

# Primary Health Care Limited

Annual Report for the Year Ended 30 June 2011

ACN 064 530 516

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# Review of operations

For the year ended 30 June 2011

## Overview

<b>\$000</b>	<b>2011 Total</b>	<b>2010 Total</b>
Revenue and share of net profits of associates	1,322,296	1,296,818
<b>EBITDA</b>	<b>327,951</b>	<b>331,022</b>
Depreciation	60,968	55,016
<b>EBITA</b>	<b>266,983</b>	<b>276,006</b>
Interest expense	87,875	67,835
Amortisation of borrowing costs	9,210	10,006
Non-recurring items	34,700	-
Amortisation of intangibles	21,228	17,901
Income tax expense	34,207	46,111
<b>Profit for the year after tax</b>	<b>79,763</b>	<b>134,153</b>
Attributable to non-controlling interest	1,478	2,156
<b>Profit attributable to members of the parent entity</b>	<b>78,285</b>	<b>131,997</b>
	<b>2011 Total</b>	<b>2010 Total</b>
<b>Cents per share</b>		
Basic earnings per share – total <sup>1</sup>	15.8	27.8
Basic earnings per share – excluding non-recurring items	20.7	27.8
Final dividend <sup>2,3</sup>	5.0	10.0
Interim dividend <sup>2</sup>	3.0	15.0
	<b>8.0</b>	<b>25.0</b>

<sup>1</sup> Diluted earnings per share is materially consistent with basic earnings per share.

<sup>2</sup> All dividends paid were 100% franked at the corporate income tax rate (2011: 30%; 2010: 30%).

<sup>3</sup> The record date for determining entitlement to the final dividend is 23 September 2011 and is payable on 10 October 2011.

# Review of operations

For the year ended 30 June 2011

## Summary

The Directors of Primary Health Care Limited ("Primary") announce the results for the year ended 30 June 2011. Key points of the results are:

- EBITDA: \$328.0m (2010: \$331.0m)
- Profit after tax, before non-recurring items: \$102.6m (2010: \$132.0m)
- Net profit after tax: \$78.3m (2010: \$132.0m)
- EPS before non-recurring items: 20.7cps (2010: 27.8cps)
- Final dividend: 5.0cps (100% franked) (2010: 10.0cps 100% franked)

## Operating overview

The past two years have featured significant Federal Government funding reductions as well as periods of below normal patient demand for both general practice and diagnostic services. The major costs of medical practice service provision continue to increase (rents, rates, electricity, and wages). In order to maintain affordability for patients, Primary medical practitioners continue to bulk bill the vast majority of their patient services.

During the financial year Primary has taken appropriate steps to restructure its cost base to reflect these funding and cost pressures. Primary is now positioned as a low-cost provider of high-quality medical services in each of the three main areas of health delivery in which it operates (general practice, pathology, and diagnostic imaging). This will be of benefit as our industry sectors return to more normal patterns of patient demand and as funding constraints continue.

The recent five-year Pathology Funding Agreement, effective 1 July 2011, between the pathology industry and pathology providers, brings certainty to the industry. Volume growth trends in pathology have returned to be closer to historical trends of 5-6%pa. GP attendances are continuing to show improvement.

The six months ended 30 June 2011 has seen both EBITDA and margin growth in all four divisions compared to the six months to 31 December 2010. This reflects both the return to more normal patient attendance growth patterns, as well as the cost reduction program put in place during this financial year. The improvement in performance was achieved despite the adverse effects of the Queensland floods and Cyclone Yasi on the business in the quarter ended 31 March 2011.

## Segment analysis

\$m	Year ended	Year ended	Six months to
	30 June 2011	30 June 2010	31 December 2010
	Total	Total	Total
<b>Revenue</b>			
Medical Centres	274.6	259.0	137.5
Pathology	740.1	720.7	364.0
Imaging	285.0	289.1	145.1
Health Technology	48.9	46.4	24.5
Corporate	12.4	9.8	3.0
Intersegment	(38.7)	(28.2)	(18.4)
<b>Total</b>	<b>1,322.3</b>	<b>1,296.8</b>	<b>655.7</b>
<b>EBITDA</b>			
Medical Centres	150.3	142.4	74.5
Pathology	118.7	135.3	55.3
Imaging	43.4	42.6	21.1
Health Technology	19.5	20.0	9.7
Corporate	(3.9)	(9.3)	(8.2)
<b>Total</b>	<b>328.0</b>	<b>331.0</b>	<b>152.4</b>
<b>Margin</b>			
Medical Centres	54.7%	55.0%	54.2%
Pathology	16.0%	18.8%	15.2%
Imaging	15.2%	14.7%	14.5%
Health Technology	39.9%	43.1%	39.6%
<b>Total</b>	<b>24.8%</b>	<b>25.5%</b>	<b>23.2%</b>

# Review of operations

For the year ended 30 June 2011

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## Medical Centres

EBITDA for the Medical Centre division was \$150.3m, compared with \$142.4m for the prior year. The EBITDA margin for FY2011 was 54.7%, compared with 55.0% for the prior year.

Three new medical centres have been opened since 30 June 2010. A total of 82 medical centres, including 56 large-scale Primary centres, are now in operation. One new centre is planned to be opened in FY2012.

Industry GP patient attendances have shown an improving trend in May and June 2011 as reflected by Medicare data. This trend has continued in the early part of FY2012.

EBITDA contribution from the large-scale medical centres improved by 8% from \$127.4m to \$138.0m. EBITDA contribution from the smaller ex-Symbion centres and clinical trials business reduced from \$15.0m to \$12.3m.

## Pathology

EBITDA for the Pathology division was \$118.7m, compared with \$135.3m for the prior year. The EBITDA margin for FY2011 was 16.0%, compared with 18.8% for the prior year and 15.2% for the six months to 31 December 2010. The Pathology division's revenue and EBITDA improved in the second half of the financial year, reflecting both the impact of a restructuring of Primary's cost base, as well as a return to more normal patterns of revenue growth across the industry.

The last two years has seen a significant change in pathology industry dynamics following funding cuts and regulatory change. The May 2009 Federal Budget pathology funding changes took effect on 1 November 2009. It is estimated that over a full twelve month period Primary's Pathology division was adversely impacted by up to \$45m in both revenue and EBITDA. FY2011 included a full twelve months of these funding cuts for the first time, and hence this year's results account for an incremental \$15m in revenue and EBITDA cuts over FY2010.

In April 2011 the Federal Government and the pathology industry entered into a new Memorandum of Understanding (effective 1 July 2011). This provides stability of funding for a five-year period.

From 1 July 2010 the Federal Government deregulated the collection centre licence scheme that historically provided a cap on collection centre numbers. Following flat volume growth across the industry in FY2010, volumes since deregulation have reverted towards historical growth levels and Primary's pathology volumes for FY2011 grew 4.5% over the prior year. Volumes were adversely affected in Queensland and Northern NSW by the flood and cyclone events of January/February 2011, but volumes in these regions have now returned to normal expectations.

## Imaging

EBITDA for the Imaging division was \$43.4m compared with \$42.6m for the prior year. The EBITDA margin for FY2011 was 15.2%, compared with 14.7% for the prior year. The results continue the improvement in EBITDA and margin which occurred in 1HFY2011, when EBITDA increased from \$19.6m to \$21.1m and margin from 13.8% to 14.5% over the six months ended 31 December 2010.

The conversion of radiologists to a fee-for-service model continues. Actual exam volumes for FY2011 grew 5%. This conversion of radiologists to a percentage fee-for-service model, combined with upgraded technology, closing of uneconomical sites and cost control, are the basis of the Imaging division's improvement.

## Health Technology

EBITDA for the Health Technology division was \$19.5m, compared with \$20.0m for the prior year. The EBITDA margin for FY2011 was 39.9% compared with 43.1% for the prior year.

Subscription renewal rates remain high for all general practitioner and specialist software products. The good performance of the software products has been offset by a reduction in government funding of \$1.2m to the Medicare transition support program, and the reduction of advertising revenues from Medical Director as a result of changes in Medicine Australia's Code of Conduct on sponsorship.

HCN is the largest provider of its kind in healthcare information technology services in Australia with leading positions in each of its core markets. The market is undergoing a structural change to a more interconnected eHealth model in which HCN can play a major role.

# Review of operations

For the year ended 30 June 2011

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## Potential sale of Health Communication Network (“HCN”)

In May 2011, Primary confirmed that it was considering a draft proposal for the potential sale of HCN. Following further negotiations, Primary now confirms that a sale of HCN will not occur as the proposals received did not meet Primary’s requirements.

## Non-Recurring One-Off Costs

In November 2010 Primary announced it was implementing a cost reduction program to offset funding cuts that occurred across the healthcare industry in Australia. As a consequence of the cost reduction program, \$34.7m in non-recurring one-off costs have been charged to the profit and loss account for the current financial year to 30 June 2011.

Of this total non-recurring one-off cost, \$28.0m is for cash items predominantly relating to staff redundancy and lease obligations. A non-cash cost of \$6.7m relates to the write-off of assets associated with closed practices.

The cost reduction program enabled Primary to assist in offsetting the Federal Government’s funding cuts. The current regulatory environment requires healthcare providers to make increasing efficiency gains if they are to maintain service levels to patients and practitioners.

As a result of the cost reduction program:

- A reduction of approximately 290 full-time equivalent positions occurred across the Group;
- 23 sites in total have been closed. The majority of these sites are single modality diagnostic imaging practices predominantly in Queensland and sites associated with the clinical trial business in New South Wales and Victoria. In addition, a further provision has been made for significant lease obligations on several ex-Symbion medical centre practices, which have been closed;
- Revenue loss from closed practices is estimated to be approximately \$9m per annum, the majority being from the Imaging division; and
- Annual cost savings of approximately \$27m will occur across the Primary Group.

## Debt and interest expense

In September 2010, Primary successfully raised \$152m via a Listed Retail Bond. The purpose of this issue was to extend a portion of the Group’s debt for a period of five years. The remainder of the Group’s balance sheet debt is via a syndicated banking facility and bilateral multi-option facility which matures in December 2012.

Primary is currently considering the opportunity to refinance well before maturity of debt in December 2012, so as to take advantage of margins that are more favourable than the current syndicated facility. Primary has received strong interest from its existing syndicate to support this opportunity.

Interest expense increased in line with the increase in market interest rates. Primary has recently taken advantage of market conditions to hedge its syndicated debt to December 2012 at an average rate of 4.25%, excluding bank margin. In addition, the Retail Bond is hedged to its maturity in September 2015 at an all-in rate including margin to bond holders of approximately 8.75%.

## Corporate Costs

Revenues comprise interest earned, profit on disposal of share investments, and dividends from the liquidator of Pan Pharmaceuticals Ltd (“Pan”). In addition, an amount of \$9.38m for net litigation proceeds is also included in corporate revenue representing net proceeds from the Pan Class Action and other legacy litigation.

## Taxation

The effective tax rate on operating earnings for the year was 30%.

## Dividend

With the non-recurring one-off costs being incurred in the first-half of the financial half-year to 31 December 2010, the interim dividend was reduced to 3.0 cents per share fully franked. The final dividend will be 5.0 cents per share fully franked, payable on 10 October 2011.

# Review of operations

For the year ended 30 June 2011

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## Outlook

For the Medical Centre division the next twelve months will see a major focus on the backfilling of GP and other services into the 56 current large-scale centres. Combined with a reduced capital expenditure program on new centre roll-out, the benefits of the large-scale model will be highlighted in FY2012.

In the Pathology division, the roll-out of an expanded collection centre footprint, combined with the scale and efficiency of Primary's large-scale laboratories, has placed Primary in a strong position to grow pathology revenues organically. The roll-out of collection centres has imposed additional costs, but Primary has undertaken the task of resetting its cost base and to return to incremental pathology margin gains going forward.

For the Imaging division, further incremental EBITDA and margin improvements are anticipated to occur as a result of the capital investment and operational improvements made over the past periods.

The Health Technology division will implement its three-year strategic plan to capitalise on, and be a beneficiary of, the upcoming eHealth change in Australia. HCN's software, which connects multiple participants in the healthcare system, gives Primary a unique position to drive outcomes in eHealth. In addition, an extension of current products functionality and enhanced products will help drive continued growth from FY2013 onwards.

Primary is now well positioned to be able to leverage off its extensive footprint and low cost structure base to achieve EBITDA and margin growth in each of its divisions in FY2012, as well as provide payers with better outcomes for their expenditure.

# Directors' Report

## For the year ended 30 June 2011

The Directors of Primary Health Care Limited submit their Directors' Report for the financial year ended 30 June 2011 (referred to as "the year" or "2011") accompanied by the financial report of Primary and the entities it controlled from time to time during the year (referred to as "Primary" or "the Group"). In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

The Directors of Primary during and since the end of the 2011 financial year were:

- Mr. Robert Ferguson
- Dr. Edmund Gregory Bateman
- Mr. Brian Ball
- Dr. Michael Joseph Christie (from 1 July 2010 until 26 November 2010)
- Mr. John David Crawford
- Mr. Stephen Higgs (from 1 July 2010 until 26 November 2010)
- Dr. Paul Jones (from 26 November 2010)
- Dr. Errol Katz (from 26 November 2010)
- Mr. Terence Smith

Details of the qualifications and experience of each of the Directors are set out on pages 9 and 10 of this Report.

### Company Secretaries

Details of the qualifications and experience of each of Mr. Andrew Duff and Ms. Yvette Cachia, the Company Secretaries, are set out on page 10 of this Report.

### Directors' meetings

The number of meetings of the Board and of each Board committee held during the year (while each Director was a Director or committee member) and the number of meetings attended by each Director are set out below.

	Board of Directors		Audit Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
R Ferguson	13	13	2	2	1	1
EG Bateman <sup>^</sup>	13	13	2	2	1	1
B Ball	13	12	2	2	1	1
MJ Christie <sup>**</sup>	5	4	N/A	N/A	N/A	N/A
JD Crawford	13	12	2	2	1	1
S Higgs <sup>^**</sup>	5	4	1	1	N/A	N/A
T Smith	13	13	N/A	N/A	1	1
P Jones <sup>**</sup>	8	8	N/A	N/A	N/A	N/A
E Katz <sup>^**</sup>	8	8	1	1	N/A	N/A

Note: <sup>\*\*</sup> The following individuals did not serve as Directors for the full financial year:

- Dr. Michael Christie and Mr. Stephen Higgs (until 26 November 2010); and
- Dr. Paul Jones and Dr. Errol Katz (from 26 November 2010).

The Audit Committee for the year ended 30 June 2011 comprised: Mr. Brian Ball (Chair), Mr. Rob Ferguson, Mr. John Crawford and Mr. Stephen Higgs (until 26 November 2010). The Nomination and Remuneration Committee for the year ended 30 June 2011 comprised: Mr. Rob Ferguson (Chair), Mr. Brian Ball, Mr. John Crawford, Mr. Stephen Higgs (until 26 November 2010) and Mr. Terence Smith.

<sup>^</sup>Attended Audit Committee meetings by invitation.

Details of committee membership and functions are set out in the Corporate Governance Statement on pages 20 to 27 of this Report.

### Significant change in the state of affairs

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



# Directors' Report

## For the year ended 30 June 2011

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### Principal activities

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

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

As a medical centre operator, the Group provides a range of services and facilities to general practitioners, specialists and other health care providers who conduct their own practices and businesses at its medical centres. Further details of these activities can be found on pages 47 to 49 of this Report.

### 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 1 to 5 of this Report.

### Events after the end of the year

There has not been any matter or circumstance that has arisen since the end of the financial year which, in the opinion of 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

Disclosure of information regarding likely developments in the operations of the Group in future financial years 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.

### Dividends

In respect of the financial year ended 30 June 2010, a final dividend of 10 cents per share (100 per cent franked), was paid to the holders of fully paid ordinary shares on 24 September 2010.

In respect of the financial year ended 30 June 2011:

- an interim dividend of 3 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 11 April 2011; and
- the Directors have approved the payment of a final dividend of 5 cents per share (100% franked), to the holders of fully paid ordinary shares, the record date being 23 September 2011, payable on 10 October 2011.

Primary operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). During the financial year ended 30 June 2011, shares issued pursuant to the DRP and BSP were 5,415,391 (2010: 11,564,922) and 325,070 (2010: 151,803) respectively.

### Rounding off of amounts

Primary is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, or where the amount is \$500 or less, zero in accordance with that Class Order.

# Directors' Report

For the year ended 30 June 2011

## Shares under option

Options are held by both employees and independent contractors of the Group. Details of all un-issued ordinary shares of Primary under option at the date of this Report are set out below. Further details of options are set out in note 7 to the financial statements in this Report. No option holder has any right under the options to participate in any other share issue of Primary or of any other entity.

	Grant date	Expiry date	Exercise price at report date	Number
Issue 101	28 Feb 2003	30 Dec 2013	\$0.43	<b>125,000</b>
Issue 102	25 Jul 2003	30 Dec 2011	\$1.15	-
Issue 103	27 Feb 2004	24 Sep 2012	\$2.10	-
Issue 104	29 Oct 2004	2 Dec 2011	\$3.14	<b>323,500</b>
Issue 7a	16 Feb 2005	7 Mar 2012	\$5.35	<b>200,000</b>
Issue 106	1 Jun 2005	1 Jun 2014	\$5.18	<b>150,000</b>
Issue 107	5 Oct 2005	1 Nov 2013	\$7.51	<b>755,000</b>
Issue 108	13 Feb 2006	13 Feb 2012	\$8.30	<b>30,000</b>
Issue 109	2 May 2006	2 Jun 2013	\$8.99	<b>545,000</b>
Issue 110	31 Oct 2006	13 Dec 2013	\$9.02	<b>562,500</b>
Issue 12	31 Oct 2006	29 Sep 2011	\$9.02	<b>110,000</b>
Issue 111	1 Jun 2007	19 Dec 2012	\$9.35	<b>320,000</b>
Issue 13	1 Jun 2007	1 Jul 2012	\$9.35	<b>30,000</b>
Issue 112	2 Nov 2007	6 Dec 2014	\$9.15	<b>1,125,000</b>
Issue 15	2 Oct 2009	1 Oct 2015	\$5.75	<b>1,261,000</b>
Issue 16	2 Oct 2009	31 Aug 2018	\$5.93	<b>893,000</b>
Issue 113	2 Oct 2009	27 Aug 2017	\$5.75	<b>2,315,000</b>
Issue 114	2 Oct 2009	27 Feb 2019	\$5.93	<b>5,495,000</b>
Issue 17	23 Nov 2009	1 Oct 2015	\$5.93	<b>675,500</b>
Issue 115	25 Jan 2010	29 May 2019	\$6.03	<b>1,425,000</b>
Balance at 30 June 2011				<b>16,340,500</b>

## Shares issued on the exercise of options

The following ordinary shares of Primary were issued during or since the end of the year on the exercise of options. No amounts are unpaid on any of the shares.

		Exercise price at exercise date	Number
During the year	Issue 101	\$0.43	<b>117,000</b>
	Issue 102	\$1.15	<b>10,000</b>
	Issue 103	\$2.10	<b>136,000</b>
Since the end of the year	Issue 101	\$0.43	<b>30,000</b>
	Issue 104	\$3.14	<b>20,000</b>

# Directors' Report

For the year ended 30 June 2011

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## Qualifications, experience and special responsibilities of Directors

### **Robert Ferguson. B.Ec (Hons). Non-executive Chairman (age 66)**

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

Mr. Ferguson is currently Non-executive Chairman of IMF (Australia) Limited, a Director of Moneyswitch Limited and Chairman of GPT Management Holdings Limited. Mr. Ferguson is also Deputy Chair of the Sydney Institute and a Director of the Lowy Institute.

### **Edmund Gregory Bateman. M.B.,B.S. Managing Director (age 69)**

Dr. Bateman was a founding member of the Board as Managing Director and CEO in 1994.

Dr. Bateman has overseen the development of the Primary Group, from the establishment of the first 24 hour medical centre, through to the present day.

### **Brian Ball. B.Ec. Non-executive Director (age 62)**

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

Mr. Ball is part-owner and a Director of the private equity management company, Advent Private Capital Pty Ltd. Mr. Ball joined Advent in 1986 and has been Chairman or a Director on the boards of over 25 investee businesses receiving equity capital from funds managed by the Group as well as the Advent IV and Advent V private equity management funds. Mr. Ball is currently Managing Director of Advent III Private Equity Ltd (unlisted public company - Director since 1999).

### **John David Crawford. ANZIIF (Senior Associate), FAICD. Non-executive Director (age 73)**

Mr. Crawford joined the Board in 1998 as a Non-executive Director. He is a member of the Audit Committee and the Nomination and Remuneration Committee.

Mr. Crawford has had extensive insurance and management experience including as Deputy Group Managing Director of GIO Australia, Chairman of AA-GIO Insurance (NZ) and Freemans Australia and Deputy Chairman of RAA Insurance Ltd and RACQ Insurance Ltd. He is also a former Director of Northern Medical Research Foundation.

### **Paul Francis Jones. M.B., B.S., F.A.M.A. Non-executive Director (age 56)**

Dr. Jones joined the Board as a Non-executive Director in November 2010. He has 30 years' experience in general practice ranging from solo practice, small Group practice and five years experience in Primary Health Care Medical Centres. He originally trained at Repatriation and General Hospital, Concord NSW and subsequently at Calvary Public Hospital, Bruce ACT. Dr. Jones has been a Director and Federal Councillor of the AMA, is past President of AMA ACT and has extensive insights and experience of the health sector via involvement with AMA ACT and Federal AMA, including as a member of Federal AMA Council of General Practice, Divisions of General Practice, his appointment as GP adviser to Calvary Public Hospital and his roles as GPVMO and Director, Medical Education Program of that hospital. He has been chair of ACT GP Workforce Working Group and a member in 2009 of the ACT Health Minister's GP Task Force. In 2010 he was awarded Fellowship of the AMA.

### **Errol Katz. M.B., BS (Hons), LLB (Hons), MPP. Non-executive Director (age 41)**

Dr. Katz joined the Board as a Non-executive Director in November 2010. He has degrees in Medicine and Law from Monash University, and a Master in Public Policy from Harvard University, where he was a Menzies Scholar. Dr. Katz has worked as a doctor at The Alfred hospital, as a strategy consultant at The Boston Consulting Group, and at Visy Industries, where he held strategy, M&A and operational roles. Dr. Katz has previously held board roles at Dental Health Services Victoria and at a number of private companies.

Dr. Katz currently works in private equity and investments. He has roles with Co-Investor Capital Partners, Pratt Holdings, and other private investors. He is currently a director of Southern Health, the largest public hospital network in Victoria. At Southern Health, Dr. Katz chairs the Quality Committee, and is a member of the Nomination and Remuneration Committee and Population Health Committee.

### **Terence Smith. AM MBE RFD ED. Non-executive Director (age 68)**

Mr. Smith joined the Board in May 2008 as a Non-executive Director and is a member of the Nomination and Remuneration Committee. From February 1990 until his retirement on 9 July 2010, Mr. Smith was the Managing Director and Chief Executive Officer of the Hospital Contribution Fund of Australia Limited Group ("HCF"). This included appointments as Managing Director of the Manchester Unity Friendly Society and an Executive Director on the HCF Life Insurance Company Board.

Following his retirement, Mr. Smith was appointed to the HCF and Manchester Unity Boards as a Non-executive Director. His other relevant board experience includes serving as Vice President of the International Federation of Health Plans, President of the Australian Health Insurance Association Limited (from November 2011 to November 2008). He is a former Trustee of the HCF Health and Medical Research Foundation, which he helped establish in

# Directors' Report

## For the year ended 30 June 2011

2001 and is a Trustee for the Royal New South Wales Regiment Trust. Mr. Smith has particular experience in the organisation and delivery of private hospital, medical and ancillary health services, as well as the operations and management of retail and online financial services networks. He was appointed a Member of the Order of Australia for service to the health insurance industry, particularly as a contributor to policy development through executive roles in professional organisations.

**Michael Joseph Christie. M.B.,B.S., F.R.A.C.G.P., Dip.Obs.R.A.C.O.G., B.Sc., M.A., B.A., B.A.Hons.  
Non-executive Director (age 70) (until 26 November 2010)**

Dr. Christie joined the Board in 1994 as an Executive Director and subsequently was appointed a Non-executive Director.

Dr. Christie was Medical Director of the Chatswood Medical Centre until January 2001 and had extensive experience in general practice and the operation of medical centres.

**Stephen Higgs. B.Ec. Non-executive Director (age 64) (until 26 November 2010)**

Mr. Higgs joined the Board in 1999 as a Non-executive Director. He was a member of the Audit Committee and the Nomination and Remuneration Committee.

Mr. Higgs has previous board experience including as Chairman of Orlando Wines Group, Director of Jasco Limited, Leigh Marden Pty Ltd, Rural Press Limited, Freedom Nutritional Products Limited and IPAC Securities Limited. He is currently a Director of Peet Limited (since 2004). Mr. Higgs spent over 20 years in investment banking at UBS and its predecessors, including as head of corporate finance.

### Joint Company Secretaries

**Andrew Duff. ICAEW, ACA, Chief Financial Officer and Company Secretary**

Mr. Duff was appointed to the position of Company Secretary in 1998.

Mr. Duff is a member of the Institute of Chartered Accountants in Australia and also the Institute of Chartered Accountants in England and Wales. Before joining Primary, Mr. Duff worked with a major accounting firm and in commerce.

**Yvette Cachia. B.Ed, MA (Dist.), LLB (Hons 1), ACIS, MAICD, General Manager, People and Governance, and Company Secretary**

Ms. Cachia was appointed to the position of Company Secretary in 2008.

Ms. Cachia is a member of the New South Wales Bar Association, the Australian Institute of Company Directors and an associate member of Chartered Secretaries Australia. Before joining Primary, Ms. Cachia worked as a Company Secretary for a range of ASX listed entities in the technology and mining sectors, in addition to her work as a Barrister.

### Directors' shareholdings

The following table sets out each current Director's relevant interest in shares (directly and indirectly owned) in Primary as at the date of this Report.

	Number of shares
R Ferguson	190,800
E Bateman	35,061,405
B Ball	87,000
J Crawford	79,711
P Jones <sup>^</sup>	10,000
E Katz	-
T Smith	-

<sup>^</sup>Dr. Jones also holds 35,000 unlisted options over ordinary shares.

At the date of their retirement as Directors on 26 November 2010, Dr. Michael Christie had a relevant interest in 3,592,488 shares and Mr. Stephen Higgs had a relevant interest in 606,278 shares respectively.

# Directors' Report

## For the year ended 30 June 2011

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### Indemnification of officers and auditors

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 2001. 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.

Primary has not otherwise, during or since the end of the year, indemnified or agreed to indemnify an Officer or auditor of Primary or of any related body corporate against a liability incurred by such an Officer or auditor.

### Non-audit services

During the year Deloitte Touche Tohmatsu, Primary's auditor, has performed certain other services in addition to their statutory duties. 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 requirement of the Corporations Act 2001.

The Audit Committee reviews the non-audit services performed by the auditor on a case-by-case basis. A new policy was adopted in July 2008 which outlines when they will approve non-audit services by the auditor. Further details are outlined in the Corporate Governance Report on pages 20 to 27 of this Report.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Directors' Report. Details of amounts paid or payable to the auditor of Primary and its related bodies Corporate for audit and non-audit services provided during the year are outlined in note 9 on page 57 of this Report.

# Directors' Report

## For the year ended 30 June 2011

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### Management of safety risks

Primary is committed to ensuring that the health and safety of all employees, sub-contractors and the general public is given the highest priority. The Group's Occupational Health and Safety ("OHS") performance is monitored through regular monthly reports being provided to Senior Executive and quarterly performance reporting to the Board. Health and safety is incorporated into business planning, purchasing and contracting policies and the design of workplaces.

Our key strategic goal continues to be to minimise the number of incidents that result in lost time by employees, and our performance in this area is regularly monitored across all business units.

In order to improve our health and safety performance, resources are allocated to the maintenance and improvement of the OHS management system. During the year the personnel resources devoted to health and safety were increased by 20%. Professional health and safety personnel work very closely with the Employee Representative Committees that 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.

We recognise our responsibilities to contractors. As part of our health and safety procedures, contractors are required to provide evidence that they have OHS management systems in place, and workplace induction is provided to contractors prior to the commencement of any work. We also have monitoring procedures in place for addressing any health and safety issues that may arise.

<b>Key Health and Safety Performance Indicators</b>	<b>2011</b>	<b>2010</b>
Number of WorkCover prosecutions	NIL	NIL
Number of sites subject to OHS Internal Audit	30	21
Number of Incidents Resulting in Lost Time Injuries	110	109

The Group 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 OHS procedures or be areas for improvement. All findings are discussed with auditees before being finalised. The final reports are presented to senior management and include the findings, recommendations to address findings, persons responsible for implementation of recommendations, and timeframes for implementation.

Training in health and safety is provided to staff at induction to ensure that staff perform their duties safely. Further training is provided when specific issues are identified through regular workplace supervision, hazard reporting and regular inspections.

Primary is engaged in continuous improvement to raise health and safety standards. During the year the Group focused on reducing the incidence of needle-stick injuries. This health and safety initiative was designed to reinforce key parts of the OHS management system to all business units in a twelve month cycle.

Primary is committed to undertaking a comprehensive review of the OHS Management System once further details emerge regarding the proposed National OHS laws. This is to ensure conformity to new legislative requirements which are due to commence on 1 January 2012. Any required changes to procedures in the light of new national legislation will be the major initiative planned for 2011/12.

# Directors' Report

For the year ended 30 June 2011

## Remuneration report

The Directors of Primary Health Care Limited present the Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001 for Primary and the consolidated entity for the year ended 30 June 2011.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001. This Remuneration Report forms part of the Directors' Report.

### A. Executive remuneration

The disclosures in this section relate to Primary Group executives as listed in the table below. These individuals are the Key Management Personnel ("KMP") of the Group (other than the Non-executive Directors) – namely the Managing Director and the Senior Executives with authority and responsibility for planning, directing and controlling the activities of the Group during the financial year. This table also represents those Company and Group executives who received the highest remuneration for the 2011 financial year.

#### Senior Executives

Throughout this Remuneration Report, the term Senior Executives is used to refer to:

- the 5 most highly remunerated Company and Group executives; and
- all other executives who fall within the definition of key management personnel of the Group, being those persons with authority and responsibility for planning, directing and controlling the activities of the Group, including the Managing Director.

<b>KMP (2011)</b>	<b>Title</b>
Dr. Edmund Bateman	Managing Director
Mr. James Bateman	Chief Operating Officer & General Manager – Pathology
Mr. Andrew Duff	Chief Financial Officer
Mr. Henry Bateman	General Manager – Medical Centres
Mr. John Frost	Chief Executive Officer – Health Technology
Mr. Carl Adams	General Manager – Diagnostic Imaging
Mr. Matthew Bardsley	Chief Information Officer

<b>KMP (2010)</b>	<b>Title</b>
Dr. Edmund Bateman	Managing Director
Mr. James Bateman	Chief Operating Officer & General Manager – Pathology
Mr. Andrew Duff	Chief Financial Officer
Mr. Henry Bateman	General Manager – Medical Centres
Mr. John Frost	Chief Executive Officer – Health Technology
Mr. Carl Adams	General Manager – Diagnostic Imaging
Mr. Matthew Bardsley	Chief Information Officer
Mr. Stephen James	General Manager – Risk & Insurance

#### Board policy on remuneration

Primary's remuneration structure aims to align long-term incentives for Senior Executives with the delivery of sustainable value to shareholders. This alignment of interests is important in ensuring that Senior Executives are focused on delivering sustainable returns to shareholders, while allowing Primary to attract and retain Senior Executives with the appropriate skills, qualifications and experience. The Board's Nomination and Remuneration Committee reviews the remuneration packages of all Directors and Senior Executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to performance and other relevant factors. Senior Executives may also be eligible to participate in Primary's Employee Option Plan. However, no offer of Options was made to any KMP during the year.

Independent experts are available to the Nomination and Remuneration Committee, if required and where appropriate, to assist with its deliberations. The Nomination and Remuneration Committee has the authority to retain legal, accounting or other advisers, consultants or experts as the Committee 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. No external consultants were engaged to assist the Nomination and Remuneration Committee during the year.

# Directors' Report

For the year ended 30 June 2011

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## Components of Remuneration

Remuneration for Senior Executives has the following components:

### Fixed remuneration

The terms of employment for all Senior Executives contain a fixed remuneration component expressed as a dollar amount. The executive may take this amount in a form agreed with Primary. Fixed remuneration is made up of base salary, company superannuation contributions and benefits, including fringe benefits tax. This amount of remuneration is not "at risk", but is set by reference to appropriate benchmark information for an individual's responsibilities, performance, qualifications, experience and location.

### "At risk" remuneration

#### Option plan

Options may be issued to Senior Executives under Primary's Employee Option Plan at the sole discretion of the Board. Further details of the Plan are included in note 7 to the financial statements. The Board will not consider issuing options to a Senior Executive in the normal course of events until the executive has served a minimum of two years with Primary. The options will normally be exercisable a minimum of three years after date of issue to the Senior Executive.

Primary does not have a policy in relation to Directors' or Senior Executives' ability to hedge options issued.

No offer of Options was made to any individuals defined as KMP in the year.

During the year, no Senior Executive exercised options that were granted to them as part of their compensation.

#### Bonus

No bonuses under any short-term incentive remuneration arrangements were paid in the year ended 30 June 2011 (30 June 2010: \$nil).

## Primary Senior Executive Performance Rights Plan

Primary believes that its remuneration strategy should:

- align with business strategy and the creation of sustainable business and value for shareholders;
- recognise and reward individual performance and accountability for key job goals;
- be appropriately positioned relative to the external market;
- incorporate performance measures which drive incentive outcomes and differentiate between average and high performers;
- clearly differentiate between short and long-term reward levers; and
- implement mandatory deferral arrangements.

At Primary's Annual General Meeting on 26 November 2010, shareholders approved the establishment of a Primary Performance Rights Plan ("PPRP"). The PPRP aims to link the long-term remuneration of Senior Executives with the economic benefit derived by shareholders over a three-year period. The Board is responsible for administering the PPRP in accordance with the PPRP Rules. Participation is not open to Non-executive Directors.

The PPRP will allow the grant of Performance Rights to eligible participants. A performance right is a conditional right to acquire a share, subject to specified service and performance hurdles.



# Directors' Report

## For the year ended 30 June 2011

The Board will determine the applicable performance hurdles 12 months prior to any grant of a performance right. The hurdles may reflect Primary's business plans, targets, budgets and performance objectives. It is proposed that offers of performance rights will be made annually, following announcement of Primary's full-year results. The PPRP Rules provide the Board with flexibility in the design of the annual offer and may include both a short-term incentive ("STI") and long-term incentive ("LTI") component which is linked to specified performance hurdles.

The Board takes a number of factors into account when setting short and long-term incentive hurdles, including market consensus on future earnings, revenue and EBITDA growth and external factors such as the regulatory environment in which Primary operates.

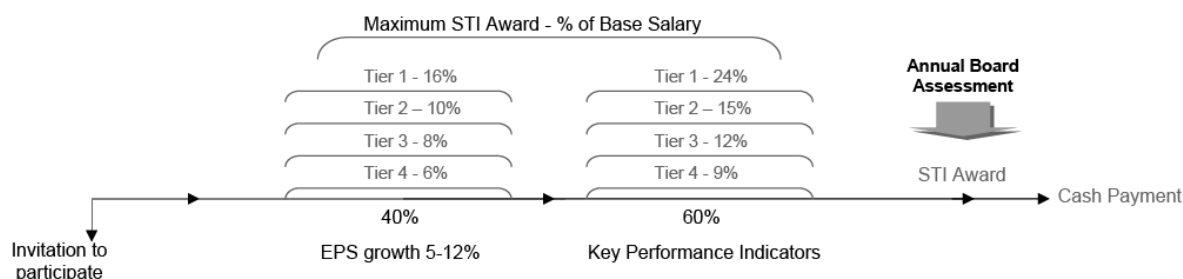
This year, an incremental hurdle based on earnings per share ("EPS") requiring Group EPS growth over the performance period of between 5% and 12% was selected by the Board because of its clear link to shareholder returns and overall strategic objectives.

Both the STI and LTI remuneration components of the PPRP are "at risk". The STI is an annual bonus which is linked to both Group performance and the achievement of certain key performance indicators ("KPI") which are based on a range of financial measures. KPI measures are personal to each participant, but include hurdles such as capital and financial management, strategic financial planning, OH&S and risk management, team leadership and succession planning.

The LTI will be annually reviewed and updated by the Board to reflect the Board's expectation for the following year in order to take account of current market conditions and outlook.

An explanation of the way in which both the short-term and long-term incentive arrangements will be assessed in respect of the year ended 30 June 2011 is as follows:

### Design of short-term incentive ("STI") for the year ended 30 June 2011

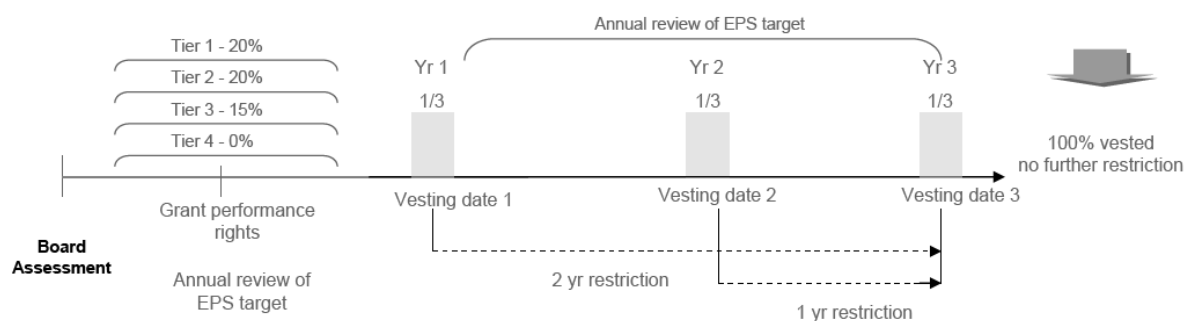


STI arrangements for the year ended 30 June 2011 comprise an at risk incentive payment based on a percentage of a participant's base salary and encompasses both a Group EPS target and individual key performance indicators. A range of key performance indicators are used to assess individual performance and a tiered structure caps the percentage of base salary available to each participant. This approach allows Primary's Senior Executives to move between levels as their roles develop and change. 40% of the short-term incentive is linked to EPS performance with payment of cash increasing in equal increments for each percentage of EPS growth from 5%-12% (up to a cap of 40% of the maximum STI payment). 60% of the short-term incentive relates to the achievement of KPI hurdles as independently assessed by the Board following recommendation from the relevant line manager. No short-term incentive is payable to those participants who leave employment during the assessment year.

# Directors' Report

## For the year ended 30 June 2011

### Design of long-term incentive ("LTI") for the year ended 30 June 2011



LTI arrangements for the year ended 30 June 2011 comprise an at risk incentive based on an EPS target with the initial grant of performance rights linked to equal increments for each percentage of EPS growth from 5%-12%. This EPS target will be reviewed and assessed by the Board each year. Following an initial grant to a participant, up to a maximum of 1/3 of that participant's performance rights will vest each year to a maximum of three years from the date of the grant. Any performance right granted will be based on the volume weighted average price for Primary's listed ordinary shares on the five trading days immediately preceding the date of the first grant. There are no accelerated vesting provisions, save for change of control, scheme, winding up, delisting or on divestment of a business division in which the relevant senior executive participant will continue to be employed. All unvested rights automatically lapse upon termination or date of leaving.

No grant of an STI or LTI to any participant under the PPRP Rules occurred in the period ended 30 June 2011. In respect of the financial year ended 30 June 2011, Primary's Nomination and Remuneration Committee will shortly:

- assess whether eligible participants have met specified performance hurdles for the year ended 30 June 2011;
- make a grant, where appropriate, under the PPRP in respect of applicable STI or LTI arrangements; and
- determine the performance hurdles applicable to the PPRP in respect of the year ended 30 June 2012.

Further information about any grants or awards made under these incentive arrangements will be available in Primary's 2012 Remuneration Report.

### Details of contracts of CEO and Senior Executives

The remuneration and other terms of employment for Senior Executives are not formalised in employment and service agreements. However, each Senior Executive is entitled to leave and notice provisions in accordance with the relevant state or commonwealth legislation.

# Directors' Report

For the year ended 30 June 2011

## Details of remuneration paid

The following tables disclose the total remuneration of:

- the 5 most highly remunerated Company and Group executives; and
  - all other executives who fall within the definition of key management personnel of the Group, being those persons with authority and responsibility for planning, directing and controlling the activities of the Group, including the Managing Director (excluding Non-executive Directors); and
- provides prior year comparison.

<b>2011</b>	<b>Short-term employee benefits Salary/ fees</b>	<b>Post employment benefits Superannuation</b>	<b>Share-based payments Options<sup>1</sup></b>	<b>Total</b>	<b>Options as a % of total</b>
<b>Managing Director</b>					
E Bateman	934,801	15,199	-	<b>950,000</b>	-
<b>Senior Executives</b>					
J Bateman	484,801	15,199	-	<b>500,000</b>	-
A Duff	484,801	15,199	-	<b>500,000</b>	-
H Bateman	404,801	15,199	-	<b>420,000</b>	-
J Frost	366,973	33,028	-	<b>400,000</b>	-
C Adams	344,801	15,199	-	<b>360,000</b>	-
M Bardsley	319,801	15,775	-	<b>335,576</b>	-
<b>Total</b>	<b>3,340,779</b>	<b>124,798</b>	<b>-</b>	<b>3,465,576</b>	<b>-</b>

<b>2010</b>	<b>Short-term employee benefits Salary/ fees</b>	<b>Post- employment benefits Superannuation</b>	<b>Share-based payments Options<sup>1</sup></b>	<b>Total</b>	<b>Options as a % of total</b>
<b>Managing Director</b>					
E Bateman	935,539	14,461	-	<b>950,000</b>	-
<b>Senior Executives</b>					
J Bateman	360,539	14,461	-	<b>375,000</b>	-
A Duff	360,539	14,461	-	<b>375,000</b>	-
H Bateman	295,539	14,461	-	<b>310,000</b>	-
J Frost	302,860	27,140	-	<b>330,000</b>	-
S James*	305,539	14,461	40,807	<b>360,807</b>	11.3
C Adams	195,539	14,461	-	<b>210,000</b>	-
M Bardsley	297,539	14,461	23,640	<b>335,640</b>	7.0
<b>Total</b>	<b>3,053,633</b>	<b>128,367</b>	<b>64,447</b>	<b>3,246,447</b>	<b>2.0</b>

<sup>1</sup> Options are valued at grant date using a binomial option-pricing model. The total fair value of options at grant date is allocated evenly over each of the reporting periods between grant date and vesting date. That portion of the fair value of options granted in any financial year which has been allocated to the current and previous financial year are shown in the tables above.

\* Mr. Stephen James ceased as a Senior Executive of Primary in September 2010.

# Directors' Report

For the year ended 30 June 2011

## B. Non-executive Director Remuneration

### Board policy on Non-executive Director Remuneration

Non-executive Directors receive a fixed fee, which includes superannuation contributions. Fees are not linked to the performance of Primary so that independence and impartiality is maintained. Superannuation contributions are made at a rate of 9%, which satisfies Primary's statutory superannuation obligations.

Non-executive Directors do not accrue separate retirement benefits in addition to statutory superannuation entitlements.

<b>2011</b>	<b>Gross salary</b>	<b>Audit Committee fees</b>	<b>Super contributions</b>	<b>Total</b>
Robert Ferguson <sup>1</sup>	209,801	-	15,199	<b>225,000</b>
Brian Ball	100,000	7,500	-	<b>107,500</b>
John Crawford	95,500	-	4,500	<b>100,000</b>
Michael Christie*	38,230	-	3,440	<b>41,670</b>
Stephen Higgs*	38,230	-	3,440	<b>41,670</b>
Errol Katz <sup>^</sup>	54,560	-	4,910	<b>59,470</b>
Paul Jones <sup>^</sup>	54,560	-	4,910	<b>59,470</b>
Terence Smith	91,743	-	8,257	<b>100,000</b>
<b>Total</b>	<b>682,624</b>	<b>7,500</b>	<b>44,656</b>	<b>734,780</b>

<b>2010</b>	<b>Gross salary</b>	<b>Audit Committee fees</b>	<b>Super contributions</b>	<b>Total</b>
Robert Ferguson <sup>1</sup>	210,539	-	14,461	<b>225,000</b>
Brian Ball	100,000	7,500	-	<b>107,500</b>
John Crawford	95,500	-	4,500	<b>100,000</b>
Michael Christie	91,743	-	8,257	<b>100,000</b>
Stephen Higgs	91,743	-	8,257	<b>100,000</b>
Terence Smith	91,743	-	8,257	<b>100,000</b>
<b>Total</b>	<b>688,768</b>	<b>7,500</b>	<b>43,732</b>	<b>732,500</b>

<sup>1</sup>Mr. Ferguson's remuneration is a fixed fee inclusive of fees for his role as Chairman of the Nomination and Remuneration Committee.

\* Mr. Higgs and Dr. Christie ceased as Non-executive Directors on 26 November 2010.

<sup>^</sup> Dr. Jones and Dr. Katz commenced as Non-executive Directors on 26 November 2010.

# Directors' Report

For the year ended 30 June 2011

## Company strategy and performance

Primary's medical centre management business was formally established in 1985 with one medical centre and Primary has been listed on the ASX since 1998. Primary has since grown to become Australia's largest medical centre operator with a network of Australia-wide large-scale medical centres. The Group now also delivers a broad range of pathology and diagnostic services and is a leading provider of health technology services to medical practitioners.

The table below demonstrates the performance of the Group over the five years ended 30 June 2011.

	Year ended 30 June				
	2011	2010	2009	2008	2007
Profit Attributable to Equity Holders of Primary Health Care Ltd (\$000)	<b>78,285</b>	131,997	108,502	7,862	56,903
Share price at end of year (\$)	<b>3.43</b>	3.56	5.25	5.20	12.68
Interim dividend (cents per share)	<b>3.0</b>	15.0	7.0	22.0	21.0
Final dividend (cents per share)	<b>5.0</b>	10.0	7.0	5.0	24.0
Basic Earnings Per Share (cents)	<b>15.8</b>	27.8	28.7	3.2	32.4

### Notes

- All dividends are franked to 100% at 30% corporate income tax rate.
- Final dividends were declared after the balance date and were therefore paid in the following financial year.

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



**Edmund Bateman - Director**  
Sydney 19 September 2011

# Corporate governance statement

For the year ended 30 June 2011

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## Corporate Governance Statement

The following description of the governance arrangements of Primary Health Care Limited (“**Primary**”) for the year ended 30 June 2011 addresses those principles set out in the 2<sup>nd</sup> edition of the ASX Corporate Governance Principles and Recommendations, including 2010 amendments.

Copies of Primary’s charters and policies are available at Primary’s website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under “Corporate Governance”.

### Principle 1: Lay solid foundations for management and oversight

The Board has adopted a formal Board Charter which outlines the Board’s role and responsibilities, including its relationship with management, in line with good corporate governance principles.

Under the Charter, the Board is responsible for:

- representing and serving the interests of shareholders by overseeing and appraising the strategies, policies and performance of Primary;
- overseeing the financial and human resources which Primary has in place to meet its business objectives and for reviewing the performance of management;
- protecting and optimising Group performance and building sustainable value for shareholders;
- monitoring and reviewing the effectiveness of the occupational health, safety and environment practices of Primary; and
- ensuring that shareholders are kept informed of the Group’s performance and major developments affecting its state of affairs.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person. However, the Board acknowledges that it retains ultimate responsibility for the exercise of such powers under the Corporations Act 2001.

The Board has guidelines for its Directors to address potential conflicts of interest, including a requirement that they declare their interests as required by the Corporations Act 2001 and the ASX Listing Rules.

### *Board Functions*

General functions of the Board include:

- selecting, appointing and evaluating the performance of the Managing Director and determining the remuneration and succession planning associated with that position;
- reviewing the procedures for appointing, selecting and monitoring the performance of Senior Executives and succession planning associated with those roles;
- reviewing and approving Senior Executive’s development of corporate strategy and performance objectives;
- monitoring corporate performance;
- reviewing and monitoring systems of risk management and internal control, as well as ethical and legal compliance; and
- oversight and approval of major capital expenditure, capital management, acquisitions and divestments, to ensure the integrity of financial and other reporting.

A copy of the Board Charter is available on Primary’s website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under “Corporate Governance”.

# Corporate governance statement

For the year ended 30 June 2011

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## Principle 2: Structure the Board to add value

### *Directors' independence*

The size, composition and independence of Primary's Board is determined pursuant to the Board Charter, Primary's Constitution and the ASX Corporate Governance Principles and Recommendations. The Board recognises that independent Directors are important in assuring shareholders that the Board is properly able to exercise independent judgement when meeting its responsibilities under the Charter. In determining whether a Director is independent of management and generally free from any interest and any business or other relationship that could, or could be perceived to materially interfere with the Director's ability to act in the best interests of Primary, the Board considers whether the Director:

- is a Non-executive Director (that is, is not a member of management); and
- is not a substantial shareholder (that is, a person who has a substantial holding as defined by s 9 of the Corporations Act) of Primary or an Officer of, or otherwise associated directly with, a substantial shareholder of Primary; and
- within the last three years has not been employed in an executive capacity by Primary or another entity in the Primary Group; and
- within the last three years has not been a principal of a material professional adviser or a material consultant to Primary or another entity in the Primary Group, or an employee of such an adviser or consultant and materially associated with the service provided; and
- is not a material supplier to, or material customer of, Primary or another entity in the Primary Group, or an Officer of, or otherwise associated directly or indirectly with, such a supplier or customer; and
- has no material contractual relationship with Primary, or another entity in the Primary Group, other than as a Director of Primary.

Having considered the various positions and relationships of each of the Non-executive Directors, and in light of the definition of independence and assessment procedures discussed below, the Board considers all current Non-executive Directors, including the Chairman, to meet the definition of independence as prescribed in the ASX Corporate Governance Principles and Recommendations.

### *Nomination and Remuneration Committee*

The Board recently reviewed its Remuneration Committee function and determined to delegate a range of additional responsibilities concerning nomination issues to a revised Nomination and Remuneration Committee. The Nomination and Remuneration Committee is responsible for making recommendations to the Board about the:

- evaluation of the performance of the Board, its committees and Directors;
- appointment, re-election and succession of Directors;
- remuneration, recruitment, retention and termination policies and procedures for Group Senior Executives; and
- superannuation arrangements.

The composition of the Nomination and Remuneration Committee is reviewed on an annual basis by the Board. The Committee must comprise at least three Non-executive Directors and be chaired by, and comprise a majority of, independent Directors.

A copy of the Nomination and Remuneration Committee Charter is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

### *Board Selection and Membership*

As part of its role in relation to the nomination of Directors, the Board devises criteria for Board membership. The key criteria for the selection of suitable candidates is their capacity to contribute to the ongoing development of the Primary Group, having regard to the Primary Group's business, the candidate's experience and the attributes of existing Board members. Where a vacancy exists on the Board, or where it is considered that the Board would benefit from the services of a new Director with particular skills, suitable candidates are proposed for consideration. Where appropriate, the services of external consultants are engaged.

The Board also considers that its membership should comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The names, skills, experience, expertise and appointment dates of the current Directors of Primary are set out on pages 9 and 10 of this Report.

# Corporate governance statement

For the year ended 30 June 2011

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The Board participates in a confidential, annual evaluation process, involving both self and peer assessment. The evaluation is a useful tool for examining the role, composition, administration and effectiveness of the Board and its committees. Evaluation information is used to build a skills matrix which outlines key issues in relation to Directors' experience, knowledge and demographic details for the Nomination and Remuneration Committee to identify gaps when planning for Board succession.

The Board is also responsible for evaluating the performance of the Managing Director and for monitoring and evaluating the performance of Senior Executives on an annual basis.

## *Board Induction*

All new Board members participate in an induction program designed to assist them to understand the Group's operations. The induction is coordinated by the Company Secretary and includes meetings with key management across all business divisions, visits and practical demonstrations at various sites, information about the Group's history, operations, key stakeholders and corporate governance protocols.

## *Advice and Support*

The Board periodically reviews the independence of each Director in light of the interests disclosed to the Board and has procedures for potential conflicts to be raised.

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice, at Primary's expense, concerning any aspect of Primary's operations or undertakings, in order to fulfil their duties and responsibilities as Directors.

The Company Secretary also plays an important role in supporting Board members by monitoring adherence to policies and procedures and by providing briefing material for the Board's consideration at Board meetings. This information includes regular reports from the Group's Senior Executives to ensure that the Board can discharge its duties effectively.

A copy of the Board Charter is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

## **Principle 3: Promote ethical and responsible decision-making**

### *Code of Conduct*

Primary's Code of Conduct promotes ethical and responsible decision-making throughout the Group. Application of the Code of Conduct is supported through a range of policies and management practices. It encompasses guidance to manage: compliance with law and regulations; corporate integrity and social responsibility; conflicts of interest; the maintenance of information privacy and confidentiality; inside information; improper benefits; misappropriation; and workplace conduct. Issues believed to amount to a breach of the Code are to be reported for investigation to those Senior Executives identified in the Code.

### *Diversity*

Primary's Diversity Policy adopts the ASX Corporate Governance Principles and Recommendations published on 30 June 2010, which require the Boards of ASX-listed entities to approve, monitor and report on diversity at all levels, including Board level, particularly in relation to gender diversity. The Diversity Policy applies to all Directors, employees and contractors of the Primary Group.

Primary recognises the importance of a diverse and inclusive workplace in which all individuals, with a broad range of backgrounds, skills, experience and perspectives can contribute to the success of Primary's operations.

The Board's Nomination and Remuneration Committee is responsible for making recommendations to the Board in relation to:

- (a) initiatives to support and encourage diversity throughout Primary;
- (b) objectives for addressing gender diversity, particularly at Board level, including selection, performance evaluation and succession planning processes; and
- (c) annual assessment of the effectiveness of measurable objectives.



# Corporate governance statement

For the year ended 30 June 2011

When identifying candidates for vacancies on Primary's Board of Directors, the Nomination and Remuneration Committee will ensure that internal and external assessments of potential candidates includes a search for suitably qualified and experienced women. At least one woman will form part of the interview and selection panel for Board appointments to promote equality and gender diversity.

During the financial year, Primary's Board participated in information sessions regarding gender diversity issues and the new ASX requirements.

Primary's Board of Directors is responsible for:

- (a) establishing and monitoring the Primary Group's overall diversity strategy and policy;
- (b) setting and reviewing measurable objectives for specifically addressing gender diversity following recommendations by the Nomination and Remuneration Committee.

The General Manager, People and Governance is responsible for:

- (a) developing, reviewing and maintaining human resource policies and procedures in accordance with the Diversity Policy and, where relevant, in line with measurable objectives for achieving gender diversity; and
- (b) preparing and reporting to the Equal Opportunity for Women in the Workplace Agency and public reporting program, and providing those findings to the Board for its consideration.

When developing and implementing recruitment and selection processes for employees and contractors, Primary will ensure that all candidates are considered and selected on the basis of individual skills, experience and merit, in line with all equal opportunity and anti-discrimination legislation. Primary has a Code of Conduct which promotes respect for others, integrity and fairness in the workplace. All Directors, employees and contractors must adhere to those principles within the framework of the Code of Conduct.

A number of measurable objectives for achieving gender diversity have been set by the Board for 2011-2012.

MEASURABLE OBJECTIVE		RESPONSIBILITY	TIME TARGET	PROGRESS
1	Establish a Diversity Committee with executive management appointee	Nomination and Remuneration Committee	July 2011	Complete
2	Update Primary Group recruitment policies and procedures to reflect the Diversity Policy	Human Resources Managers	December 2011	Commenced
3	Develop a succession plan which aims to increase the representation of women on the Board, subject to the identification of candidates with appropriate skills, qualifications and experience	Nomination and Remuneration Committee	November 2011	Commenced
4	Develop programs to identify women with management potential and implement programs to enhance their skills and experience as a pipeline for future senior/manager and executive roles	General Manager People and Governance with Human Resources Managers	Ongoing	Commenced

Each year, Primary participates in the Equal Opportunity for Women in the Workplace Agency (EOWA) public reporting program. Those reports indicate that Primary comprises a diverse range of employees and contractors and is represented by a high number of women across the Medical Centres, Pathology and Imaging business divisions. Women comprise 79% of Primary's full-time, part-time and casual employees. The proportion of women employees throughout the Group, including Senior Executive positions and women on the Board is outlined below.

# Corporate governance statement

For the year ended 30 June 2011

PRIMARY HEALTH CARE LIMITED	Workplace Gender Profile				
	Occupational Category	% of full-time	% of part-time	% of casual	% of total employees
		Women	Women	Women	Women
Directors	0	N/A	N/A	0	
Executive Managers	27	N/A	N/A	27	
Senior Managers	42	100	N/A	45	
Managers	51	90	N/A	53	
IT Support	49	75	N/A	50	
Senior Health Professionals	22	55	35	36	
Scientists	69	85	73	74	
Lab Assistants/Technicians	72	80	75	76	
Radiology/Ophthalmology Technicians	57	83	65	67	
Nursing/Pathology Collectors	91	95	87	92	
Dental Nurses	93	100	92	93	
Admin & Clerical	81	96	92	89	
Couriers	38	49	32	42	
Ancillary	56	100	67	67	

A copy of the Diversity Policy is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

#### *Policy on Trading in Primary Securities by Employees and Directors*

Primary recognises the importance of establishing and maintaining appropriate compliance standards and procedures to ensure that public confidence in Primary's market integrity is maintained. In accordance with ASX Listing Rule 12.9, Primary's Board adopted a revised Policy on Trading in Primary Securities by Employees and Directors. The Policy is effective from 1 January 2011. It sets out the restrictions and procedures in relation to dealing in any type of Primary securities by employees and Directors, including the prohibition on trading during defined closed periods. The Policy also summarises the law in relation to insider trading.

A copy of the Policy on Trading in Primary Securities by Employees and Directors is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

#### **Principle 4: Safeguard integrity in financial reporting**

Primary has systems of independent review and authorisation to ensure the integrity of its financial reporting. The Audit Committee is comprised of an independent Chair who is not Chairman of the Board and a minimum of three independent Non-executive Directors.

At least one member of the Audit Committee must have past employment experience in finance and accounting and professional certification in accounting, or other equivalent experience or background. Details of the qualifications of the members of the Committee are set out on pages 9 and 10 of this Report. Details of the number of Committee meetings held during the year and members' attendance at those meetings are set out in the Directors' Report on page 6 of this Report.

The members of the Audit Committee for the year ended 30 June 2011 were:

- Mr. B Ball (Chairman);
- Mr. R Ferguson;
- Mr. J Crawford; and
- Mr. S Higgs (until 26 November 2010)

However, at the invitation of the Committee, all Directors may attend Audit Committee meetings.

# Corporate governance statement

For the year ended 30 June 2011

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The Audit Committee Charter outlines the Committee's responsibilities and functions, which include overseeing Primary's:

- relationship with the external auditor and the external audit function generally;
- preparation of the financial statements and reports; and
- financial controls and systems.

The Audit Committee invites the Chief Financial Officer and the external auditor to attend Audit Committee meetings. Other individuals (such as the Managing Director) may, by invitation, also attend meetings of the Audit Committee. Additionally, the Audit Committee meets with and receives reports from the external auditor concerning any matters arising in connection with the performance of its role, including the adequacy of internal controls. The external auditor has been appointed since Primary listed in 1998. Continued appointment is subject to periodic review. The Lead External Audit Engagement Partner is required to rotate at least once every five years.

A copy of the Audit Committee Charter is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

### *Declaration of the Managing Director and Chief Financial Officer*

The Managing Director and Chief Financial Officer provide the Board with written confirmation that:

- the financial reports present a true and fair view, in all material respects, of Primary's financial condition and operational results and are in accordance with relevant accounting standards;
- this statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Primary's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received the above declaration from the Managing Director and Chief Financial Officer for this year.

### **Principle 5: Make timely and balanced disclosure**

Primary has put mechanisms in place to ensure the provision of timely, balanced and accurate disclosure of material information to the market in order to comply with the continuous disclosure obligations under the Corporations Act 2001 and Australian Securities Exchange ("**ASX**") Listing Rules. All investors have equal and timely access to material information. This includes the provision of information about Primary's financial situation, performance, ownership and corporate governance. Primary ensures that shareholders, regulators, ratings agencies and the general investment community have equal and timely access to material information concerning Primary, including its:

- annual and interim profit announcements;
- release of financial reports; and
- investor presentations and briefings.

Primary's Board has established procedures designed to ensure compliance with Primary's continuous disclosure obligations under the ASX Listing Rules. The identification and monitoring of matters which may require disclosure in accordance with Primary's continuous disclosure obligations occurs on a regular basis at meetings attended by Senior Executive. If a matter is identified as potentially requiring disclosure it is immediately referred to the Board by the Managing Director, Chief Financial Officer and Company Secretary.

Company announcements are lodged on both the ASX Company Announcements Platform and Primary's website. Investors can elect to receive key announcements via a link on the website. In addition to recent announcements, Primary's website contains key dates for results releases and shareholder meetings, annual reports, presentations and corporate governance policies.

### **Principle 6: Respect the rights of shareholders**

Primary's shareholder communication strategy has been developed to provide shareholders with accurate, relevant and timely information to enable them to exercise their rights as shareholders in an informed manner and to provide potential investors and other interested stakeholders equal and timely access to information about Primary.

Primary provides a website that includes copies of all information lodged with the ASX as well as other Group information. Shareholders are encouraged to log onto Primary's website to register to receive relevant announcements. In addition, investor briefings and the Annual General Meeting ("**AGM**") provide an open forum for the Board to engage

# Corporate governance statement

For the year ended 30 June 2011

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in direct dialogue with Primary's shareholders and is an opportunity for shareholders to express views, ask questions and respond to Board proposals.

Primary arranges advance notification of shareholder briefings via its investor database and its website. Teleconference arrangements are available for investors to dial-in to group briefings and participate in question and answer sessions. Primary keeps a summary record for internal use of the issues discussed at group briefings with investors, including a record of those present and the time and place of the meeting.

## **Principle 7: Recognise and manage risk**

The Board is responsible for reviewing and approving the Group's risk management systems and internal controls by working in conjunction with management to ensure that the Group continues to develop appropriate and sound systems and strategies for risk management, including the appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The Audit Committee and the Board consider the recommendations and advice of the external auditor and other external advisers about the operational and financial risks facing the Group. The Board ensures that recommendations made by the external auditor and other external advisers are investigated and where necessary, appropriate action is taken to ensure that the Group has an appropriate internal control environment in place to manage the key risks identified.

### *Risk management*

The Board's specific function with respect to risk management is to review and satisfy itself that:

- the Group's ongoing risk management program effectively identifies all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- proper remedial action is undertaken to redress areas of weakness; and
- significant risks are overseen and mitigated.

The Board and the Audit Committee's specific function with respect to compliance is to review and report on the appropriateness of the Group's compliance procedures, including its compliance with:

- relevant laws and regulations including trade practices, occupational health and safety and the environment;
- insider trading laws, continuous disclosure requirements and corporate governance processes under the ASX Listing Rules, Corporations Act 2001, and accounting standards; and
- relevant and appropriate ethical standards.

The identification, monitoring and reporting of risk occurs on a continuous basis at management meetings attended by Senior Management and where necessary is reported through to the Board by the Managing Director and Chief Financial Officer. Management separately reports to the Board as to the effectiveness of the Group's management of its material business risks.

During the year ended 30 June 2011, Primary commissioned an external review of the Group's risk management program to update its framework for reporting risk management issues to the Board. Primary will report further on the revised risk reporting framework in the 2012 Annual Report.

The Group's operations are highly regulated and subject to a range of State and Commonwealth legislation and accreditation requirements. Each of the various Pathology, Medical Centres, Imaging and Health Technology divisions operate under a range of policies which provide guidance in relation to identifying and responding to risk. An incident notification and response procedure is in place throughout the Group. Implementation of these policies is ultimately overseen by Senior Executives within each division.

### *Occupational Health, Safety & Environment (OHS&E)*

The Board has determined that due to its small size, it would not be efficient to maintain a separate Occupational Health, Safety & Environment Committee. The responsibilities generally performed by these Committees are assumed by the Board.

The Board is responsible for:

- monitoring and reviewing all aspects of OHS risks that are relevant to the Group's operations;
- reviewing all significant OHS policies;
- ensuring adequate procedures are in place to support the Group's OHS policies;

# Corporate governance statement

For the year ended 30 June 2011

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- monitoring compliance with the Group's policies and procedures and overseeing incident investigations and receiving and monitoring reports from management regarding the adequacy of performance and compliance; and
- reviewing major initiatives, developments and long-term strategies in the health, safety and environment area.

Further information about Primary's management of risks to safety is provided in the Directors' Report on page 12.

## **Principle 8: Remunerate fairly and responsibly**

A copy of Primary's Nomination and Remuneration Committee Charter is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor Section under "Corporate Governance".

The Nomination and Remuneration Committee consists of a majority of independent Directors, an independent Chair and a minimum of three Non-executive Directors. The current members of the Nomination and Remuneration Committee who were also members for the full or part-year are:

- Mr. R Ferguson (Chairman);
- Mr. B Ball;
- Mr. S Higgs (until 26 November 2010);
- Mr. T Smith; and
- Mr. J Crawford.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of Primary's operations, the Nomination and Remuneration Committee seeks the advice of independent external advisers in connection with the structure of remuneration packages, where appropriate.

The Board's Nomination and Remuneration Committee is responsible for making recommendations to the Board in relation to:

- (a) initiatives to support and encourage diversity throughout Primary;
- (b) objectives for addressing gender diversity, particularly at Board level, including selection, performance evaluation and succession planning processes; and
- (c) annual assessment of the effectiveness of measurable objectives.

A copy of the Nomination and Remuneration Committee Charter is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au) in the Investor section under "Corporate Governance".

Particulars concerning Directors' and Senior Executives' remuneration are set out in the Directors' Report on pages 13 to 18 of this Report.

**Auditor's independence declaration**  
For the year ended 30 June 2011

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**Deloitte.**

Deloitte Touche Tohmatsu  
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The Board of Directors  
Primary Health Care Limited  
30-38 Short Street  
LEICHHARDT NSW 2040

19 September 2011

**Primary Health Care Limited**

Dear Board members

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 2011, 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; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Helen Hamilton-James  
Partner  
Chartered Accountants  
19 September 2011

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Member of Deloitte Touche Tohmatsu Limited



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**Independent Auditor's Report**  
**To the members of Primary Health Care Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of Primary Health Care Limited, which comprises the balance sheet as at 30 June 2011, the income statement, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 31 to 86.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

*Auditor's Independence Declaration*

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

# Independent auditor's report

## To the members of Primary Health Care Limited

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### *Opinion*

In our opinion, the financial report of Primary Health Care Limited is in accordance with the *Corporations Act 2001*, including:

- (a) the financial report of Primary Health Care Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 18 of the Directors' Report for the year ended 30 June 2011. 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.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Primary Health Care Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Helen Hamilton-James

Partner  
Chartered Accountants  
Parramatta, 19 September 2011



## Directors' declaration

For the year ended 30 June 2011

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1. In the opinion of the Directors of Primary Health Care Limited ("Primary") the Directors declare that:
  - (a) there are reasonable grounds to believe that Primary will be able to pay its debts as and when they become due and payable;
  - (b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of Primary and the Group;
  - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
  - (d) there are reasonable grounds to believe that Primary and the controlled entities identified in note 30 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.
2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors.



Edmund Bateman  
Director

Sydney 19 September 2011

# Income statement

For the year ended 30 June 2011

	Note	Consolidated	
		2011 \$000	2010 \$000
Revenue	3	1,322,094	1,296,658
Share of net profits of associates accounted for using the equity method	28	202	160
Employee benefits expense	4	572,149	575,942
Property expenses	5	158,430	144,297
Consumables		133,517	127,127
Other expenses		130,249	118,430
<b>EBITDA</b>		<b>327,951</b>	331,022
Depreciation	11	60,968	55,016
Amortisation	13	21,228	17,901
<b>EBIT</b>		<b>245,755</b>	258,105
Interest expense		87,875	67,835
Amortisation of borrowing costs		9,210	10,006
<b>Profit before tax and non-recurring items</b>		<b>148,670</b>	180,264
Non-recurring items	6	34,700	-
<b>Profit before tax</b>		<b>113,970</b>	180,264
Income tax expense	8(a)	34,207	46,111
<b>Profit for the year</b>		<b>79,763</b>	134,153
Attributable to:			
Equity holders of Primary Health Care Limited		78,285	131,997
Non-controlling interest		1,478	2,156
<b>Profit for the year</b>		<b>79,763</b>	134,153

	Note	2011 Cents per share	2010 Cents per share
<b>Earnings per share (Consolidated)</b>			
<b>Basic earnings per share</b> from continuing operations	21	15.8	27.8
<b>Diluted earnings per share</b> from continuing operations	21	15.8	27.7

Notes to the financial statements are included on pages 38 to 86

# Statement of comprehensive income

For the year ended 30 June 2011

	Consolidated	
	2011	2010
	\$000	\$000
<b>Profit for the year</b>	<b>79,763</b>	134,153
<b>Other comprehensive income</b>		
Exchange (loss) gain on translating foreign operations	(699)	727
Fair value (loss) gain on available-for-sale financial assets	(1,919)	96
Cash flow hedge matured	-	(1,639)
Income tax on other comprehensive income	576	462
<b>Other comprehensive income for the year</b>	<b>(2,042)</b>	(354)
<b>Total comprehensive income for the year</b>	<b>77,721</b>	133,799
Attributable to:		
Equity holders of Primary Health Care Limited	76,243	131,643
Non-controlling interest	1,478	2,156
	<b>77,721</b>	133,799

Notes to the financial statements are included on pages 38 to 86

# Balance sheet

As at 30 June 2011

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>Current assets</b>			
Cash	32(a)	43,252	25,812
Receivables	10(a)	156,701	149,727
Consumables		25,611	24,304
Other financial assets	14(a)	798	1,500
Income tax receivable	8(c)	-	5,218
<b>Total current assets</b>		<b>226,362</b>	<b>206,561</b>
<b>Non-current assets</b>			
Receivables	10(b)	1,957	2,194
Property, plant and equipment	11	397,880	367,726
Goodwill	12	3,081,598	2,999,778
Other intangible assets	13	82,372	75,633
Investments in associates	28	-	1,999
Other financial assets	14(b)	1,168	1,168
Deferred tax asset	8(b)	34,317	41,194
<b>Total non-current assets</b>		<b>3,599,292</b>	<b>3,489,692</b>
<b>Total assets</b>		<b>3,825,654</b>	<b>3,696,253</b>
<b>Current liabilities</b>			
Payables	15(a)	122,503	127,927
Tax liabilities	8(d)	2,220	-
Provisions	16(a)	49,501	42,692
Interest bearing liabilities	18(a)	3,754	4,142
<b>Total current liabilities</b>		<b>177,978</b>	<b>174,761</b>
<b>Non-current liabilities</b>			
Payables	15(b)	4,258	11,430
Provisions	16(b)	25,198	39,152
Interest bearing liabilities	18(b)	1,113,831	1,000,673
<b>Total non-current liabilities</b>		<b>1,143,287</b>	<b>1,051,255</b>
<b>Total liabilities</b>		<b>1,321,265</b>	<b>1,226,016</b>
<b>Net assets</b>		<b>2,504,389</b>	<b>2,470,237</b>
<b>Equity</b>			
Issued capital	20	2,337,758	2,318,578
Reserves	22	7,380	8,370
Retained earnings	23	154,251	138,867
<b>Equity attributable to equity holders</b>		<b>2,499,389</b>	<b>2,465,815</b>
Non-controlling interest	24	5,000	4,422
<b>Total equity</b>		<b>2,504,389</b>	<b>2,470,237</b>

Notes to the financial statements are included on pages 38 to 86

# Statement of changes in equity

For the year ended 30 June 2011

	Issued capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share - based payments reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Consolidated	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2010</b>	<b>2,318,578</b>	<b>271</b>	<b>-</b>	<b>339</b>	<b>7,760</b>	<b>138,867</b>	<b>2,465,815</b>	<b>4,422</b>	<b>2,470,237</b>
Profit for the year	-	-	-	-	-	78,285	<b>78,285</b>	1,478	<b>79,763</b>
Exchange differences arising on translation of foreign operations	-	-	-	(699)	-	-	<b>(699)</b>	-	<b>(699)</b>
Gain/(loss) on investments	-	(1,919)	-	-	-	-	<b>(1,919)</b>	-	<b>(1,919)</b>
Income tax relating to components of other comprehensive income	-	576	-	-	-	-	<b>576</b>	-	<b>576</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>(1,343)</b>	<b>-</b>	<b>(699)</b>	<b>-</b>	<b>78,285</b>	<b>76,243</b>	<b>1,478</b>	<b>77,721</b>
Payment of dividends	-	-	-	-	-	(62,901)	<b>(62,901)</b>	(900)	<b>(63,801)</b>
Share-based payment	-	-	-	-	1,288	-	<b>1,288</b>	-	<b>1,288</b>
Movement in share capital (Note 20)	19,180	-	-	-	(236)	-	<b>18,944</b>	-	<b>18,944</b>
<b>Balance at 30 June 2011</b>	<b>2,337,758</b>	<b>(1,072)</b>	<b>-</b>	<b>(360)</b>	<b>8,812</b>	<b>154,251</b>	<b>2,499,389</b>	<b>5,000</b>	<b>2,504,389</b>
Balance at 1 July 2009	1,995,264	204	1,148	(388)	7,797	109,087	2,113,112	3,592	2,116,704
Profit for the year	-	-	-	-	-	131,997	131,997	2,156	134,153
Exchange differences arising on translation of foreign operations	-	-	-	727	-	-	727	-	727
Gain/(loss) on investments	-	96	-	-	-	-	96	-	96
Cash flow hedge matured	-	-	(1,639)	-	-	-	(1,639)	-	(1,639)
Income tax relating to components of other comprehensive income	-	(29)	491	-	-	-	462	-	462
<b>Total comprehensive income</b>	<b>-</b>	<b>67</b>	<b>(1,148)</b>	<b>727</b>	<b>-</b>	<b>131,997</b>	<b>131,643</b>	<b>2,156</b>	<b>133,799</b>
Payment of dividends	-	-	-	-	-	(102,217)	(102,217)	(1,326)	(103,543)
Share-based payment	-	-	-	-	1,628	-	1,628	-	1,628
Movement in share capital (Note 20)	323,314	-	-	-	(1,664)	-	321,649	-	321,649
<b>Balance at 30 June 2010</b>	<b>2,318,578</b>	<b>271</b>	<b>-</b>	<b>339</b>	<b>7,760</b>	<b>138,867</b>	<b>2,465,815</b>	<b>4,422</b>	<b>2,470,237</b>

Notes to the financial statements are included on pages 38 to 86

# Statement of changes in equity

For the year ended 30 June 2011

<b>Dividends (Consolidated)</b>	<b>2011 Cents per share</b>	2010 Cents per share	<b>2011 \$000</b>	2010 \$000
<b>Recognised amounts</b>				
Final dividend – previous financial year	<b>10.0</b>	7.0	<b>48,376</b>	31,202
Interim dividend – this financial year	<b>3.0</b>	15.0	<b>14,850</b>	71,665
Dividend forgone under the Bonus Share Plan	-	-	<b>(325)</b>	(650)
	<b>13.0</b>	22.0	<b>62,901</b>	102,217
<b>Unrecognised amounts</b>				
Final dividend - this year	<b>5.0</b>	10.0		

All dividends paid were 100% franked at the corporate income tax rate (2011: 30%; 2010: 30%). The record date for determining entitlement to the final dividend for the year ended 30 June 2011 is 23 September 2011 and payable on 10 October 2011. Primary offers a Dividend Reinvestment Plan (“**DRP**”) and a Bonus Share Plan (“**BSP**”). The last date for an election notice for participation in these plans is 23 September 2011.

The Directors have determined that the **DRP** and **BSP** will operate at a 1% discount based on the volume weighted average price (“**VWAP**”) for Primary’s fully paid ordinary shares on the eight day trading period commencing one clear trading day after the record date.

# Cash flow statement

For the year ended 30 June 2011

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		1,356,098	1,329,076
Payments to suppliers and employees		(1,071,489)	(1,004,460)
Payments against non employee provisions	16(c)	(21,747)	(15,994)
Net income tax paid		(24,727)	(28,414)
Interest received		1,275	2,840
Dividends received		1,715	4,121
Interest and other costs of finance paid		(80,713)	(62,126)
<b>Net cash provided by operating activities</b>	32(b)	<b>160,412</b>	<b>225,043</b>
<b>Cash flows from investing activities</b>			
Payment for property plant and equipment		(99,099)	(104,303)
Payment for businesses purchased	32(e)	(84,912)	(78,482)
Payments for subsidiaries	32(e)	(1,538)	(30)
Payment for other intangibles		(20,370)	(12,069)
Payment for investments		(2,439)	(14,860)
Proceeds from the sale of property plant and equipment		10,485	10,772
Proceeds from the sale of investments		1,223	23,145
<b>Net cash (used in) investing activities</b>		<b>(196,650)</b>	<b>(175,827)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		411	273,631
Payments for share issue costs		(312)	(5,546)
Proceeds from borrowings		266,273	997,154
Repayment of borrowings and finance lease liabilities		(159,821)	(1,438,809)
Payment for debt issue costs		(7,545)	(20,944)
Dividends paid		(45,248)	(52,311)
<b>Net cash provided by (used in) financing activities</b>		<b>53,758</b>	<b>(246,825)</b>
<b>Net increase (decrease) increase in cash held</b>		<b>17,520</b>	<b>(197,609)</b>
Cash at the beginning of the year		25,812	223,397
Effect of exchange rate movements on cash held in foreign currencies		(80)	24
<b>Cash at the end of the year</b>	32(a)	<b>43,252</b>	<b>25,812</b>

Notes to the financial statements are included on pages 38 to 86

# Notes to the financial statements

For the year ended 30 June 2011

## 1. Summary of significant accounting policies

Primary Health Care Limited ("Primary") is domiciled in Australia. The consolidated financial statements of Primary for the financial year ended 30 June 2011 comprises Primary and its subsidiaries, together referred to as ("the consolidated entity") or ("the Group") and the consolidated entity's interest in associated and jointly controlled entities.

### **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. The financial statements are the consolidated financial statements of the Group.

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 19 September 2011.

### **Adoption of new and revised standards**

#### **Standards affecting presentation and disclosure of items within the financial statements**

The following new and revised Standards have been adopted in the current year and have affected disclosures within the financial statements (they do not affect the reported results of the Group).

<b>Standard(s)</b>	<b>Impact on disclosures in the financial statements</b>
AASB 2010-3 <i>Amendments to Australian Accounting Standards arising from the Annual Improvement Project-AASB 7: Financial Instruments, Amendments to disclosures</i>	The amendments to AASB 7 <i>Financial Instruments</i> : Disclosure of the amount that best represents an entity's maximum exposure to credit risk is required only if the carrying amount of a financial asset does not reflect such exposure already.  Refer Note 31.

### **Early adoption of Standards**

Certain new accounting standards and interpretations have been published that are not mandatory for the financial year ended 30 June 2011 but are available for early adoption. The reported results and position of the Group is not expected to materially change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.



# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### *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.

Primary is a Company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The principal accounting policies adopted in the preparation of the financial report are set out below. These 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.

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current year accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current year accounting policy and disclosures, where considered material, are referred to separately in the financial statements or notes thereto.

### (a) **Basis of consolidation**

#### *Subsidiaries*

Subsidiaries are those entities controlled by Primary. Control is the power of an entity, directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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 income statement and balance sheet respectively.

Accounts of foreign controlled entities, prepared in accordance with foreign accounting principles are, for consolidation purposes, amended to conform with A-IFRS and the policies adopted by the consolidated entity. Investments in subsidiaries are carried at their cost of acquisition in Primary's financial statements.

#### *Associated entities*

Associates are entities over which the consolidated entity has significant influence, but not control, over the financial and operating policies of the entity. The consolidated entity's share of the total recognised gains and losses of associates is included in the consolidated financial statements on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

When the consolidated entity's share of the losses exceeds its interest in the associate, the consolidated entity's carrying amount of the associate investment is reduced to nil and no further losses are recognised unless the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to "investment in associates" and "share of net profits of associates". Unrealised losses are eliminated in the same way as unrealised gains.

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *Jointly controlled entities*

Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by a contractual agreement, including partnerships. The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statement, on an equity accounted basis, from the date joint control is established until the date joint control ceases. Other reserve movements are recognised directly in consolidated reserves.

Investments in jointly controlled entities are carried at the lower of the equity accounted amount and recoverable amount.

#### *Non-controlling interests in subsidiaries*

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at either fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

### (b) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognised in either profit or loss or in other comprehensive income.

### (c) Foreign currency

#### *Foreign currency transactions*

Foreign currency transactions are translated to functional currency at the foreign exchange rate ruling at the transaction dates. At balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on that date. Exchange differences arising on retranslation are brought to account as exchange gains or losses in the income statement in the period in which the exchange rates change. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated at exchange rates ruling at the date the fair value was determined. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are not retranslated.

#### *Foreign statements of foreign operations*

The results and financial position of foreign operations of controlled entities have been translated to Australian dollars as follows:

- assets and liabilities are translated at the closing rate ruling at balance sheet date;
- income and expenses are translated at rates approximating the foreign exchange rate ruling at the date of the transactions; and
- all foreign exchange differences arising on translation are recognised directly in a separate component of equity.

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (d) Revenue recognition

#### *Rendering of health related services*

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

#### *Government grants*

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which they become receivable.

#### *Software revenue*

Fees and royalties paid for the use of the Group's health technology software are recognised in accordance with the relevant agreement. Where the agreement includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. The expenses in relation to this revenue are also recognised over the period during which the service is performed. All other amounts are typically recognised as revenue immediately.

#### *Dividend and interest revenue*

Dividend revenue from investments is recognised when the Group's right to receive payment has been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### *Rental income*

Revenue from operating leases is recognised in accordance with the Group's accounting policy outlined in note 1(l).

### (e) Share-based payments

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimates of the number of instruments that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to reserves.

### (f) Finance costs

Finance costs comprise: interest expense on finance leases, interest expense on interest-bearing liabilities and the amortisation of costs associated with arranging interest-bearing liabilities.

Finance costs are expensed as incurred, unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use (for example the construction and fit-out of a new Medical Centre). In these circumstances, finance costs are capitalised to the cost of the asset using the weighted average interest rate applicable to the Group's outstanding interest-bearing liabilities during the relevant period.

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (g) Income tax

#### **Current tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### **Deferred tax**

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. 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.

#### **Current and deferred tax for the period**

Current and deferred tax is recognised as an expense or income in the income statement, 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 or excess.

#### **Tax consolidation**

Primary Health Care Limited and all of its Australian wholly-owned controlled entities have implemented the tax consolidation legislation. The head entity, Primary Health Care Limited, and the controlled entities in the tax consolidated Group continue to account for their own deferred tax amounts in relation to temporary differences. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Primary Health Care Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

### (h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

# Notes to the financial statements

For the year ended 30 June 2011

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## Summary of significant accounting policies (continued)

### (i) Consumables

Consumables represent medical and laboratory supplies. They are valued at the lower of cost, on a first in first out basis, and net realisable value.

### (j) Financial assets

The consolidated entity classifies its financial assets into the following categories: loans and receivables, investments and available-for-sale financial assets. The classification of the financial asset depends upon the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost, using the effective interest rate method, less impairment losses. Interest calculated using the effective interest rate method is recognised in the income statement.

#### *Investments*

Investments are measured at fair value, net of transaction costs.

#### *Available-for-sale financial assets*

Certain shares held by the Group are classified as being available-for-sale and are stated at fair value less any impairment. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and presented in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale investments revaluation reserve is included in profit or loss for the period. Dividends on available-for-sale financial assets are recognised in profit and loss when the Group's right to receive the dividends is established.

### (k) Property, plant and equipment

Construction in progress is carried at the lower of initial cost plus capitalised development expenditure and recoverable amount.

Land and buildings, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation 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, or for leasehold improvements, over the period of the lease or its expected useful life, whichever is the shorter. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

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

- |                              |                 |
|------------------------------|-----------------|
| • Buildings on freehold land | 40 years        |
| • Freehold land              | Not depreciated |
| • Plant and equipment        | 3 – 20 years    |
| • Leasehold improvements     | 1 – 40 years    |

### (l) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *Group entity as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (l) Leased assets (continued)

#### **Group entity as lessee**

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (m) Goodwill

Goodwill acquired in a business combination is initially measured at its 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 its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or Groups of CGUs, expected to benefit from the synergies of the business combination. CGUs or Groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or Group of CGUs) is less than the carrying amount of the CGU (or Groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or Groups of CGUs) and then to the other assets of the CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or Groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

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.

### (n) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives. The useful lives used in the calculation of amortisation are disclosed in note 13. The conditions under which development costs can be capitalised are set out on the following page. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

#### **Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (n) Other intangible assets (continued)

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

### (o) Useful lives

The useful life of property, plant and equipment and other intangibles are reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate. Where useful lives are changed, the net written down value of the asset is depreciated or amortised from the date of the change in accordance with the new useful life. Depreciation and amortisation recognised in prior financial years shall not be changed, that is, the change in useful life shall be accounted for on a 'prospective basis'.

### (p) Impairment of assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (q) Non-current assets held for sale and discontinued operations

When the consolidated entity acquires a non-current asset (or disposal Group) exclusively with a view to its subsequent disposal, it classifies the non-current asset (or disposal Group) as held for sale at the acquisition date. If the newly acquired asset is acquired as part of a business combination, it is measured at fair value less costs to sell. Non-current assets and the assets and liabilities of disposal Groups are presented separately on the balance sheet.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale. The single amount disclosed on the face of the profit and loss statement and entitled 'profit for the year from discontinued operations' comprises;

- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss on the disposal of the assets or disposal Group constituting discontinued operations.

### (r) Payables

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.

# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (s) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at 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.

### (t) Interest-bearing liabilities

Interest-bearing liabilities are recorded initially at fair value, net of 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 period of the interest-bearing liability using the effective interest method.

### (u) Provisions

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. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Refer Note 16(d) for further analysis.

### (v) Financial instruments issued by Primary

#### *Debt and equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Transaction costs on the issue of equity instruments*

Transaction costs arising on 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. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### *Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

### (w) Derivatives

The Group uses derivative financial instruments to hedge its interest rate risks, predominantly arising from financing activities. The Group does not enter, hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The gain or loss on derivatives which are not part of a hedging relationship are recognised immediately in the income statement. The method of recognising the gain or loss on derivatives that are part of a hedging transaction depends on the nature of the item being hedged.



# Notes to the financial statements

For the year ended 30 June 2011

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## 1. Summary of significant accounting policies (continued)

### (w) Derivatives (continued)

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The gain or loss relating to the ineffective portion of the derivative financial instrument is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses previously recognised in equity are reclassified into profit or loss in the same period during which the asset acquired or liability assumed affects 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 income statement.

## 2. Segment information (Consolidated)

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

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

**Medical Centres** – This division provides a range of services and facilities to general practitioners, specialists and other health care providers who conduct their own practices and businesses at its medical centres.

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

**Pathology operations** – This division provides pathology services.

**Health Technology** – This division develops, sells and supports health related software products.

**Other** – This division provides corporate support to all other operating segments.

### **Inter-segment sales**

All inter-segment sales are eliminated on consolidation.

**Medical Centres** – This division charges the Group's Imaging and Pathology divisions a fee for use of its facilities and services.

**Health Technology** – This division charges all other Operating Segments a fee for IT research, development and support on behalf of the individual Operating Segment as appropriate.

# Notes to the financial statements

For the year ended 30 June 2011

## 2. Segment information (Consolidated) (continued)

<b>2011</b>	Medical Centres \$000	Pathology \$000	Imaging \$000	Health Technology \$000	Other \$000	<b>Total \$000</b>
<b>Revenue</b>	<b>274,643</b>	<b>740,052</b>	<b>285,026</b>	<b>48,896</b>	<b>12,406</b>	<b>1,361,023</b>
Intersegment sales	(25,770)	-	-	(12,957)	-	<b>(38,727)</b>
<b>Revenue including share of associates</b>	<b>248,873</b>	<b>740,052</b>	<b>285,026</b>	<b>35,939</b>	<b>12,406</b>	<b>1,322,296</b>
<b>EBITDA</b>	<b>150,353</b>	<b>118,639</b>	<b>43,387</b>	<b>19,526</b>	<b>(3,954)</b>	<b>327,951</b>
Depreciation	16,234	15,221	26,822	531	2,160	<b>60,968</b>
Amortisation	6,296	4,210	3,052	6,660	1,010	<b>21,228</b>
<b>EBIT</b>	<b>127,823</b>	<b>99,208</b>	<b>13,513</b>	<b>12,335</b>	<b>(7,124)</b>	<b>245,755</b>
Interest expense						<b>87,875</b>
Amortisation of borrowing costs						<b>9,210</b>
<b>Profit before tax and non recurring items</b>						<b>148,670</b>
Non recurring items	12,331	7,093	9,608	88	5,580	<b>34,700</b>
<b>Profit before tax</b>						<b>113,970</b>
Goodwill	1,115,987	1,545,813	354,707	65,091	-	<b>3,081,598</b>
Segment assets excl. goodwill	242,085	179,638	178,836	40,010	102,487	<b>744,056</b>
<b>Consolidated assets</b>	<b>1,358,072</b>	<b>1,725,451</b>	<b>533,543</b>	<b>106,101</b>	<b>102,487</b>	<b>3,825,654</b>
<b>Consolidated liabilities</b>	<b>18,766</b>	<b>94,256</b>	<b>30,012</b>	<b>4,359</b>	<b>1,173,872</b>	<b>1,321,265</b>
<b>Capital expenditure</b>	<b>35,561</b>	<b>23,735</b>	<b>33,603</b>	<b>2,424</b>	<b>3,776</b>	<b>99,099</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 2. Segment information (Consolidated) (continued)

<b>2010</b>	Medical Centres \$000	Pathology \$000	Imaging \$000	Health Technology \$000	Other \$000	<b>Total \$000</b>
<b>Revenue</b>	<b>259,008</b>	<b>720,650</b>	<b>289,131</b>	<b>46,405</b>	<b>9,836</b>	<b>1,325,030</b>
Intersegment sales	(19,299)	-	-	(8,913)	-	<b>(28,212)</b>
<b>Revenue including share of associates</b>	<b>239,709</b>	<b>720,650</b>	<b>289,131</b>	<b>37,492</b>	<b>9,836</b>	<b>1,296,818</b>
<b>EBITDA</b>	<b>142,417</b>	<b>135,253</b>	<b>42,639</b>	<b>20,049</b>	<b>(9,336)</b>	<b>331,022</b>
Depreciation	14,328	15,475	24,355	626	232	<b>55,016</b>
Amortisation	3,703	2,860	3,257	6,135	1,946	<b>17,901</b>
<b>EBIT</b>	<b>124,386</b>	<b>116,918</b>	<b>15,027</b>	<b>13,288</b>	<b>(11,514)</b>	<b>258,105</b>
Interest expense						<b>67,835</b>
Amortisation of borrowing costs						<b>10,006</b>
<b>Profit before tax</b>						<b>180,264</b>
Segment assets excl. goodwill	221,554	157,033	165,277	25,305	79,394	<b>696,475</b>
Goodwill	1,053,958	1,545,813	334,916	65,091	-	<b>2,999,778</b>
<b>Consolidated assets</b>	<b>1,275,512</b>	<b>1,702,846</b>	<b>500,193</b>	<b>90,396</b>	<b>127,306</b>	<b>3,696,253</b>
<b>Consolidated liabilities</b>	<b>19,863</b>	<b>91,319</b>	<b>42,944</b>	<b>15,976</b>	<b>1,055,914</b>	<b>1,226,016</b>
<b>Capital expenditure</b>	<b>46,744</b>	<b>16,855</b>	<b>36,031</b>	<b>4,673</b>	<b>-</b>	<b>104,303</b>

# Notes to the financial statements

For the year ended 30 June 2011

	<b>2011</b>	<b>Consolidated</b>
<b>3. Revenue</b>	<b>\$000</b>	<b>2010</b>
		<b>\$000</b>
<b>Trading revenue</b>	<b>1,308,980</b>	1,286,822
<b>Other revenue</b>		
Dividends:		
Liquidation distribution received	1,715	3,372
Other entities	10	749
Interest:		
Other entities	1,275	2,840
Net proceeds from litigation	9,376	-
Profit on sale of available-for-sale financial assets	738	2,875
	<b>1,322,094</b>	<b>1,296,658</b>

## **4. Employee benefits expense**

Salaries and wages	458,428	460,235
Superannuation contributions	39,974	38,553
Other statutory employer obligations	72,459	75,526
Share-based payments	1,288	1,628
	<b>572,149</b>	<b>575,942</b>

Other statutory employer contributions principally relate to employee entitlements (being annual leave, sick leave and long service leave), and employee related taxes.

## **5. Property expenses**

Operating leases	126,687	107,254
Other property expenses	31,743	37,043
	<b>158,430</b>	<b>144,297</b>

## **6. Non recurring items**

Lease tails and make good of closed sites	14,700	-
Redundancies and related costs	9,400	-
Assets written off at closed sites	6,700	-
Legal and other costs	3,900	-
	<b>34,700</b>	<b>-</b>

Non-recurring items all relate to one off restructuring costs.

# Notes to the financial statements

For the year ended 30 June 2011

## 7. Share-based payments

### (a) Overview

Primary issues share options to both independent contractors and employees of the Group.

During the 2003 financial year, Primary introduced an Employee Option Plan to formalise the issue of options to employees. Under this Plan, at the discretion of the Board, Primary may grant (without payment) share options to key long-term employees, including executives, allowing them to participate in the future growth of Primary. Each option is convertible into one ordinary share of Primary on payment of the exercise price during the two years following the vesting date, which is generally three years after the option is granted. The exercise price is the weighted average market price for the five days preceding the date the option is granted. The options hold no voting or dividend rights and are not transferable. Primary does not provide any loans or guarantees to enable employees to finance the exercise of their options. Options lapse if the employee ceases to be employed by the Group.

Primary has also issued options to some of its key independent contractors. These options are not issued under a Plan. They are made from time to time at the discretion of the Board. Options issued to independent contractors to date have been issued without payment. They have vesting periods of between one and eight years. Once vested, they are convertible into one ordinary share of Primary on payment of the exercise price. The exercise price is generally the weighted average market price for the five days preceding the date the option is granted. The options hold no voting or dividend rights and are not transferable. Primary does not provide any loans or guarantees to enable independent contractors to finance the exercise of their options. Options lapse if the independent contractor ceases to have a contractual relationship with the Group or if they are not exercised before their expiry date which is generally two years after their vesting date.

A summary of options issued is set out on the following pages. Issues 7 to 17 have been issued to employees and issues 101 to 115 have been issued to independent contractors.

### (b) Expenses arising from share-based payment transactions

No options were issued during the financial year (30 June 2010: 13,187,000).

The following table lists the inputs to the Option valuation model used by the Group in determining the fair value of options issued during the previous financial year:

	Consolidated	
	2011	2010
Dividend yield (%)	-	6.00
Expected volatility (%)	-	15.00
Risk-free interest rate (%)	-	4.35-5.56
Expected life of options (years)	-	2-7
Option exercise price, weighted-average share price at measurement date (\$)	-	5.75-6.03

Exercise prices and expiry dates of options on issue in the year are contained in the tables on the following pages. Expected volatility is based on the historical share price volatility. Given options on issue do not have any market related vesting conditions; the total fair value of options at grant date is expensed on a straight-line basis over each of the reporting periods between grant date and vesting date. That portion of the fair value of options granted in any financial year which has been allocated to the current and previous financial year is shown in the table below.

	Consolidated	
	2011	2010
	\$000	\$000
Options issued to employees	174	212
Options issued to independent contractors	1,114	1,416
	<b>1,288</b>	<b>1,628</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 7. Share-based payments (continued)

### (c) Details of option issues

	Grant date	Value per option at grant date	Expiry date	Exercise price	Earliest date exercisable
Issue 7	16 Feb 2005	1.31	7 Mar 2010	\$5.35	7 Mar 2008
Issue 7a	16 Feb 2005	1.51	7 Mar 2012	\$5.35	7 Mar 2010
Issue 8	1 Apr 2005	1.11	1 Apr 2010	\$5.15	1 Apr 2008
Issue 9	1 Jun 2005	1.12	1 Jun 2010	\$5.18	1 Jun 2008
Issue 10	13 Feb 2006	1.37	13 Feb 2010	\$8.28	13 Feb 2008
Issue 10a	13 Feb 2006	1.59	13 Feb 2011	\$8.28	13 Feb 2009
Issue 12	31 Oct 2006	1.06	29 Sep 2011	\$9.02	29 Sep 2009
Issue 13	1 Jun 2007	1.24	1 Jul 2012	\$9.35	1 July 2010
Issue 15	2 Oct 2009	0.40-0.42	1 Oct 2015	\$5.75	2 Oct 2012
Issue 16	2 Oct 2009	0.41-0.44	31 Aug 2018	\$5.93	1 Oct 2011
Issue 17	23 Nov 2009	0.42-0.45	1 Oct 2015	\$5.93	2 Oct 2012
Issue 101	28 Feb 2003	0.65 – 1.04	30 Dec 2013	\$0.43	23 Feb 2006
Issue 102	25 Jul 2003	0.60 – 1.20	30 Dec 2011	\$1.15	6 Jan 2005
Issue 103	27 Feb 2004	0.58 – 0.92	24 Sep 2012	\$2.10	1 Jul 2005
Issue 104	29 Oct 2004	0.72 – 0.94	2 Dec 2011	\$3.14	1 Oct 2006
Issue 105	11 Apr 2005	1.21 – 1.39	24 Mar 2012	\$5.45	11 Apr 2008
Issue 106	1 Jun 2005	0.97 – 1.36	1 Jun 2014	\$5.18	1 Jun 2007
Issue 107	5 Oct 2005	1.56 – 1.94	1 Nov 2013	\$7.51	2 Oct 2008
Issue 108	13 Feb 2006	1.74	13 Feb 2012	\$8.30	13 Feb 2010
Issue 109	2 May 2006	1.17 – 1.97	2 Jun 2013	\$8.99	6 Jul 2007
Issue 110	31 Oct 2006	1.04 – 1.25	13 Dec 2013	\$9.02	1 Aug 2009
Issue 111	1 Jun 2007	1.10 – 1.39	19 Dec 2012	\$9.35	1 Oct 2009
Issue 112	2 Nov 2007	1.15 – 1.75	6 Dec 2014	\$9.15	1 Nov 2009
Issue 113	2 Oct 2009	0.30-0.43	27 Aug 2017	\$5.75	2 Oct 2010
Issue 114	2 Oct 2009	0.38-0.44	27 Feb 2019	\$5.93	18 Feb 2012
Issue 115	25 Jan 2010	0.42-0.52	29 May 2019	\$6.03	21 Feb 2012

# Notes to the financial statements

For the year ended 30 June 2011

## 7. Share-based payments (continued)

### (d) Movement in number of options outstanding

<b>2011</b>	Opening balance	Granted during year	Exercised during year	Lapsed during year	<b>Closing balance</b>	Vested and exercisable at end of year
Issue 7a	<b>200,000</b>	-	-	-	<b>200,000</b>	200,000
Issue 10	<b>100,000</b>	-	-	(100,000)	-	-
Issue 12	<b>110,000</b>	-	-	-	<b>110,000</b>	110,000
Issue 13	<b>30,000</b>	-	-	-	<b>30,000</b>	-
Issue 15	<b>1,361,000</b>	-	-	(100,000)	<b>1,261,000</b>	-
Issue 16	<b>1,003,000</b>	-	-	(110,000)	<b>893,000</b>	-
Issue 17	<b>715,500</b>	-	-	(40,000)	<b>675,500</b>	-
Issue 101	<b>242,000</b>	-	(117,000)	-	<b>125,000</b>	55,000
Issue 102	<b>10,000</b>	-	(10,000)	-	-	-
Issue 103	<b>211,000</b>	-	(136,000)	(75,000)	-	-
Issue 104	<b>433,500</b>	-	-	(110,000)	<b>323,500</b>	323,500
Issue 106	<b>150,000</b>	-	-	-	<b>150,000</b>	100,000
Issue 107	<b>812,500</b>	-	-	(57,500)	<b>755,000</b>	730,000
Issue 108	<b>30,000</b>	-	-	-	<b>30,000</b>	30,000
Issue 109	<b>575,000</b>	-	-	(30,000)	<b>545,000</b>	545,000
Issue 110	<b>617,500</b>	-	-	(55,000)	<b>562,500</b>	135,000
Issue 111	<b>320,000</b>	-	-	-	<b>320,000</b>	320,000
Issue 112	<b>1,390,000</b>	-	-	(265,000)	<b>1,125,000</b>	125,000
Issue 113	<b>2,635,000</b>	-	-	(320,000)	<b>2,315,000</b>	100,000
Issue 114	<b>5,520,000</b>	-	-	(25,000)	<b>5,495,000</b>	-
Issue 115	<b>1,615,000</b>	-	-	(190,000)	<b>1,425,000</b>	-
	<b>18,081,000</b>	-	<b>(263,000)</b>	<b>(1,477,500)</b>	<b>16,340,500</b>	2,773,500
Weighted average exercise price	<b>\$5.78</b>	N/A	\$1.32	\$5.69	<b>\$5.86</b>	\$7.28

# Notes to the financial statements

For the year ended 30 June 2011

## 7. Shared-based payments (continued)

### (d) Movement in number of options outstanding (continued)

<b>2010</b>	Opening balance	Granted during year	Exercised during year	Lapsed during year	<b>Closing balance</b>	Vested and exercisable at end of year
Issue 7	250,000	-	-	(250,000)	-	-
Issue 7a	200,000	-	-	-	<b>200,000</b>	200,000
Issue 8	365,000	-	(220,000)	(145,000)	-	-
Issue 9	360,000	-	(44,000)	(316,000)	-	-
Issue 10	100,000	-	-	-	<b>100,000</b>	100,000
Issue 10a	100,000	-	-	(100,000)	-	-
Issue 12	110,000	-	-	-	<b>110,000</b>	110,000
Issue 13	30,000	-	-	-	<b>30,000</b>	-
Issue 15	-	1,361,000	-	-	<b>1,361,000</b>	-
Issue 16	-	1,056,000	-	(53,000)	<b>1,003,000</b>	-
Issue 17	-	730,000	-	(14,500)	<b>715,500</b>	-
Issue 101	925,000	-	(643,000)	(40,000)	<b>242,000</b>	122,000
Issue 102	81,000	-	(52,500)	(18,500)	<b>10,000</b>	10,000
Issue 103	570,000	-	(329,000)	(30,000)	<b>211,000</b>	211,000
Issue 104	945,000	-	(461,500)	(50,000)	<b>433,500</b>	433,500
Issue 105	100,000	-	-	(100,000)	-	-
Issue 106	400,000	-	(30,000)	(220,000)	<b>150,000</b>	100,000
Issue 107	985,000	-	-	(172,500)	<b>812,500</b>	515,000
Issue 108	30,000	-	-	-	<b>30,000</b>	30,000
Issue 109	810,000	-	-	(235,000)	<b>575,000</b>	62,500
Issue 110	927,500	-	-	(310,000)	<b>617,500</b>	50,000
Issue 111	385,000	-	-	(65,000)	<b>320,000</b>	40,000
Issue 112	1,550,000	-	-	(160,000)	<b>1,390,000</b>	100,000
Issue 113	-	2,735,000	-	(100,000)	<b>2,635,000</b>	-
Issue 114	-	5,605,000	-	(85,000)	<b>5,520,000</b>	-
Issue 115	-	1,700,000	-	(85,000)	<b>1,615,000</b>	-
	<b>9,223,500</b>	<b>13,187,000</b>	<b>(1,780,000)</b>	<b>(2,549,500)</b>	<b>18,081,000</b>	2,084,000
Weighted average exercise price	\$6.23	\$5.89	\$2.24	\$6.37	<b>\$5.78</b>	\$5.61



# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
8. Tax balances	\$000	\$000
<b>(a) Income tax expense</b>		
The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	113,970	180,264
Income tax calculated at 30% (2010 – 30%)	34,191	54,079
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Acquisition-related costs	1,097	538
Share-based payments expense	387	488
Research and development allowance	(627)	(887)
Minority share of trust income	-	(585)
Investment allowance	-	(528)
Fully franked dividend income	-	(203)
Other	98	(449)
	<b>35,146</b>	<b>52,453</b>
Over provision in prior years	(939)	(6,342)
<b>Income tax expense</b>	<b>34,207</b>	<b>46,111</b>
Comprising:		
Current tax	28,489	36,376
Deferred tax	6,657	16,077
(Over) provision in prior years	(939)	(6,342)
	<b>34,207</b>	<b>46,111</b>
Attributable to:		
Continuing operations	34,207	46,111
Discontinued operations	-	-
	<b>34,207</b>	<b>46,111</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 8. Tax balances (continued)

### (b) Reconciliation of deferred tax balances

<b>2011</b>	1 July 2010 Opening balance	Acquired / (Disposed)	Charged to income	Charged to equity	30 June 2011 Closing balance
<b>Consolidated</b>					
Receivables	(5,595)	-	1,515	-	(4,080)
Consumables	(7,256)	-	(106)	-	(7,362)
Cash flow hedges	(304)	-	141	-	(163)
Available-for-sale investments	1,058	-	2	576	1,636
Provisions	21,017	-	372	-	21,389
Payables	3,129	-	102	-	3,231
Property, plant and equipment	8,040	-	(2,480)	-	5,560
Intangibles	2,191	-	942	-	3,133
Lease liabilities	-	-	779	-	779
Capitalised costs	(6,624)	-	(1,658)	-	(8,282)
Amortisation of share issue expenses	12,427	-	(6,266)	-	6,161
Net temporary differences	28,083	-	(6,657)	576	22,002
Tax losses – revenue	13,111	-	(796)	-	12,315
<b>Deferred tax asset</b>	<b>41,194</b>	<b>-</b>	<b>(7,453)</b>	<b>576</b>	<b>34,317</b>

<b>2010</b>	1 July 2009 Opening balance	Acquired / (Disposed)	Charged to income	Charged to equity	30 June 2010 Closing balance
<b>Consolidated</b>					
Receivables	(6,604)	-	1,009	-	(5,595)
Consumables	(3,258)	-	(3,998)	-	(7,256)
Cash flow hedges	(491)	-	(304)	491	(304)
Available-for-sale investments	1,087	-	-	(29)	1,058
Provisions	27,374	246	(5,902)	-	21,017
Payables	1,613	-	1,516	-	3,129
Property, plant and equipment	5,141	-	2,899	-	8,040
Intangibles	(123)	-	2,314	-	2,191
Capitalised costs	-	-	(6,624)	-	(6,624)
Amortisation of share issue expenses	9,796	-	967	1,664	12,427
Net temporary differences	42,489	246	(16,077)	2,126	28,083
Tax losses – revenue	16,978	-	(3,867)	-	13,111
<b>Deferred tax asset</b>	<b>59,467</b>	<b>246</b>	<b>(19,944)</b>	<b>2,126</b>	<b>41,194</b>

# Notes to the financial statements

For the year ended 30 June 2011

8. Tax balances (continued)	Note	Consolidated	
		2011 \$000	2010 \$000

## (c) Current tax balances

Income tax receivable/(payable) is attributable to:

Entities in the tax consolidated Group	-	4,992
Other	-	226
	-	5,218

## (d) Other current tax liabilities

Franking deficit tax payable	25	2,220	-
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As at 30 June 2011, the consolidated franking account of the Group has a franking deficit of \$2,220,407, which is payable to the Australian Taxation Office as a franking deficit tax ('FDT').

The FDT is not imposed as a tax penalty. It is a payment required to make good the excess franking credits utilised on the fully franked dividend distributions made during the year. The FDT will be offset against the future tax liability of the income tax consolidated Group.

## (e) Tax consolidation legislation

Primary Health Care Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(g). The entities in the tax consolidated Group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Primary Health Care Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Primary Health Care Limited for any current 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 tax consolidation legislation.

The amounts receivable/payable under the tax funding agreement are due upon demand by the head entity, which may be oral or written. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

9. Remuneration of auditor	Consolidated	
	2011 \$	2010 \$
Auditing the financial report	850,000	800,000
Other services:		
Tax consulting	184,500	244,023
Advisory services	144,000	213,203
Other audit services	-	16,158
	1,178,500	1,273,384

# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
10. Receivables	\$000	\$000
<b>Measured at amortised cost</b>		
<b>(a) Current</b>		
Trade receivables	93,841	95,220
Allowance for doubtful debts	(4,400)	(6,125)
	<b>89,441</b>	<b>89,095</b>
Other receivables and prepayments	<b>67,260</b>	60,632
	<b>156,701</b>	<b>149,727</b>
<b>(b) Non-current</b>		
Other	1,957	2,194
	<b>1,957</b>	<b>2,194</b>
<b>(c) Ageing of trade receivables</b>		
Current	51,472	53,275
30-60 days	12,751	14,244
60-90 days	5,202	6,351
90 days +	24,416	21,350
	<b>93,841</b>	<b>95,220</b>
<b>(d) Movement in allowance for doubtful debts</b>		
Balance at beginning of year	6,125	5,823
Provision for the year	2,968	7,399
Doubtful debts (recovered/written off) during the year	(4,693)	(7,097)
	<b>4,400</b>	<b>6,125</b>

The ageing of trade receivables is as follows: current \$51.5m (30 June 2010: \$53.3m); past due \$42.3m (30 June 2010: \$41.9m) of which \$38m has not been impaired (30 June 2010: \$35.8m). 'Past due' is defined under accounting standards to mean any amount outstanding for one or more days after the contractual due date.

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 balance sheet. 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.

In the event of default on the Group's Syndicated Debt Facility (Note 32(d)), the Group has pledged \$93.8m of receivables as security over this liability (30 June 2010: \$95.2m). The amount pledged has decreased from 2010 as it is a floating charge over the Group's receivables.

Further discussion of the credit risk associated with trade receivables is included in note 31.

# Notes to the financial statements

For the year ended 30 June 2011

## 11. Property, plant and equipment (Consolidated)

	Freehold land and buildings \$000	Construction in progress \$000	Leasehold improvements \$000	Plant and equipment \$000	Total \$000
<b>2011</b>					
<b>Net book value</b>					
Opening balance	7,305	20,964	163,324	176,133	<b>367,726</b>
Additions	-	58,027	2,827	43,761	<b>104,615</b>
Capitalised borrowing costs	-	-	2,219	-	<b>2,219</b>
Transfers (note 13)	-	(54,292)	30,999	15,707	<b>(7,586)</b>
Impairment provision utilised	-	-	-	15	<b>15</b>
Disposals	(3,941)	-	(853)	(3,347)	<b>(8,141)</b>
Depreciation expense	(91)	-	(14,982)	(45,895)	<b>(60,968)</b>
Closing balance	3,273	24,699	183,534	186,374	<b>397,880</b>
Cost	4,051	24,699	254,421	434,712	<b>717,883</b>
Accumulated depreciation	(778)	-	(70,887)	(248,192)	<b>(319,857)</b>
Impairment provision	-	-	-	(146)	<b>(146)</b>
Closing balance	3,273	24,699	183,534	186,374	<b>397,880</b>

Borrowing costs relating to qualifying assets were capitalised using an interest rate of 8.0% (30 June 2010: 7.0%).

	Freehold land and buildings \$000	Construction in progress \$000	Leasehold improvements \$000	Plant and equipment \$000	Total \$000
<b>2010</b>					
<b>Net book value</b>					
Opening balance	6,070	28,192	132,516	167,121	<b>333,899</b>
Additions	3,149	23,069	25,549	44,086	<b>95,853</b>
Capitalised borrowing costs	-	-	1,654	-	<b>1,654</b>
Transfers (note 13)	2,892	(30,297)	15,813	9,513	<b>(2,079)</b>
Impairment provision utilised	-	-	686	2,844	<b>3,530</b>
Disposals	(4,562)	-	(827)	(4,750)	<b>(10,139)</b>
Depreciation expense	(244)	-	(12,067)	(42,705)	<b>(55,016)</b>
Foreign exchange differences	-	-	-	24	<b>24</b>
Closing balance	7,305	20,964	163,324	176,133	<b>367,726</b>
Cost	7,992	20,964	219,229	378,591	<b>626,776</b>
Accumulated depreciation	(687)	-	(55,905)	(202,297)	<b>(258,889)</b>
Impairment provision	-	-	-	(161)	<b>(161)</b>
Closing balance	7,305	20,964	163,324	176,133	<b>367,726</b>

# Notes to the financial statements

For the year ended 30 June 2011

	<b>2011</b>	2010
<b>12. Goodwill (Consolidated)</b>	<b>\$000</b>	\$000

## (a) Carrying value

Opening balance	<b>2,999,778</b>	2,892,701
Acquisition of subsidiaries	<b>4,181</b>	30
Acquisition of businesses	<b>77,639</b>	107,047
Closing balance	<b>3,081,598</b>	2,999,778

## (b) Impairment tests

Goodwill is allocated to the Group's cash-generating units (CGUs) by individual Operating Segment as follows:

Medical Centres	<b>1,115,987</b>	1,053,958
Pathology	<b>1,545,813</b>	1,545,813
Imaging	<b>354,707</b>	334,916
Health Technology	<b>65,091</b>	65,091
	<b>3,081,598</b>	2,999,778

The carrying amount of goodwill of each CGU is tested for impairment at each statutory reporting date and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount. The recoverable amount is based on a value in use calculation using cash flow projections based on the 2012 financial year budget. The key assumptions used in determining value in use for 30 June 2011 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses has been calculated assuming long-term growth rates as follows: <ul style="list-style-type: none"> <li>•Medical Centres – 4.0% (30 June 2010: 4.0%).</li> <li>•Pathology – 4.4% (30 June 2010: 4.0%).</li> <li>•Imaging – 4.0% (30 June 2010: 4.0%).</li> <li>•Health Technology – 5.0% (30 June 2010: 5.0%).</li> </ul>
Long-term growth rate	The above long-term growth rate for each of the CGUs does not exceed the long-term average growth rate for the business in which the CGU operates.
Cost of Equity Capital	The discount rate applied to the cash flows of each of the Group's operations is based on the risk free rate for ten year Commonwealth Government Bonds as at 30 June 2011, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group operating company. In making this adjustment, inputs required are the equity markets risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole, giving rise to the Group's Cost of Equity Capital.
Weighted Average Cost of Capital (WACC)	The Group's WACC is calculated with reference to its Cost of Equity Capital, uplifted by the forecast average cost of outstanding debt on the Group's interest bearing liabilities over the measurement period, split by CGU as follows: <ul style="list-style-type: none"> <li>•Medical Centres – 13.67% (30 June 2010: 13.6%).</li> <li>•Pathology – 13.31% (30 June 2010: 13.2%).</li> <li>•Imaging – 13.31% (30 June 2010: 13.2%).</li> <li>•Health Technology – 16.66% (30 June 2010: 16.5%).</li> </ul>

# Notes to the financial statements

For the year ended 30 June 2011

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## 12. Goodwill (Consolidated) (continued)

### Other key assumptions used

Based on a five year cash flow projection model, terminal growth rates for each of the CGUs are consistent with long-term growth rates assumed.

### Sensitivity analysis

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

The Group is satisfied that all the assumptions on which the recoverable amounts are based are fair and reasonable, and that currently overall there are no reasonably known changes to these assumptions that would cause the aggregate carrying amount to exceed the aggregate recoverable amount of any of the Group's CGUs as at 30 June 2011.

# Notes to the financial statements

For the year ended 30 June 2011

## 13. Other intangibles (Consolidated)

The following estimated useful lives used in the calculation of amortisation:

Copyright in computer software programs	9.5 years
Capitalised development costs	9 years
Operating rights and licences	3-15 years
Computer software	3-10 years

Details of the Group's other intangible assets are shown in the tables below.

	Copyright in computer software programs \$000	Capitalised development cost \$000	Operating rights and licences \$000	Computer software \$000	Total \$000
<b>2011</b>					
<b>Net book value</b>					
Opening balance	21,289	11,476	29,974	12,894	<b>75,633</b>
Additions	-	9,207	10,742	432	<b>20,381</b>
Transfer from construction in progress (note 11)	-	-	-	7,586	<b>7,586</b>
Amortisation expense	(4,896)	(1,819)	(10,449)	(4,064)	<b>(21,228)</b>
Closing balance	16,393	18,864	30,267	16,848	<b>82,372</b>
Cost	46,500	22,977	58,570	50,686	<b>178,733</b>
Accumulated amortisation	(30,107)	(4,113)	(28,303)	(33,838)	<b>(96,361)</b>
Closing Balance	16,393	18,864	30,267	16,848	<b>82,372</b>

	Copyright in computer software programs \$000	Capitalised development cost \$000	Operating rights and licences \$000	Computer software \$000	Total \$000
<b>2010</b>					
<b>Net book value</b>					
Opening balance	26,185	6,350	33,098	9,673	<b>75,306</b>
Disposals and write offs	-	-	(12)	(46)	<b>(58)</b>
Additions	-	6,401	3,622	6,184	<b>16,207</b>
Transfer from construction in progress (note 11)	-	-	-	2,079	<b>2,079</b>
Amortisation expense	(4,896)	(1,275)	(6,734)	(4,996)	<b>(17,901)</b>
Closing balance	21,289	11,476	29,974	12,894	<b>75,633</b>
Cost	46,500	13,770	47,828	42,668	<b>150,766</b>
Accumulated amortisation	(25,211)	(2,294)	(17,854)	(29,774)	<b>(75,133)</b>
Closing Balance	21,289	11,476	29,974	12,894	<b>75,633</b>



# Notes to the financial statements

For the year ended 30 June 2011

	<b>Consolidated</b>	
	<b>2011</b>	2010
	<b>\$000</b>	\$000
<b>14. Other financial assets</b>		
<b>Measured at fair value</b>		
<b>(a) Current</b>		
Quoted shares	<b>798</b>	1,500
<b>(b) Non-current</b>		
Other investments	<b>1,168</b>	1,168
<b>15. Payables</b>		
<b>(a) Current</b>		
Trade payables and accruals	<b>78,825</b>	88,234
Payables and accruals relating to acquisitions	<b>17,816</b>	16,519
Accrued interest	<b>15,912</b>	8,750
Deferred revenue	<b>9,950</b>	14,424
	<b>122,503</b>	127,927
<b>(b) Non-current</b>		
Trade payables and accruals	<b>652</b>	46
Payables and accruals relating to acquisitions	<b>3,606</b>	11,384
	<b>4,258</b>	11,430
<b>16. Provisions</b>		
<b>(a) Current</b>		
Provision for employee benefits (note 17(a))	<b>37,259</b>	36,155
Self-insurance provision	<b>4,630</b>	4,228
Restructuring and onerous contract provision	<b>7,612</b>	2,309
	<b>49,501</b>	42,692
<b>(b) Non-current</b>		
Provision for employee benefits (note 17(a))	<b>22,812</b>	34,530
Self-insurance provision	<b>2,386</b>	4,622
	<b>25,198</b>	39,152

# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
<b>16. Provisions (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>(c) Movements in non employee provisions</b>		
<b>Self-insurance provision</b>		
Opening balance	8,850	12,585
Provisions raised during the year	3,109	1,522
Payments	(4,943)	(5,257)
Closing balance	7,016	8,850
<b>Restructuring and onerous contract provision</b>		
Opening balance	2,309	16,322
Increase through acquisitions	-	794
Unwinding present value interest cost	28	70
Provisions raised / (written back) during the year	22,079	(4,140)
Payments	(16,804)	(10,737)
Closing balance	7,612	2,309

## (d) Nature and purpose of provisions

### (i) Employee benefit provisions

Employee benefit provisions include annual leave and long service leave liabilities. The annual leave provision is measured on an undiscounted basis. The long service leave provision is recognised using the projected unit credit method. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government Bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

### (ii) Self insurance provision

The provision relates primarily to self-insured workers' compensation liabilities under the licensing conditions of the respective state authorities of Victoria, New South Wales, South Australia and Western Australia. The provision for workers' compensation is based upon an estimate of future claims liabilities.

### (iii) Restructuring and onerous contract provision

The provision relates to expenditure connected to restructuring the entity's operations.

# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
<b>17. Employee benefits</b>	<b>\$000</b>	<b>\$000</b>

## (a) Provisions

The aggregate employee benefit and related on-cost liability recognised and included in the financial statements is as follows:

Provision for employee benefits – current (note 16(a))	37,259	36,155
Provision for employee benefits – non-current (note 16(b))	22,812	34,530
	<b>60,071</b>	<b>70,685</b>

## (b) Employee numbers

Number of employees at end of financial year	10,671	10,481
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## (c) Superannuation commitments

Primary does not maintain a superannuation fund.

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 superannuation funds on behalf of their employee.

	Consolidated	
	2011	2010
<b>18. Interest bearing liabilities</b>	<b>\$000</b>	<b>\$000</b>

### Measured at amortised cost

#### (a) Current

Gross bank loan	2,141	1,962
Finance lease liabilities (note 19(a))	1,613	2,180
	<b>3,754</b>	<b>4,142</b>

#### (b) Non-current

Gross bank loan	973,327	1,012,742
Retail Bonds	152,274	-
Finance lease liabilities (note 19(a))	4,115	5,481
	<b>1,129,716</b>	<b>1,018,223</b>
Unamortised borrowing costs	<b>(15,885)</b>	<b>(17,550)</b>
	<b>1,113,831</b>	<b>1,000,673</b>

All interest bearing liabilities are secured by mortgages over the Group's freehold land and buildings, mortgages of lease and consent to charge over the Group's leasehold properties and registered debenture charges over the Group's assets. A Deed of Cross Guarantee is in place (refer note 30).

On 28 September 2010 Primary issued 1,522,740 Primary Bonds Series A with an issue price of \$100 per bond. Primary Bond Series A feature a floating interest rate, based on a Market Rate, as determined on the first business day of each quarterly interest period, plus a fixed margin of 4.00%. The maturity date of the Primary Bond Series A is 28 September 2015 and the securities rank behind Primary's secured bank debt. Primary Bonds Series A trade on the ASX under the ASX Code PRYHA.

# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
<b>19. Commitments for expenditure</b>	<b>\$000</b>	<b>\$000</b>

## (a) Finance lease commitments

Commitments in relation to finance leases are payable as follows:

Within one year	2,253	3,298
Later than 1 year but not later than 5 years	4,036	5,592
Minimum future lease payments	6,289	8,890
Less future finance charges	(561)	(1,229)
Present value of minimum lease payments	5,728	7,661
Included in the financial statements as:		
Current (note 18(a))	1,613	2,180
Non-current (note 18(b))	4,115	5,481
	5,728	7,661

## (b) 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	102,417	88,803
Later than 1 year but not later than 5 years	186,799	173,871
Later than 5 years	27,506	37,198
	316,722	299,872

## (c) 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	8,089	11,995
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## (d) Operating and finance lease terms

Operating leases relate to medical centres and pathology sites with lease terms of between one and twenty years. Most of these leases have options to extend. The Group does not have an option to purchase the property at the expiry of the lease term.

Finance leases are secured by the assets leased and relate to medical and pathology equipment with lease terms of up to five years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease.

## (e) Investments

At balance date no capital commitments exist in respect of interests in partnerships, investments or joint ventures contracted that are not provided for the financial report.

# Notes to the financial statements

For the year ended 30 June 2011

20. Issued capital (Company & Consolidated)	2011	2010	2011	2010
	No. of shares 000's	No. of shares 000's	\$000	\$000
Opening balance	491,366	430,748	2,338,443	2,015,129
Exercise of share options	313	1,780	411	3,877
Transfer from share-based payments reserve	-	-	236	1,664
Shares issued via Dividend Reinvestment Plan	5,416	11,565	18,554	51,881
Shares issued via Bonus Share Plan	325	152	-	-
Share placement	-	39,605	-	230,000
Other share issues	-	7,516	-	39,753
Capital raising/share issue costs, net of tax	-	-	(21)	(3,861)
<b>Closing balance – Company</b>	<b>497,420</b>	<b>491,366</b>	<b>2,357,623</b>	<b>2,338,443</b>
Reverse acquisition adjustment (1994)			(19,865)	(19,865)
<b>Closing balance – Consolidated</b>			<b>2,337,758</b>	<b>2,318,578</b>

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

## 21. Earnings per share

Earnings	Consolidated	
	2011 \$000	2010 \$000
Profit attributable to equity holders of Primary Health Care Limited	78,285	131,997

The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the income statement as follows:

Weighted average number of shares	2011 000's	2010 000's
The weighted average number of shares used in the calculation of basic earnings per share	494,991	475,116
Potential ordinary shares	244	714
The weighted average number of shares used in the calculation of diluted earnings per share	495,235	475,830

# Notes to the financial statements

For the year ended 30 June 2011

	Note	Consolidated	
		2011 \$000	2010 \$000
<b>22. Reserves</b>			
Foreign currency translation reserve	22(a)	(360)	339
Available-for-sale investments revaluation reserve	22(b)	(1,072)	271
Share-based payments reserve	22(c)	8,812	7,760
		<b>7,380</b>	<b>8,370</b>

## (a) Foreign currency translation reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

## (b) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a re-valued financial asset is sold, that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a re-valued financial asset is impaired, that portion of the reserve which relates to that financial asset is recognised in profit or loss.

## (c) Share-based payments reserve

The share-based payments reserve arises on the grant of share options to senior employees under the employee share option plan and independent contractors. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 7 to the financial statements.

	Consolidated	
	2011 \$000	2010 \$000
<b>23. Retained earnings</b>		
Opening balance	138,867	109,087
Profit attributable to equity holders	78,285	131,997
Dividends paid	(62,901)	(102,217)
Closing balance	154,251	138,867

## 24. Non-controlling interests

Opening balance	4,422	3,592
Share of profit for the year	1,478	2,156
Dividends paid	(900)	(1,326)
Closing balance	5,000	4,422

# Notes to the financial statements

For the year ended 30 June 2011

	Consolidated	
	2011	2010
<b>25. Franking account</b>	<b>\$000</b>	<b>\$000</b>
Opening (credit) balance as at 1 July	(5,306)	(25,119)
Tax paid during the financial year	(24,727)	(28,414)
Franking credits attached to dividends paid:		
- Interim	6,378	30,961
- Final	21,064	13,372
Other movements	4,811	3,894
Closing deficit (credit) balance as at 30 June	2,220	(5,306)

## 26. Related party disclosures

### (a) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

### (b) Equity interests in related entities

Details of interests in associates are shown in note 28. Details of interests in controlled entities are shown note 29.

### Transactions within the wholly-owned Group

Loans between entities in the wholly-owned 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 and the rendering of IT services occurred between entities within the wholly-owned Group at commercial rates.

# Notes to the financial statements

For the year ended 30 June 2011

## 27. Key management personnel disclosures

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

### Equity holdings and transactions

#### (a) Shareholdings

The number of shares in Primary held during the financial year and as at the end of the financial year by each of the key management personnel, including their personally-related entities, is set out below.

<b>2011</b>	Opening balance	Received during the year on the exercise of options	Other changes during the year	<b>Closing balance</b>
R Ferguson	190,800	-	-	<b>190,800</b>
B Ball	87,000	-	-	<b>87,000</b>
EG Bateman	33,275,985	-	1,785,420	<b>35,061,405</b>
MJ Christie*	3,592,488	-	-	<b>3,592,488</b>
JD Crawford	76,772	-	2,939	<b>79,711</b>
S Higgs*	606,278	-	-	<b>606,278</b>
P Jones <sup>^</sup>	10,000	-	-	<b>10,000</b>
E Katz <sup>^</sup>	-	-	-	-
T Smith	-	-	-	-
H Bateman	151,133	-	(21,649)	<b>129,484</b>
J Bateman	132,436	-	(94,500)	<b>37,936</b>
A Duff	4,620	-	21,150	<b>25,770</b>
J Frost	10,757	-	412	<b>11,169</b>
M Bardsley	10,886	-	-	<b>10,886</b>
C Adams	-	-	-	-

\* - MJ Christie and S Higgs closing balance to 26 November 2010

<sup>^</sup> - P Jones and E Katz opening balance from 26 November 2010.

<b>2010</b>	Opening balance	Received during the year on the exercise of options	Other changes during the year	<b>Closing balance</b>
R Ferguson	-	-	190,800	<b>190,800</b>
B Ball	87,000	-	-	<b>87,000</b>
EG Bateman	46,923,194	-	(13,647,209)	<b>33,275,985</b>
MJ Christie	3,592,488	-	-	<b>3,592,488</b>
JD Crawford	70,421	-	6,351	<b>76,772</b>
S Higgs	812,464	-	(206,186)	<b>606,278</b>
T Smith	-	-	-	-
H Bateman	198,133	-	(47,000)	<b>151,133</b>
J Bateman	314,186	-	(181,750)	<b>132,436</b>
A Duff	104,620	200,000	(300,000)	<b>4,620</b>
J Frost	10,261	-	496	<b>10,757</b>
S James	70,540	-	71,322	<b>141,862</b>
M Bardsley	7,886	-	3,000	<b>10,886</b>
C Adams	-	-	-	-



# Notes to the financial statements

For the year ended 30 June 2011

## 27. Key management personnel disclosures (continued)

### (b) Key management personnel compensation

The key management personnel compensation included in Employee Benefits expense (refer Income Statement) is as follows:

	Consolidated	
	2011	2010
	\$000	\$000
Short-term employee benefits	4,031	3,718
Post-employment benefits	169	216
Share-based payments	-	64
	<b>4,200</b>	<b>3,998</b>

Details of the above amounts by individual key management personnel can be found in the Remuneration Report.

### (c) Loans to key management personnel

No loans have been made to any of the key management personnel.

### (d) 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 economic entity, 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 entity would have adopted if dealing with the Director or their personally-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Director or executive; and
- are trivial or domestic in nature.

# Notes to the financial statements

For the year ended 30 June 2011

## 28. Investments in associates (Consolidated)

Name of associated Entity	Country of Incorporation	Principal Activity	Ownership Interest	
			2011 %	2010 %
Campsie Nuclear Medicine Pty Ltd	Australia	Imaging services	-	50
North Coast Nuclear Medicine (QLD) Pty Ltd	Australia	Imaging services	77	40

Campsie Nuclear Medicine Pty Ltd was deregistered during the financial year.

During the financial year the Group obtained control of North Coast Nuclear Medicine (QLD) Pty Ltd ("NCNM") by acquiring an additional 37% of the shares and voting interests in Primary. Further information in regard to this acquisition is disclosed in note 32(e). The equity accounted results below only include the results of NCNM up until the date control was obtained. The entity was consolidated from that date.

Reconciliation of movements in investments in associates during the financial year is as follows:

	2011 \$000	2010 \$000
Opening balance	1,999	2,073
Share of profit of associates*	202	160
	<b>2,201</b>	<b>2,233</b>
Dividends	(128)	(179)
Write-down during the year	-	(55)
Loss of significant influence	(2,073)	-
	-	1,999

The Group's share of profits and losses, assets and liabilities of associates is:

	2011 \$000	2010 \$000
<b>Income statement</b>		
Revenues of associates	3,081	4,601
Profit of associates	335	663
<b>Share of profit as disclosed for associates</b>	<b>202</b>	<b>160</b>
<b>Balance sheet</b>		
Assets	-	6,475
Liabilities	-	(1,767)
Net assets	-	4,708
<b>Investments in associates accounted for using the equity method</b>	<b>-</b>	<b>1,999</b>

\* Note: Share of profit of associates only include the Group's equity accounted share of the results of NCNM up until the date control was obtained. This entity was consolidated by the Group from the date control was obtained.

# Notes to the financial statements

For the year ended 30 June 2011

29. Consolidated Entities	Country of Incorporation	Equity Holding	
		2011 %	2010 %
<b>(a) Controlled entities</b>			
Primary Health Care Limited	Australia		
Idameneo (No. 123) Pty Ltd	Australia	100	100
Artlu Unit Trust	Australia	100	100
Digital Diagnostic Imaging Pty Ltd (a)	Australia	72	72
Austrials Pty Ltd	Australia	100	100
John R Elder Pty Ltd	Australia	100	100
Idameneo (No. 124) Pty Ltd	Australia	100	100
PHC (No. 01) Pty Limited	Australia	100	100
PHC Nominees Pty Ltd	Australia	100	100
Former SDS Pty Limited	Australia	100	100
Sydney Diagnostic Services Unit Trust	Australia	100	100
Abbott Pathology Pty Ltd	Australia	100	100
PMI Health Education Pty Ltd (d)	Australia	100	-
Health Communication Network Limited	Australia	100	100
Amokka Java Pty Limited	Australia	100	100
Phoenix Medical Publishing Pty Ltd	Australia	100	100
Transport Security Insurance (Pte) Limited	Singapore	100	100
Idameneo (No. 789) Ltd	Australia	100	100
Saftsai Pty Ltd	Australia	100	100
Aksertel Pty Ltd	Australia	100	100
Onosas Pty Ltd	Australia	100	100
MGSF Pty Ltd	Australia	100	100
PSCP Holdings Pty Ltd	Australia	100	100
Wellness Holdings Pty Ltd	Australia	100	100
PHC Healthcare Holdings Pty Ltd	Australia	100	100
PHC Medical Centre Holdings Pty Ltd	Australia	100	100
Sidameneo (No. 456) Pty Ltd	Australia	100	100
Larches Pty Ltd	Australia	100	100
Kelldale Pty Ltd	Australia	100	100
Pacific Medical Centres Pty Ltd	Australia	100	100
PHC Pathology Holdings Pty Ltd	Australia	100	100
Symbion Pathology (India) Private Limited	India	100	100
AME Medical Services Pty Ltd	Australia	100	100
Gippsland Pathology Service Pty Ltd	Australia	100	100
Jandale Pty Ltd	Australia	100	100
Integrated Health Care Pty Ltd	Australia	100	100
Queensland Specialist Services Pty Ltd	Australia	100	100
PHC Pathology Holdings Asia Pty Ltd	Australia	100	100
Specialist Diagnostic Services Pty Limited	Australia	100	100
Queensland Medical Services Pty Ltd	Australia	100	100
PHC Diagnostic Imaging Holdings Pty Ltd	Australia	100	100
Norcoray Pty Ltd	Australia	50	50
Norcoray Unit Trust (c)	Australia	50	50
North Coast Nuclear Medicine (QLD) Pty Ltd (g)	Australia	77	40
Orana Services Pty Ltd	Australia	50	50
Orana Services Trust (c)	Australia	50	50
Brystow Pty Ltd	Australia	100	100
Healthcare Imaging Services (WA) 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 Pty Ltd	Australia	100	100
Campbelltown MRI Pty Ltd	Australia	100	100
Queensland Diagnostic Imaging Pty Ltd	Australia	100	100
Western Suburbs Ultra-sound & radiology Services Trust (f)	Australia	-	100

# Notes to the financial statements

For the year ended 30 June 2011

(a) <b>Controlled entities (continued)</b>	Country of Incorporation	Equity Holding	
		2011 %	2010 %
Symbion (New Zealand) Limited (f)	New Zealand	-	100
The Ward Corporation Pty Ltd	Australia	100	100
Symbion International BV	Netherlands	100	100
Mayne Nickless Incorporated	United States	100	100
Symbion Holdings (New Zealand) Ltd (f)	New Zealand	-	100
Symbion Holdings (UK) Ltd	United Kingdom	100	100
Idameneo UK Ltd (2010: Security Express Ltd)	United Kingdom	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
PHC Employee Share Acquisition Plan Pty Ltd	Australia	100	100
Symbion Employee Share Acquisition Plan Trust	Australia	100	100
Senior Executive Short-term Incentive Plan Trust	Australia	100	100
Symbion Executive Short-term Incentive Plan Trust	Australia	100	100
PHC Finance (Australia) Pty Ltd (2009: Symbion Finance (Australia) Pty Ltd)	Australia	100	100
Sumbrella Pty Ltd	Australia	100	100

- a) The Group purchased the remaining 28% of equity in Digital Diagnostic Imaging Pty Ltd on 1 July 2011 (equity holding effective 1 July 2011: 100%)
- b) All entities are domiciled in their country of incorporation. No controlled entities carry on material business operations other than in their country of incorporation.
- c) These Australian controlled entities are required to prepare audited financial reports.
- d) Incorporated during the financial year.
- e) Other than the controlled entities referred to in c) and d) above, no other Australian controlled entities are required to prepare financial reports 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 30); or
  - They are small proprietary companies; or
  - Their trust deeds do not specify these requirements.
- f) Liquidated or in liquidation as at 30 June 2011.
- g) The Group increased its holding in North Coast Nuclear Medicine (QLD) Pty Ltd to 77% on 16 May 2011.

# Notes to the financial statements

For the year ended 30 June 2011

## 30. 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 dated 23 June 2008

Primary Health Care Limited entered into a Deed of Cross Guarantee with certain of its wholly-owned subsidiaries on 23 June 2008. The holding entity and subsidiaries, subject to the Deed of Cross Guarantee as at 30 June 2011, are the same as the prior financial year and as follows:

Primary Health Care Limited (holding entity)  
Idameneo (No.789) Limited  
Health Communication Network Limited  
Healthcare Imaging Services (Victoria) Pty Limited  
Healthcare Imaging Services Pty Limited  
Idameneo (No.123) Pty Limited  
Queensland Diagnostic Imaging Pty Limited  
Queensland Medical Services Pty Limited  
Specialist Diagnostic Services Pty Limited  
PHC Diagnostic Imaging Holdings Pty Limited  
PHC Healthcare Holdings Pty Limited  
PHC Medical Centre Holdings Pty Limited  
Sidameneo (No.456) Pty Limited  
PHC Pathology Holdings Pty Limited

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 2011 are set out below.

	30 June 2011	30 June 2010
<b>Income statements</b>	<b>\$000</b>	<b>\$000</b>
Profit for the year before income tax	113,768	177,692
Income tax expense	34,207	45,023
<b>Profit for the year after tax</b>	<b>79,561</b>	<b>132,669</b>
Accumulated profits at the beginning of the year	168,281	138,479
Dividends recognised during the year	(63,701)	(102,867)
<b>Accumulated profits at the end of the year</b>	<b>184,141</b>	<b>168,281</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 30. Deed of Cross Guarantee (continued)

	30 June 2011	30 June 2010
	\$000	\$000
<b>Balance sheet</b>		
<b>Current assets</b>		
Cash	43,088	24,864
Receivables	138,267	145,803
Income tax receivable	-	5,218
Other financial assets	798	1,500
Consumables	25,611	24,304
<b>Total current assets</b>	<b>207,764</b>	<b>201,689</b>
<b>Non-current assets</b>		
Receivables	1,920	2,153
Property, plant and equipment	396,959	366,886
Goodwill	3,081,393	2,999,573
Other intangible assets	76,712	74,725
Investments in associates accounted for using the equity method	-	1,999
Other financial assets	1,168	1,168
Deferred tax asset	35,743	40,986
<b>Total non-current assets</b>	<b>3,593,895</b>	<b>3,487,490</b>
<b>Total assets</b>	<b>3,801,659</b>	<b>3,689,179</b>
<b>Current liabilities</b>		
Payables	111,279	113,503
Deferred revenue	9,950	14,424
Provisions	48,698	42,692
Interest bearing liabilities	3,754	4,142
<b>Total current liabilities</b>	<b>173,681</b>	<b>174,761</b>
<b>Non-current liabilities</b>		
Payables	3,986	11,430
Provisions	25,118	39,152
Interest bearing liabilities	1,113,831	1,000,673
<b>Total non-current liabilities</b>	<b>1,142,935</b>	<b>1,051,255</b>
<b>Total liabilities</b>	<b>1,316,616</b>	<b>1,226,016</b>
<b>Net assets</b>	<b>2,485,043</b>	<b>2,463,163</b>
<b>Equity</b>		
Issued Capital	2,335,244	2,316,159
Reserves	10,239	8,370
Retained earnings	139,560	138,634
<b>Total equity</b>	<b>2,485,043</b>	<b>2,463,163</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 31. Financial risk management

### (a) 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 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.

### (b) 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 from its trade receivables due from external customers. The carrying amount of the Group's trade receivables, representing the Group's maximum exposure to credit risk as at the reporting date by segment is as follows:

<b>Segment</b>	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$000</b>	<b>\$000</b>
Pathology	<b>50,074</b>	51,768
Imaging	<b>18,760</b>	23,053
Medical Centres	<b>10,645</b>	12,706
Health Technology	<b>14,344</b>	7,648
Corporate	<b>18</b>	45
	<b>93,841</b>	95,220

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. Geographically there is no concentration of credit risk.

The ageing of the Group's trade receivables and an analysis of the Group's provision for doubtful debts is provided in note 10.

# Notes to the financial statements

For the year ended 30 June 2011

## 31. Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2011	Contractual cash flows				
	Carrying Amount \$000	Total \$000	Less than 1 Year \$000	1 to 5 Years \$000	> 5 Years \$000
<b>Consolidated</b>					
Gross bank loan	975,468	1,093,892	77,647	1,014,292	1,953
Retail Bonds	152,274	215,274	14,000	201,274	-
Accrued interest	15,912	15,912	15,912	-	-
Finance lease liabilities	5,728	6,289	2,253	4,036	-
Trade payables and accruals	79,477	79,477	78,825	652	-
Payables relating to acquisitions	21,422	21,422	17,816	3,606	-
	1,250,281	1,432,266	206,453	1,223,860	1,953

The repayment of contractual cash flows due in the period less than one year from 30 June 2011 will be met through the ordinary working capital cycle of the Group, including the collection of trade receivables (30 June 2011: \$93.8m).

2010	Contractual cash flows				
	Carrying Amount \$000	Total \$000	Less than 1 Year \$000	1 to 5 Years \$000	> 5 Years \$000
<b>Consolidated</b>					
Gross bank loan	1,014,704	1,213,391	81,026	1,127,063	5,301
Accrued interest	8,750	8,750	8,750	-	-
Finance lease liabilities	7,661	8,890	3,298	5,592	-
Trade payables and accruals	88,280	88,280	88,234	46	-
Payables relating to acquisitions	27,903	27,903	16,519	11,384	-
	1,147,298	1,327,257	196,526	1,125,430	5,301



# Notes to the financial statements

For the year ended 30 June 2011

## 31. Financial risk management (continued)

### (d) Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. When considered appropriate, the risk is managed by the Group by the use of interest rate swap contracts.

The following table details the Group's exposure to interest rate risk as at 30 June 2011.

2011	Fixed Interest Rate						Non-Interest Bearing \$000	Total \$000
	Average Interest Rate %	Variable Interest Rate \$000	Less than 1 Year \$000	1 To 5 Years \$000	> 5 Years \$000			
<b>Consolidated</b>								
<b>Financial assets</b>								
Cash	4.55	43,252	-	-	-	-	<b>43,252</b>	
Receivables	-	-	-	-	-	158,658	<b>158,658</b>	
Investments	-	-	-	-	-	1,966	<b>1,966</b>	
<b>Financial liabilities</b>								
Payables	-	-	-	-	-	(116,811)	<b>(116,811)</b>	
Finance leases	11.81	-	(1,613)	(4,115)	-	-	<b>(5,728)</b>	
Gross bank loan	7.96	(956,775)	(3,348)	(13,392)	(1,953)	-	<b>(975,468)</b>	
Retail Bonds	8.96	(152,274)	-	-	-	-	<b>(152,274)</b>	
		(1,065,797)	(4,961)	(17,507)	(1,953)	43,813	<b>(1,046,405)</b>	

The following table details the Group's exposure to interest rate risk as at 30 June 2010.

2010	Fixed Interest Rate						Non-Interest Bearing \$000	Total \$000
	Average Interest Rate %	Variable Interest Rate \$000	Less than 1 Year \$000	1 To 5 Years \$000	> 5 Years \$000			
<b>Consolidated</b>								
<b>Financial assets</b>								
Cash	4.45	25,812	-	-	-	-	<b>25,812</b>	
Receivables	-	-	-	-	-	157,139	<b>157,139</b>	
Investments	-	-	-	-	-	2,668	<b>2,668</b>	
<b>Financial liabilities</b>								
Payables	-	-	-	-	-	(124,933)	<b>(124,933)</b>	
Finance leases	11.81	-	(2,180)	(5,481)	-	-	<b>(7,661)</b>	
Gross bank loan	7.79	(980,450)	(1,962)	(9,809)	(4,933)	-	<b>(997,154)</b>	
		(954,638)	(4,142)	(15,290)	(4,933)	34,874	<b>(944,129)</b>	

# Notes to the financial statements

For the year ended 30 June 2011

## 31. Financial risk management (continued)

### (d) Interest rate risk (continued)

#### *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. For the year ended 30 June 2011, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the impact on profit and loss would have been as follows:

	Profit (Loss)	
	50bp increase	50bp decrease
	\$000	\$000
<b>Consolidated</b>		
30 June 2011 – variable rate instruments	<b>(5,632)</b>	<b>5,632</b>
30 June 2010 – variable rate instruments	(2,666)	2,666

### (e) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values. The following financial assets are remeasured at fair value at reporting date on the following basis:

#### *Available-for-sale financial assets*

Certain investments held by the Group are classified as being available-for-sale and are stated at fair value less any impairment. The fair value of the Group's available-for-sale investments is calculated using closing bid prices of securities held, that are listed on the Australian Securities Exchange.

### (f) Other

#### *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.

#### *Price risk*

Primary and the Group are exposed to equity securities price risk. This arises from investments held by Primary. A sensitivity analysis has not been performed on the price risk as this is not considered material.

### (g) Capital management

The Group manages its capital to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20, 22 and 23. The Group's policy is to borrow centrally; using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

# Notes to the financial statements

For the year ended 30 June 2011

	<b>Consolidated</b>	
	<b>2011</b>	2010
<b>32. Notes to the cash flow statement</b>	<b>\$000</b>	<b>\$000</b>

## (a) Reconciliation of cash

For the purposes of the cash flow statement includes cash on hand and in banks. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash	<b>43,252</b>	25,812
------	---------------	--------

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

Profit attributable to equity holders	<b>78,285</b>	131,997
Depreciation of plant and equipment	<b>60,968</b>	55,016
Amortisation of intangibles	<b>21,228</b>	17,901
Net (profit) loss on sale of property plant and equipment	<b>(4,249)</b>	295
Loss on sale of intangibles	-	51
Share of net profit of associates	<b>(202)</b>	(160)
(Profit) on sale of investments	<b>(785)</b>	(2,875)
Non-controlling interest	<b>1,478</b>	2,156
Increase (decrease) in:		
Trade payables and accruals	<b>(1,912)</b>	7,692
Provisions	<b>(3,538)</b>	(23,407)
Deferred revenue	<b>(4,474)</b>	4,169
Tax balances	<b>11,864</b>	16,777
Share option reserve	<b>1,288</b>	1,628
Decrease (increase) in:		
Consumables	<b>(1,307)</b>	(2,588)
Receivables and prepayments	<b>(7,442)</b>	5,827
Deferred borrowing costs	<b>9,210</b>	10,564
<b>Net cash provided by operating activities</b>	<b>160,412</b>	225,043

## (c) Non cash investing and financing

During the financial year 5,415,730 (2010: 11,564,922) and 325,116 (2010: 151,803) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively. These transactions are not reflected in the cash flow statement.

# Notes to the financial statements

For the year ended 30 June 2011

## 32. Notes to the cash flow statement (continued)

	2011	Consolidated
(d) Financing facilities	\$000	2010 \$000
<b>Current</b>		
Secured Bilateral multi-option facility		
Amount used	-	-
Amount unused	-	25,000
Secured Loan facility		
Amount used	2,141	1,962
Amount unused	-	-
	<b>2,141</b>	<b>26,962</b>
<b>Non Current</b>		
Secured Syndicated debt facility		
Amount used	885,726	998,000
Amount unused	38,137	2,000
Secured Bilateral multi-option facility		
Amount used	75,000	-
Amount unused	-	50,000
Secured Loan facility		
Amount used	12,601	14,742
Amount unused	5,350	3,296
	<b>1,016,814</b>	<b>1,068,038</b>
	<b>1,018,955</b>	<b>1,095,000</b>

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

# Notes to the financial statements

For the year ended 30 June 2011

## 32. Notes to the cash flow statement (continued)

### (e) Businesses and subsidiaries acquired

#### (i) Health-related practices

Members of the Group continued to acquire health-related practices to expand their existing businesses.

It is not practical to show the impact of the individual medical practices acquired during the year on the Group's results for the year (as required by AASB 3 (2008)), as it is impractical to allocate the costs associated with the Group's multi-disciplinary medical centres to the individual medical practices acquired.

#### (ii) Businesses and subsidiaries acquired

On 16 May 2011 the Group obtained control of North Coast Nuclear Medicine (QLD) Pty Ltd. At the date of obtaining control (losing significant influence), the previously held interest of 40% was remeasured to fair value as follows:

<b>Remeasurement of previously held equity interest to fair value</b>	<b>\$000</b>
Fair value of previously held interest at acquisition date	1,808
Carrying value of equity accounted investment as at acquisition date	(2,073)
<b>Loss on remeasurement to fair value</b>	<b>(265)</b>

This loss on remeasurement to fair value has been included in Other Expenses in the Income Statement.

The total purchase consideration transferred for the investment in North Coast Nuclear Medicine (QLD) Pty Limited is as follows:

<b>Purchase consideration</b>	<b>\$000</b>
Cash paid	1,538
Deferred consideration	600
Fair value of investment as at acquisition date	1,808
	<b>3,946</b>

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

<b>Identifiable assets acquired and liabilities assumed</b>	<b>\$000</b>
Cash and cash equivalents	143
Receivables	181
Property, plant and equipment	2,050
Payables	(115)
Interest bearing liabilities	(1,919)
Total net identifiable (liabilities) acquired	340
Add: goodwill arising on acquisition	4,646
Less: non-controlling interests	(1,040)
	<b>3,946</b>

At 30 June 2011, the net identifiable assets remain provisional, as permitted by Australian Accounting Standards, whilst the integration of North Coast Nuclear Medicine (Qld) Pty Limited into the Group is finalised.

# Notes to the financial statements

For the year ended 30 June 2011

## 32. Notes to the cash flow statement (continued)

### (e) Businesses and subsidiaries acquired (continued)

#### (iii) Summary

	<b>Consolidated</b>	
	<b>2011</b>	2010
	<b>\$000</b>	\$000
The net outflow of cash to acquire businesses (excluding North Coast Nuclear Medicine (QLD) Pty Limited) is reconciled as follows:		
Fair value of identifiable net assets (liabilities) acquired		
Health-related practices	-	-
Pathology businesses	-	(1,116)
Imaging practices	<b>792</b>	(750)
	<b>792</b>	(1,866)
Goodwill		
Health-related practices	<b>62,029</b>	59,232
Pathology businesses	-	37,863
Imaging practices	<b>15,610</b>	9,953
	<b>77,639</b>	107,077
Consideration		
Health-related practices	<b>62,029</b>	59,232
Pathology businesses	-	38,978
Imaging practices	<b>16,402</b>	10,703
	<b>78,431</b>	108,943
Payables and accruals relating to acquisitions		
Opening balance	<b>(27,903)</b>	(1,661)
(Increase)/decrease during the year	<b>6,481</b>	(26,242)
Closing balance	<b>(21,422)</b>	(27,903)
Cash paid for acquisitions	<b>84,912</b>	78,512
Less cash acquired	-	-
Net payments for the purchase of businesses	<b>84,912</b>	78,512

# Notes to the financial statements

For the year ended 30 June 2011

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## 33. Subsequent events

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

## 34. Contingent assets

There were no contingent assets as at 30 June 2011.

	Consolidated	
	2011	2010
<b>35. Contingent liabilities</b>	<b>\$000</b>	<b>\$000</b>
Treasury bank guarantees		
Statutory requirement	17,897	29,438
Other	5,011	3,084
	<b>22,908</b>	<b>32,522</b>

# Notes to the financial statements

For the year ended 30 June 2011

## 36. Parent entity disclosures

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

	2011	2010
	\$000	\$000
<b>Balance Sheet</b>		
<b>Assets</b>		
Current	53	6,524
Non-current	3,863,618	3,325,267
<b>Total assets</b>	<b>3,863,671</b>	<b>3,331,791</b>
<b>Liabilities</b>		
Current	18,053	10,712
Non-current	1,536,046	995,192
<b>Total liabilities</b>	<b>1,554,099</b>	<b>1,005,904</b>
<b>Net assets</b>	<b>2,309,572</b>	<b>2,325,887</b>
<b>Equity</b>		
Issued Capital	2,357,623	2,338,443
Retained earnings	(56,863)	(20,587)
Available-for-sale investments revaluation reserve	-	271
Share-based payments reserve	8,812	7,760
<b>Total equity</b>	<b>2,309,572</b>	<b>2,325,887</b>

The Statement of Comprehensive Income of Primary Health Care Limited for the financial year is as follows

	2011	2010
	\$000	\$000
<b>Statement of comprehensive income</b>		
Profit for the year	26,624	38,576
Other comprehensive income	-	(1,081)
<b>Total comprehensive income</b>	<b>26,624</b>	<b>37,495</b>

## 37. Primary Bonds Series A

Information in respect of Key Financial Disclosures in respect of the ASIC Class Order [CO 10/321] and clause 10.2 of the Trust Deed, for the year ended 30 June 2011 is provided below:

- (i) Primary Bonds Series A rank: equally amongst themselves and at least equally with all other unsubordinated and unsecured debt obligations of Primary, other than those obligations mandatorily preferred by law; ahead of ordinary equity of Primary and of Primary's obligations that are expressed to be subordinated to Primary Bonds Series A; and behind Primary's secured debt (Secured Syndicated Loan Facility, Secured Working Capital Facilities A, B and C and Secured Loan Facility);
- (ii) Primary has not materially breached any loan covenants or debt obligations (whether or not relating to Primary Bonds Series A) during the period covered by this Report; and
- (iii) Key financial ratios are set out below. A description of these ratios and how they are calculated is included in section 3.1 of the Primary Bonds Series A Second Part Prospectus.

<b>Primary Bonds Series A</b>	<b>30 June 2011</b>	31 Dec 2010
Gearing Ratio	<b>0.53</b>	0.53
Interest Cover Ratio	<b>3.79</b>	3.88
Working Capital Ratio	<b>1.27</b>	1.09



# Shareholder and corporate Information

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## 1. Stock exchange listing and domicile

Primary Health Care Limited is a listed public company, incorporated and operating in Australia.

The shares of Primary Health Care Limited are listed by ASX Ltd on the Australian Securities Exchange and trade under the code "PRY".

## 2. 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.

## 3. Corporate information

### Auditor

Deloitte Touche Tohmatsu  
10 Smith Street  
PARRAMATTA NSW 2150

### Company's registered office

Level 1/30-38 Short Street  
LEICHHARDT NSW 2040  
02 9561 3300

### Share Registry

Computershare Investor Services Pty Ltd  
Level 4, 60 Carrington Street  
SYDNEY NSW 2000  
GPO Box 7045  
SYDNEY NSW 1115

# Shareholder and corporate information

For the year ended 30 June 2011

## 4. Number of holders of equity instruments as at 5 September 2011

### *Ordinary Share Capital*

497,469,803 fully paid ordinary shares are held by 9,553 individual shareholders.

All issued ordinary shares carry one vote per share.

16,050,500 unlisted share options have been granted to 989 persons.

Share options do not carry any voting rights.

## 5. Distribution of shareholders as at 5 September 2011

Number of shares held	Individual shareholders
1 - 1,000	3,004
1,001 - 5,000	4,566
5,001 - 10,000	1,181
10,001 - 100,000	710
100,001 - 999,999,999	92
100,000,000 and over	0
<b>Total</b>	<b>9,553</b>

824 shareholders hold less than a marketable parcel of shares.

## 6. Top 20 shareholders as at 5 September 2011

Name	Number of fully paid ordinary shares	% of Total
HSBC Custody Nominees (Australia) Limited	120,469,895	24.22
National Nominees Limited	92,392,636	18.57
J P Morgan Nominees Australia Limited	57,795,953	11.62
UBS Nominees Pty Ltd (PB SEG Account)	40,043,945	8.05
Citicorp Nominees Pty Ltd	29,807,625	5.99
Idameneo (No. 122) Pty Ltd	24,863,434	5.13
Cogent Nominees Pty Limited	14,794,180	2.97
J P Morgan Nominees Australia Limited (Cash Income Account)	7,527,464	1.51
Australian Reward Investment Alliance	7,242,222	1.46
Dr. Edmund Bateman & Mrs. Belinda Bateman	6,294,778	1.27
RBC Dexia Investor Services Australia Nominees Pty Limited	6,016,252	1.21
UBS Nominees Pty Ltd	5,858,287	1.18
Tasman Asset Management Ltd (Tyndall Australian Share Whole Account)	5,057,725	1.02
Queensland Investment Corporation	3,882,485	0.78
AMP Life Limited	4,444,428	0.69
Abtourk Syd 391 Pty Ltd	2,976,074	0.60
Argo Investments Limited	2,823,947	0.57
Charado Pty Ltd	2,555,053	0.51
Rinrim Pty Limited	1,962,657	0.39
<b>Total</b>	<b>436,809,040</b>	<b>87.74</b>

# Shareholder and corporate information

For the year ended 30 June 2011

## 7. Substantial shareholders

Ordinary Shareholders	Number of fully paid ordinary shares	% of total issued capital as at the date of each notice
Harris Associates L.P.	52,761,000	10.6%
Maple-Brown Abbott Limited	51,522,859	10.4%
Schroder Investment Management Australia Ltd	51,092,672	10.3%
Caledonia Investments Pty Ltd	45,372,191	9.1%
EG Bateman and related entities	39,310,941	7.9%
BNP Paribas Investment Partners (Australia) Pty Ltd	31,001,441	6.2%
National Australia Bank Limited and its associated entities	30,223,421	6.1%
Dimensional Fund Advisors	24,944,978	5.0%

Information in the table above is as per the most recent substantial shareholder notices received by the Company as at 6 September 2011.

## 8. Primary Bonds Series A

1,522,740 Primary Bonds Series A are held by 1,749 individual holders. Primary Bonds Series A do not carry any voting rights.

## 9. Distribution of Primary Bonds Series A as at 5 September 2011

Number of held	Individual Primary Bonds Series A Holders
1 - 1,000	1,620
1,001 - 5,000	109
5,001 - 10,000	5
10,001 - 100,000	12
100,001 and over	3
	1,749

Further information about Primary Bonds Series A is available on Primary's website at [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au).

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