperforming Parramatta Medical Centre and the reconfiguration of vacant space at several clinics which delivered 21 new GP rooms.

**PATIENT EXPERIENCE:** Considerable work is underway to design and deliver an improved patient experience within the bulk billing centres, including improving the patient journey, and enhancing queue management.

**IT INVESTMENT:** The roll out of Helix, the next-generation GP and practice management system, will commence early in FY 2018. In advance of Helix, the roll out of new IT infrastructure and centre desktop computing has commenced. This will improve GP efficiency and experience.

**MEDICARE:** The ability to grow revenue was impacted during the year by the Medicare rebate freeze. The Government has now announced a progressive unfreezing for GP and other frontline services in the May 2017 Federal Budget. This is expected to deliver annualised benefits of $3.5 million when fully implemented in FY 2019. However, the division continues to expand its non-MBS services as part of its diversification initiatives. Primary is also working closely with the Government in its Health Care Home trials for chronically-ill patients, with 12 Primary centres likely to commence trials at the end of calendar 2017.

## CASE STUDY: A MEDICAL HOME FOR WOLLONGONG

The opening of Primary Medical Centre Corrimal, located in North Wollongong NSW, marks a milestone for Primary.

Corrimal is the first centre opened by the Group in four years and combines the latest design features to support our integrated, multi-disciplinary approach to healthcare. A true medical home, Corrimal offers patients access to a range of services including general practice, allied health, dental, specialist services, pathology and imaging.

Importantly, services are predominantly bulk-billed, offering a cost-effective alternative for the Wollongong community.

“With the demands on the Australian healthcare system growing, our state of the art medical centres offer high-quality outcomes to many patients who may not otherwise have access to affordable frontline care,” says Dr John Houston, Chief Executive of Primary’s Medical Centres Bulk Billing division.

“Our Corrimal clinic also provides an alternative to nearby hospitals for non-urgent and semi-urgent issues such as sporting injuries, minor fractures, sprained ankles and small cuts needing sutures. And, extended operating hours means we are there for people when they need us most.”

***Below:** Corrimal combines the latest design features to support an integrated approach to healthcare.*


## TRAINING OUR FUTURE HEALTHCARE LEADERS

Primary recognises the importance of supporting and investing in education and training across the healthcare sector. And our Primary Health Care Institute is leading the way, as one of the largest hosts of registrars and young doctors in Australia.

“We’ve had a record intake of over 90 general practice registrars taking placements in a Primary medical centre. This is up from less than 10 registrars in 2013,” says Mark Priddle, Head of the Institute.

“We are at the forefront of developing post Fellowship career options and it is fantastic to see this program continue to go from strength to strength.”

Besides developing and delivering a range of innovative training programs and hands-on workshops, the Institute has formed partnerships with leading global educators that have resulted in both Primary and general practice being positively exposed to the next generation of medical professionals.

“Over the coming year we will continue expanding our education programs to bring together all divisions of Primary,” says Mark.

Primary’s online education tool - Learn 360 - now supports over 2,500 users across the Group, culminating in a series of virtual learning environments to develop skills and share knowledge.

***Above:** The Primary Health Care Institute is one of the largest hosts of registrars and young doctors in Australia.*

# Medical Centres

## Health & Co business review

Health & Co was launched in FY 2017 with a foundation partnership with Professor Kerryn Phelps AM in January of this year.

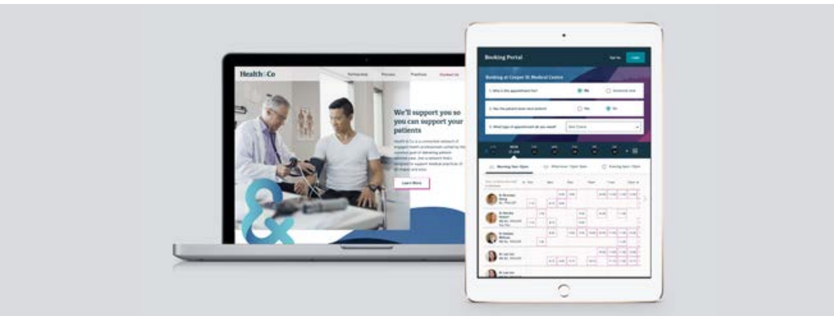
Primary announced the diversification of its Medical Centres business into the private, or mixed, billing market in FY 2016, having identified an opportunity to gain a share of GP services in this segment.

The brand proposition is to provide a leading service experience to Australian healthcare practitioners ("HCPs"), with a focus on services that empower patient-centred care. The priorities in FY 2017 were establishing the Health & Co brand, growing the network, supporting the network, and building the underlying services.

Since setting up Health & Co, five clinics in NSW and ACT have entered the network, with 100% GP retention. In addition, there is a strong pipeline of practices in advanced stages of negotiation. Health & Co is also building capability in digital health and technology to facilitate more personalised care for patients. In this establishment phase, the division delivered an underlying EBIT loss of $2.3 million in FY 2017.

### HEALTH & CO UNDERLYING PERFORMANCE

| | 30 JUNE 2017 $M |
|---|---|
| Revenue | 1.8 |
| EBITDA | (2.3) |
| Depreciation | (0.0) |
| Amortisation | (0.0) |
| EBIT | (2.3) |
| Capital expenditure | 8.4 |




CASE STUDY:
### PATIENT-CENTRIC CARE

Consumer interactions with both healthcare and technology are evolving. Today the healthcare sector is becoming more focused on personalised care tailored to suit individual patient circumstances and preferences. At the same time, consumers want to be more informed and in control of their healthcare. Technology is helping consumers meet these needs.

Use of health apps and wearable technology in the market has more than doubled over the past two years, as more consumers look to digital means to access health records, keep track of their health, and interact with their healthcare providers.

To position itself as the provider of choice for HCPs and deliver a patient-centric experience, Health & Co is working to develop a new digital program which aims to lift the level of services available to both HCPs and their patients.

Comprising of both a mobile application and online portal, the tool aims to allow patients to track interactions with their HCP, manage bookings, receive notifications and keep a health journal – all in one place.

The application is being designed with two key outcomes in mind: providing patients with improved access to their health information and helping HCPs minimise administrative based work and deliver a better experience for their patients.

# Primary IVF

CASE STUDY:
## HELPING PARENTS ON THEIR IVF JOURNEY

Primary IVF has changed how Australians access IVF treatment by offering the country's first bulk billed service. Operating since 2014, Primary IVF recently expanded its footprint with the opening of a third IVF clinic in Oxley, Brisbane. The clinic has capacity for approximately 3,000 bookings per year, meaning starting a family is now within reach for many Brisbane residents.

Dr Janelle McDonald, Medical Director of Primary IVF, believes access to high quality IVF should be an option for more people in Australia, regardless of their financial situation. "Primary IVF offers Medicare bulk billed IVF where possible and the only out of pocket expenses patients incur are items that are not covered by Medicare," says Dr McDonald. "We are focused on whole-of-patient care which means patients have access to highly qualified independent IVF specialists, who work alongside independent GPs in our clinics to ensure patients get the best advice and the strongest clinical outcomes.

"The Primary IVF team has supported thousands of parents on their IVF journey, and we were thrilled to recently welcome the 700th baby – a huge milestone for our centres in Sydney, Melbourne and Brisbane." Given the significant demand from couples Australia-wide for IVF services, Primary is scaling its offering nationally. We now offer high quality and affordable IVF in Sydney, Brisbane and Melbourne and are due to open a clinic in Perth during calendar year 2018.

*Below: Very proud parents, Michelle and Matthew Edwards, with their son Kai.*

# Primary Dental

CASE STUDY:
## A PATIENT-CENTRIC APPROACH

With 57 dental clinics and a team of more than 135 independent dentists, Primary Dental is working to grow its business via a range of innovative activities.

"We are committed to ensuring the delivery of patient-centric care, and have rolled out key initiatives in support of this aim," says Primary's Chief of Dentistry, Michelle Aquilina.

During the period, Primary Dental was the first large Australian dental organisation to achieve QIP (Quality Innovation Performance) accreditation across all its clinics. This accreditation enables the business to build a culture of quality and patient safety, while emphasising the importance of education and staff engagement.

Technology is another key pillar being harnessed to drive a more patient-centric environment. "We have introduced self-service check-in stations and rolled out an online appointment platform," explains Michelle. "With more and more patients looking to proactively manage their own health, our online booking solution provides patients with 24/7 access making it even easier for patients to connect with us."

Online appointments have proved to be a great success for the business, with more than 17,000 online patients bookings made during the reporting period. Importantly, 45% of these appointments represent new patient bookings.

*Above: Primary Dental is one of the largest providers of dental care in Australia with more than 57 clinics and 135 independent dentists.*

# Pathology
## business review

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.

Primary's Pathology division delivered above market revenue growth of $44.0 million, or 4.4%, compared to Medicare growth rates of approximately 2.5%. Growth was driven by an increase in both volumes and average fee per episode, assisted by the growth in Approved Collection Centres ("ACCs"). EBIT was up by 1.0% to $119.5 million. The division experienced margin compression due to increased property costs, a rise in consumables and increased costs of new genetic tests.

**ACCs:** Rental pressures are a major issue facing every pathology operator in the competitive domestic market. For Primary, the increase in FY 2017 was driven by both annual rental rises and the expansion in the number of ACC sites. Primary opened 124 ACCs in FY 2017, net of the Healthscope ACC disposals, in direct response to Government policy uncertainty. Proposed ACC regulation and a potential moratorium of ACC numbers was put on the agenda during the Coalition's election campaign in May 2016, with the implementation subsequently deferred to July 2017. While the May 2017 Federal Budget did not progress this regulation, up until this date expansion occurred in the market in advance of potential future restrictions.

Primary has commenced initiatives to reduce the growth in rental costs. The division will ensure contribution levels are appropriate to support rental costs at new ACCs while further ACCs will only be added if they can achieve target margins. A granular assessment of the portfolio is being undertaken to drive rent negotiation discipline and exit or renegotiate underperforming sites. Currently, approximately 70% of ACC leases are capable of renegotiation within 18 months, with a substantial portion on three month termination clauses.

### PATHOLOGY UNDERLYING PERFORMANCE

| | 30 JUNE 2017 $M | 30 JUNE 2016 $M | BETTER/(WORSE) % |
|---|---|---|---|
| Revenue | 1,038.4 | 994.4 | 4.4 |
| EBITDA | 146.0 | 144.9 | 0.8 |
| Depreciation | (18.8) | (19.1) | 1.6 |
| Amortisation | (7.7) | (7.5) | (2.7) |
| EBIT | 119.5 | 118.3 | 1.0 |
| Capital expenditure (before capital recycling) | 26.9 | 40.5 | 33.6 |

**DIVERSIFICATION:** The investment in niche specialties in FY 2017 included Kossard Dermatopathology and new tests in Genomic Diagnostics. These investments contributed to revenue growth during the year and are expected to increase contributions as they mature.

Overall, the Australian pathology market remains highly consolidated and competitive, offering little scope for Primary to grow through acquisitions. As a result, the division is focused on organic opportunities to increase its market share in Australia, prioritising partnerships with specialist operators aligned to the above niche specialty strategy, pathology expansion in private hospitals, and revenue optimisation from Primary's Medical Centres including services such as skin clinics. The division also continues to explore geographical diversification into Southeast Asia via potential capital-light joint ventures with local partners.

**IT INVESTMENT:** Pathology has commenced a strategic review of its laboratory information management systems, including pre-analytical, with a multi-year investment program planned.

**CASH FLOW:** Pathology continued to contribute strongly to the Group's cash position with a 33.6% reduction in divisional capital expenditure notwithstanding investment in the Kossard laboratory during the year.

## CASE STUDY:
## THE TEST GIVING PARENTS A SAFER OPTION

As the Pathology division looks to FY 2018, the team is continuing to develop niche offerings and growing its specialities portfolio, including in genomics. One particular genomic test which is gaining significant traction is a non-invasive prenatal test, known as Generation.

The test, which can be conducted in the first trimester from as early as 10 weeks, only requires one tube of the mother's blood and can accurately screen for the most common chromosomal abnormalities that can affect a baby's future health. During pregnancy, some of the baby's DNA from the placenta crosses into the mother's bloodstream. A sample of the mother's blood is drawn, and Primary's Genomic Diagnostics team tests DNA to identify certain chromosome conditions in the pregnancy.

"Non-Invasive Prenatal Testing is a good example of what can be achieved when there is a relentless drive towards improving patient outcomes," says Dr Melody Caramins, Primary's National Director of Genetics.

"This accurate and robust test is helping patients receive reliable results with less invasive methods of testing."

***Below:** Dr Serguei Kovalenko and Alexandra Sherstyuk, Genomic Diagnostics.*

## CASE STUDY:
## DELIVERING QUALITY THROUGH TEACHING

Since being acquired by Primary in 2016, Kossard Dermatopathology has brought an increased focus on training and education to the business. In addition to their work with pathologist registrars, the Kossard team have been prioritising direct teaching to build capabilities and expanding the future referral base. The internal structure of the unit ensures the highest diagnostic service for quality patient care. Professor Steven Kossard understands the importance of collaboration and learning from one another.

"Our dermatopathologists are very much a team within our working environment, which houses a 21-head microscope. Sharing cases, especially difficult or not-so common cases, expands our experience and helps boost our level of service," he says.

Investing time and training in dermatopathology makes a lot of sense, especially considering the love affair many Australians have with the sun. "This is reflected by the dominance of skin malignancy specimens in dermatopathology practice. Tumours such as melanoma can be life threatening," adds Professor Kossard. The focus on quality at Kossard, coupled with the emphasis on continuous learning and development, reflects Pathology's drive to further team performance through engagement and education.

***Above:** "Sharing cases helps maintain our experience and boost our level of service," says Prof. Kossard.*

# Imaging
## business review

Primary's Imaging division, Healthcare Imaging Services, partners with over 115 independent radiologists who undertake a full range of medical imaging services including cardiac, neurology, vascular, musculoskeletal and dental imaging. The division operates a network of 141 sites and, through its independent radiologists and staff, is one of the largest providers of imaging services to public and private hospitals across Australia.

Imaging reported a 2% increase in revenue to $333.5 million. Revenue growth included the impact of prior period site closures and lost hospital contracts, net of new sites. Normalised, or organic growth, was up 4.3%. During the year the division focused on growing its high-margin CT and MRI modalities, which drove an average fee increase of 3.7%, and its Medical Centres channel which grew 8% in the year with better service levels and radiologist coverage.

The division continued to invest with three new sites in FY 2017, River City in Queensland, Corrimal Medical Centre in New South Wales and Holmesglen Private Hospital in Victoria. In addition, a multi-disciplined centre at Kawana on Queensland's Sunshine Coast was opened in July 2017. The new sites are expected to enhance their contribution as they mature.

EBIT was up strongly by 29.5% to $29.0 million, reflecting Primary's strategy of realigning its business model to higher margin activities, optimising its asset base and maintaining a focus on cost control. Successful initiatives included closing 10 uncommercial community sites in FY 2016, focusing on higher margin modalities, growth from Primary's Medical Centres and controlling labour costs below the rate of revenue growth.

At the EBITDA line, costs increased due to the sale and leaseback facility for imaging equipment at the end of FY 2016 and further draw-down on this facility in FY 2017, together with the sale of the Bridge Road fit-out into the Primary Healthcare Property Trust ("PHPT"). Importantly the $12.2 million of additional costs from these initiatives were offset by $10.0 million savings in depreciation and a notional interest reduction of $2.8 million.

Amortisation decreased $1.9 million, due to the reduction of upfront payments for radiologists and the expiration of amortisation of hospital contracts, recognised as part of the Symbion transaction.

**NEW HCP CONTRACTS:** Primary has introduced bespoke, flexible contracts for radiologists, in line with new contracts in Medical Centres. 70% of starters went onto "no upfront" contracts.

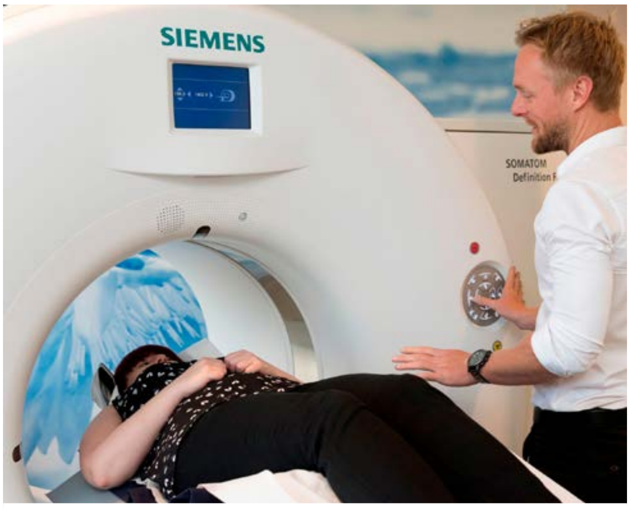
**PORTFOLIO ALIGNMENT:** Overall, Primary's Imaging division remains focused on progressing its portfolio optimisation strategy with the emphasis on building the hospital segment and high-end community sites and moving away from subscale community sites. The imaging contract in the Northern Beaches Hospital in Sydney, as the first of five potential hospital Public Private Partnerships ("PPPs") to be built in New South Wales, is a core component of the business strategy. Successful delivery will be an important step to enhancing the division's reputation and capability in hospital contracting.

**IT INVESTMENT:** Imaging has embarked on a significant IT upgrade to its core software platform and will introduce a new radiology information system ("RIS") and a new picture archiving and communication solution ("PACS"). Together, these platforms will provide the functionality to support Imaging's geographical footprint, deliver significant efficiencies across the network of sites, and enhance the way the division interacts with referrers and their patients.

**CASH FLOW:** The division reduced its total capital expenditure by 48.3% due to on-going capital discipline and lower upfront payments to radiologists. This resulted in a significantly improved contribution to free cash flow and the division was self-funding for the second consecutive year.

### IMAGING UNDERLYING PERFORMANCE

| | 30 JUNE 2017 $M | 30 JUNE 2016 $M | BETTER/(WORSE) % |
|---|---|---|---|
| Revenue | 333.5 | 326.9 | 2.0 |
| EBITDA | 57.8 | 61.9 | (6.6) |
| Depreciation | (16.8) | (25.6) | 34.4 |
| Amortisation | (12.0) | (13.9) | 13.7 |
| EBIT | 29.0 | 22.4 | 29.5 |
| HCP capital expenditure | 4.3 | 10.3 | 58.3 |
| Capital expenditure (before capital recycling) | 28.2 | 54.5 | 48.3 |




CASE STUDY:
## GROWING OUR COMMUNITY PRESENCE

Consistent with its growth strategy, the Imaging division remains focused on investing in multi-specialised, fit-for-purpose centres. This approach is highlighted by the opening of Kawana Medical Imaging, the fourth of its kind Primary has established over the past three years.

Located within the new Oceanside Health Precinct on Queensland's Sunshine Coast, Kawana combines Siemens medical imaging equipment with a team of highly skilled, specialist radiologists. Kawana specialises in all areas of diagnostic imaging including Breast MRI, Prostate MRI and nuclear medicine, as well as traditional x-ray and ultrasound procedures. And, as part of our ongoing commitment to employ state of the art medical imaging devices, Kawana houses a leading Siemens mammography machine, which increases breast cancer detection by an average of 40%.

"Kawana builds on our super centre concept of providing bulk billed imaging services supported by the most advanced technology," says Imaging's State Manager, Steven Schultze.

"We are fortunate to have an Advanced Siemens 3T MRI machine at the centre, which is one of the most powerful devices in the marketplace. Extra power means scans are more precise as they can be safely conducted at a higher resolution. This increases the level of detail that can be seen, allowing our radiologists to gather critical information for effective patient diagnoses."

*Above: Kawana's specialist radiologists have access to the most advanced technology in the marketplace.*

CASE STUDY:
## DRIVING INNOVATION

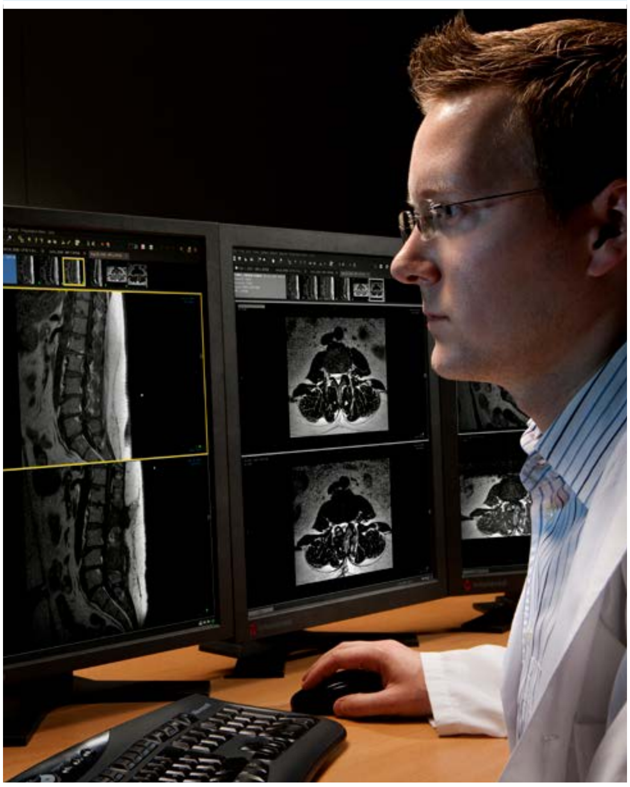
Digital innovation is a key component of Primary's strategy for success, and the Imaging division has embarked on a significant IT transformation program to fundamentally change the way it interact with referrers and their patients.

This major change will see the implementation of a new RIS and PACS solution, which will provide the functionality and scalability to support Imaging's diverse geographical footprint and help deliver significant efficiencies across our network of sites.

These new platforms cover all key processes including patient referral and scheduling, reporting, electronic results delivery, billing and back office practice management functions.

The roll out is one of the largest imaging network projects in the Southern Hemisphere and will not only support Imaging's growth plans, but help provide a level of future proofing for the division's expansion plans.

*Below: Imaging's new IT infrastructure will significantly improve interactions with patients and referrers.*



# Risk management

Primary has a risk management framework in place that facilitates the identification, assessment and reporting of material business risks at a divisional and Group level.

Identifying and managing risk is key to Primary achieving its objectives and creating long term shareholder value.

Risk is inherent in our business, which is why it is critically important that we maintain a disciplined focus on operational excellence and effective risk management.

Our approach to risk management, which is aligned to ISO31000, the international standard on risk management, ensures that each division considers risk when making key decisions that drive our business.

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:


**MATERIAL BUSINESS RISKS**

**CONTEXT**

REGULATORY COMPLIANCE

MEDICAL BENEFITS SCHEDULE

HEALTHCARE PRACTITIONERS

PEOPLE

IT SYSTEMS

CYBER SECURITY

COMPETITION

CHANGE MANAGEMENT

REPUTATION

| RISK | MITIGATION |
|---|---|
| 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 divisions. |
| Primary is committed to supporting the provision of affordable, accessible and quality healthcare, with bulk billing a key feature of the service delivery. Any changes to Medicare Benefits Schedule ("MBS") funding may impact profitability. | Primary maintains tight control over costs and continually reviews the range of integrated service offerings available to patients.<br>Primary is continuing to diversify into private billing medical centres and other service areas to generate non-MBS revenue streams.<br>The Group Executive Government Relations monitors legislative and regulatory developments and engages proactively with the legislative and regulatory bodies to assist in the management of this risk. |
| Primary contracts to provide services to healthcare practitioners ("HCPs"), including general practitioners and radiologists. Failure to maintain strong relationships with these parties may result in a reduction in the number of contracted HCPs, or may impact our ability to recruit HCPs. | Primary has managers and staff dedicated to maintaining relationships, increasing engagement and addressing any issues with healthcare practitioners on a timely basis.<br>Primary also has Clinical Councils in place as a forum to share ideas and information with HCPs. |
| 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 is developing staff engagement and leadership programs to increase the level of employee engagement across the Group, and identifying key staff for programs that focus on retention and succession planning for the Group. |
| Primary relies on effective information technology systems. Operations may be significantly impacted by disruption to a core IT platform. | Primary has effective IT support systems in place to underpin business operations. |
| Primary maintains sensitive clinical and financial information and databases that are at risk from cyber attacks. | Primary has an on-going program to strengthen defences against unauthorised access, and the protection of patient and financial data. |
| Competition may come from new entrants into the market, existing competitors attempting to increase market share or from new disruptive technologies that may change that way services are delivered. A change in competition may impact profitability. | The main mitigants to protect Primary from competition are barriers of entry such as our low-cost operating model, commitment to quality and innovation in healthcare services.<br>In addition, senior management is attuned to market developments to identify any competitor threats. |
| 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. | Primary is applying a project portfolio management framework that prioritises and aligns change initiatives to Primary's business strategy, in order to mitigate this risk. |
| Primary's reputation may be impacted by a future event that creates adverse perception of the Group for the public, shareholders, 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

## Mr Robert Ferguson B.Ec (Hons).

NON-EXECUTIVE CHAIRMAN

Mr Ferguson was appointed Non-executive Chairman of the Board on 1 July 2009. He is Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee.

## Mr Brian Ball B.Ec.

NON-EXECUTIVE DIRECTOR

Mr Ball was appointed as a Non-executive Director in 1994. He is a member of the Nomination and Remuneration Committee and the Audit Committee. Mr Ball 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 Chairman 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.

## Mr 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 on 17 March 2016. He 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.

## Mr Robert Hubbard BA (Hons), FCA.

NON-EXECUTIVE DIRECTOR

Mr Hubbard was appointed as a Non-executive Director in December 2014. In February 2015, he became the Chairman of the Audit Committee and a member of the Risk Management Committee. He 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 numerous 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.

## Dr Paul Jones MB,BS, FAMA.

NON-EXECUTIVE DIRECTOR

Dr Jones was appointed as a Non-executive Director in 2010. He is 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 12 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.

## Dr Errol Katz MPP, MB,BS (HONS), LLB (HONS).

NON-EXECUTIVE DIRECTOR

Dr Katz was appointed as a Non-executive Director in 2010. He is Chairman 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.

## Ms Arlene Tansey JURIS DOCTOR (JD), MBA, BBUS(ADMIN), FAICD.

NON-EXECUTIVE DIRECTOR

Ms Tansey was appointed as a Non-executive Director in 2012. She is a member of the Audit Committee and the Nomination and Remuneration Committee. Before becoming a Non-executive Director, 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.

The Directors of Primary Health Care Limited (referred to as "Primary" or "the Company") submit their Report for the financial year ended 30 June 2017 (referred to as "the year" or "FY 2017"), 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 2017

- Mr Robert Ferguson (Chairman)
- Mr Brian Ball
- Mr Gordon Davis
- Mr Robert Hubbard
- Dr Paul Jones
- Dr Errol Katz
- Ms Arlene Tansey

### Directors who ceased during FY 2017

- Mr Peter Gregg (ceased 29 May 2017)

## Qualifications and experience of Directors

### New and continuing Directors

The qualifications and experience of each continuing Director are set out on pages 30–31 of this Annual Report.

### Former Director

#### Mr Peter Gregg B.Ec.

Mr Gregg was appointed as Primary's Managing Director & Chief Executive Officer in 2015. Prior to joining Primary, Mr Gregg was Deputy Chief Executive Officer and Chief Financial Officer at Leighton Holdings Limited from 2009 to 2014, holding the office of Director from December 2010 until March 2014. Prior to this, he was Chief Financial Officer and Executive General Manager of Strategy at Qantas Airways Limited from 2000 to 2008. Mr Gregg is currently a Non-executive Director of Ausenco Limited (since August 2014) and has previously held directorships with the Australian Rugby League Commission, Queensland Rail, Skilled Group and Stanwell Limited.

## Group Company Secretary

### Qualifications and experience of Company Secretary during FY 2017

- Mr 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 2017

The number of meetings of the Board and of each Board committee held during FY 2017 and the number of meetings attended by each Director are set out below:

| | BOARD OF DIRECTORS | | NON-EXECUTIVE DIRECTORS | | AUDIT COMMITTEE | | NOMINATION AND REMUNERATION COMMITTEE | | RISK MANAGEMENT COMMITTEE | |
|---|---|---|---|---|---|---|---|---|---|---|
| FY 2017 | ELIGIBLE | ATTENDED | ELIGIBLE | ATTENDED | ELIGIBLE | ATTENDED | ELIGIBLE | ATTENDED | ELIGIBLE | ATTENDED |
| R Ferguson | 15 | 15 | 8 | 8 | 5 | 3 | 5 | 5 | N/A | N/A |
| P Gregg [1] | 13 | 13 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| B Ball [2] | 13 | 13 | 8 | 8 | 5 | 5 | 5 | 5 | N/A | N/A |
| G Davis | 15 | 14 | 8 | 8 | N/A | N/A | N/A | N/A | 4 | 4 |
| R Hubbard | 15 | 15 | 8 | 8 | 5 | 5 | N/A | N/A | 4 | 4 |
| P Jones | 15 | 14 | 8 | 8 | 5 | 5 | N/A | N/A | 4 | 4 |
| E Katz | 15 | 14 | 8 | 8 | N/A | N/A | 5 | 4 | 4 | 4 |
| A Tansey | 14 | 14 | 8 | 8 | 5 | 5 | 5 | 4 | N/A | N/A |

1 Mr Gregg and Ms Tansey were granted leave of absence for 1 Board of Directors meeting.
2 Mr Ball was granted leave of absence for 2 Board of Directors meetings.

The Audit Committee for FY 2017 comprised: Mr R Hubbard (Chair), Mr B Ball, Mr R Ferguson, Dr P Jones and Ms A Tansey.

The Nomination and Remuneration Committee for FY 2017 comprised: Mr R Ferguson (Chair), Mr B Ball, Dr E Katz and Ms A Tansey.

The Risk Management Committee for FY 2017 comprised: Dr E Katz (Chair), Mr G Davis, Mr R Hubbard and Dr P Jones.

Further meetings occurred during the year, including meetings of the Chairman and Managing Director & Chief Executive Officer and meetings of Directors with management.

### Current and former directorships of listed companies held by members of the Board

| DIRECTOR | COMPANY | POSITION | DATE APPOINTED | DATE CEASED |
|---|---|---|---|---|
| Mr Robert Ferguson | GPT Management Holdings Limited | Director and Chairman | 25/05/2009 | |
| | Watermark Market Neutral Fund Limited | Director | 07/06/2013 | |
| Mr Gordon Davis | Nufarm Limited | Director | 31/05/2011 | |
| | Midway Limited | Director | 06/04/2016 | |
| Mr Robert Hubbard | Bendigo and Adelaide Bank Limited | Director | 02/04/2013 | |
| | Central Petroleum Limited | Director and Chairman | 06/12/2013 | |
| | Orocobre Limited | Director and Chairman | 30/11/2012 | |
| Ms 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.

## 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 practitioners who provide services from its medical centres. Its medical centre operations also include the provision of day surgery and in vitro fertilisation services by healthcare practitioners.

## 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 12–27 of this Report.

## Events after the end of the year

There has not been any other matter or circumstance that has arisen since the end of the financial year which, in the opinion of the Directors, has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Future developments

Apart from the information provided on the Group Business Model and Strategy on pages 12 and 13 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 2017:

- an interim dividend of 4.8 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 28 March 2017; and
- a final dividend of 5.8 cents per share (100% franked), is to be paid to the holders of fully paid ordinary shares on 18 September 2017.

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 2017 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 in accordance with that Instrument.

## 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 | 155,000 | – | (35,000) | 120,000 |
| Issue 113 | 422,500 | – | (422,500) | – |
| Issue 114 | 1,217,500 | – | (540,000) | 677,500 |
| Issue 115 | 330,000 | – | (160,000) | 170,000 |
| Balance as at date of this Report | 2,125,000 | – | (1,157,500) | 967,500 |

## Shares issued on the exercise of options

No ordinary shares of Primary were issued during, or since the end of, FY 2017 on the exercise of options.

## Directors' interests

The following table sets out each Director's relevant interest in ordinary shares (directly and indirectly owned) in Primary, and in debentures and interests in registered schemes made available by the Group as at the date of this Report:

| FY 2017 | OPENING BALANCE (ORDINARY SHARES) | RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS | OTHER CHANGES DURING THE YEAR | CLOSING BALANCE |
|---|---|---|---|---|
| Mr Robert Ferguson | 190,800 | – | – | 190,800 |
| Mr Peter Gregg [1] | 25,000 | – | – | 25,000 |
| Mr Brian Ball | 137,000 | – | – | 137,000 |
| Mr Gordon Davis | 15,000 | – | 15,000 | 30,000 |
| Mr Robert Hubbard | 11,000 | – | 10,000 | 21,000 |
| Dr Paul Jones | 22,762 | – | 8,890 | 31,652 |
| Dr Errol Katz | 10,000 | – | – | 10,000 |
| Ms Arlene Tansey | 10,000 | – | – | 10,000 |

1 Closing Balance for Mr Gregg is the balance as at the date of cessation as a Director (29 May 2017).

The Directors may from time to time invest in various debentures and securities offered by Primary and certain subsidiaries. No Director held any such interest directly or indirectly as at the date of this Report.

## Indemnification of officers and auditors

Subject to the following, no insurance premium was paid during or since the end of FY 2017 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 2017, 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

Deloitte Touche Tohmatsu ("Deloitte") has been Primary's external auditor since 1995. There is no person who has acted as an officer of the Group during the year who has previously been a partner at Deloitte when that firm conducted Primary's audit.

## Non-audit services

During the year Deloitte has 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 111 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 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 2017 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 its responsibilities to contractors. As part of health and safety procedures, contractors are required to provide evidence that they have WHS management systems in place and Primary has 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 an on-line Contractor Induction Program.

Key health and safety performance indicators are as follows:

| | FY 2017 | FY 2016 |
|---|---|---|
| Number of WHS prosecutions | ZERO | ZERO |
| Number of sites subject to WHS Internal Audit | 46 | 46 |
| Lost time incidents per million hours worked | 6.2 | 4.1 |

There has been an increase in the lost time incident frequency rate in FY 2017 compared to prior years. In response to each lost time incident, detailed investigations are conducted to ascertain the root cause and to identify corrective actions. This has resulted in additional training and tool-box talks being issued during the year to address specific issues found.

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 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 review of chemical labelling in light of the introduction of the Globalised Harmonised System (GHS) and further development of Health Surveillance programs across all business units. In FY 2018 Primary is planning a comprehensive review of percutaneous exposure events, with a focus on employee training and equipment use.

## 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 Contents

## 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 2017. This report outlines the remuneration structure for Primary's Non-executive Directors and other Key Management Personnel ("KMP"), in line with the Corporations Act.

In making decisions in respect of senior executives' and Directors' remuneration, the Nomination and Remuneration Committee considers the recommendations of the ASX Corporate Governance Council and the expectations of corporate governance stakeholders.

An outline of the remuneration framework and related governance documentation is available on Primary's website at http://www.primaryhealthcare.com.au/irm/content/corporate-governance.aspx and I encourage you to read this material, in conjunction with this report.

To address concerns raised by shareholders in relation to Primary's 2014 Remuneration Report, the Board has restructured your Company's remuneration policies, procedures and practices.

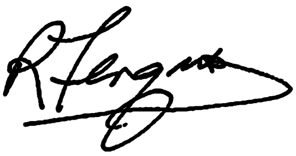
As a result, significant changes to Primary's Remuneration Governance Framework ("Framework") were rolled out in FY 2016, and continued to be implemented in FY 2017.

Primary's new Framework ensures that Base Packages are linked to Company performance via benchmarking which takes into account Primary's market capitalisation. We also recognise that "at-risk" remuneration is used to focus individuals on those areas and behaviours that are expected to lead to outstanding Company performance. Our remuneration policies are designed to ensure the methods selected to measure performance for the purposes of incentives are also linked directly to Company performance, or indirectly to the change initiatives currently underway. Pleasingly these changes have received positive feedback from shareholders.

FY 2017 has been a year of change for Primary and your Board has continued to focus on managing emergent risks and driving shareholder value. Our Medical Centres division is being repositioned to produce a more sustainable business model. Our free cash flow has significantly improved enabling us to self fund our capital and dividend requirements and reduce net debt, while we continue to invest in frontline care and diagnostic services.

As Chair of the Nomination and Remuneration Committee I would like to thank you for your ongoing support. I invite feedback from shareholders regarding the ongoing implementation of Primary's Framework and I hope you will continue to support us by voting to adopt this Remuneration Report at our upcoming 2017 Annual General Meeting.

Yours sincerely



**Rob Ferguson**
Independent Non-executive Director and Chairman
Chair of the Nomination and Remuneration Committee

## 2 Persons Addressed and Scope of the Remuneration Report

The Remuneration Report sets out, in accordance with section 300A of the Corporations Act:
(i) the Company's governance relating to remuneration;
(ii) the policy for determining the nature and amount or value of remuneration of Key Management Personnel ("KMP");
(iii) the various components or framework of that remuneration;
(iv) the prescribed details relating to the amount or value paid to KMP, as well as a description of any performance conditions; and
(v) the relationship between the policy and the performance of the Company.

In addition, Primary has decided to set out such further information as shareholders may require for them to obtain an accurate and complete understanding of the Company's approach to the remuneration of KMP.

KMP are the Non-executive Directors, the executive Directors and employees who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. On that basis, the following roles/individuals are addressed in this report:

**Non-executive Directors**

- Mr Robert Ferguson
  - Non-executive Director since 1 July 2009,
  - Chairman of the Board since 1 July 2009,
  - Chairman of the Nomination and Remuneration Committee since 4 March 2010,
  - Member of the Audit Committee since 6 August 2009.
- Mr Brian Ball
  - Non-executive Director since 2 November 1994,
  - Member of the Nomination and Remuneration Committee since 6 March 2008,
  - Member of the Audit Committee since 22 February 2002.
- Mr Gordon Davis
  - Non-executive Director since 3 August 2015,
  - Member of the Risk Management Committee since 17 March 2016.
- Mr Robert Hubbard
  - Non-executive Director since 18 December 2014,
  - Chairman of the Audit Committee since 27 February 2015,
  - Member of the Risk Management Committee since 27 February 2015.
- Dr Paul Jones
  - Non-executive Director since 26 November 2010,
  - Member of the Audit Committee since 10 February 2014,
  - Member of the Risk Management Committee since 4 May 2012.
- Dr Errol Katz
  - Non-executive Director since 26 November 2010,
  - Chairman of the Risk Management Committee since 4 May 2012,
  - Member of the Nomination and Remuneration Committee since 18 May 2012.
- Ms Arlene Tansey
  - Non-executive Director since 31 August 2012,
  - Member of the Audit Committee since 4 February 2013,
  - Member of the Nomination and Remuneration Committee since 30 August 2013.

**Senior Executives classified as KMP**

- Mr Malcolm Ashcroft
  - Chief Financial Officer since 13 July 2015,
  - Acting Chief Executive Officer since 23 May 2017.
- Dr John Houston
  - Chief Executive Medical Centres – Bulk Billing since 1 March 2016.
- Ms Maxine Jaquet
  - Chief Executive Health & Co since 1 March 2016.
- Mr Dean Lewsam
  - Chief Executive Imaging since 23 October 2015.
- Mr Wesley Lawrence
  - Chief Executive Pathology since 8 December 2016.

During FY 2017 the following persons ceased to be executive KMP of Primary:

- Mr Peter Gregg
  - Managing Director and Chief Executive Officer ("MD & CEO") ceased 29 May 2017.
- Mr James Bateman
  - General Manager Pathology ceased 5 August 2016.

The following changes to KMP occurred, or are expected to occur, in FY 2018:

- Dr Malcolm Parmenter
  - Appointed as the new MD & CEO during FY 2017 and is scheduled to commence on 6 September 2017.

## 3 Context of and changes to KMP remuneration for FY 2017 and into FY 2018

### 3.1 Context for Remuneration Governance in FY 2017 and into FY 2018

This section of the Remuneration Report outlines important context for the decisions that were made by the Board in setting remuneration for FY 2017, the outcomes of which are presented in this Report, as well as relevant context that emerged since the previous report. The KMP remuneration structures that appear in this Report are largely those that prevailed over FY 2017, as is required by regulation. These structures and the outcomes resulting from them were the result of updates to Primary's Remuneration Governance Framework which came into effect in FY 2016, and were described in last year's Remuneration Report.

The Board has undertaken to make continuous improvements to remuneration governance, policies and practices applied to KMP of the Company, as well as other employees, to ensure appropriateness to the circumstance of the Company at any given time. Those changes already made in respect of FY 2018, or anticipated to be implemented during the remainder of FY 2018, will be described to the extent relevant for readers to evaluate remuneration for FY 2017. Any other details on FY 2018 remuneration will be given as part of the FY 2018 Remuneration Report of the Company.

During FY 2016 and FY 2017 the Board sought and received feedback on both stakeholder and independent consultant views of KMP remuneration governance and practices, including taking note of feedback from proxy advisors, and has sought to be responsive to that feedback. The main themes are dealt with here.

- Market capitalisation is one of the factors that influences external assessments of the appropriateness of remuneration. External observers tend to see market capitalisation as the primary indication of the size, complexity and status of the Company, and tends to set the field in which the Company competes for talent. In this regard it should be noted that share price falls in FY 2017 moved the market capitalisation of the Company from $2 billion at the end of FY 2016 down to approximately $1.9 billion as at the end of FY 2017. During the period the share price has been volatile, due to the impact of several of the issues outlined below. This slight fall in market capitalisation would not be expected to produce materially different benchmarking results. Consequently the benchmarking of KMP and other executive salaries which was undertaken in FY 2017 was done on a market capitalisation neutral basis.
- Mr Peter Gregg, the MD & CEO, resigned during the reporting period, which resulted in the Board seeking a successor. The Board appointed Dr Malcolm Parmenter to the role (to commence 6 September 2017). In order to facilitate continuity of management through an unsettled period, the Board determined to pay retention bonuses to certain executives. These bonuses consisted of cash and equity components which will vest in February 2018.
- The Company is going through a significant period of transition, in line with its current strategy; some examples include:
  - significant resources have been invested in finding efficiencies by integrating back office functions and capitalising on group synergies;
  - the Group continues to pursue opportunities to align its business divisions further, and increase its investment into technology solutions, thereby harnessing this competitive advantage;
  - a key focus of the transition remains the diversification of the Group's sources of revenue, for example through the establishment of the new Health & Co business; and
  - the Group is investing in its people through new initiatives to increase employee engagement and train leaders from within, for example through the new "MyPulse" program.

  Hand-in-hand with this transition is a process of regular review of executive roles and relationships, including the organisation structure, which has resulted in significant changes during FY 2017 and which are expected to continue into FY 2018 following the commencement of the new MD & CEO.
- Financial performance during the year was below expectations set prior to FY 2017, though the Board is confident that the current strategy will bear fruit in coming years. FY 2016 and FY 2017 have seen Primary undertake much of the hard work in repositioning its business, particularly the Medical Centres Bulk Billing business. The Board has continued to monitor the alignment between performance and executive reward through FY 2017 and is confident that the outcomes described in this report demonstrate that appropriate practices are in place.
- The changes in Primary's business and operating environment have in some cases led to corresponding changes in executive roles and responsibilities. Where the change in responsibilities merited a remuneration change, benchmarking was undertaken in order to set the correct level relative to market position in accordance with Primary's overall Remuneration Framework. Examples of changes in executive remuneration driven by change in responsibilities include Maxine Jaquet taking on the role of Chief Executive Health & Co.

### 3.2 Key remuneration matters identified and adjustments made or planned in response, since the FY 2016 Remuneration Report

During FY 2017 the following KMP remuneration-related matters were identified for consideration and/or action during the reporting period and into FY 2018:

- Despite improvements acknowledged by observers from FY 2015 to FY 2016, opportunities to improve the structure, extent and quality of disclosure as presented in the FY 2016 Remuneration Report were identified by external stakeholders. This Remuneration Report attempts to specifically address those issues. In particular, stakeholders raised the following matters which we have endeavoured to address in this report:
  - Disclosure of short term incentives ("STI"),
    - particularly what the standards of performance, and associated rewards planned for those outcomes were; and
    - some observers expressed concern regarding the extent of explanation in relation to strategic and behavioural KPI's under the STI, and the links between those and shareholder value creation.
  - Disclosure of long term incentives ("LTI") granted during the FY 2016 period. No grants were made during the period 1 July 2015 – 30 June 2016. LTI granted in respect of FY 2016 was not granted until FY 2017 had commenced. Nevertheless the LTI awards made in respect of 2016 were disclosed in last year's statutory table (page 64 of last year's Annual Report) and will be disclosed again in this Report,
  - Disclosure of the vesting scales applicable to LTI, which has been addressed in this report to the extent they are not commercially sensitive. When vesting scales are not disclosed due to the sensitive nature of the targets, they will be disclosed retrospectively following vesting to allow shareholders to evaluate the appropriateness of the LTI. This accords with accepted practice of listed entities in relation to vesting scale disclosure,
  - External stakeholders sought more information as to the rationale for relative TSR vesting conditions,
  - We have clarified that dividends do not accrue to unvested Rights,
  - We have clarified the Company's change of control provisions regarding incentive payments,
  - This Remuneration Report addresses the issue of a KMP Equity Holding Policy. At this time there is no KMP equity holding policy, however this matter is the subject of current deliberations by the Board.
- During the reporting period the Board engaged independent external remuneration consultants ("ERCs") to benchmark the remuneration of Non-executive Directors ("NEDs") of the Company, an activity which had not been undertaken for several years, during which the scale and complexity of the Company had increased significantly. This indicated that NED remuneration was well-aligned with the market practices of comparable peers, with only modest increases required to maintain appropriate market positioning in accordance with the NED Remuneration Policy & Procedure. It was also identified that committee fees were below comparable market standards, and there has been an adjustment in committee fees with effect from 1 July 2017 (ie. FY 2018).
- During FY 2017 the organisation design, role designs and senior executive team were restructured. This is the reason for most of the changes that may be observed in this Report. This can be expected to continue into FY 2018 with the commencement of the new MD & CEO, and may result in changes to remuneration commensurate with changes to roles/responsibilities as they occur.

# 4 Overview of Primary's Remuneration Governance Framework & Strategy

## 4.1 Transparency and engagement

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders,
- Nomination and Remuneration Committee Members,
- Stakeholder groups including proxy advisors,
- External remuneration consultants ("ERCs"),
- Other experts and professionals such as tax advisors and lawyers, and
- Company management.

The following outlines a summary of Primary's formal Remuneration Governance Framework that has resulted from those engagements and related considerations. The complete framework can be accessed on the Company's remuneration governance portal at http://www.primaryhealthcare.com.au/irm/content/corporate-governance.aspx, and a channel for direct feedback is provided there. It is important that shareholders, proxy advisors and other interested parties consider this information as part of forming a judgement regarding the remuneration policies, procedures and practices of the Company.

## 4.2 Nomination and Remuneration Committee Charter

The Nomination and Remuneration Committee (the "Committee") is appointed and authorised by the Board to assist the Board in fulfilling its statutory and fiduciary duties. The Committee is responsible for making recommendations to the Board about:

- necessary and desirable competencies of Directors;
- Board succession planning and leadership development;
- the development of a process for the evaluation of the performance of the Board, its Committees and Directors;
- the appointment and re-election of Directors;
- Primary's remuneration, recruitment, retention incentive and termination policies and procedures for Senior Executives;
- the remuneration framework for Non-executive Directors.

The Committee has the authority to seek any information which is relevant to its functions from any officer or employee of Primary. The Committee has the authority to retain legal, accounting or other advisers, consultants or experts which it considers appropriate, to assist it to meet its responsibilities in developing remuneration recommendations for the Board by providing independent advice regarding remuneration strategies, incentive plans and objective market practice of other listed companies.

Primary recognises the importance of ensuring that any recommendations given to the Committee provided by ERCs are provided independently of those to whom the recommendations relate. Further information about the parameters under which ERCs are engaged is provided in Section 13 below.

## 4.3 Senior Executive remuneration policy & procedure

The Senior Executive Remuneration Policy applies to Senior Executives who are defined as follows:

- Managing Director & Chief Executive Officer ("MD & CEO") – accountable to the Board for the Company's performance and long term planning;
- those roles classified as executive KMP under the Corporations Act; and
- direct reports to the MD & CEO – roles that are business unit, functional, or expertise heads.

The policy outlines the Company's intentions regarding Senior Executive remuneration, as well as how remuneration is intended to be structured, benchmarked and adjusted in response to changes in the circumstances of the Company, and in line with good governance.

Broadly the policy describes the following in relation to Senior Executives:

- remuneration should be composed of:
  - Base Package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax ("FBT"));
  - Short-term Incentive ("STI"), which provides a reward for performance against annual objectives and which may be subject to deferral; and
  - Long-term Incentive ("LTI"), which provides a securities-based reward for performance against indicators of shareholder benefit or value creation, over a three year period, and intended to create alignment with shareholders; and
  - in total the sum of the elements will constitute a total remuneration package ("TRP");
- both internal relativities and external market factors should be considered;
- TRPs should be structured with reference to market practices;
- Base Package policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice;
- TRPs at Target (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be set with reference to P75 (the upper quartile, the point at which 75% of the sample lies below) of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long term;
- remuneration will be managed within a range of a policy benchmark so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil their role;
- exceptions will be managed separately such as when particular talent needs to be retained or there are individuals with unique expertise who need to be acquired ("Red circle" exceptions);

- termination benefits will generally be limited to the default amount allowed for under the Corporations Act (without the need to seek shareholder approval); and
- how various components of remuneration should be treated in the case of a termination.

The policy also outlines the procedure that should be undertaken to review Senior Executive remuneration and determine appropriate changes.

Changes to remuneration resulting from annual reviews are generally to be determined in relation to:

- external benchmarking;
- whether current remuneration for the incumbent is above or below the policy midpoint/benchmark – those below the midpoint will tend to receive higher increases;
- the competence of the incumbent in fulfilling their role which determines their positioning within the policy range – higher calibre incumbents are intended to be positioned higher in the range; and
- any changes to internal relativities related to role/organisation design that have occurred since the previous review.

### 4.4 Non-executive Director remuneration policy & procedure

The Non-executive Director ("NED") Remuneration Policy applies to Non-executive Directors of the Company in their capacity as directors and as members of Committees.

The key provisions of the NED Remuneration Policy are, in summary:

- remuneration may be composed of:
  - Board fees;
  - Committee fees;
  - superannuation;
  - other benefits; and
  - securities (if appropriate at the time).
- remuneration will be managed within the aggregate fee limit ("AFL") or fee pool approved by shareholders of the Company (currently $1.4 million);
- guidelines regarding when the Board should seek adjustment to the AFL such as in the case of the appointment of additional Non-executive Directors;
- remuneration should be reviewed annually;
- termination benefits will not be paid to Non-executive Directors;
- a policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the P50 (median or middle) of the market of comparable ASX listed companies;
- Committee fees may be used to recognise additional contributions to the work of the Board by members of Committees, but the inclusion of these should result in outcomes that, when combined with Board Fees, will not exceed P75 of the market of comparable ASX listed companies; and
- any Non-executive Director remuneration package that contains securities should fall at or below P75 of the market of the comparable ASX listed company market. Currently the Company does not provide securities as part of Non-executive Director remuneration and shareholder approval would be sought for any plan that may facilitate this element of remuneration being paid.

The document also outlines the procedure that should be undertaken to review Non-executive Director remuneration and determine appropriate changes.

### 4.5 Approach to determining comparators for remuneration benchmarking

When the Company seeks external market data in relation to NED or Senior Executive benchmarking, the following principles are generally intended to apply, however the Board seeks independent expert advice regarding design of comparator groups as part of engaging an ERC:

- a benchmarking comparator group will take into account the Company's estimated sustainable market capitalisation at the time of the exercise;
- it will include direct competitors of comparable scale to the extent possible;
- the comparator group should be large enough to produce valid statistics, and small enough to be reasonably specific;
- to the extent that direct competitors are not sufficient to produce a statistically robust sample, companies of comparable scale from the same industry or sector will be included; and
- the comparator group should be balanced with an equal number of comparators larger, and smaller, generally limited to those within a range of half to double the Company's market capitalisation value used in designing the group.

These principles are specific to remuneration benchmarking exercises and therefore may produce different outcomes than those applied to the design of other types of comparator groups, such as the comparator group used to assess relative TSR.

### 4.6 Short Term Incentive policy & procedure

The Short Term Incentive policy & procedure is, in summary:

- the Company should operate a formal Short Term Incentive Plan ("STIP") as part of the remuneration offered to Senior Executives (as defined in the policy) aiming to:
  - motivate Senior Executives to achieve the short-term annual objectives linked to Company success and shareholder value creation;
  - create a strong link between performance and reward;
  - share Company success with the Senior Executives that contribute to that success; and
  - create a component of the employment cost that is responsive to short to medium term changes in the circumstances of the Company;
- Non-executive Directors are excluded from participation;
- the measurement period for performance should be the financial year of the Company;
- the STIP should be outcome-focused rather than input-focused, and while an individual performance component should be present, rewards should generally be linked to indicators of shareholder value creation;
- the STIP should be pro-rata forfeited for the portion of the year not worked in the case of a termination (good leaver), but should not be triggered or accelerated;
- the Board will retain discretion to adjust actual awards so as to manage circumstances in which the calculated award may be considered inappropriate;
- the Board has discretion to include deferral of some part of the award as part of a STIP offer (this is currently applicable to STI awards made to Senior Executives); and
- any clawback policy will include awards made under the STIP.

The document also outlines the procedure for operation of the STIP and in determining appropriate actions, changes and considerations.

### 4.7 Long Term Incentive policy & procedure

The Long Term Incentive policy & procedure is, in summary:

- the Company should operate a formal Long Term Incentive Plan ("LTIP") as part of the remuneration offered to Senior Executives (as defined in the policy) aiming to:
  - motivate Senior Executives to achieve long-term objectives linked to shareholder value creation over the long term;
  - create a strong link between performance and reward over the long term; and
  - share the experience of shareholders with the Senior Executives that contribute to that experience including creating an ownership position;
- Non-executive Directors are excluded from participation;
- the measurement period for performance should be aligned with the financial year of the Company and should include three financial years;
- as well as formal plan rules, explanatory material should be provided to participants to maximise the motivational impact of the scheme by supporting clarity regarding its operation;
- the LTIP should be pro-rata forfeited for the portion of the year worked in the case of a termination (good leaver) but should not be triggered or accelerated, noting that when LTI is granted each year, it is remuneration for the year in which it is granted despite being subject to modification over the longer term;
- the Board will retain discretion to adjust actual vesting so as to manage circumstances in which the calculated vesting may be considered inappropriate; and
- any clawback policy will include awards made under the LTI.

The document also outlines the procedure for operation of the LTIP and in determining appropriate actions, changes and considerations.

### 4.8 Defining Threshold, Target and Stretch for Incentive Purposes

In relation to the design, implementation and operation of incentives there should, where possible, be a range of performance and reward outcomes identified and defined. These should be set with regard to the elasticity of the measure, the impact of the measure on shareholder value creation and the ability of Senior Executives to influence the measure. In order to create clarity and consistency, the following concepts and principles are generally intended to the design of incentive scales:

- "Threshold", being a minimum acceptable outcome for a "near miss" of the Target (see following paragraph), associated with a fraction of the target reward appropriate to the threshold outcome (generally around 80% probability of achievement in a given year);
- "Target", being a challenging but achievable outcome, and which is the expected outcome for a Senior Executive/team that is of high calibre and high performing (generally 50%–60% probability of achievement in a given year); and
- "Stretch" (the maximum), which is intended to be a "blue sky" or exceptional outperformance, the purpose of which is to create a continuous incentive to outperform when outperformance of the Target has already been achieved (generally 10%-20% probability of achievement in a given year). This is particularly important for shareholders to understand when comparing with other companies whose maximum levels of incentives may be associated with a planned or target outcome.

Awards for outcomes between these levels should generally be scaled on a pro-rata basis dependent on actual performances. This is intended to provide a motivating opportunity to attain a reward, and to ensure that reward outcomes align with performance, under a range of circumstances.

The approach to the setting of budgets differs between companies. Consequently there is a link between the budget-setting culture of a company and the setting of incentive hurdles. In this regard, the Board is confident that budgets set for Primary are appropriately balanced between being sufficiently challenging for management but also achievable.

### 4.9 Clawback policy & procedure

Payments or vesting related to performance conditions associated with STI and LTI are subject to a clawback policy. The current clawback policy is, in summary:

- an overpayment of incentive remuneration arises when executives have received either STI awards or vesting of LTI grants due to materially incorrect performance information, including financial statements as well as any other information relating to the performance of the Company, and/or business unit and/or individual;
- an overpayment has also arisen if it becomes apparent that actions taken to secure a benefit were, are or will be detrimental to the best interests of the Company, as determined by the Board;
- recoveries (ie. "clawback") are limited to overpayments that occurred in the previous three financial years, unless otherwise determined by the Board;
- the amount or value of the overpayment, including over-vesting, is determined by the Board, having regard to the award calculations that would have applied had the correct information been available, and/or the impact of actions taken that were deemed to have been detrimental and which contributed to the overpayment; and
- the Board determines the extent to which recovery of overpayment will be pursued and how such recovery will be achieved.

### 4.10 Securities Trading Policy

The Company's Policy on Trading in Primary Securities by Directors and other Key Management Personnel:

- sets out the guidelines for dealing in any type of Primary securities by the Company's KMP; and
- summarises the law relating to insider trading which applies to everyone, including to all Primary Group employees as well as to KMP.

Under the current policy, KMP may only trade during a "trading window" (with some limited exceptions as set out in the policy). The following periods in a 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; and
- four weeks commencing one trading day after the day of Primary's Annual General Meeting, typically in mid-late November.

### 4.11 Equity Holding Policy

The Company does not currently have an equity holding policy applicable to KMP, as historically the majority of KMP had material holdings, however this matter is currently under consideration given the changing circumstances of Primary and changing market practices.

### 4.12 Executive Remuneration Consultant ("ERC") engagement policy & procedure

This policy enables the Board to state with confidence whether or not the advice received from ERCs has been independent, and why that view is held. The Policy is that ERCs are to be approved and engaged by the Board before any advice is received. Interactions between management and the ERC must be approved, and will be overseen by the Nomination and Remuneration Committee when appropriate.

## 4.13 Variable Executive Remuneration – The Short Term Incentive Plan ("STIP")

**SHORT TERM INCENTIVE PLAN ("STIP")**

| Aspect | Plan, Offers and Comments |
|---|---|
| **Purpose** | The STI Plan's purpose is to give effect to an element of remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver and outperform annual business plans that will lead to sustainable superior returns for shareholders. The STIP aims to reflect current trading conditions experienced by the Company. Target-based STIs are also intended to modulate the cost to the Company of employing Senior Executives, such that risk is shared with the executives themselves and the cost to the Company is reduced in periods of poor performance. |
| **Measurement Period** | The Company's financial year. |
| **Award Opportunities** | **FY 2017 Invitations**<br>The departed MD & CEO, and the CFO, were offered a target-based STIP equivalent to 58.3% of the Base Package for Target performance, with a maximum/stretch opportunity of up to 112% of the Target award.<br>Other Senior Executives who are KMP were offered a target-based STIP equivalent to 50% of their Base Package for Target performance, with a maximum/stretch opportunity of up to 110% of the Target award.<br>**FY 2018 Invitations**<br>FY 2018 award invitations have been made on the same basis as FY 2017 invitations.<br>**Comments**<br>Shareholders should refer to the definitions of Threshold, Target and Stretch presented elsewhere in this document when assessing incentive practices. |
| **Key Performance Indicators ("KPIs"), Weighting and Performance Goals** | **FY 2017 Invitations**<br>FY 2017 Invitations to participate in the STIP were based on a number of KPIs set for each executive, and summarised as follows and showing the weighting for Target performance:<br>**CEO and CFO**<br>■ Group Normalised Net Profit after Tax ("NPAT") – 60%<br>■ Strategic/non-financial Role Specific KPIs – 30%<br>■ Behavioural – 10%<br>**CEO direct reports – Line/Operational**<br>■ Group Normalised Net Profit after Tax ("NPAT") – 20%<br>■ Divisional Normalised Net Profit after Tax ("NPAT") – 30% (except Chief Executive, Health & Co (0%))<br>■ Strategic/non-financial Role Specific KPIs – 30% (except Chief Executive, Health & Co (60%))<br>■ Behavioural – 20%<br>**CEO direct reports – Functional**<br>■ Group Normalised Net Profit after Tax ("NPAT") – 50%<br>■ Strategic/non-financial Role Specific KPIs – 40%<br>■ Behavioural – 10%<br>Note: the weighting for Chief Executive Health & Co was 0% on Divisional NPAT, and 60% on Role Specific KPIs due to the phase of business development applicable to this segment.<br>Financial targets are set with reference to the annual budget for the financial year.<br>Section 7.2 sets out each executive KMP's KPIs for FY 2017 and FY 2016 STI awards, and the amounts/percentages awarded against each KPI for each individual.<br>**FY 2018 Invitations**<br>FY 2018 Invitations to participate in the STIP are based on similar KPIs set for each executive. The main difference is that, for the CEO and CFO and CEO Direct Reports (Line/Operational), Strategic/non-financial Role Specific KPIs have been reduced from 30% to 20% and a 10% Operating Cash Flow component has been added.<br>The Board cannot disclose the financial targets for FY 2018 as this information is commercially sensitive, however any target-related information which is no longer commercially sensitive at the time of the FY 2018 Remuneration report will be disclosed in that Report. The target is set with reference to the annual Group Budget for the financial year.<br>**Comments**<br>The Board selected these measures as being those that are expected to drive economic profitability, and ultimately shareholder value creation over the long term, within a financial year period. One of the concerns expressed by external stakeholders in relation to the FY 2016 STIP was that little information was given regarding how individual/non-financial measures linked to value creation for shareholders, and that there was an observed history of them paying out at or above target. Such measures are selected as being linked to the execution of the Company's current strategy, and relevant to each role. More detail is provided in the section of this report dealing with incentive outcomes for the reporting period. |

**SHORT TERM INCENTIVE PLAN ("STIP")**

| Aspect | Plan, Offers and Comments |
|---|---|
| **Award Determination and Payment** | Calculations are performed following the end of the Measurement Period and the audit of the Group financial statements. The Board has discretion to determine the extent and nature of any deferral, as part of invitations.<br>**FY 2017 Invitations**<br>75% of awards are to be in cash. 25% of awards are to be in the form of Service Rights subject to continued employment, for a period of 12 months in respect of 12.5% of the award (50% of the deferred amount) and 24 months in respect of 12.5% of the award (50% of the deferred amount), following the end of the Measurement Period.<br>**FY 2018 Invitations**<br>As for FY 2017. |
| **Cessation of Employment During a Measurement Period** | In the event of cessation of employment due to dismissal for cause, all entitlements in relation to the Measurement Period are forfeited, as are any unvested deferred amounts.<br>In the event of cessation of employment due to resignation, all entitlements in relation to the Measurement Period are forfeited, as are any unvested deferred amounts, unless the termination is classified as "Other" (good leaver) in the discretion of the Board (see below).<br>In the case of cessation of employment in other circumstances (good leaver), awards will be subject to pro-rata forfeiture reflecting the timing of the termination, and will not be calculated until after end of the financial year, along with other participants, unless the Board exercises its discretion (generally on an exceptional basis) to accelerate the awards. |
| **Change of Control** | In the event of a Change of Control (including a takeover) the Board may in its discretion decide to:<br>a) 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<br>b) 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<br>c) allow the STIP to continue.<br>In the case of the deferred portion of STI awards:<br>a) all unvested Service Rights will vest, and<br>b) disposal restrictions applied to Rights by the Company and specified as part of the terms of the Rights will be lifted (including the removal of any Company initiated CHESS holding lock if applicable), unless otherwise determined by the Board. |
| **Plan Gate & Board Discretion** | For each Measurement Period the Board has 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).<br>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.<br>**FY 2017 Invitations**<br>No gate specified. However, for FY 2017 and following, in relation to STI awards made to the MD & CEO and Senior Executive direct reports to the MD & CEO, if financial STI targets are not achieved, any STI awards attributable to non-financial metrics may be subjected to a maximum award between 50-65% of the target amount for those non-financial metrics – subject to compelling evidence on an individual basis around the nature of the relevant participant's contribution to the strategic initiatives of the Company.<br>**FY 2018 Invitations**<br>As above. |

## 4.14 Variable Executive Remuneration – Long Term Incentive Plan ("LTIP") – Performance Rights Plan

LONG TERM INCENTIVE PLAN ("LTIP")

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Purpose** | The LTI Plan's purpose is to give effect to an element of Senior Executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver Company performance that will lead to sustainable superior returns for shareholders. Other purposes of the LTI Plan are to act as a retention mechanism so as to maintain a stable team of performance focused Senior Executives, to create alignment with the interests and experiences of shareholders and to modulate the cost to the Company of employing executives such that in periods of poor performance the cost is less.<br><br>Currently the Company operates a Rights plan for the purposes of the LTIP. |
| **Form of Equity** | The current Rights plan includes the ability to grant:<br>■ Performance Rights, which are subject to performance testing, for the purposes of the LTIP;<br>■ Service Rights, which are subject to a continued employment test, for the purposes of deferring STI; and<br>■ Deferred Rights which are not subject to vesting conditions but which are subject to disposal restrictions that attach to the shares that result from Rights being exercised, as an alternative method of deferring STI (not currently used).<br><br>The Rights are Indeterminate Rights and confer the right (following valid exercise) to the value of a Company Share at the time, either:<br>■ settled in shares that may be issued or acquired on-market; or<br>■ settled in the form of cash;<br>at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of terminations).<br><br>No dividends accrue to unvested Rights, and no voting rights are attached.<br><br>The LTIP is based on grants of Performance Rights. |
| **LTI Value** | The Board retains discretion to determine the value of LTI to be offered each year, subject to shareholder approval in relation to Directors, when the Rights are to be settled in the form of a new issue of Company shares. The Board may also seek shareholder approval for grants to Directors in other circumstances, at its discretion.<br><br>**FY 2016 Invitations**<br>In relation to the departed MD & CEO, and the CFO, Performance Rights with a Target value equivalent to 58.3% and a maximum/Stretch value of 116.6% of the Base Package were granted.<br><br>For other Senior Executive KMP, Performance Rights with a Target value equivalent to 50% and a maximum/Stretch value of 100% of the Base Packages were granted.<br><br>It is important to note that the granting of Performance Rights does not mean that the recipient has the benefit of those rights or the equivalent cash value. The recipient only acquires the benefit of the Rights if those rights vest, which can only occur if the Company's performance meets the vesting conditions. If the Company's performance meets the Target criteria, only around half of the grants are expected to vest (refer to definition of Target).<br><br>**FY 2017 Invitations**<br>Invitations for FY 2017 were made on the same basis as FY 2016, noting that the Measurement Period and vesting criteria may lead to different outcomes from FY 2016.<br><br>**FY 2018 Invitations**<br>The Board has determined that invitations for FY 2018 are to be made on the same basis as FY 2017, noting that the Measurement Period and vesting criteria may lead to different outcomes from each of FY 2016 and FY 2017.<br><br>**Comments**<br>The number of LTI Rights to grant are calculated based on dividing the maximum/stretch LTI value by the Right Value, calculated as follows:<br><br>Number of Performance Rights to Vest = Base Package x Target LTI% ÷ Target Vesting % ÷ Right Value x Tranche Weighting<br><br>The equity-based Right Value is the Share price at the time of the calculation (a VWAP calculation is used), less the expected value of dividends that will not accrue to Right holders (Rights are not eligible to receive dividends).<br><br>The Board did not seek shareholder approval in relation to FY 2016 or FY 2017 grants due to the plan not having been fully developed at the time of the 2016 AGM, and the form of grants for FY 2016 and FY 2017 not requiring shareholder approval in any event. The Board intends to seek shareholder approval where appropriate, going forward. |

**LONG TERM INCENTIVE PLAN ("LTIP")**

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Measurement Period** | The Measurement Period will include three financial years unless otherwise determined by the Board (which would only apply in exceptional circumstances).<br>**FY 2016 Invitations**<br>The Measurement Period is from 1 July 2015 to 30 June 2018.<br>**FY 2017 Invitations**<br>The Measurement Period is from 1 July 2016 to 30 June 2019.<br>**FY 2018 Invitations**<br>The Measurement Period will be from 1 July 2017 to 30 June 2020.<br>**Comments**<br>Three year Measurement Periods combined with annual grants produce overlapping cycles that will promote a focus on producing long term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism.<br>Because of the timing of grants, the life of the Right may be less than 3 years at times, however this does not impact the Measurement Period over which performance is measured, which remains at 3 years. |

**LONG TERM INCENTIVE PLAN ("LTIP")**

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Vesting Conditions** | The Board has discretion to set vesting conditions for each offer. Performance Rights that do not vest will lapse. |

**FY 2016 invitations**

Except as indicated below, a participant must remain employed by the Company during the Measurement Period and the performance conditions must be satisfied for Rights to vest.

The FY 2016 invitations included a tranche (50% weighting) with a total shareholder return ("TSR") vesting condition, based on relative TSR ("rTSR"), and a tranche (50% weighting) with an return on invested capital ("ROIC") vesting condition, as follows:

| PERFORMANCE LEVEL | PRIMARY HEALTH CARE'S TSR RELATIVE TO COMPARATOR GROUP | % OF TRANCHE VESTING |
|---|---|---|
| Stretch | ≥ P75 | 100% |
| >Target & <Stretch | >P50 & >P75 | Pro-rata |
| Target | P50 | 50% |
| <Target | <P50 | Nil |

In the above table, Target and Threshold are the same, which is standard practice in relation to rTSR. TSR is calculated over the Measurement Period as share price movement plus dividends assuming reinvestment into Company shares. Share price is calculated as the Volume Weighted Average Price ("VWAP") over the 14 days up to and including the relevant date.

At the end of the Measurement Period the Company's TSR is compared against those of the comparator group (see page 51) that remain listed at the end of the Measurement Period. The Company's rank determines the level of vesting.

| PERFORMANCE LEVEL | ROIC | VESTING |
|---|---|---|
| Below Threshold | <(x-0.2)% | 0% |
| Threshold | (x-0.2)% | 25% |
| | >(x-0.2)% & <x% | >25% & <50% |
| Target | x% | 50% |
| | >x% & <(x+0.2)% | >50% & <100% |
| Stretch | ≥(x+0.2)% | 100% |

ROIC is return on invested capital and is calculated as underlying EBIT as a percentage of average invested capital (being net debt plus equity).

ROIC is calculated as inclusive of goodwill. The target was set with reference to the budget, and the cost of capital.

ROIC is averaged over the 3 year Measurement Period (including averaging of capital), on a pre-tax basis.

**FY 2017 Invitations**

FY 2017 LTI is subject to the same performance conditions as in FY 2016, and with the same weightings, however the vesting scales are as follows:

| PERFORMANCE LEVEL | PRIMARY HEALTH CARE'S TSR RELATIVE TO COMPARATOR GROUP | % OF TRANCHE VESTING |
|---|---|---|
| Stretch | ≥ P75 | 100% |
| >Target & <Stretch | >P50 & <P75 | Pro-rata |
| Target | P50 | 50% |
| <Target | <P50 | Nil |

| PERFORMANCE LEVEL | ROIC | VESTING |
|---|---|---|
| Below Threshold | <(y-0.2)% | 0% |
| Threshold | (y-0.2)% | 25% |
| | >(y-0.2)% & <y% | >25% & <50% |
| Target | y% | 50% |
| | >y% & <(y+0.2)% | >50% & <100% |
| Stretch | ≥(y+0.2)% | 100% |

**FY 2018 invitations**

The Board has determined that FY 2018 invitations are to be on the same basis as FY 2017 invitations. Vesting conditions for rTSR are the same as for FY 2017 and FY 2016 (subject to any change to the comparator group at the Board's discretion), whilst ROIC vesting criteria remain commercially sensitive at the time of writing of this report; to the extent they do not remain commercially sensitive they will be disclosed in the Company's FY 2018 Remuneration Report.

LONG TERM INCENTIVE PLAN ("LTIP")

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Vesting Conditions** (cont.) | **Comments**<br>The Board recognises that it is important that shareholders understand why the LTI vesting conditions selected are appropriate to the circumstances of the Company, and therefore seeks to be transparent in this regard.<br>An earnings measure was selected as it is considered by the Board to be the primary driver of Total Shareholder Return over the long term, and this measure has shown good correlation with TSR outcomes for shareholders in the past.<br>The comparator group for the assessment of the rTSR vesting conditions is set out in the following table. This group was selected by the Board from health care companies listed on the ASX using a combination of simple methodologies suggested by ERCs. The selection criteria listed in section 4.5 of this Remuneration Report provided some guidance to the Board in this exercise, noting however that the composition of a comparator group used for base package benchmarking may differ from the composition of a comparator group used to assess rTSR for LTI.<br>**Primary Health Care Limited – comparator group for rTSR calculations for LTI – FY 2016 & FY 2017** |

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

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Retesting** | The Rights Plan allows for retesting of performance rights, however on terms that are intended to address the concerns usually raised with regards to retesting and, and intended to align with shareholder interests. Retesting can only apply to a Rights tranche once and only if no vesting occurs at the end of the Measurement Period, in which case the Measurement Period is extended by one year (to four years), and only if the vesting scale is expressed in a manner that will permit pro-rata increase of the difficulty of the hurdle to account for the additional time.<br>**FY 2016 Invitations**<br>Invitations allowed for a single retest, as above.<br>**FY 2017 Invitations**<br>Invitations allowed for a single retest, as above.<br>**FY 2018 Invitations**<br>Invitations will allow for a single retest, as above. |

LONG TERM INCENTIVE PLAN ("LTIP")

| Aspect | Plan Rules, Offers and Comments |
|---|---|
| **Plan Gate & Board Discretion** | Tranches of LTI related to TSR vesting conditions are subject to a gate such that if the Company's TSR is not positive over the Measurement Period, no vesting will occur.<br>The Board retains a discretion to adjust vesting outcomes in the circumstances that the outcomes from applying the vesting scales alone would be likely to be seen as inappropriate. |
| **Amount Payable for Performance Rights** | No amount is payable by participants for Performance Rights.<br>The target value of Rights is included in assessments of remuneration benchmarking and policy positioning. This is standard market practice and consistent with the nature of Performance Rights. |
| **Exercise of Vested Performance Rights** | Under the plan rules, vested Performance Rights are exercised automatically following vesting. Rights that are not exercised lapse. Exercised Rights will be satisfied in the form of ordinary shares of the Company, except where the Board exercises its discretion to settle in the form of cash. |
| **Disposal Restrictions etc.** | Under the Rights Plan, Rights are subject to disposal restrictions at all times. Shares that are the result of the exercise of Rights under the Plan are generally Restricted Shares, and may not be disposed of until the elapsing of any Specified Disposal Restriction outlined as part of the Invitation, and until dealing in the Shares would not breach the Company's trading policy or Division 3 of Part 7.10 of the Corporations Act.<br>Performance Rights do not include an entitlement to receive a dividend. Any Shares issued or transferred to a Participant upon vesting of Performance Rights are only entitled to dividends if they were issued on or before the relevant dividend entitlement date. Shares issued or transferred under the LTIP rank equally in all respects with other Shares on issue.<br>Performance Rights will not be quoted on ASX. |
| **Cessation of Employment** | In the event of cessation of employment, unvested Rights will lapse unless otherwise determined by the Board.<br>In the case of Special Circumstances (good leaver) Rights will be forfeited in the same proportion as the remainder of the financial year in which the termination occurs bears to a full financial year. Remaining Rights will be left on-foot subject to performance testing along with other participants at the usual time, in which case any service condition will be deemed to have been fulfilled as at the testing date. |
| **Change of Control of the Company** | If in the opinion of the Board a change of control event has occurred, or is likely to occur, the Vesting Conditions attached to the Tranche at the time of the Offer will cease to apply and:<br>a) unvested Performance Rights granted in the financial year of the Change of Control will lapse in the proportion that the remainder of the financial year bears to the full financial year;<br>b) 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):<br>Number of Performance Rights to Vest = Unvested Performance Rights x (Share Price at the Change of Control – Offer Share Price) ÷ Offer Share Price<br>c) any unvested Performance Rights than do not vest in relation to (b) will lapse unless otherwise determined by the Board;<br>d) all unvested Service Rights will vest; and<br>e) disposal restrictions applied to Rights by the Company and specified as part of the terms of the LTI will be lifted (including the removal of any Company initiated CHESS holding lock if applicable), unless otherwise determined by the Board. |

## 5 Planned executive remuneration for FY 2017 (non-statutory disclosure)

The disclosures required under the Corporations Act (including regulations) and prepared in accordance with applicable accounting standards, do not provide shareholders with an understanding of the intended remuneration in a given year. For example the LTI disclosed is not reflective of the remuneration opportunity for the year being reported, due to the technical requirements of relevant Accounting Standards.

The following table is provided to ensure that shareholders have an accurate understanding of the Board's intention regarding the remuneration offered to executives during FY 2017, as at Target performance, to facilitate an assessment of the alignment between performance and reward. In this regard, the definition of Target needs to be considered. Generally there are opportunities for incentives to exceed the target levels outlined here, as discussed in the relevant sections, however stretch/maximum incentives are designed to be unlikely to occur. In the case of the LTI the maximum incentive is double the Target, and in the case of the STI, the maximum incentive is generally 112% of Target.

| | | | STI OPPORTUNITY | | | LTI OPPORTUNITY | | | |
|---|---|---|---|---|---|---|---|---|---|
| POSITION | BASE PACKAGE INCLUDING SUPER | FIXED % TRP (%) | TARGET % OF BASE PACKAGE (%) | TARGET STI AMOUNT ($) | STI % TRP (%) | TARGET % OF BASE PACKAGE (%) | TARGET LTI AMOUNT ($) | LTI % TRP (%) | TOTAL REMUNERATION PACKAGE AT TARGET PERFORMANCE ($) |
| **Mr Peter Gregg** [1] MD & CEO | 1,497,700 | 46 | 58.3 | 873,160 | 27 | 58.3 | 873,160 | 27 | 3,244,020 |
| **Mr Malcolm Ashcroft** [2] CFO/Acting CEO | 979,212 | 46 | 58.3 | 570,880 | 27 | 58.3 | 570,880 | 27 | 2,120,972 |
| **Dr John Houston** CE – Medical Centres – Bulk Billing | 750,000 | 50 | 50 | 375,000 | 25 | 50 | 375,000 | 25 | 1,500,000 |
| **Ms Maxine Jaquet** [3] CE – Health & Co | 525,000 | 46 | 57 | 300,000 | 27 | 57 | 300,000 | 27 | 1,125,000 |
| **Mr Wesley Lawrence** [4] CE – Pathology | 421,346 | 50 | 50 | 210,673 | 25 | 50 | 210,673 | 25 | 842,692 |
| **Mr Dean Lewsam** [5] CE – Imaging | 505,000 | 47 | 57 | 290,000 | 27 | 57 | 290,000 | 27 | 1,085,000 |
| **Mr James Bateman** [6] GM – Pathology | 75,048 | 50 | 50 | 37,524 | 25 | 50 | 37,524 | 25 | 150,096 |

1 Base package and target amounts have been calculated on a pro rata basis up until 29 May 2017 when Mr Peter Gregg ceased to be executive KMP for Primary.

2 Base package and target amounts have been calculated on a pro rata basis to take into account the increased base package that Mr Malcolm Ashcroft has received whilst in the position of Acting CEO since 23 May 2017.

3 Base package amounts have been calculated on a pro rata basis to take account of the increase to base package awarded to Ms Maxine Jaquet effective 1 January 2017. The target STI and target LTI amounts are calculated as 50% of base package as at 30 June 2017.

4 Base package and target amounts have been calculated on a pro rata basis from 8 December 2016 when Mr Wesley Lawrence commenced as executive KMP for Primary.

5 Base package amounts have been calculated on a pro rata basis to take account of the increase to base package awarded to Mr Dean Lewsam effective 1 January 2017. The target STI and target LTI amounts are calculated as 50% of base package as at 30 June 2017.

6 Base package and target amounts have been calculated on a pro rata basis up until 5 August 2016 when Mr James Bateman ceased to be executive KMP for Primary.

The incentive levels presented are based on the policy at the time of determining remuneration for the year, and in the case of LTI and deferred STI, translated into a number of Rights at the time of the grant calculation.

## 6 Vested/awarded incentives and remuneration outcomes in respect of the completed FY 2017 period (non-statutory disclosure)

The statutory disclosure requirements and accounting standards make it difficult for shareholders to obtain a clear understanding of what the actual remuneration outcome for executives was in relation to a given reporting period. It should be noted that typically STI for a reporting period is paid after the end of the financial year, following audit, and that LTI vesting is similarly delayed. The following table brings these outcomes back to the year of performance to which the outcome relates, FY 2017.

The following table outlines the STI awarded in relation to the completed financial year (ignoring deferral), following the end of the year, and the LTI that vested (if any) in relation to the completion of Measurement Period which ended at the end of the financial year.

| | | BASE PACKAGE INCLUDING SUPER | | TOTAL STI AWARDED FOLLOWING COMPLETION OF THE FINANCIAL YEAR (CASH AND EQUITY)[2] | | VALUE OF LTI THAT VESTED FOLLOWING COMPLETION OF THE MEASUREMENT PERIOD/FY[4] | | RETENTION[5] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| NAME | YEAR | AMOUNT ($) | % OF TRP (%) | AMOUNT ($) | % OF TRP (%) | AMOUNT ($) | % OF TRP (%) | AMOUNT ($) | % OF TRP (%) | TOTAL REMUN-ERATION PACKAGE (TRP) ($) |
| **Mr Peter Gregg** | **2017** | **1,546,162** [1] | **84** | **300,000** [3] | **16** | **–** | **N/A** | **–** | **–** | **1,846,162** |
| **MD & CEO** (until 29 May 2017) | 2016 | 1,607,692 | 82 | 348,508 | 18 | – | N/A | – | – | 1,956,200 |
| **Mr Malcolm Ashcroft** | **2017** | **979,212** | **73** | **216,677** | **16** | **–** | **N/A** | **154,761** | **11** | **1,350,650** |
| **CFO** (from 13 July 2015) **Acting CEO** (from 23 May 2017) | 2016 | 853,110 | 82 | 181,212 | 18 | – | N/A | – | – | 1,034,322 |
| **Dr John Houston** | **2017** | **750,000** | **72** | **140,625** | **13** | **27,733** | **3** | **129,689** | **12** | **1,048,047** |
| **CE – Medical Centres – Bulk Billing** (from 1 March 2016) | 2016 | 250,000 | 58 | 178,985 | 42 | – | N/A | – | – | 428,985 |
| **Ms Maxine Jaquet** | **2017** | **525,000** | **66** | **162,000** | **21** | **–** | **N/A** | **103,750** | **13** | **790,750** |
| **CE – Health & Co** (from 1 March 2016) | 2016 | 145,125 | 57 | 107,391 | 43 | – | N/A | – | – | 252,516 |
| **Mr Wesley Lawrence** **CE – Pathology** (from 8 December 2016) | **2017** | **421,346** | **60** | **144,831** | **21** | **–** | **N/A** | **129,689** | **19** | **695,866** |
| **Mr Dean Lewsam** | **2017** | **505,000** | **62** | **216,050** | **26** | **–** | **N/A** | **94,370** | **12** | **815,420** |
| **CE – Imaging** (from 23 October 2015) | 2016 | 265,427 | 72 | 105,133 | 28 | – | N/A | – | – | 370,560 |
| **Mr James Bateman** | **2017** | **75,048** | **100** | **–** | **–** | **–** | **N/A** | **–** | **–** | **75,048** |
| **GM – Pathology** | 2016 | 810,519 | 70 | 241,617 | 21 | 107,353 | 9 | – | – | 1,159,389 |
| **Matthew Bardsley** **GM – Information Innovation** (until 18 May 2016) | 2016 | 448,527 | 45 | 475,708 | 48 | 70,880 | 7 | – | – | 995,115 |
| **Henry Bateman** **CE – Medical Centres** (until 1 March 2016) | 2016 | 562,078 | 84 | – | – | 103,920 | 16 | – | – | 665,998 |
| **Andrew Duff** **CFO** (until 10 July 2015) | 2016 | 60,038 | 36 | – | – | 107,254 | 64 | – | – | 167,292 |
| **TOTAL** | **2017** | **4,801,768** | **–** | **1,180,183** | **–** | **27,733** | **–** | **612,259** | **–** | **6,009,683** |
| **Executive KMP** | 2016 | 5,002,516 | – | 1,638,554 | – | 389,307 | – | – | – | 7,030,377 |

In regards to information presented in the table above it should be noted that for persons who were KMP for part of FY 2017, the amounts set out in the table above relate to the period during which the person was a KMP; payments made to the person which do not relate to their KMP status (for exmaple for employment by the Company prior to becoming a KMP) are not included.

1 Base Package includes back pay of $48,462 relating to the increase in Base Package awarded to Mr Peter Gregg in September 2016 but with effect from 1 March 2016.

2 This is the value of the total STI award calculated following the end of the Financial Year, and noting that 25% of this award is subject to deferral, and therefore not “realised”.

3 Mr Gregg’s FY 2017 STI was paid as 100% cash. For further details please refer to section 12.1.

4 LTI payments made in FY 2016 and FY 2017 were due to the vesting of cash amounts under legacy LTI arrangements (FY 2012–FY 2014). As disclosed in the Company’s 2015 Annual Report, no LTI was awarded or paid in relation to FY 2015. As discussed at section 4.14 of this report the measurement period under the current LTI Plan is three years and accordingly the measurement periods for the FY 2016 and FY 2017 Plans have not yet completed.

5 The amounts included for Retention reflect the accounting expense for the period from grant date until 30 June 2017. The Retention comprises a cash component and an equity component both of which will be delivered to the employee at the end of the Service Period on 23 February 2018.

Details regarding the assessments of performance that gave rise to the incentive outcomes for FY 2017 are given in section 7.2 below.

# 7 Performance outcomes for FY 2017 including STI and LTI assessment

## 7.1 Company performance

The Company's performance is summarised in the section of this Annual Report entitled Group Performance (refer page 16).

The following outlines the performance of the Company over the FY 2017 period and the previous 4 financial years in accordance with the requirements of the Corporations Act:

| FY END DATE | REVENUE ($M)[1] | REPORTED PROFIT AFTER TAX[1] ($M) | UNDERLYING PROFIT AFTER TAX[2] ($M) | SHARE PRICE ($) | CHANGE IN SHARE PRICE ($) | DIVIDENDS[3] ($) | SHORT TERM CHANGE IN SHAREHOLDER VALUE OVER 1 YEAR (SP INCREASE + DIVIDENDS) AMOUNT ($) | SHORT TERM CHANGE IN SHAREHOLDER VALUE OVER 1 YEAR (SP INCREASE + DIVIDENDS) % | LONG TERM (CUMULATIVE) 3 YEARS CHANGE IN SHAREHOLDER VALUE AMOUNT ($) | LONG TERM (CUMULATIVE) 3 YEARS CHANGE IN SHAREHOLDER VALUE % | 3 YR TOTAL RETURN (DIVIDENDS ASSUMED TO BE REINVESTED) % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 30-Jun-17 | 1,659 | (517) | 92 | 3.64 | (0.31) | 0.16 | (0.15) | (3.80) | (0.25) | (5.57) | (6.95) |
| 30-Jun-16 | 1,642 | 75 | 104 | 3.95 | (1.09) | 0.20 | (0.89) | (17.63) | (0.06) | (1.19) | (2.44) |
| 30-Jun-15 | 1,618 | 136 | 112 | 5.04 | 0.50 | 0.29 | 0.79 | 17.31 | 2.66 | 0.90 | 100.14 |
| 30-Jun-14 | 1,524 | 115 | | 4.54 | (0.24) | 0.29 | 0.05 | 0.96 | | | |
| 30-Jun-13 | 1,524 | 163 | | 4.78 | | | | | | | |

1 Statutory reported.
2 From continuing and discontinued operations.
3 Dividends used are the cash amount (Post Franking).

## 7.2 Links between Performance and Reward Including STI and LTI Outcomes

The remuneration of executive KMP is intended to be composed of three parts as outlined earlier, being:

- Base Package, which is not intended to vary with performance but which tends to increase as the scale of the business increases (i.e. following success);
- STI which is intended to vary with indicators of annual Company and individual performance, including a deferred component which will vary with exposure to the market; and
- LTI which is also intended to deliver a variable reward based on long-term measures of Company performance.

The STI **paid during the FY 2017** period related to performance during the FY 2016 period and was awarded on or about 21 September 2016. On average 48.76% of the target award opportunity or 47.43% of the maximum award opportunity available was paid. This level of award was considered appropriate under the STI scheme that was in place **during FY 2016**, which is summarised in the table below. Therefore there were strong links between internal measures of Company performance and the payment of short term incentives.

| FY 2016 – EXECUTIVE KMP – SUMMARY OF KEY PERFORMANCE INDICATORS ("KPIS") FOR STI AWARDS | | | | | | | AWARD OUTCOMES FY 2016 PAID FY 2017 | |
|---|---|---|---|---|---|---|---|---|
| KPI SUMMARY | WEIGHTING (%) | THRESHOLD ($) | TARGET ($) | STRETCH ($) | TARGET AWARD ($) | ACHIEVEMENT (% OF TARGET) | AWARDED ($) | TOTAL STI AWARD (% OF TARGET) ($) |
| **Mr Peter Gregg** – MD & CEO | | | | | | | | |
| Group NPAT | 60 | 144,293 | 577,170 | 692,604 | | – | – | |
| Group Net Debt | 5 | 12,024 | 48,098 | 57,717 | | 120 | 57,717 | |
| Group OCF | 5 | 12,024 | 48,097 | 57,717 | 961,950 | 35 | 16,635 | 36.23<br>348,508 |
| Role-specific | 20 | n/a | 192,390 | n/a | | 95 | 182,771 | |
| Behavioural | 10 | n/a | 96,195 | n/a | | 95 | 91,385 | |
| **Mr Malcolm Ashcroft** – CFO/Acting CEO | | | | | | | | |
| Group NPAT | 60 | 78,268 | 313,071 | 375,685 | | – | – | |
| Group Net Debt | 5 | 6,522 | 26,089 | 31,307 | | 120 | 31,307 | |
| Group OCF | 5 | 6,522 | 26,089 | 31,307 | 521,785 | 35 | 9,023 | 34.73<br>181,212 |
| Role-specific | 20 | n/a | 104,357 | n/a | | 90 | 93,921 | |
| Behavioural | 10 | n/a | 52,179 | n/a | | 90 | 46,961 | |
| **Dr John Houston** – CE Medical Centres – Bulk Billing | | | | | | | | |
| Group NPAT | 20 | 18,750 | 75,000 | 90,000 | | – | – | |
| Group Net Debt | 5 | 4,688 | 18,750 | 22,500 | | 120 | 22,500 | |
| Group OCF | 5 | 4,688 | 18,750 | 22,500 | | 35 | 6,485 | |
| Divisional EBIT | 10 | 9,375 | 37,500 | 45,000 | 375,000 | – | – | 47.43<br>178,985 |
| Divisional OCF | 10 | 9,375 | 37,500 | 45,000 | | – | – | |
| Divisional CAPEX | 10 | 9,375 | 37,500 | 45,000 | | – | – | |
| Role-specific | 20 | n/a | 75,000 | n/a | | 100 | 75,000 | |
| Behavioural | 20 | n/a | 75,000 | n/a | | 100 | 75,000 | |
| **Ms Maxine Jaquet** – CE Health & Co | | | | | | | | |
| Group NPAT | 50 | 28,125 | 112,500 | 135,000 | | – | – | |
| Group Net Debt | 5 | 2,813 | 11,250 | 13,500 | | 120 | 13,500 | |
| Group OCF | 5 | 2,812 | 11,250 | 13,500 | 225,000 | 35 | 3,891 | 47.73<br>107,391 |
| Role-specific | 30 | n/a | 67,500 | n/a | | 100 | 67,500 | |
| Behavioural | 10 | n/a | 22,500 | n/a | | 100 | 22,500 | |
| **Mr Wesley Lawrence** – CE Pathology | | | | | | | | |
| Group NPAT | 20 | 6,000 | 24,000 | 28,800 | | – | – | |
| Divisional EBIT | 5 | 1,500 | 6,000 | 7,200 | | 101 | 6,052 | |
| Divisional OCF | 5 | 1,500 | 6,000 | 7,200 | | 101 | 6,058 | |
| Divisional CAPEX | 5 | 1,500 | 6,000 | 7,200 | | 110 | 6,586 | |
| State EBIT | 15 | 4,500 | 18,000 | 21,600 | 120,000 | 103 | 18,506 | 64.45<br>77,335 |
| State OCF | 15 | 4,500 | 18,000 | 21,600 | | 103 | 18,533 | |
| State CAPEX | 15 | 4,500 | 18,000 | 21,600 | | – | – | |
| Role-specific | 10 | n/a | 12,000 | n/a | | 90 | 10,800 | |
| Behavioural | 10 | n/a | 12,000 | n/a | | 90 | 10,800 | |
| **Mr Dean Lewsam** – CE Imaging | | | | | | | | |
| Group NPAT | 20 | 10,750 | 43,000 | 51,600 | | – | – | |
| Group Net Debt | 5 | 2,688 | 10,750 | 12,900 | | 120 | 12,900 | |
| Group OCF | 5 | 2,688 | 10,750 | 12,900 | | 35 | 3,718 | |
| Divisional EBIT | 10 | 5,375 | 21,500 | 25,800 | 215,000 | – | – | 48.90<br>105,133 |
| Divisional OCF | 10 | 5,375 | 21,500 | 25,800 | | – | – | |
| Divisional CAPEX | 10 | 5,375 | 21,500 | 25,800 | | 52 | 11,115 | |
| Role-specific | 20 | n/a | 43,000 | n/a | | 90 | 38,700 | |
| Behavioural | 20 | n/a | 43,000 | n/a | | 90 | 38,700 | |
| **Mr James Bateman** – GM Pathology | | | | | | | | |
| Group NPAT | 20 | 19,513 | 78,050 | 93,660 | | – | – | |
| Group Net Debt | 5 | 4,878 | 19,513 | 23,415 | | 89 | 17,322 | |
| Group OCF | 5 | 4,878 | 19,512 | 23,415 | | 26 | 4,993 | |
| Divisional EBIT | 10 | 9,756 | 39,025 | 46,830 | 390,250 | 74 | 28,872 | 61.91<br>241,617 |
| Divisional OCF | 10 | 9,756 | 39,025 | 46,830 | | 74 | 28,872 | |
| Divisional CAPEX | 10 | 9,756 | 39,025 | 46,830 | | 74 | 28,872 | |
| Role-specific | 20 | n/a | 78,050 | n/a | | 85 | 66,343 | |
| Behavioural | 20 | n/a | 78,050 | n/a | | 85 | 66,343 | |

The STI **achieved in relation to the FY 2017** period being completed is to be paid after the end of the period (i.e. during FY 2018, around September 2017). On average 50.64% of the target award opportunity or 46.32% of the maximum award opportunity (being 112% of the target) available was paid. This level of award was considered appropriate under the STI scheme since the objectives were set and offers made in relation to the achievement of each KPI at the beginning of the financial year, and the majority of those objectives were met. **In relation to the completed FY 2017** period the payment of STI was calculated as follows:

| FY 2017 – EXECUTIVE KMP – SUMMARY OF KEY PERFORMANCE INDICATORS ("KPIS") FOR STI AWARDS | | | | | | | | AWARD OUTCOMES FY 2016 PAID FY 2017 |
|---|---|---|---|---|---|---|---|---|
| KPI SUMMARY | WEIGHTING (%) | THRESHOLD ($) | TARGET ($) | STRETCH ($) | TARGET AWARD ($) | ACHIEVEMENT (% OF TARGET) | AWARDED ($) | TOTAL STI AWARD (% OF TARGET) ($) |
| **Mr Peter Gregg** [1] – MD & CEO | | | | | | | | |
| Group NPAT | 60 | 144,293 | 577,170 | 692,604 | | | | |
| Role Specific | 30 | n/a | 288,585 | n/a | 961,950 | 31 | 300,000 | 31.18<br>300,000 |
| Behavioural | 10 | n/a | 96,195 | n/a | | | | |
| **Mr Malcolm Ashcroft** [2] – CFO/Acting CEO | | | | | | | | |
| Group NPAT | 60 | 85,530 | 342,122 | 410,546 | | – | – | 38.00 |
| Role Specific | 30 | n/a | 171,061 | n/a | 570,203 | 100 | 171,061 | 216,677 |
| Behavioural | 10 | n/a | 57,020 | n/a | | 80 | 45,616 | |
| **Dr John Houston** – CE Medical Centres – Bulk Billing | | | | | | | | |
| Group NPAT | 20 | 18,750 | 75,000 | 90,000 | | – | – | |
| Divisional NPAT | 30 | 28,125 | 112,500 | 135,000 | 375,000 | – | – | 37.50 |
| Role Specific | 30 | n/a | 112,500 | n/a | | 75 | 84,375 | 140,625 |
| Behavioural | 20 | n/a | 75,000 | n/a | | 75 | 56,250 | |
| **Ms Maxine Jaquet** – CE Health & Co | | | | | | | | |
| Group NPAT | 20 | 15,000 | 60,000 | 72,000 | | – | – | |
| Role-Specific | 60 | n/a | 180,000 | n/a | 300,000 | 65 | 117,000 | 54<br>162,000 |
| Behavioural | 20 | n/a | 60,000 | n/a | | 75 | 45,000 | |
| **Mr Wesley Lawrence** [3] – CE Pathology | | | | | | | | |
| Group NPAT | 20 | 14,900 | 59,600 | 71,520 | | – | – | |
| Divisional NPAT | 30 | 22,350 | 89,400 | 107,280 | 298,000 | 101 | 89,858 | 68.65 |
| Role Specific | 30 | n/a | 89,400 | n/a | | 75 | 67,050 | 204,588 |
| Behavioural | 20 | n/a | 59,600 | n/a | | 80 | 47,680 | |
| **Mr Dean Lewsam** – CE Imaging | | | | | | | | |
| Group NPAT | 20 | 14,500 | 58,000 | 69,600 | | – | – | |
| Division NPAT | 30 | 21,750 | 87,000 | 104,400 | 290,000 | 120 | 104,400 | 74.50 |
| Role Specific | 30 | n/a | 87,000 | n/a | | 75 | 65,250 | 216,050 |
| Behavioural | 20 | n/a | 58,000 | n/a | | 80 | 46,400 | |

1 Mr Peter Gregg's STI was based on his TRP for the period 1 July 2016 to 29 May 2017. The Board fixed Mr Gregg's STI at $300,000 at the time of his departure on 29 May 2017.

2 Mr Malcolm Ashcroft's STI has been calculated on a pro rata basis, based on his TRP for the period between 1 July 2016 to 22 May 2017 when Mr Ashcroft undertook the role of CFO, and based on his TRP from 23 May 2017 when Mr Malcolm Ashcroft undertook the role of Acting CEO.

3 Mr Wesley Lawrence's STI has been calculated on a pro rata basis, based on his TRP for the period between 1 July 2016 to 7 December 2016 when Mr Lawrence was CEO of Laverty Pathology and not an executive KMP, and based on his TRP from 8 December 2016 when Mr Lawrence commenced as executive KMP for Primary.

These KPIs outlined were selected because they were the most significant matters expected to contribute to the success of the Company during FY 2017 in the case of each role. Following the end of the Measurement Period (the financial year), the Group financial statements were audited and reports on the Group's activities during the year were prepared for the Board. The Board then assessed the extent to which Target levels of performance had been achieved in relation to each KPI and used the pre-determined scales (for non-binary measures) to calculate the total award payable. This method of performance assessment was chosen because it is the most objective approach to short term incentive governance, and reflective of market best practices.

The Board takes the view that NPAT and strategy implementation are the key short term drivers of long term value creation for shareholders.

1. PERFORMANCE OVERVIEW
2. OPERATING FINANCIAL REVIEW
3. GOVERNANCE
4. DIRECTORS' REPORT
5. FINANCIAL REPORT
6. OTHER INFORMATION

Role-specific KPIs used for FY 2017 were designed to reward superior achievement in the individual role area of the relevant KMP. Such KPIs complement divisional financial KPIs, which reward a KMP for strong financial performance of their business division (for example, Imaging in FY 2017). One example of a role-specific KPI applied to an individual in FY 2017 (in the case of the CFO) is the effective development and rollout of transformation programs in the Finance, IT and Property teams. Setting this KPI (amongst other role-specific KPIs set for the CFO) enabled the Board to evaluate and reward executive performance of a standard over and above the "business as usual" requirements of the KMP's role.

In some cases, a role-specific KPI may be applied to more than one executive KMP. One reason for this approach is to drive change across more than one business unit. One such example from FY 2017, applied across multiple executive KMP, was effective oversight by the KMP of their business division's engagement and compliance with the MyPulse framework. Setting this KPI enabled the Board to directly link greater employee engagement with executive remuneration outcomes, in order to drive the cultural change the Board seeks to foster at Primary.

Similarly, behavioural KPIs were used in FY 2017 to drive organisational change at Primary. Primary's executive team's charter prizes values which support executives' effective engagement with one another, with the employees in their teams and with the Board. These values include achievement, respect, teamwork, communication, perseverance and courage. Board assessment of executive KMPs' behavioural attributes against these criteria, with financial rewards for executives who display and model positive attributes, is helping the Board to guide Primary toward cultural improvement.

### 7.3 Grants of LTI in FY 2017 and vesting of LTI awards made in prior periods

During FY 2017 grants of equity (Performance Rights) were made in relation to the LTI scheme as part of remuneration for FY 2017, but did not vest due to the presence of the long-term measurement period and vesting conditions that are yet to be completed/assessed. As discussed in section 4.14 above, the measurement period for FY 2017 LTI awards is FY 2017-9 inclusive so these LTI awards will not vest until FY 2020 (if the vesting conditions are satisfied). Details of changes in equity interests of executive KMP appear in section 8 below. Section 4.14 above describes the applicable vesting scales for the two components of LTI (rTSR and ROIC).

At no time during or in relation to FY 2017 did the Board exercise any discretion to increase the awarding of any LTI that was subject to such discretion.

In relation to the completion of prior reporting periods:

- some grants of cash LTI awarded in FY 2014 and prior (under legacy LTI schemes which are no longer in use) vested in FY 2017; such vestings are disclosed in relation to those executive KMP who received them;
- no LTI awards were made in FY 2015; and
- LTI awards made in FY 2016 remain unvested and subject to testing over the FY 2016-8 measurement period (that is, they will not vest until FY 2019 if the vesting conditions are satisfied).

### 7.4 Impact of normalisation on incentives

The Board recognises that the use of normalisation to adjust indicators of profitability has been an issue of concern to some external stakeholders in recent years, particularly with regards to the calculation of incentive outcomes. It is important that there is transparency regarding this practice and the rationale for its use, and therefore the following information is provided in this regard.

The Board sees it as appropriate to apply normalisation to profit measures for the purposes of incentive calculation so as to ensure that the right behaviours are motivated, and inappropriate behaviours are not motivated, in respect of the profit calculation. Generally adjustments will be balanced so that the impact of normalisation is not skewed to create advantage eg. if the cost of the acquisition of a new business is excluded, the revenue from that business will also be excluded. The Board has discretion to determine which adjustments will be appropriate given the circumstances, and business plans.

Apart from noting that some measures of STI awards use normalised metrics (eg. Underlying Profit After Tax), no such adjustments were made by the Board in relation to STI for FY 2016 or FY 2017. For LTI, ROIC vesting criteria for FY 2016 and FY 2017 will be adjusted to account for impairments of goodwill announced in July 2017, thereby avoiding those impairments having the effect of artificially lowering the ROIC targets originally set by the Board.

### 7.5 Links between Company strategy and remuneration

The Company intends to attract the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- positioning Base Packages (the fixed element) around relevant market data benchmarks when they are undertaken; and
- supplementing the Base Package with at-risk remuneration, being incentives that motivate executive focus on:
  - short- to mid-term objectives linked to the strategy via KPIs and annual performance assessments; and
  - long-term value creation for shareholders by linking a material component of remuneration to those factors that shareholders have expressed should be the long term focus of executives and the Board.

To the extent appropriate, the Company links strategic implementation and measures of success of the strategy, directly to incentives in the way that measures are selected and calibrated.

### 7.6 Details of Retention bonuses awarded to executive KMP in FY 2017

In order to facilitate continuity of management through the unsettled period following Peter Gregg's resignation as MD & CEO, the Board determined to pay retention bonuses to certain executives. These bonuses consisted of cash and equity components; both components will vest on 23 February 2018 subject to the relevant executive meeting certain service criteria. The retention bonuses awarded to executive KMP are set out in the following table.

| NAME | ROLE | CASH ($) | EQUITY (SERVICE RIGHTS) ($) | TOTAL ($) |
|---|---|---|---|---|
| Mr Malcolm Ashcroft | CFO/Acting CEO | 268,500 | 179,000 | 447,500 |
| Dr John Houston | CE – Medical Centres – Bulk Billing | 225,000 | 150,000 | 375,000 |
| Ms Maxine Jaquet | CE – Health & Co | 180,000 | 120,000 | 300,000 |
| Mr Wesley Lawrence | CE – Pathology | 225,000 | 150,000 | 375,000 |
| Mr Dean Lewsam | CE – Imaging | 174,000 | 116,000 | 290,000 |

## 8 Changes in KMP-held equity in FY 2017

### 8.1 Executive KMP

The following table outlines the changes in the amount of equity held by executive KMP over the financial year:

| | | NUMBER HELD AT OPEN FY 2017 | GRANTED FY 2017 | | FORFEITED | VESTED | PURCHASED/ OTHER | NUMBER HELD AT CLOSE FY 2017 |
|---|---|---|---|---|---|---|---|---|
| NAME | INSTRUMENT | NUMBER | DATE GRANTED | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER |
| Mr Peter Gregg | Shares | 25,000 | – | – | – | – | – | 25,000 [1] |
| | Rights | – | 26.10.2016 | 528,544 | (528,544) | – | – | – |
| Mr Malcolm Ashcroft | Shares | 35,000 | – | – | – | – | – | 35,000 |
| | Rights | – | 06.06.2017 | 11,649 [2] | – | – | – | 421,766 |
| | | – | 26.10.2016 | 286,696 [3] | – | – | – | |
| | | – | 26.10.2016 | 68,681 [4] | – | – | – | |
| | | – | 29.03.2017 | 54,740 [5] | – | – | – | |
| Dr John Houston | Shares | 274 | – | – | – | – | – | 274 |
| | Rights | – | 06.06.2017 | 11,506 [2] | – | – | – | 263,422 |
| | | – | 26.10.2016 | 206,044 [3] | – | – | – | |
| | | – | 29.03.2017 | 45,872 [5] | – | – | – | |
| Ms Maxine Jaquet | Shares | – | – | – | – | – | – | – |
| | Rights | – | 06.06.2017 | 6,903 [2] | – | – | – | 167,226 |
| | | – | 26.10.2016 | 123,626 [3] | – | – | – | |
| | | – | 29.03.2017 | 36,697 [5] | – | – | – | |
| Mr Wesley Lawrence | Shares | – | – | – | – | – | – | – |
| | Rights | – | 06.06.2017 | 4,971 [2,6] | – | – | – | 94,799 |
| | | – | 26.10.2016 | 43,956 [3] | – | – | – | |
| | | – | 29.03.2017 | 45,872 [5] | – | – | – | |
| Mr Dean Lewsam | Shares | – | – | – | – | – | – | – |
| | Rights | – | 06.06.2017 | 6,758 [2] | – | – | – | 156,073 |
| | | – | 26.10.2016 | 118,132 [3] | – | – | – | |
| | | – | 29.03.2017 | 31,183 [5] | – | – | – | |
| **TOTALS** | | **60,274** | **–** | **1,631,830** | **(528,544)** | **–** | **–** | **1,163,560** |

1. Amount held at cessation of Mr Gregg as a KMP on 29 May 2017.
2. Service Rights issued for FY 2016 STI - to vest in 2 tranches in FY 2017 and FY 2018 if service criteria satisfied.
3. Performance Rights issued for FY 2016 LTI – vesting date 26 October 2018 if rTSR/ROIC performance criteria satisfied.
4. Service Rights issued for sign on – vesting date 26 October 2018 if service criteria satisfied.
5. Service Rights issued for retention bonus – vesting date 23 February 2018 if service criteria satisfied.
6. Mr Lawrence was not a KMP when these Service Rights were issued.

## 8.2 Non-executive Directors

The following table outlines the changes in the amount of equity held by Non-executive Directors over the financial year.

| | | NUMBER HELD AT OPEN FY 2017 | GRANTED FY 2017 | | FORFEITED | VESTED | PURCHASED/ OTHER | NUMBER HELD AT CLOSE 2017 |
|---|---|---|---|---|---|---|---|---|
| NAME | INSTRUMENT | NUMBER | DATE GRANTED | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER |
| Mr Robert Ferguson | Shares | 190,800 | – | – | – | – | – | 190,800 |
| | Rights/ Options | – | – | – | – | – | – | – |
| Mr Brian Ball | Shares | 137,000 | – | – | – | – | – | 137,000 |
| | Rights/ Options | – | – | – | – | – | – | – |
| Mr Gordon Davis | Shares | 15,000 | – | – | – | – | 15,000 | 30,000 |
| | Rights/ Options | – | – | – | – | – | – | – |
| Mr Robert Hubbard | Shares | 11,000 | – | – | – | – | 10,000 | 21,000 |
| | Rights/ Options | – | – | – | – | – | – | – |
| Dr Paul Jones | Shares | 22,762 | – | – | – | – | 8,890 | 31,652 |
| | Rights/ Options | 17,500 | – | – | (17,500) | – | – | – |
| Dr Errol Katz | Shares | 10,000 | – | – | – | – | – | 10,000 |
| | Rights/ Options | – | – | – | – | – | – | – |
| Ms Arlene Tansey | Shares | 10,000 | – | – | – | – | – | 10,000 |
| | Rights/ Options | – | – | – | – | – | – | – |
| **TOTALS** | | **414,062** | | **–** | **(17,500)** | **–** | **33,890** | **430,452** |

## 8.3 Executive KMP – equity grants in FY 2017 which may vest in future periods

The following table outlines the value of equity granted to executive KMP during the year that may be realised in the future. No relevant interests are held by non-executive Directors.

| 2017 EQUITY GRANTS | | | | | |
|---|---|---|---|---|---|
| NAME | ROLE | TRANCHE | TOTAL VALUE AT GRANT ($) | MAX VALUE TO BE EXPENSED IN FUTURE YEARS[1] ($) | MIN VALUE TO BE EXPENSED IN FUTURE YEARS[2] ($) |
| Mr Peter Gregg | MD & CEO | FY 2016 LTI | 1,381,165 | – | – |
| | | FY 2016 STI | 86,931 | – | – |
| Mr Malcolm Ashcroft | CFO/Acting CEO | FY 2016 LTI | 749,180 | 582,695 | – |
| | | Sign on | 250,000 | 83,333 | – |
| | | FY 2016 STI | 41,739 | 7,002 | – |
| | | Retention | 175,942[3] | 114,676 | – |
| Dr John Houston | CE – Medical Centres – Bulk Billing | FY 2016 LTI | 538,424 | 418,774 | – |
| | | FY 2016 STI | 41,739 | 6,917 | – |
| | | Retention | 147,439[3] | 96,099 | – |
| Ms Maxine Jaquet | CE – Health & Co | FY 2016 LTI | 323,053 | 251,264 | – |
| | | FY 2016 STI | 25,041 | 4,150 | – |
| | | Retention | 117,949[3] | 76,878 | – |
| Mr Dean Lewsam | CE – Imaging | FY 2016 LTI | 308,697 | 240,097 | – |
| | | FY 2016 STI | 24,515 | 4,062 | – |
| | | Retention | 97,012[3] | 63,231 | – |
| Mr Wesley Lawrence | CE – Pathology | FY 2016 LTI | 114,864 | 89,338 | – |
| | | FY 2016 STI | 18,033 | 2,988 | – |
| | | Retention | 147,439[3] | 96,099 | – |
| **TOTALS** | | | **4,589,162** | **2,137,603** | **–** |

1 Represents the future accounting expense to be recognised if all performance and service conditions are met.
2 Assumes the service and performance conditions attaching to the relevant Rights are not met.
3 The fair value of the Rights related to retention have been calculated in accordance with AASB 2 and accordingly may differ from the equity value of the retention bonuses disclosed in Table 7.6.

## 9 NED fee policy, rates and limit for FY 2017 and FY 2018

Non-executive Director fees are managed within the current annual fee limit (AFL or fee pool) of $1,400,000 which was approved by shareholders on 30 May 2008.

The following table outlines the NED fees that were applicable as in FY 2017 and those that will apply in FY 2018:

| FUNCTION | ROLE | FEE (INCL SUPER) FY 2017 ($) (SET 28 JULY 2015; EFFECTIVE 1 JULY 2015) | FEE (INCL SUPER) FY 2018 ($) (SET 20 JULY 2017; EFFECTIVE 1 JULY 2017) |
|---|---|---|---|
| **Main Board** | Chair | 265,000 [1] | 300,000 [1] |
| | Member | 130,000 | 130,000 |
| **Audit Committee** | Chair | 30,000 | 30,000 |
| | Member | 10,000 | 15,000 |
| **Nomination & Remuneration Committee** | Chair | 20,000 | 25,000 |
| | Member | 10,000 | 12,500 |
| **Risk Management Committee** | Chair | 20,000 | 25,000 |
| | Member | 10,000 | 12,500 |

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

The fee policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed.

# 10 Remuneration records for FY 2017 – statutory disclosures

## 10.1 Executive KMP remuneration

The following table outlines the remuneration received by Senior Executives of the Company during FY 2017 prepared according to statutory disclosure requirements and applicable accounting standards:

| | | | BASE PACKAGE | | STI[4] | | LTI[5] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YEAR | SALARY ($) | SUPERANNUATION CONTRIBUTIONS ($) | AMOUNT | % OF TRP[3] (%) | AMOUNT ($) | % OF TRP (%) | AMOUNT ($) | % OF TRP (%) | RETENTION[6] | % OF TRP (%) | NON-MONETARY BENEFITS[7] | TOTAL REMUNERATION PACKAGE (TRP) ($) | TERMINATION BENEFITS[8] ($) | CHANGE IN ACCRUED LEAVE[9] ($) |
| **Mr Peter Gregg – MD & CEO** (until 29 May 2017) | | | | | | | | | | | | | | |
| **2017** | **1,630,384**[1] | **19,616** | **1,650,000** | **82** | **350,824** | **18** | **(320,650)** | **N/A** | **–** | **–** | **2,581** | **1,682,755** | **972,073** | **(98,350)** |
| 2016 | 1,587,642 | 20,050 | 1,607,692 | 72 | 297,684 | 14 | 320,650 | 14 | – | – | 4,207 | 2,230,233 | – | 69,011 |
| **Mr Malcolm Ashcroft[2] – CFO/Acting CEO** | | | | | | | | | | | | | | |
| **2017** | **959,596** | **19,616** | **979,212** | **65** | **201,458** | **13** | **177,942** | **12** | **154,761** | **10** | **2,581** | **1,515,954** | **–** | **14,403** |
| 2016 | 833,802 | 19,308 | 853,110 | 68 | 154,785 | 12 | 253,790 | 20 | – | – | 2,485 | 1,264,170 | – | 11,743 |
| **Dr John Houston – CE Medical Centres – Bulk Billing** (from 1 March 2016) | | | | | | | | | | | | | | |
| **2017** | **730,384** | **19,616** | **750,000** | **70** | **136,295** | **13** | **57,150** | **5** | **129,689** | **12** | **2,322** | **1,075,456** | **–** | **55,903** |
| 2016 | 243,564 | 6,436 | 250,000 | 47 | 152,883 | 29 | 125,000 | 24 | | – | – | 527,883 | – | 21,990 |
| **Ms Maxine Jaquet – CE Health & Co** (from 1 March 2016) | | | | | | | | | | | | | | |
| **2017** | **505,384** | **19,616** | **525,000** | **64** | **148,079** | **18** | **46,790** | **6** | **103,750** | **12** | **2,322** | **825,941** | **–** | **(6,209)** |
| 2016 | 138,367 | 6,758 | 145,125 | 47 | 91,730 | 29 | 75,000 | 24 | – | – | – | 311,855 | – | 25,660 |
| **Mr Wesley Lawrence – CE Pathology** (from 8 December 2016) | | | | | | | | | | | | | | |
| **2017** | **410,256** | **11,090** | **421,346** | **56** | **127,674** | **17** | **69,255** | **9** | **129,689** | **17** | **2,322** | **750,286** | **–** | **27,621** |
| **Mr Dean Lewsam – CE Imaging** (from 23 October 2015) | | | | | | | | | | | | | | |
| **2017** | **485,384** | **19,616** | **505,000** | **60** | **194,045** | **23** | **45,266** | **5** | **94,370** | **11** | **2,322** | **841,003** | **–** | **7,405** |
| 2016 | 252,357 | 13,070 | 265,427 | 62 | 89,801 | 21 | 71,667 | 17 | – | – | 3,140 | 430,035 | – | 4,058 |
| **Mr James Bateman – GM Pathology** (until 8 August 2016) | | | | | | | | | | | | | | |
| **2017** | **73,162** | **1,886** | **75,048** | **99** | **1,047** | **1** | **(60,642)** | **N/A** | **–** | **–** | **259** | **15,712** | **966,243** | **(192,158)** |
| 2016 | 790,469 | 20,050 | 810,519 | 70 | 206,381 | 18 | 130,084 | 11 | – | – | 3,107 | 1,150,091 | – | 30,329 |
| **Mr Matthew Bardsley GM – Information Innovation** (until 18 May 2016) | | | | | | | | | | | | | | |
| 2016 | 430,482 | 18,045 | 448,527 | 50 | 441,990 | 49 | – | – | – | – | 6,444 | 896,961 | – | – |
| **Mr Henry Bateman – GM – Medical centres** (until 1 March 2016) | | | | | | | | | | | | | | |
| 2016 | 547,968 | 14,110 | 562,078 | 100 | – | – | – | – | – | – | 2,732 | 564,810 | 908,270 | (201,103) |
| **Mr Andrew Duff – CFO** (until 10 July 2015) | | | | | | | | | | | | | | |
| 2016 | 58,553 | 1,485 | 60,038 | 100 | – | – | – | – | – | – | – | 60,038 | 932,015 | (137,015) |
| **TOTAL Executive KMP** | | | | | | | | | | | | | | |
| **2017** | **4,794,550** | **111,056** | **4,905,606** | **–** | **1,159,422** | **–** | **15,111** | **–** | **612,259** | **–** | **14,709** | **6,707,107** | **1,938,316** | **(191,385)** |
| 2016 | 4,883,204 | 119,312 | 5,002,516 | – | 1,435,254 | – | 976,191 | – | – | – | 22,115 | 7,436,076 | 1,840,285 | (175,327) |

1 Includes $150,489 of salary and $1,819 of superannuation received by Mr Gregg for the period 30 May 2017 to 30 June 2017 whilst he was on gardening leave.

2 On 12 September 2016 Mr Ashcroft was awarded Service Rights to the value of $250,000 pursuant to a sign on arrangement. Included within LTI for 2016 and 2017 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 Payment.

3 Negative balances arising from the reversal of previously recognised expenses for STI and LTI are excluded when calculating the Base Package as a percentage of TRP.

4 STI amounts include the cash component in respect of the 2017 Plan and an expense for the deferred components of the 2016 and 2017 Plans calculated in accordance with AASB 2 Share-based Payment.

5 The LTI awards are all delivered as equity in the form of rights. The amounts disclosed as LTI in the above table have been calculated in accordance with AASB 2 Share-based Payment and relate to grants made in respect of the FY 2016 and 2017 Plans. The credit amounts reported above relate to grants that have been forfeited due to individual ceasing to be employed by Primary and have also been calculated in accordance with AASB 2.

6 The amounts included for Retention reflect the accounting expense for the period from grant date until 30 June 2017. The Retention comprises a cash component and an equity component both of which will be delivered to the employee at the end of the Service Period on 23 February 2018.

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

8 Termination benefits included annual leave, long service leave and pay in lieu of notice.

9 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 employees and the reversal of leave balances for former employees.

Please note that the LTI value reported in this table is the amortised accounting charge of all grants that were not lapsed or vested at the start of the reporting period. Where a market based measure of performance is used such as rTSR, no adjustments can be made to reflect actual LTI vesting. However in relation to non-market conditions, such as ROIC, adjustments must be made to ensure the accounting charge matches the vesting.

Both Target and awarded values of STI and LTI remuneration are outlined in the relevant sections of the Remuneration Report to assist shareholders to obtain a more complete understanding of remuneration as it relates to senior executives.

### 10.2 Non-executive Director remuneration

Remuneration received by Non-executive Directors in FY 2017 and FY 2016 is disclosed below:

| YEAR | BOARD FEES ($) | COMMITTEE FEES ($) | SUPERANNUATION ($) | DIRECTORS' FEES FOR SUBSIDIARY BOARDS [1] ($) | TOTAL ($) |
|---|---|---|---|---|---|
| **Mr Robert Ferguson** – Chairman, Independent Non-executive Director | | | | | |
| **2017 [2]** | **245,384** | **–** | **19,616** | **–** | **265,000** |
| 2016 | 215,692 | 30,000 | 19,308 | – | 265,000 |
| **Mr Brian Ball** – Independent Non-executive Director | | | | | |
| **2017** | **116,986** | **20,000** | **13,014** | **–** | **150,000** |
| 2016 | 113,516 | 20,000 | 16,484 | 40,000 | 190,000 |
| **Mr Gordon Davis** – Independent Non-executive Director | | | | | |
| **2017** | **117,854** | **10,000** | **12,146** | **–** | **140,000** |
| 2016 | 110,119 | 2,647 | 10,713 | – | 123,479 |
| **Mr Robert Hubbard** – Independent Non-executive Director | | | | | |
| **2017** | **115,251** | **40,000** | **14,749** | **–** | **170,000** |
| 2016 | 115,251 | 40,000 | 14,749 | – | 170,000 |
| **Dr Paul Jones** – Independent Non-executive Director | | | | | |
| **2017** | **116,986** | **20,000** | **13,014** | **–** | **150,000** |
| 2016 | 113,516 | 20,000 | 16,484 | 40,000 | 190,000 |
| **Dr Errol Katz** – Independent Non-executive Director | | | | | |
| **2017** | **116,119** | **30,000** | **13,881** | **–** | **160,000** |
| 2016 | 116,119 | 30,000 | 13,881 | – | 160,000 |
| **Ms Arlene Tansey** – Independent Non-executive Director | | | | | |
| **2017** | **116,986** | **20,000** | **13,014** | **–** | **150,000** |
| 2016 | 116,986 | 20,000 | 13,014 | – | 150,000 |

1 The relevant subsidiary is Transport Health Pty Limited ACN 099 028 127 which was disposed of on 30 June 2016.

2 Mr Ferguson's remuneration for FY 2017 was a fixed fee inclusive for his role as Chair of the Nomination & Remuneration Committee and a member of the Audit Committee.

## 11 Employment terms of Key Management Personnel

### 11.1 Executive KMP

A summary of contract terms in relation to executive KMP is presented below:

| NAME | POSITION HELD AT CLOSE OF FY17 | EMPLOYING COMPANY | DURATION OF CONTRACT | PERIOD OF NOTICE FROM COMPANY | PERIOD OF NOTICE FROM KMP | TERMINATION PAYMENTS |
|---|---|---|---|---|---|---|
| Mr Peter Gregg | MD & CEO | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 months | Up to 12 months [2] |
| Mr Malcolm Ashcroft | CFO/Acting CEO | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 months | Up to 12 months [2] |
| Dr John Houston | CE Medical Centres – Bulk Billing | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 months | Up to 12 months [2] |
| Ms Maxine Jaquet | CE Health & Co | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 month | Up to 12 months [2] |
| Mr Wesley Lawrence | CE Pathology | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 months | Up to 12 months [2] |
| Mr Dean Lewsam | CE Imaging | Idameneo (No 789) Ltd [1] | Open ended | 12 months | 12 months | Up to 12 months [2] |

1 Idameneo (No 789) Limited is the service company in the Primary Group and a large number of Group employees are employed by this entity.

2 The Company 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 in the case of termination is addressed in separate sections of this Report that give details of incentive design.

Common terms shared by all executive KMP are as follows:

| KEY TERM | SUMMARY OF KEY TERM |
|---|---|
| **Fixed remuneration** | Senior Executives are paid a specified total fixed remuneration (inclusive of superannuation and other fringe benefits). This is subject to annual review. |
| **Incentive arrangements** | Senior Executives are invited to participate in the Company's Executive Incentive Plan, subject to the terms of the rules (or any replacement plan rules) which may be amended from time to time. The rules and offer letters do not form part of the employment agreement.<br><br>In the event that the Senior Executive terminates or gives notice of termination of their employment, or their employment is terminated in circumstances justifying summary dismissal, the Senior Executive is not entitled to receive any incentive payments for the performance period in which the employment was terminated or notice was given (including any unvested LTI from previous years). |
| **Duties during notice period** | During any notice period, the Company may direct the Senior Executive not to attend the Company's premises, not perform all or part of their duties, cease holding their position; cease all contact with clients, suppliers, employees or contractors; or perform different duties. |
| **Termination without notice** | The Company may end the Senior Executive's employment without notice if, in the opinion of the Company, the Senior Executive engages in misconduct, fraud, commits a serious or persistent breach of the agreement, or other specified circumstances occur. |
| **Suspension from duty** | The Company may suspend the Senior Executive from duty with pay, or direct the Senior Executive to perform work in a different position, at any time during the term of employment. |
| **Post-employment restraints** | The Senior Executive must not, during a specified period and within a specified area:<br>1. carry on, be employed by, or engaged or otherwise interested in any business that competes with the Group;<br>2. directly or indirectly induce or attempt to induce any Director or employee or contractor of the Group to leave the Group; or<br>3. directly or indirectly solicit or persuade any client or supplier of the Group to cease doing business with the Group or reduce the amount of business which the person would normally do with the Group. |
| **Termination benefits** | The Company 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. |
| **Confidential information** | The Senior Executive must not use or disclose, or cause or permit the disclosure of confidential information. |
| **Intellectual property** | The Group is the sole and exclusive owner of all intellectual property created or contributed to during the Senior Executive's employment. |
| **Leave** | Senior Executives are entitled to annual leave, long service leave, personal/carer's leave, compassionate leave, parental leave and community service leave in accordance with applicable legislation. |
| **Policies and procedures** | Senior Executives are required to comply with the Group's policies and procedures (which may be amended from time to time). However, such policies and procedures do not form part of the employment agreement. |

### 11.2 Non-executive Directors

On appointment to the Board, all Non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the Director. The appointment letters do not specify a term, given that each Non-executive Director is required by Primary's Constitution to resign at least every three years and (if they wish to do so) stand for re-election by the shareholders. Non-executive Directors are not eligible to receive termination payments under the terms of the appointments.

A summary of the appointment terms in relation to non-executive Directors is presented below:

| | | | | PERIOD OF NOTICE | | |
|---|---|---|---|---|---|---|
| NAME | POSITION HELD AT CLOSE OF FY17 | COMPANY | DURATION OF CONTRACT | FROM COMPANY | FROM KMP | TERMINATION PAYMENTS |
| Mr Robert Ferguson | Chairman, Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Mr Brian Ball | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Mr Gordon Davis | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Mr Robert Hubbard | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Dr Paul Jones | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Dr Errol Katz | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |
| Ms Arlene Tansey | Independent Non-executive Director | Primary Health Care Limited | N/A | None | None | None |

## 12 Other remuneration-related matters

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure.

### 12.1 Remuneration of KMP who departed during FY 2017

The following arrangements applied to KMP who departed during FY 2017.

**Mr Peter Gregg** (former Managing Director & Chief Executive Officer)

Mr Gregg gave Primary notice of his resignation on 13 January 2017 and, by mutual agreement with the Board, continued to act in the role of MD & CEO until 29 May 2017. He then served a period of gardening leave until 30 June 2017, when his employment with Primary ceased.

On ceasing employment, Mr Gregg received $891,054 (in lieu of the balance of his 12 month notice period) as well as his statutory entitlements, including untaken annual leave and long service leave ($81,019). Mr Gregg received the sum of $300,000 as his FY 2017 STI payment and a payment of $87,127 in lieu of his unvested STI equity components from previous years. Mr Gregg forfeited any eligibility for, or entitlement to, LTI Awards past or future. See section 11.1 above for details of the arrangements.

**Mr James Bateman** (former General Manager, Pathology)

Mr Bateman's employment with Primary ended on 5 August 2016, after working with Primary for over 27 years. On ceasing employment, Mr Bateman was paid the sum of $780,500 (in lieu of notice) as well as his statutory entitlements, including untaken annual leave and long service leave ($184,743). Mr Bateman did not receive any incentive grants with respect to FY 2017. His incentive grants from previous years will remain on foot and subject to their original terms, including any applicable vesting conditions.

### 12.2 Transactions with former KMP

The Primary Group engaged Mr James Bateman's services as a consultant for an 18 month period following cessation of his employment. The arrangement ensures that Primary retains access to Mr Bateman's corporate knowledge and industry expertise at a time of significant change and against the backdrop of exploring possible offshore expansion options for Primary's pathology business. During FY 2017 the amount paid to Mr Bateman for consultancy services was $1,174,748. In FY 2018, the maximum amount payable under the consultancy agreement will be $548,916.

The Primary Group engaged Mr Andrew Duff's services as a consultant for a 12 month period after the cessation of his employment (Mr Duff ceased employment, and his role as CFO and KMP, on 5 July 2015). The term of the services was extended to December 2016 by mutual agreement. During FY 2017 the amount paid to Mr Duff for consultancy services was $386,971 (FY 2016: $572,604).

### 12.3 Other transactions with KMP

During the years ended 30 June 2017 and 30 June 2017 the Group provided medical centre management services ("Services") to Dr Paul F Jones Pty Ltd, a company controlled by Dr 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 2017 were $118,785 (FY 2016: $95,073). 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 2017 instalment was $40,000 (FY 2016: $40,000). There were no amounts payable or receivable as at 30 June 2017 (2016: nil) and the provision of the Services continues as at the date of this financial report.

During the year ended 30 June 2017, Primary contracted with Slick Azz Auto Detailing Pty Ltd, a company controlled by a child of Mr 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 $99,380.

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 with the KMP 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 KMP; and
- are trivial or domestic in nature.

### 12.4 Loans to Key Management Personnel and related parties

No loans have been made to any of the KMP or their related parties.

## 13 External remuneration consultant advice

During the reporting period, the Board approved and engaged an external remuneration consultant ("ERC") to provide KMP remuneration recommendations and advice. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

| | | |
|---|---|---|
| Godfrey Remuneration Group Pty Limited | Review of and advice on NED remuneration | $31,350 |
| | Update on role relativities, organisation modelling, banding and policy ranges for KMP | |
| | Activities approved by the Board and not classified as remuneration advice/ recommendation including: | $45,793 |
| | Reviewing the FY 2016 Remuneration Report, development of a discussion paper regarding employee equity plans, determining internal relativities for a number of new roles, an update on the Company's relative TSR performance, data mining on specific market practices, AASB2 valuation of LTI, development of a tailored Remuneration Committee Calendar and incentive roadshow to roll-out incentives | |

Subsequent to the end of the reporting period, the ERC has also been engaged to assist with drafting this Remuneration Report. Any fees charged in relation to this activity will be disclosed as part of the FY 2018 Remuneration Report.

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related. The reasons the Board is so satisfied include that it is confident that the policy for engaging external remuneration consultants is being adhered to and is operating as intended, the Board has been closely involved in all dealings with the external remuneration consultants and each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

## 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.

**Rob Ferguson**
Chairman

31 August 2017

# 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 2017, 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 2017 Corporate Governance Statement can be viewed at: www.primaryhealthcare.com.au/corporate-governance

# Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Primary Health Care Limited
Level 6, 203 Pacific Highway
St Leonards NSW 2065

31 August 2017

**Primary Health Care Limited**

Dear Directors

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

As lead audit partner for the audit of the financial statements of Primary Health Care Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G J McLean
Partner
Chartered Accountants
Sydney, 31 August 2017

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

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## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Primary Health Care Limited ("Primary", or the "Company"), and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
(ii) 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 this 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 fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
| --- | --- |

### Carrying value of goodwill

Goodwill represents a significant balance recorded in the consolidated statement of financial position with a balance of $2,315.5 million at 30 June 2017 (refer to Note B2 Goodwill).

As disclosed in Notes A3 and B2 an impairment of $468.5 million to the carrying value of goodwill has been recognised for the Medical Centres group of cash generating units ("CGUs").

Management have determined the recoverable amount of the Medical Centres, Pathology and Imaging CGUs utilising 'Fair Value Less Costs of Disposal' ("FVLCD") discounted cash flow models. We focused on the evaluation of the recoverable amount of goodwill as it requires significant judgement by management in estimating the future revenue and earnings before interest and tax ("EBIT") in each CGU, discount rates for each CGU and long term growth rates. We also considered the sensitivity of the recoverable amount to the key assumptions used.

Our procedures included but were not limited to:

- obtaining an understanding of the key controls associated with management's assessment of the recoverable amount of the individual CGUs
- assessing the appropriateness of management's identification of individual or groups of CGUs and the allocation and monitoring of goodwill
- considering the appropriateness of the inclusion of assets and liabilities in the carrying value of each CGU
- critically assessing the forecast cash flows included in each FVLCD model, including consideration of forecast revenue and cost growth by reference to external industry forecasts and historical actuals
- in conjunction with our valuation experts, evaluating the appropriateness of discount rates and terminal growth rates applied
- assessing the forecast cash flows derived from Board approved budgets and business plans taking into account historical forecasting accuracy
- cross checking the recoverable amounts of CGUs to comparable industry EBIT multiples
- performing independent sensitivity analysis on key assumptions included in the FVLCD models
- assessing the appropriateness of the disclosures included in Notes A3 and B2.

### Other asset impairments and other related items

As disclosed in Notes A3, B3 and B4 an amount of $118.5 million has been recorded in respect of the following:

- impairment of property, plant and equipment ($46.2 million);
- impairment of other intangible assets ($20.3 million);
- impairment of other assets ($17.5 million); and
- recognition of provisions ($34.5 million).

These impairments and associated provisions have resulted from management's assessments of specific underperforming sites as well as the assessment of other assets where an indicator of impairment existed at 30 June 2017.

We have focused on other asset impairments and other related items due to the significant judgements involved in forecasting expected future cash flows at an individual site level to determine the recoverable amount of individual assets and quantum of related provisions.

Our procedures included but were not limited to:

- in respect to the impairment of assets and recognition of provisions at underperforming sites performing the following:
  - challenging management's forecast cash flows by reference to actual FY17 results for the individual sites and contractual lease cash flows over the remaining terms
  - considering the consistency of forecast cash flows for individual sites with forecast cash flows for the overall CGUs and business plan
  - testing consistency of discount rates utilised with CGU discounted cash flow models and reperformed net present value calculations
  - agreeing make good estimates to historic site closure costs incurred and square footage to lease contracts
- for other impairments and provisions understanding and challenging management's bases for the recorded provision and where relevant agreeing to supporting documentation
- assessing the appropriateness of the disclosures included in Notes A3, B3 and B4.

## Other Information

The directors are responsible for the other information. The other information comprises the information in the annual report for the year ended 30 June 2017, 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 we do not express any form of assurance conclusion thereon.

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.

## Directors' Responsibilities 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 related 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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 67 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Primary Health Care Limited, for the year ended 30 June 2017, 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.

DELOITTE TOUCHE TOHMATSU

G J McLean
Partner
Chartered Accountants
Sydney, 31 August 2017

# 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

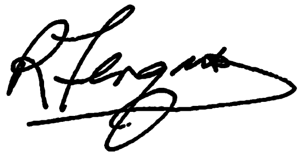
(C) the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board as provided in the introduction to the Notes to the consolidated financial statements; and

(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 Class Order 98/1418; and

(E) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Acting Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2017.

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



**Rob Ferguson**
Chairman

31 August 2017

# Financial Statements Contents



## Notes to the financial Statements

# Consolidated statement of profit or loss for the year ended 30 June 2017

| | NOTE | 2017 $M | 2016 $M |
|---|---|---|---|
| Revenue | A2 | **1,658.6** | 1,641.9 |
| Employee benefits expense | A3 | **777.9** | 733.5 |
| Property expenses | A3 | **261.6** | 232.3 |
| Consumables | | **176.4** | 167.4 |
| ATO settlement | | **–** | (13.5) |
| IT expenses | | **16.9** | 14.8 |
| Impairment and other related items | A3 | **587.0** | 66.0 |
| Other expenses | | **171.9** | 170.3 |
| Depreciation | B3 | **59.2** | 70.1 |
| Amortisation of intangibles | B4 | **77.4** | 86.6 |
| **EBIT** | | **(469.7)** | 114.4 |
| Finance costs | A3 | **43.1** | 58.0 |
| **(Loss)/profit before tax** | | **(512.8)** | 56.4 |
| Income tax expense | A4 | **4.1** | 18.2 |
| **(Loss)/profit for the year from continuing operations** | | **(516.9)** | 38.2 |
| Profit for the year from discontinued operations | D3 | **–** | 36.5 |
| **(Loss)/profit for the year** | | **(516.9)** | 74.7 |
| Attributable to: | | | |
| Equity holders of Primary Health Care Limited | | **(516.8)** | 74.9 |
| Non-controlling interest | | **(0.1)** | (0.2) |
| **(Loss)/profit for the year** | | **(516.9)** | 74.7 |

| | NOTE | 2017 CENTS PER SHARE | 2016 CENTS PER SHARE |
|---|---|---|---|
| **Basic and diluted (loss)/earnings per share from continuing operations** | A5 | **(99.1)** | 7.4 |
| **Basic and diluted (loss)/earnings per share from continuing and discontinued operations** | A5 | **(99.1)** | 14.4 |

Notes to the financial statements are included on pages 81 to 113.

# Consolidated statement of other comprehensive income

for the year ended 30 June 2017

| | 2017 $M | 2016 $M |
|---|---|---|
| **(Loss)/profit for the year** | **(516.9)** | 74.7 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Fair value (loss) on cash flow hedges | **(2.4)** | (3.6) |
| Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss | **13.0** | 11.3 |
| Fair value gain on investments | **10.7** | – |
| Reclassification adjustments relating to available-for-sale financial assets disposed in the period | **–** | (5.4) |
| Exchange differences arising on translation of foreign operations | **(1.7)** | (0.2) |
| Income tax relating to items that may be reclassified subsequently to profit or loss | **(6.4)** | (0.7) |
| **Other comprehensive income for the year, net of income tax** | **13.2** | 1.4 |
| **Total comprehensive (loss)/income for the year** | **(503.7)** | 76.1 |
| Attributable to: | | |
| Equity holders of Primary Health Care Limited | **(503.6)** | 76.3 |
| Non-controlling interest | **(0.1)** | (0.2) |
| | **(503.7)** | 76.1 |

Notes to the financial statements are included on pages 81 to 113.

# Consolidated statement of financial position as at 30 June 2017

| | NOTE | 30 JUNE 2017 $M | 30 JUNE 2016 $M |
|---|---|---|---|
| **Current assets** | | | |
| Cash | | **95.5** | 82.3 |
| Receivables | B1 | **136.2** | 136.8 |
| Consumables | | **25.1** | 25.5 |
| Tax receivable | E2 | **9.7** | 5.7 |
| **Total current assets** | | **266.5** | 250.3 |
| **Non-current assets** | | | |
| Receivables | B1 | **3.8** | 4.4 |
| Goodwill | B2 | **2,315.5** | 2,772.2 |
| Property, plant and equipment | B3 | **299.0** | 342.2 |
| Other intangible assets | B4 | **166.6** | 220.7 |
| Other financial assets | | **11.9** | 1.3 |
| Deferred tax asset | E2 | **50.8** | 33.5 |
| **Total non-current assets** | | **2,847.6** | 3,374.3 |
| **Total assets** | | **3,114.1** | 3,624.6 |
| **Current liabilities** | | | |
| Payables | B5 | **225.2** | 181.0 |
| Provisions | B6 | **105.3** | 87.2 |
| Other financial liabilities | | **0.8** | 10.6 |
| Interest bearing liabilities | C1 | **0.3** | 2.0 |
| **Total current liabilities** | | **331.6** | 280.8 |
| **Non-current liabilities** | | | |
| Payables | B5 | **7.9** | 7.8 |
| Provisions | B6 | **26.1** | 11.2 |
| Other financial liabilities | | **–** | 0.8 |
| Interest bearing liabilities | C1 | **879.4** | 896.3 |
| **Total non-current liabilities** | | **913.4** | 916.1 |
| **Total liabilities** | | **1,245.0** | 1,196.9 |
| **Net assets** | | **1,869.1** | 2,427.7 |
| **Equity** | | | |
| Issued capital | C2 | **2,422.8** | 2,422.8 |
| Reserves | | **10.5** | (5.2) |
| (Accumulated losses)/retained earnings | | **(565.7)** | 8.5 |
| **Equity attributable to equity holders** | | **1,867.6** | 2,426.1 |
| Non-controlling interest | | **1.5** | 1.6 |
| **Total equity** | | **1,869.1** | 2,427.7 |

Notes to the financial statements are included on pages 81 to 113.

# Consolidated statement of changes in equity for the year ended 30 June 2017

| $M | ISSUED CAPITAL | INVESTMENTS REVALUATION RESERVE | CASH FLOW HEDGE RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | SHARE-BASED PAYMENTS RESERVE | RETAINED EARNINGS | ATTRIBUTABLE TO OWNERS OF THE PARENT | NON-CONTROLLING INTERESTS | 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** |
| Profit for the year | – | – | – | – | – | (516.8) | (516.8) | (0.1) | (516.9) |
| Exchange differences arising on translation of foreign operations | – | – | – | (1.7) | – | – | (1.7) | – | (1.7) |
| Fair value gain on investments | – | 10.7 | – | – | – | – | 10.7 | – | 10.7 |
| Fair value (loss) on cash flow hedges | – | – | (2.4) | – | – | – | (2.4) | – | (2.4) |
| Reclassification adjustments relating to cash flow hedges recognised in profit or loss | – | – | 13.0 | – | – | – | 13.0 | – | 13.0 |
| Income tax relating to components of other comprehensive income | – | (3.2) | (3.2) | – | – | – | (6.4) | – | (6.4) |
| **Total comprehensive income** | – | 7.5 | 7.4 | (1.7) | – | (516.8) | (503.6) | (0.1) | (503.7) |
| Payment of dividends | – | – | – | – | – | (58.4) | (58.4) | – | (58.4) |
| Share-based payment | – | – | – | – | 3.5 | – | 3.5 | – | 3.5 |
| Transfers | – | – | – | – | (1.0) | 1.0 | – | – | – |
| **Balance 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** |

| $M | ISSUED CAPITAL | INVESTMENTS REVALUATION RESERVE | CASH FLOW HEDGE RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | SHARE-BASED PAYMENTS RESERVE | RETAINED EARNINGS | ATTRIBUTABLE TO OWNERS OF THE PARENT | NON-CONTROLLING INTERESTS | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2015 | 2,407.3 | 3.8 | (13.4) | 0.9 | 2.8 | 12.2 | 2,413.6 | 1.8 | 2,415.4 |
| Profit for the year | – | – | – | – | – | 74.9 | 74.9 | (0.2) | 74.7 |
| Exchange differences arising on translation of foreign operations | – | – | – | (0.2) | – | – | (0.2) | – | (0.2) |
| Reclassification adjustments relating to available-for-sale financial assets disposed in the period | – | (5.4) | – | – | – | – | (5.4) | – | (5.4) |
| Fair value (loss) on cash flow hedges | – | – | (3.6) | – | – | – | (3.6) | – | (3.6) |
| Reclassification adjustments relating to cash flow hedges recognised in profit or loss | – | – | 11.3 | – | – | – | 11.3 | – | 11.3 |
| Income tax relating to components of other comprehensive income | – | 1.6 | (2.3) | – | – | – | (0.7) | – | (0.7) |
| **Total comprehensive income** | – | (3.8) | 5.4 | (0.2) | – | 74.9 | 76.3 | (0.2) | 76.1 |
| Payment of dividends | – | – | – | – | – | (79.9) | (79.9) | – | (79.9) |
| Share-based payment | – | – | – | – | 0.6 | – | 0.6 | – | 0.6 |
| Transfers | – | – | – | – | (1.3) | 1.3 | – | – | – |
| Movement in share capital (refer Note C2) | 15.5 | – | – | – | – | – | 15.5 | – | 15.5 |
| **Balance at 30 June 2016** | 2,422.8 | – | (8.0) | 0.7 | 2.1 | 8.5 | 2,426.1 | 1.6 | 2,427.7 |

Notes to the financial statements are included on pages 81 to 113.

# Consolidated statement of cash flows for the year ended 30 June 2017

| | NOTE | 2017 $M | 2016 $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **1,723.5** | 1,737.5 |
| Payments to suppliers and employees | | **(1,437.7)** | (1,383.6) |
| Gross cash flows from operating activities | | **285.8** | 353.9 |
| Interest paid | | **(42.1)** | (59.6) |
| Net income tax paid | | **(32.2)** | (10.6) |
| Interest received | | **0.7** | 1.4 |
| **Net cash provided by operating activities** | E1 | **212.2** | 285.1 |
| **Cash flows from investing activities** | | | |
| Payment for property plant and equipment | | **(74.5)** | (94.0) |
| Payment for Medical Centres healthcare practitioners | | **(30.3)** | (60.6) |
| Payment for Pathology healthcare practices | | **–** | (14.0) |
| Payment for Imaging healthcare practitioners | | **(4.3)** | (10.3) |
| Payment for subsidiaries acquired | | **(9.1)** | – |
| Payment for other intangibles | | **(10.5)** | (26.0) |
| Net proceeds from sale of/(payments for) investments | | **–** | 36.7 |
| Proceeds from the sale of property plant and equipment | | **13.1** | 118.6 |
| Net proceeds from sale of discontinued operations | D3 | **–** | 152.7 |
| Net (payments related to)/proceeds from sale of controlled entity | D3 | **(2.1)** | 19.3 |
| **Net cash (used in)/provided by investing activities** | | **(117.7)** | 122.4 |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings and finance lease liabilities | | **(62.2)** | (577.6) |
| Proceeds from borrowings | | **40.0** | 267.3 |
| Dividends paid | | **(58.4)** | (64.4) |
| Other finance costs | | **(0.6)** | (0.6) |
| **Net cash used in financing activities** | | **(81.2)** | (375.3) |
| **Net increase in cash held** | | **13.3** | 32.2 |
| Cash at the beginning of the year | | **82.3** | 50.0 |
| Effect of exchange rate movements on cash held in foreign currencies | | **(0.1)** | 0.1 |
| **Cash at the end of the year** | | **95.5** | 82.3 |

Notes to the financial statements are included on pages 81 to 113.

## 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 2017 and comprise Primary and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

### Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Directors on 31 August 2017.

### 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.

### Net current liability position

The Group has a net current asset deficiency of $65.1 million (30 June 2016: $30.5 million). The Group generates significant operating cash flows and as per note C4, had access to $365.0 million of unused financing facilities at the end of the reporting period which can be drawn if required.

### 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 about the future. Information on key accounting estimates and judgements can be found in the following notes:

| ACCOUNTING ESTIMATE AND JUDGEMENT | NOTE | PAGE |
|---|---|---|
| Recoverability of goodwill | B2 | 90 |
| Recognition and recoverability of other intangible assets | B4 | 93 |
| Provisions | B6 | 94 |

### 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.

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

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

In May 2016 the entities comprising the Health Technology (MedicalDirector) segment were sold (primarily Health Communication Network Limited – refer note D3 for further details). The results of the Health Technology segment are classified and disclosed as a discontinued operation in the comparative information presented in this financial report including the segment information below.

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

The internal reporting that is regularly provided to the chief operating decision makers includes financial information prepared on both a statutory or reported basis (prepared in accordance with A-IFRS) and on an underlying basis. It is considered important to include the financial information on an underlying basis as this reflects the ongoing or underlying activities of each of the divisions and excludes items that are not expected to occur frequently and which do not form part of the core activities of the relevant divisions.

Underlying results for the year ended 30 June 2017 exclude the impact of 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.

Underlying results for the comparative period exclude the impact of the non-underlying items relating to:

- Gains on sale of MedicalDirector, Transport Health, Primary's shareholding in Vision Eye Institute, and non-cash gains on dissolution of a Joint Venture;
- Finalisation of the Australian Taxation Office ("ATO") settlement relating to certain healthcare practitioner ("HCP") tax liabilities and refunds to Primary arising from the acquisition of the practices of those HCPs;
- Balance sheet review; and
- Non-cash adjustments and items associated with restructuring and strategic initiatives.

## A1. Segment information (continued)

### Underlying

| 2017 | MEDICAL CENTRES $M | PATHOLOGY $M | IMAGING $M | OTHER $M | TOTAL $M |
|---|---|---|---|---|---|
| **Segment Revenue** | **319.6** | **1,038.4** | **333.5** | **0.1** | **1,691.6** |
| Intersegment sales | | | | | **(33.0)** |
| **Total Revenue** | | | | | **1,658.6** |
| **EBITDA** | **123.5** | **146.0** | **57.8** | **(16.1)** | **311.2** |
| Depreciation | **20.8** | **18.8** | **16.8** | **2.8** | **59.2** |
| Amortisation of intangibles | **55.4** | **7.7** | **12.0** | **2.3** | **77.4** |
| **EBIT** | **47.3** | **119.5** | **29.0** | **(21.2)** | **174.6** |
| Finance costs | | | | | **43.1** |
| **Profit before tax** | | | | | **131.5** |
| Income tax expense [1] | | | | | **39.4** |
| **Profit for the year** | | | | | **92.1** |

| 2016 | MEDICAL CENTRES $M | PATHOLOGY $M | IMAGING $M | OTHER $M | TOTAL $M |
|---|---|---|---|---|---|
| **Segment Revenue** [2] | 328.7 | 994.4 | 326.9 | 1.6 | 1,651.6 |
| Intersegment sales | | | | | (33.1) |
| **Total Revenue** | | | | | 1,618.5 |
| **EBITDA**[2] | 152.8 | 144.9 | 61.9 | (10.3) | 349.3 |
| Depreciation | 20.0 | 19.1 | 25.6 | 1.6 | 66.3 |
| Amortisation of intangibles [2] | 60.9 | 7.5 | 13.9 | 4.4 | 86.7 |
| **EBIT** | 71.9 | 118.3 | 22.4 | (16.3) | 196.3 |
| Finance costs | | | | | 58.0 |
| **Profit before tax** | | | | | 138.3 |
| Income tax expense [1] | | | | | 41.5 |
| **Profit for the year from continuing operations** | | | | | 96.8 |
| Profit for the year from discontinued operations | | | | | 7.2 |
| **Profit for the year** | | | | | 104.0 |

1 Underlying income tax is calculated as 30% of underlying profit before tax.
2 Where applicable, comparative information has been restated to ensure that allocation of expenses to operating segments in the comparative period is consistent with the allocation of expenses to operating segments in the current period.

## A1. Segment information (continued)

Reconciliation of underlying segment revenue to statutory revenue:

| | SEGMENT REVENUE 2017 $M | SEGMENT REVENUE 2016 $M |
|---|---|---|
| Total segment revenue from continuing operations | **1,658.6** | 1,618.5 |
| Gains on sale and dissolution of joint ventures | **–** | 23.4 |
| **Total revenue** | **1,658.6** | 1,641.9 |

Reconciliation of underlying segment result to profit before tax:

| | SEGMENT RESULT 2017 $M | SEGMENT RESULT 2016 $M |
|---|---|---|
| Total segment result from continuing operations | **131.5** | 138.3 |
| Restructuring and strategic initiatives | **(39.2)** | (32.9) |
| Gains on sale and dissolution of joint ventures | **–** | 23.4 |
| ATO settlement | **–** | 13.5 |
| Impairment of goodwill and other assets and other related items (refer Note A3) | **(587.0)** | – |
| Balance sheet review | **–** | (85.9) [1] |
| Non-recurring items | **(18.1)** | – |
| **Total (loss)/profit before tax** | **(512.8)** | 56.4 |

1 The prior year balance sheet review item of $85.9 million includes $66.0 million of other asset impairments and related items per note A3.

Further information on the reconciliation between reported and underlying performance can be found in the Group Performance on pages 16 and 17.

## A1. Segment information (continued)

### Reported

| 2017 | MEDICAL CENTRES $M | PATHOLOGY $M | IMAGING $M | OTHER $M | TOTAL $M |
|---|---|---|---|---|---|
| **Segment Revenue** | **319.6** | **1,038.4** | **333.5** | **0.1** | **1,691.6** |
| Intersegment sales | | | | | **(33.0)** |
| **Total Revenue** | | | | | **1,658.6** |
| **EBITDA** | **(443.6)** | **130.5** | **39.8** | **(59.8)** | **(333.1)** |
| Depreciation | **20.8** | **18.8** | **16.8** | **2.8** | **59.2** |
| Amortisation of intangibles | **55.4** | **7.7** | **12.0** | **2.3** | **77.4** |
| **EBIT** | **(519.8)** | **104.0** | **11.0** | **(64.9)** | **(469.7)** |
| Finance costs | | | | | **43.1** |
| **Loss before tax** | | | | | **(512.8)** |
| Income tax expense | | | | | **4.1** |
| **Loss for the year** | | | | | **(516.9)** |

| 2016 | MEDICAL CENTRES $M | PATHOLOGY $M | IMAGING $M | OTHER $M | TOTAL $M |
|---|---|---|---|---|---|
| **Segment Revenue** | 328.7 | 994.4 | 329.8 | 22.1 | 1,675.0 |
| Intersegment sales | | | | | (33.1) |
| **Total Revenue** | | | | | 1,641.9 |
| **EBITDA** [1] | 113.4 | 136.9 | 27.3 | (6.5) | 271.1 |
| Depreciation | 20.9 | 19.3 | 25.6 | 4.3 | 70.1 |
| Amortisation of intangibles [1] | 61.1 | 7.5 | 13.9 | 4.1 | 86.6 |
| **EBIT** | 31.4 | 110.1 | (12.2) | (14.9) | 114.4 |
| Finance costs | | | | | 58.0 |
| **Profit before tax** | | | | | 56.4 |
| Income tax expense | | | | | 18.2 |
| **Profit for the year from continuing operations** | | | | | 38.2 |
| Profit for the year from discontinued operations | | | | | 36.5 |
| **Profit for the year** | | | | | 74.7 |

1 Where applicable, comparative information has been restated to ensure that allocation of expenses to operating segments in the comparative period is consistent with the allocation of expenses to operating segments in the current period.

## A2. Revenue

| | 2017 $M | 2016 $M |
|---|---|---|
| Trading revenue | **1,658.6** | 1,616.2 |
| Other revenue | **–** | 25.7 |
| | **1,658.6** | 1,641.9 |

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

| | 2017 $M | 2016 $M |
|---|---|---|
| Other employee benefits | **718.0** | 680.6 |
| Defined contribution superannuation | **56.4** | 52.3 |
| Share-based payments (refer to note E4) | **3.5** | 0.6 |
| | **777.9** | 733.5 |

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

| | 2017 $M | 2016 $M |
|---|---|---|
| Operating leases | **220.6** | 193.8 |
| Other property expenses | **41.0** | 38.5 |
| | **261.6** | 232.3 |

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

| | 2017 $M | 2016 $M |
|---|---|---|
| Goodwill impairment (refer to note B2) | **468.5** | – |
| Other asset impairments and related items | **118.5** | 66.0 |
| | **587.0** | 66.0 |

Total asset impairments and related items of $547.4 million have been recognised by the Medical Centres segment. Of this amount $468.5 million relates to the impairment of goodwill and $78.9 million relates to the impairment of other assets and the recognition of related items. The residual amount of $39.6 million of other asset impairments and related items has been recognised across the remaining operating segments.

As discussed at note B2 the impairments that have been recognised by Medical Centres segment have arisen as a result of the repositioning of this division to deliver a sustainable business model which is taking longer than expected and has not yet translated into an uplift in Medical Centres' profit performance.

Other asset impairments and related items recognised across other operating segments have been identified from a review of assets other than goodwill as at 30 June 2017 to determine whether there is any indication that those assets may have suffered an impairment loss. Where such an indication exists the recoverable amount of the asset has been estimated, usually on the basis of value in use, in order to determine the extent of the impairment loss (if any). Typically the other assets that have been impaired are assets that are specifically allocated to underperforming sites where the assets cannot be redeployed to another site.

## A3. Expenses (continued)

### Finance costs

| | 2017 $M | 2016 $M |
|---|---|---|
| Interest expense | **39.8** | 53.4 |
| Amortisation of borrowing costs | **3.3** | 4.6 |
| | **43.1** | 58.0 |

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

| | 2017 $M | 2016 $M |
|---|---|---|
| The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows: | | |
| (Loss)/profit before tax | **(512.8)** | 56.4 |
| Income tax calculated at 30% (2016: 30%) | **(153.8)** | 16.9 |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income: | | |
| ATO settlement of healthcare practices and practitioner liabilities | **(0.1)** | (5.9) |
| Amortisation of pre FY15 contractual relationship intangibles | **13.3** | 14.7 |
| Goodwill impairment | **140.6** | – |
| Other items | **4.3** | (0.5) |
| | **158.1** | 8.3 |
| (Over) provision in prior years | **(0.2)** | (7.0) |
| Income tax expense | **4.1** | 18.2 |
| Comprising: | | |
| Current tax | **31.6** | 44.5 |
| Deferred tax | **(23.7)** | (17.7) |
| (Over) provision in prior years | **(3.8)** | (8.6) |
| | **4.1** | 18.2 |

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.

## A4. Income tax expense (continued)

### ATO objection decisions – years 2003-2007

Primary's appeal in the Administrative Appeals Tribunal ("Tribunal") against a decision of the Commissioner of Taxation ("Commissioner") not to exercise his discretion to allow objections for the years ended 30 June 2003 to 2007 in relation to medical practice acquisitions was decided in favour of Primary on 29 March 2017. On 26 April 2017, the Commissioner filed an appeal to the Full Federal Court of Australia ("Full Federal Court") against the Tribunal's decision. The appeal was heard on 15 August 2017 and a decision to dismiss the appeal was handed down by the Full Federal Court on 24 August 2017. Subject to any application by the Commissioner for special leave to appeal the Full Federal Court's decision to the High Court of Australia on or before 21 September 2017, Primary can pursue its objections for the years ended 30 June 2003 to 2007. 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 | 2017 $M | 2016 $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: | | |
| (Loss)/profit attributable to equity holders of Primary Health Care Limited | **(516.8)** | 74.9 |
| Profit for the year from discontinued operations used in the calculation of basic and diluted earnings per share from discontinued operations | **–** | (36.5) |
| Earnings used in the calculation of basic and diluted (loss)/earnings per share from continuing operations | **(516.8)** | 38.4 |

| WEIGHTED AVERAGE NUMBER OF SHARES | 2017 000'S | 2016 000'S |
|---|---|---|
| The weighted average number of shares used in the calculation of basic earnings per share | **521,433** | 520,215 |
| The weighted average number of shares used in the calculation of diluted earnings per share | **521,464** | 520,215 |

| EARNINGS PER SHARE | 2017 CENTS | 2016 CENTS |
|---|---|---|
| Basic and diluted (loss)/earnings per share from continuing operations | **(99.1)** | 7.4 |
| Basic and diluted (loss)/earnings per share from continuing and discontinued operations | **(99.1)** | 14.4 |

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 2017 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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Measured at amortised cost** | | |
| **Current** | | |
| Trade receivables | **100.2** | 99.2 |
| Allowance for doubtful debts | **(13.6)** | (12.6) |
| | **86.6** | 86.6 |
| Prepayments | **15.8** | 21.9 |
| Accrued revenue | **20.8** | 18.5 |
| Other receivables | **13.0** | 9.8 |
| | **136.2** | 136.8 |
| **Non-current** | | |
| Other receivables and prepayments | **3.8** | 4.4 |
| | **3.8** | 4.4 |
| **Ageing of trade receivables** | | |
| Current | **57.4** | 58.3 |
| 30-60 days | **13.7** | 15.7 |
| 60-90 days | **4.8** | 6.8 |
| 90 days + | **24.3** | 18.4 |
| | **100.2** | 99.2 |
| **Movement in allowance for doubtful debts** | | |
| Balance at beginning of year | **12.6** | 7.6 |
| Provision for the year | **6.7** | 8.7 |
| Amounts written off during the year as uncollectable | **(5.7)** | (3.7) |
| | **13.6** | 12.6 |

Trade and other receivables 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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Carrying value** | | |
| Opening balance | **2,772.2** | 2,832.1 |
| Acquisition of subsidiaries | **11.8** | 2.8 |
| Acquisition of businesses | **–** | 9.5 |
| Disposal of subsidiaries | **–** | (72.2) |
| Impairment charge | **(468.5)** | – |
| Closing balance | **2,315.5** | 2,772.2 |
| **Impairment tests** | | |
| Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows: | | |
| Medical Centres | **392.9** | 849.6 |
| Pathology | **1,580.9** | 1,580.9 |
| Imaging | **341.7** | 341.7 |
| | **2,315.5** | 2,772.2 |

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. The five year discounted cash flow uses:

- year one cash flows derived from the FY 2018 Board approved budget;
- years two and three cash flows derived from the FY 2019 – FY 2020 business plans; and
- for FY 2021 – FY 2022, the Group assumes a long term growth rate consistent with historic industry trend levels.

The impairment loss recognised in the current year relates to Medical Centres and is due to the repositioning of the division to deliver a sustainable business model which is taking longer than expected and has not yet translated into an uplift to Medical Centre's profit performance.

## B2. Goodwill (continued)

The key assumptions in the Group's discounted cash flow model as at 30 June 2017 are as follows:

| ASSUMPTION | HOW DETERMINED |
|---|---|
| Forecast revenue | Cumulative average revenue growth rates for FY 2018 – FY 2022 are as follows:<br>■ Medical Centres: 4.4% (30 June 2016: 7.9%)<br>■ Pathology: 5.0% (30 June 2016: 5.1%)<br>■ Imaging: 8.3% (30 June 2016: 7.5%)<br>Changes to forecast revenue in the current year have been determined with reference to historical company experience, industry data and scheduled centre openings. |
| Terminal value growth rates | The terminal value growth rates assumed are:<br>■ Medical Centres: 2.5% (30 June 2016: 3.0%)<br>■ Pathology: 3.0% (30 June 2016: 3.0%)<br>■ Imaging: 3.0% (30 June 2016: 3.0%)<br>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.<br>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:<br>■ Medical Centres: 8.5% (30 June 2016: 8.5%)<br>■ Pathology: 8.5% (30 June 2016: 8.5%)<br>■ Imaging: 8.5% (30 June 2016: 8.8%) |

### 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 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 |
| Pathology | (0.5%) | 0.8% |
| Imaging | (3.8%) | 4.8% |

As Medical Centres recoverable amount equals its carrying value, any adverse movement in key assumptions may lead to a further impairment.

The recoverable amount of Medical Centres is sensitive to movements in the following key assumptions as set out in the table below:

| | IMPACT ON RECOVERABLE AMOUNT INCREASE/(DECREASE) $M |
|---|---|
| **MOVEMENT IN KEY ASSUMPTIONS** | |
| Discount rate – increase of 0.25% | **(24.5)** |
| Discount rate – decrease of 0.25% | **26.6** |
| Terminal value growth – increase of 0.5% | **45.7** |
| Terminal value growth – decrease of 0.5% | **(38.7)** |
| Revenue growth – increase of 0.5% | **29.2** |
| Revenue growth – decrease of 0.5% | **(29.1)** |

### 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.

1. PERFORMANCE OVERVIEW
2. OPERATING FINANCIAL REVIEW
3. GOVERNANCE
4. DIRECTORS' REPORT
5. FINANCIAL REPORT
6. OTHER INFORMATION

## B3. Property, plant and equipment

| 2017 $M | ASSETS UNDER CONSTRUCTION | LEASEHOLD IMPROVEMENTS | PLANT AND EQUIPMENT | TOTAL |
|---|---|---|---|---|
| **Net book value** | | | | |
| Opening balance | **18.9** | **208.3** | **115.0** | **342.2** |
| Additions | **50.6** | **0.7** | **23.9** | **75.2** |
| Transfers | **(38.9)** | **27.7** | **11.2** | **–** |
| Disposals | **(0.1)** | **(9.7)** | **(3.2)** | **(13.0)** |
| Impairment | **–** | **(29.7)** | **(16.5)** | **(46.2)** |
| Depreciation expense | **–** | **(25.0)** | **(34.2)** | **(59.2)** |
| Closing balance | **30.5** | **172.3** | **96.2** | **299.0** |
| Cost | **30.5** | **400.3** | **416.3** | **847.1** |
| Accumulated depreciation | **–** | **(228.0)** | **(320.1)** | **(548.1)** |
| Closing balance | **30.5** | **172.3** | **96.2** | **299.0** |

| 2016 $M | ASSETS UNDER CONSTRUCTION | LEASEHOLD IMPROVEMENTS | PLANT AND EQUIPMENT | TOTAL |
|---|---|---|---|---|
| **Net book value** | | | | |
| Opening balance | 54.0 | 200.5 | 181.2 | 435.7 |
| Additions | 33.2 | 8.4 | 42.3 | 83.9 |
| Transfers | (68.3) | 59.9 | 8.4 | – |
| Disposals | – | (24.6) | (57.1) | (81.7) |
| Impairment | – | (6.6) | (19.0) | (25.6) |
| Depreciation expense | – | (29.3) | (40.8) | (70.1) |
| Closing balance | 18.9 | 208.3 | 115.0 | 342.2 |
| Cost | 18.9 | 401.6 | 469.8 | 890.3 |
| Accumulated depreciation | – | (193.3) | (354.8) | (548.1) |
| Closing balance | 18.9 | 208.3 | 115.0 | 342.2 |

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 |

Further disclosure relating to the assessment of the recoverable amount of the Group’s non-financial assets including property, plant and equipment is provided in Notes A3 and B2.

## B4. Other intangible assets

| 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 | **(202.9)** | **(83.9)** | **(28.1)** | **–** | **(314.9)** |
| Closing balance | **115.4** | **35.9** | **7.4** | **7.9** | **166.6** |

| 2016 $M | HCP CONTRACTUAL RELATIONSHIPS | IT SOFTWARE | LICENCES | INTANGIBLES UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| Opening balance | 163.9 | 87.0 | 14.9 | 19.5 | 285.3 |
| Additions | 73.2 | 13.1 | – | 7.9 | 94.2 |
| Transfers | – | 18.9 | – | (18.9) | – |
| Disposals | (1.7) | (0.2) | – | – | (1.9) |
| Impairment | (3.6) | (20.6) | (3.1) | – | (27.3) |
| Amortisation expense | (66.9) | [1] (20.6) | (3.3) | – | (90.8) |
| Disposal of subsidiary | – | (38.8) | – | – | (38.8) |
| Closing balance | 164.9 | 38.8 | 8.5 | 8.5 | 220.7 |
| Cost | 512.9 | 143.0 | 35.5 | 8.5 | 699.9 |
| Accumulated amortisation | (348.0) | (104.2) | (27.0) | – | (479.2) |
| Closing balance | 164.9 | 38.8 | 8.5 | 8.5 | 220.7 |

1 Includes $4.2 million of amortisation included within discontinued operations.

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 |

Further disclosure relating to the assessment of the recoverable amount of the Group's non-financial assets including other intangibles is provided in Notes A3 and B2.

## 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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Trade payables and accruals | **203.3** | 156.5 |
| Deferred consideration | **14.4** | 15.7 |
| Accrued interest | **0.8** | 2.3 |
| Deferred revenue | **6.7** | 6.5 |
| | **225.2** | 181.0 |
| **Non-current** | | |
| Trade payables and accruals | **4.0** | 6.8 |
| Deferred consideration | **3.9** | 1.0 |
| | **7.9** | 7.8 |

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.

## B6. Provisions

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Provision for employee benefits | **82.1** | 77.6 |
| Self-insurance provision | **4.2** | 4.2 |
| Onerous lease provision | **5.0** | 1.9 |
| Make good provision | **1.6** | 1.4 |
| Other provisions | **12.4** | 2.1 |
| | **105.3** | 87.2 |
| **Non-current** | | |
| Provision for employee benefits | **8.8** | 6.9 |
| Self-insurance provision | **1.2** | 0.8 |
| Onerous lease provision | **10.7** | 2.1 |
| Make good provision | **5.4** | 1.4 |
| | **26.1** | 11.2 |

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).

## B6. Provisions (continued)

### 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 lease provision

The Group recognises onerous lease provisions whereby the unavoidable cost of future lease payments under non-cancellable operating leases exceeds the future economic benefits expected to be obtained under the lease.

### 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.

## 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

| | 2017 $M | 2016 $M |
|---|---|---|
| Measured at amortised cost | | |
| **Current** | | |
| Gross bank loans | **–** | 1.9 |
| Finance lease liabilities | **0.3** | 0.1 |
| | **0.3** | 2.0 |
| **Non-current** | | |
| Gross bank loans | **885.0** | 905.0 |
| Unamortised borrowing costs | **(5.6)** | (8.7) |
| | **879.4** | 896.3 |

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

| | 2017 NO. OF SHARES 000'S | 2016 NO. OF SHARES 000'S | 2017 $M | 2016 $M |
|---|---|---|---|---|
| Opening balance | **521,433** | 515,999 | **2,422.8** | 2,407.3 |
| Shares issued via Dividend Reinvestment Plan | **–** | 3,899 | **–** | 15.5 |
| Shares issued via Bonus Share Plan | **–** | 1,535 | **–** | – |
| **Closing balance** | **521,433** | 521,433 | **2,422.8** | 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 2017, the company has 1,120,000 (2016: 2,272,500) share options on issue, exercisable on a 1:1 basis for 1,120,000 (2016: 2,272,500) ordinary shares of Primary at an average exercise price of $5.91 (2016: $5.91). The options expire between July 2017 and May 2019 (2016: November 2016 and May 2019) and carry no rights to dividends and no voting rights.

### Rights on issue

As at 30 June 2017, the company has 582,057 (2016: nil) service rights on issue, exercisable on a 1:1 basis for 582,057 (2016: nil) ordinary shares of Primary at an exercise price of $nil. The service rights will vest between August 2017 and October 2018 subject to the satisfaction of applicable service conditions and carry no rights to dividends and no voting rights.

As at 30 June 2017, the company has 2,328,522 (2016: nil) performance rights on issue, exercisable on a 1:1 basis for 2,328,522 (2016: nil) ordinary shares of Primary at an exercise price of $nil. The performance rights will vest around 26 October 2018 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

| | 2017 CENTS PER SHARE | 2016 CENTS PER SHARE | 2017 $M | 2016 $M |
|---|---|---|---|---|
| **Recognised amounts** | | | | |
| Final dividend – previous financial year | **6.4** | 11.0 | **33.4** | 56.8 |
| Interim dividend – this financial year | **4.8** | 5.6 | **25.0** | 29.2 |
| Dividend forgone under the Bonus Share Plan | **–** | – | **–** | (6.1) |
| | **11.2** | 16.6 | **58.4** | 79.9 |
| **Unrecognised amounts** | | | | |
| Final dividend – this financial year | **5.8** | 6.4 | | |

In respect of FY2017:

- an interim dividend of 4.8cps (100% franked), was paid to the holders of fully paid ordinary shares on 20 March 2017; and
- the Directors have approved the payment of a final dividend of 5.8cps (100% franked), to the holders of fully paid ordinary shares, the record date being 1 September 2017, payable on 18 September 2017.

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

The final dividend for the year ended 30 June 2016 was 100% franked. The interim dividend for the year ended 30 June 2016 was 50% franked.

| FRANKING ACCOUNT | 2017 $M | 2016 $M |
|---|---|---|
| Closing balance as at 30 June | **43.5** | 39.8 |

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.

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.

## C4. Financial Instruments (continued)

### 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 $100.2 million (30 June 2016: $99.2 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.

| | 2017 $M | 2016 $M |
|---|---|---|
| **Financing facilities** | | |
| **Current** | | |
| Secured Loan Facility | | |
| Amount used | **–** | 1.9 |
| Amount unused | **–** | – |
| **Non-current** | | |
| Unsecured Syndicated Debt Facilities | | |
| Amount used | **885.0** | 905.0 |
| Amount unused | **365.0** | 345.0 |
| Secured Loan Facility | | |
| Amount used | **–** | – |
| Amount unused | **–** | 18.1 |
| **Total amount used** | **885.0** | 906.9 |
| **Total amount unused** | **365.0** | 363.1 |
| **Total financing facilities** | **1,250.0** | 1,270.0 |

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 2017 will be met through the ordinary working capital cycle of the Group, including the collection of trade receivables (30 June 2017: $100.2m) and the unused headroom in the Syndicated Debt Facility (30 June 2017: $365.0m).

| 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** | **–** |

| 2016 | 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 | 906.9 | 996.5 | 32.3 | 964.2 |
| Payables | 182.3 | 182.3 | 174.5 | 7.8 |
| Finance lease liabilities | 0.1 | 0.1 | 0.1 | – |
| | 1,089.3 | 1,178.9 | 206.9 | 972.0 |
| **Derivative financial liabilities** | | | | |
| Interest rate swaps | 11.4 | 11.5 | 10.7 | 0.8 |

### 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 2017.

| 2017 | AVERAGE INTEREST RATE % | VARIABLE INTEREST RATE $M | FIXED INTEREST RATE LESS THAN 1 YEAR $M | 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)** |

| 2016 | AVERAGE INTEREST RATE % | VARIABLE INTEREST RATE $M | FIXED INTEREST RATE LESS THAN 1 YEAR $M | 1 TO 5 YEARS $M | TOTAL $M |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | 2.06 | 82.3 | – | – | 82.3 |
| **Financial liabilities** | | | | | |
| Finance leases | 6.44 | – | (0.1) | – | (0.1) |
| Gross bank loan | 3.55 | (905.0) | (1.9) | – | (906.9) |
| | | (822.7) | (2.0) | – | (824.7) |

## 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.

| 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)** |

In July 2017 the Group executed interest rate swap contracts for an aggregate notional principal of $600 million with weighted average rate of 3.37% and maturities ranging between 1 and 5 years.

| 2016 | AVERAGE CONTRACTED FIXED INTEREST RATE % | NOTIONAL PRINCIPAL $M | FAIR VALUE $M |
|---|---|---|---|
| **Interest Rate Swaps** | | | |
| Less than 1 year | 4.80 | 600.0 | (0.7) |
| 1 to 2 years | 4.64 | 700.0 | (10.7) |
| | | | (11.4) |

The aggregate notional principal amount of the outstanding interest rate swap contracts as at 30 June 2016 was $1,300.0 million. Included in this amount were $475.0 million of forward dated interest rate swap contracts which commenced in the 2017 financial year.

### 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 2017 – variable rate instruments | **(0.8)** | **0.8** | **–** | **–** |
| 30 June 2016 – variable rate instruments | (1.5) | 1.5 | 3.5 | (3.5) |

### 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**

| 2017<br>$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** |

| 2016<br>$M | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Other investments | – | – | 1.3 | 1.3 |
| **Financial Liabilities** | | | | |
| Interest rate swaps | – | 11.4 | – | 11.4 |

## 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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Non-cancellable operating lease commitments** | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases not recognised as liabilities, payable: | | |
| Within one year | **204.3** | 191.5 |
| Later than 1 year but not later than 5 years | **383.0** | 365.6 |
| Later than 5 years | **73.0** | 52.3 |
| | **660.3** | 609.4 |
| **Capital commitments** | | |
| Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | **9.6** | 46.1 |
| Later than 1 year but not later than 5 years | **–** | 2.3 |
| | **9.6** | 48.4 |

### 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 of which $180.0 million of commitments have exit clauses with a short notice period; 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 2017 % | 2016 % |
|---|---|---|---|
| Primary Health Care Limited | Australia | | |
| Australian Medical Partners Pty Ltd [1] | Australia | **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 [2] | Australia | **100** | – |
| Cooper Street Clinic Pty Ltd [3] | Australia | **100** | – |
| Bourke Street Clinic Pty Ltd [3,4] | Australia | **100** | – |
| Healthyu Corporations Pty Ltd [5] | Australia | **100** | – |
| Park Family Practice Services Pty Ltd [5] | Australia | **100** | – |
| Brindabella Medical Services Pty Ltd [5] | Australia | **100** | – |
| Idameneo (No. 123) Pty Ltd | Australia | **100** | 100 |
| Austrials Pty Ltd | 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 |
| 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 |
| North Coast Nuclear Medicine (QLD) Pty Ltd | Australia | **77** | 77 |
| Orana Services Pty Ltd | 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 |

## D1. Subsidiaries (continued)

| NAME OF SUBSIDIARY | PLACE OF INCORPORATION AND OPERATION | PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP 2017 % | 2016 % |
|---|---|---|---|
| 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 [6] | Singapore | **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 |

1 Incorporated as Idomante (No. 2) Pty Ltd on 13 December 2016, name changed to Australian Medical Partners Pty Ltd on 25 January 2017.
2 Incorporated as Idomante Pty Ltd on 19 August 2016, name changed to Health & Co Pty Ltd on 31 October 2016.
3 Acquired on 8 December 2017.
4 Name changed from Sydney Integrative Medicine Pty Ltd to Bourke Street Clinic Pty Ltd on 5 May 2017.
5 Incorporated on 5 May 2017.
6 Incorporated in Singapore on 15 September 2016.
7 Entity has a 31 December year end.
8 Entity has a 31 March year end.

## D1. Subsidiaries (continued)

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 Class Order 98/1418 (as amended) dated 13 August 1998, 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 Class Order 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 2017 are as follows:

Australs Pty Ltd
Digital Diagnostic Imaging Pty Ltd
Former AP Pty Ltd
Former SDS 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
Idameneo (No.123) Pty Ltd
Idameneo (No 124) Pty Ltd
Idameneo (No 125) Pty Ltd
Idameneo (No.789) Limited
Integrated Health Care Pty Ltd
Moaven & Partners Pathology Pty Ltd
Pacific Medical Centres 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)
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 2017 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. Subsidiaries disposed and discontinued operations

In the prior year the Group disposed of 100% of its shareholding in Health Communication Network Limited ("HCN") and Transport Health Pty Ltd. The operations of HCN comprised the Health Technology segment and are classified as a discontinued operation and disclosed as such in the Statement of Profit or Loss in both the current and comparative period.

## D4. 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 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 | 2017 $M | 2016 $M |
|---|---|---|
| **Assets** | | |
| Current | **10.0** | 6.4 |
| Non-current | **2,543.2** | 2,768.2 |
| **Total assets** | **2,553.2** | 2,774.6 |
| **Liabilities** | | |
| Current | **5.5** | 18.7 |
| Non-current | **890.6** | 906.3 |
| **Total liabilities** | **896.1** | 925.0 |
| **Net assets** | **1,657.1** | 1,849.6 |
| **Equity** | | |
| Issued Capital | **2,442.7** | 2,442.7 |
| Accumulated losses | **(793.3)** | (587.2) |
| Other reserves | **7.7** | (5.9) |
| **Total equity** | **1,657.1** | 1,849.6 |

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

| STATEMENT OF COMPREHENSIVE INCOME | 2017 $M | 2016 $M |
|---|---|---|
| (Loss)/profit for the year [1] | **(145.0)** | 51.3 |
| Other comprehensive income | **7.4** | 5.4 |
| Total comprehensive (loss)/income | **(137.6)** | 56.7 |

1 The parent entity's loss for 2017 includes an after-tax non-cash impairment charge of $172.0 million (2016: nil) against the parent entity's investment in controlled entities. In accordance with AASB 136, the parent entity's investment in controlled entities was compared to the higher of its value in use or fair market value less costs of disposal, and the comparison identified an impairment in the carrying value of the parent entity's investment in controlled entities. This non-cash charge is reversed on consolidation.

# 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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Reconciliation of (loss)/profit from ordinary activities after related income tax to net cash flows from operating activities** | | |
| (Loss)/profit for the year | **(516.9)** | 74.7 |
| Depreciation of plant and equipment | **59.2** | 70.1 |
| Amortisation of intangibles | **77.4** | 86.6 |
| Amortisation of borrowing costs | **3.3** | 4.6 |
| Share-based payment expense | **3.5** | 0.6 |
| Net (profit) on sale of property plant and equipment | **–** | (0.2) |
| Impairment of goodwill | **468.5** | – |
| Impairment of property, plant and equipment | **46.2** | 25.6 |
| Impairment of other intangibles | **20.3** | 27.3 |
| (Profit) on sale of investments | **–** | (60.5) |
| Other non-cash write-offs | **2.8** | 34.4 |
| Increase (decrease) in: | | |
| Trade payables and accruals | **32.1** | 9.8 |
| Provisions | **35.2** | 2.0 |
| Deferred revenue | **0.2** | 1.6 |
| Income tax and deferred taxes | **(21.3)** | 19.3 |
| Decrease (increase) in: | | |
| Consumables | **0.4** | (2.5) |
| Receivables and prepayments | **1.3** | (8.3) |
| Net cash provided by operating activities | **212.2** | 285.1 |

### Non-cash investing and financing

During the financial year, nil (2016: 3,899,358) and nil (2016: 1,534,600) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively. These transactions are not reflected in the cash flow statement.

## E2. Tax balances

### Current tax balances

| | 2017 $M | 2016 $M |
|---|---|---|
| Income tax receivable is attributable to: | | |
| Entities in the Tax Consolidated Group | **10.0** | 6.0 |
| Other | **(0.3)** | (0.3) |
| | **9.7** | 5.7 |

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to 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.

## E2. Tax balances (continued)

### Reconciliation of deferred tax balances

| 2017 $M | 1 JULY 2016 OPENING BALANCE | CREDITED/ (CHARGED) TO INCOME | CREDITED/ (CHARGED) TO EQUITY | DISPOSALS | 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)** |
| Investments | **–** | **–** | **(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** |

| 2016 $M | 1 JULY 2015 OPENING BALANCE | CREDITED/ (CHARGED) TO INCOME | CREDITED/ (CHARGED) TO INCOME | DISPOSALS | 30 JUNE 2016 CLOSING BALANCE |
|---|---|---|---|---|---|
| Receivables | (5.7) | 3.1 | – | – | (2.6) |
| Consumables | (7.9) | 1.7 | – | – | (6.2) |
| Prepayments | (0.6) | (1.5) | – | – | (2.1) |
| Available-for-sale financial assets | (1.6) | – | 1.6 | – | – |
| Property, plant and equipment | 5.9 | 6.4 | – | – | 12.3 |
| Intangibles | 3.7 | (5.9) | – | (7.9) | (10.1) |
| Capitalised costs | (15.5) | 1.7 | – | 1.2 | (12.6) |
| Payables | 2.1 | 10.1 | – | – | 12.2 |
| Provisions | 26.7 | 11.4 | – | (0.6) | 37.5 |
| Other financial liabilities | 5.6 | – | (2.3) | – | 3.3 |
| Net temporary differences | 12.7 | 27.0 | (0.7) | (7.3) | 31.7 |
| Tax losses – revenue | 1.8 | – | – | – | 1.8 |
| Deferred tax asset | 14.5 | 27.0 | (0.7) | (7.3) | 33.5 |

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.

## E2. Tax balances (continued)

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

| | 2017 $M | 2016 $M |
|---|---|---|
| **Treasury bank guarantees** | | |
| Workers compensation statutory requirement | **13.8** | 18.9 |
| Property related | **10.9** | 10.8 |
| | **24.7** | 29.7 |

## 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 2017 award is 1 July 2016 to 30 June 2019 (FY 2016 award: 1 July 2015 to 30 June 2018). 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 on pages 48 to 52 of the Remuneration Report.

### (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.

## E4. Share-based payments (continued)

### (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 2017:

| 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 2017 NUMBER |
|---|---|---|---|---|---|---|
| FY 2016 LTIP | 20 September 2016 | – | 3,114,772 | – | (786,250) | **2,328,522** |
| FY 2016 STIP | 30 January 2017 | – | 226,260 | – | (42,394) | **183,866** |
| Service Rights [2] | 12 September 2016 | – | 68,681 | – | – | **68,681** |
| Retentions [3] | 23 February 2016 | – | 329,510 | – | – | **329,510** |

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. Refer page 62 of the Remuneration Report for further details.

3 The vesting date for the Retention Service Rights is 23 February 2018.

In accordance with the definition of grant date in AASB 2 the rights under the FY 2017 STIP and LTIP had not been granted as at 30 June 2017 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 2017.

#### 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 2016 LTI | rTSR | 20 September 2016 | 1.74 |
| FY 2016 LTI | ROIC | 20 September 2016 | 3.48 |
| FY 2016 STI | 12 month service period | FY 2016 STI | 3.71 |
| FY 2016 STI | 24 month service period | FY2016 STI | 3.55 |
| Service Rights | – | 12 September 2016 | 3.63 |
| Retentions | – | 23 February 2016 | 3.21 |

#### 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, 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.

## 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.

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Short-term employee benefits | **6,083** | 6,300 |
| Post-employment benefits | **111** | 119 |
| Other long-term employee benefits | **(44)** | (280) |
| Termination payments | **1,938** | 1,840 |
| Share-based payments | **366** | 1,122 |
| | **8,454** | 9,101 |

### Transactions with Dr Paul Jones

During the years ended 30 June 2017 and 30 June 2016 the Group provided medical centre management services ("Services") to Dr Paul F Jones Pty Limited, a company controlled by Dr 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 2017 were $118,785 (FY 2016: $95,073). 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 2017 instalment was $40,000 (FY 2016: $40,000).

There were no amounts payable or receivable as at 30 June 2017 (2016: nil) and the provision of the Services continues as at the date of this financial report.

### Transactions with Wesley Lawrence

During the year ended 30 June 2017, Primary contracted with Slick Azz Auto Detailing Pty Limited, a company controlled by a child of Mr 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 $99,380.

### 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

## E7. Remuneration of auditor

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Deloitte Touche Tohmatsu Australia** | | |
| Audit and other assurance services | | |
| Auditing and review of financial statements | **865** | 1,038 |
| Internal controls and compliance | **209** | 369 |
| Total remuneration for audit and other assurance services | **1,074** | 1,407 |
| Taxation services | | |
| Tax consulting | **18** | 152 |
| Other services | | |
| Advisory | **489** | 254 |
| | **1,581** | 1,813 |
| **Network firms of Deloitte Touche Tohmatsu Australia** | | |
| Audit and other assurance services | | |
| Audit and review of financial statements | **29** | 25 |
| Taxation services | | |
| Tax consulting | **8** | 8 |
| | **37** | 33 |
| **Total remuneration for Deloitte Touche Tohmatsu** | **1,618** | 1,846 |

## 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 2016 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 $660.3 million as disclosed in Note C5. Of this amount, commitments of $180.0 million have exit clauses with a short notice period. 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.

The Directors do not anticipate the application of AASB 9 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.

The Directors do not anticipate the application of AASB 15 to have a material impact on the financial results of the Group.

## E9. Subsequent events

There has not been any 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 and Corporate Information

## 1. Number of Shareholders

As at 30 June 2017, there were 521,432,903 fully paid ordinary shares held by 16,434 shareholders.

As at 30 June 2017, there were 1,120,000 unlisted share options granted to 70 persons.

As at 30 June 2017, there were 2,303,385 unlisted share rights granted to 41 persons.

## 2. Distribution of Ordinary Shares as at 30 June 2017

| NUMBER OF SHARES HELD | INDIVIDUALS |
|---|---|
| 1 – 1000 | 4,287 |
| 1,001 – 5000 | 8,043 |
| 5,001 – 10,000 | 2,541 |
| 10,000 – 100,000 | 1,482 |
| 100,001 – 999,999,999 | 81 |
| Total | 16,434 |

833 shareholders hold less than a marketable parcel of shares.

## 3. Distribution of Rights as at 30 June 2017

| NUMBER OF RIGHTS HELD | INDIVIDUALS |
|---|---|
| 1 – 1000 | 0 |
| 1,001 – 5000 | 0 |
| 5,001 – 10,000 | 6 |
| 10,000 – 100,000 | 25 |
| 100,001 – 999,999,999 | 10 |
| Total | 41 |

## 4. Top 20 shareholders as at 30 June 2017

| RANK | NAME | SHARES | % OF SHARES |
|---|---|---|---|
| 1. | HSBC Custody Nominees (Australia) Limited | 125,700,893 | 24.11 |
| 2. | Citicorp Nominees Pty Limited | 107,884,667 | 20.69 |
| 3. | J P Morgan Nominees Australia Limited | 100,669,818 | 19.31 |
| 4. | National Nominees Limited | 28,858,609 | 5.53 |
| 5. | Jangho Health Care Australia Pty Ltd | 24,089,329 | 4.62 |
| 6. | BNP Paribas Noms Pty Ltd <DRP> | 10,892,600 | 2.09 |
| 7. | Argo Investments Limited | 6,808,917 | 1.31 |
| 8. | RBC Investor Services Australia Nominees Pty Limited <MBA A/C> | 3,836,000 | 0.74 |
| 9. | BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 2,978,205 | 0.57 |
| 10. | Rinrim Pty Limited | 2,500,000 | 0.48 |
| 11. | BKI Investment Company Limited | 2,484,500 | 0.48 |
| 12. | BNP Paribas Nominees Pty Ltd <Agency Lending Collateral> | 2,295,000 | 0.44 |
| 13. | Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 2,165,560 | 0.42 |
| 14. | Buttonwood Nominees Pty Ltd | 2,121,333 | 0.41 |
| 15. | Idameneo (No 122) Pty Ltd | 1,996,368 | 0.38 |
| 16. | UBS Nominees Pty Ltd | 1,942,174 | 0.37 |
| 17. | Charado Pty Ltd | 1,435,488 | 0.28 |
| 18. | T Batsakis Pty Ltd | 1,296,865 | 0.25 |
| 19. | Navigator Australia Ltd <MLC Investment Sett A/C> | 912,708 | 0.18 |
| 20. | Mr Fei Wang | 900,000 | 0.17 |
| Total | | 431,769,034 | 82.83 |

# Shareholder and Corporate Information

## 5. Substantial shareholders as at 30 June 2017

| NAME | NUMBER OF FULLY PAID ORDINARY SHARES | % OF TOTAL ISSUED CAPITAL AS AT THE DATE OF EACH NOTICE |
|---|---|---|
| Jangho Group Co Ltd and its related bodies corporate | 83,060,070 | 15.93% |
| Ellerston Capital Limited and its related bodies corporate | 43,351,547 | 8.31% |
| Maple-Brown Abbott Limited | 37,810,413 | 7.25% |
| Harris Associates LP | 33,105,004 | 6.35% |
| T Rowe Price International | 32,242,974 | 6.18% |
| Dimensional Entities | 30,282,418 | 5.36% |
| Norges Bank | 26,492,835 | 5.08% |

Information in the table above is as per the most recent substantial holder notices received by Primary as at 30 June 2017.

## 6. 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 and trade under the code 'PRY'.

## 7. 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.

## 8. Financial Calendar

| 2017 | |
|---|---|
| Half year results announcement | 17 February |
| Record date for Interim dividend | 20 March |
| Interim dividend payable | 28 March |
| Full year results announcement | 18 August |
| Record date for Final dividend | 1 September |
| Final dividend payable | 18 September |
| Annual General Meeting | 23 November |

| 2018 | |
|---|---|
| Half year results announcement | 16 February |
| Year end | 30 June |
| Full year results announcement | 17 August |
| Annual General Meeting | 22 November |

# Shareholder and Corporate Information

## 9. Corporate information

### Auditor
**Deloitte Touche Tohmatsu**
Grosvenor Place
225 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
and Register of Rights Holders)

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

### Share Registry
**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 Centre – Bulk Billing

1800BULKBILL

Primary IVF

Primary Occupational Health

Primary Dental

Primary Physio

SYDNEY EYE CLINIC

## Medical Centre – Private Billing

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

Tasmanian Medical Laboratories

## Diagnostic Imaging

Healthcare Imaging Services

Queensland Diagnostic Imaging

## Education

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