

Primary Health Care Limited

Appendix 4D – Half-Year Report

For the Half-Year ended 31 December 2016

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Primary Health Care Limited

Appendix 4D – Half-Year Report

Results for announcement to the market

For the Half-Year ended 31 December 2016

\$m	% Change	31 December 2016 Total	Restated 31 December 2015 Total
Revenue	(0.7)%	808.7	814.1
Profit for the period after tax from continuing operations	(66.0)%	21.1	62.1
Profit for the period after tax	(68.8)%	21.1	67.6
Profit attributable to members of the parent entity	(68.8)%	21.1	67.6
Underlying profit for the period after tax from continuing operations ¹	(5.4)%	41.9	44.3
Underlying profit for the period after tax from continuing and discontinued operations ¹	(14.7)%	41.9	49.1
Earnings per share		2016 ¢ per share	2015 ¢ per share
Basic and diluted earnings per share from continuing operations		4.0	12.0
Basic and diluted earnings per share from continuing operations and discontinued operations		4.0	13.0
Interim dividend ^{2, 3}		4.8	5.6

¹ Underlying profit excludes the impact of one-off and non-cash items such as non-recurring items including indirect taxes and related imposts and items associated with restructuring and strategic initiatives. A full reconciliation between statutory profit and underlying profit is contained in the review of operations on page 3.

² The 31 December 2016 Interim Dividend will be 100% franked at the corporate income tax rate (2016: 30%, 2015: 50% franked at the corporate income tax rate, 30%).

³ The record date for determining entitlement to the interim dividend is 20 March 2017 and the dividend is payable on 28 March 2017.

Primary Health Care Limited

Appendix 4D – Half-Year Report

Attachment A – Interim Financial Report

For the Half-Year ended 31 December 2016

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Directors' report

For the Half-Year ended 31 December 2016

Your Directors present their report on the consolidated entity consisting of Primary Health Care Limited and the entities it controlled (referred to as "Primary", "the Company", or "the Group") at the end of, or during, the half-year ended 31 December 2016.

Directors

The Directors of Primary during the half-year ended 31 December 2016 and up to the date of this report were:

- Mr. Robert Ferguson
- Mr. Peter Gregg
- Mr. Brian Ball
- Mr. Gordon Davis
- Mr. Robert Hubbard
- Dr. Paul Jones
- Dr. Errol Katz
- Ms. Arlene Tansey

Review of operations

A review of operations of the Group during the half-year ended 31 December 2016, and the results of those operations, can be found on pages 3 to 16 of this Report.

The Directors have included the additional line item EBITDA (earnings before interest, tax, depreciation and amortisation) and EBIT (earnings before interest and tax) within the Financial Report as such presentation is necessary, in the Directors' view, to be relevant to a full understanding of the entity's financial performance.

Subsequent event

On 10 January 2017, Primary announced that it had been informed by Mr Peter Gregg, its Managing Director and Chief Executive Officer, that he had been served with a Local Court attendance notice by the Australian Securities and Investments Commission ("ASIC"). ASIC alleges two contraventions of Section 1307(1) of the *Corporations Act 2001* during his time as an officer of Leighton Holdings Limited. Mr Gregg informed Primary that he denied the allegations.

On 13 January 2017 the Board of Primary announced that it had accepted the resignation of Mr Gregg. Mr Gregg will remain in his role until the Company completes its internal and external search for a new Chief Executive Officer.

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

Dividend

In respect of the half-year ended 31 December 2016, an interim dividend of 4.8 cents per share has been declared, 100% franked (31 December 2015: 5.6 cents per share, 50% franked).

Non-IFRS Financial Information

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

Rounding off of amounts

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

Auditor's independence declaration

The Auditor's Independence Declaration is set out on page 17.

Directors' report

For the Half-Year ended 31 December 2016

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

On behalf of the Directors



Peter Gregg
Managing Director & Chief Executive Officer

Sydney 15 February 2017

Review of Operations

For the Half-Year ended 31 December 2016

1H 2017 PERFORMANCE

- The results for Primary Health Care ("Primary") for the six months ended 31 December 2016 ("HY 2017") are set out in the review of operations compared to the six months ended 31 December 2015 ("HY 2016").

KEY HIGHLIGHTS				
Six months ended \$M	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Performance	Underlying¹		Reported	
Revenue	808.7	794.3	808.7	814.1
EBIT	81.9	93.9	61.1	115.1
NPAT (continuing operations) ²	41.9	44.3	21.1	62.1
NPAT	41.9	49.1	21.1	67.6
Dividend cps			4.8	5.6
As at \$M			31 December 2016	30 June 2016
Financial position				
Net debt			821.4	816.0
Gearing % ³			25.3%	25.2%
1H 2017 performance				
<ul style="list-style-type: none"> Primary's underlying results for HY 2017 were down \$2.4 million, or 5.4%, on HY 2016 continuing operations. A strong performance in Imaging, a modest increase in Pathology and savings in interest costs from capital recycling were offset by the Medical Centres - Bulk Billing division. Medical Centres –Bulk Billing EBIT was down 36%. This reflects the short term implications of a fundamental repositioning of the division: <ul style="list-style-type: none"> <i>Transition to new recruitment contracts:</i> The change from the old one-size-fits-all contracts which were historically tax-effective for healthcare practitioners ("HCPs") to capital-light flexible recruitment contracts enables Primary to attract a wider cohort of HCPs and significantly reduce its capital costs. However its revenue is impacted by offering a higher share of billings to HCPs. In addition Primary needs to recruit more HCP numbers than in the past due to lower average contracted hours under the new contracts and re-signs. Primary's progress in ramping up recruitment has been slower than expected but pleasingly the recruitment pipeline is improving and retention continues to be strong. <i>Extensive transformation program:</i> Additional investments have been made in HCP and patient engagement initiatives, increased nursing support and new service offerings, including occupational health and chronic care. This program has increased operating costs in 1H 2017 but represents essential investment in the future of the business. <i>Focus on free cash flow:</i> As a corollary to the reduced share of billings, the capital light HCP contracts have driven greater free cash flow in the division with gross capital expenditure on HCPs down \$20.9 million, or 55%, in 1H 2017. <i>Medicare freeze:</i> The ability to attract GPs to the bulk billing centres or to grow MBS revenue has been impacted by the on-going Medicare rebate freeze. The division continues to explore options to mitigate revenue pressures with the introduction of non-MBS services. At a group level, diversification into private billing is occurring with the establishment of Health & Co. Other underlying divisional performances were as follows: <ul style="list-style-type: none"> Pathology continued to deliver strong revenue growth in difficult market conditions, while investing in specialties including dermatopathology and in Approved Collection Centres ("ACCs"). Whilst our ACC strategy has impacted margins, we have maintained, and in some instances, improved our market share. The ACC strategy will be reset after Government clarification on rent regulation. Imaging reported a strong HY 2017, up 59% on HY 2016, delivering on its portfolio rationalisation and operating cost programs which commenced last year. Medical Centres – Private Billing recorded a small loss reflecting start-up costs in the development of its technology offering. It announced its new brand, Health & Co and a partnership agreement with Professor Kerry Phelps, with her two clinics joining the network. 				

¹ Underlying performance reflects Primary's trading performance and excludes the impact of costs associated with business restructuring and transformation and non-recurring items. Refer section titled "Reconciliation of reported and underlying performance".

² NPAT (continuing operations) is as disclosed in Appendix 4D. MedicalDirector's result in HY 2016 is separately disclosed as profit from discontinued operations. Refer note 13 of Appendix 4D.

³ Gearing is expressed as the ratio of net debt to net debt plus equity.

Review of Operations

For the Half-Year ended 31 December 2016

- Primary's reported results in HY 2017 reflect the cost of the transformation activities underway and non-recurring items. They do not allow a like-for-like comparison as HY 2016 was beneficially impacted by the gain on disposal of Primary's shares in Vision Eye Institute ("VEI") and the Australian Taxation Office ("ATO") settlement.
- An interim dividend of 4.8 cps has been declared, 100% franked, representing a payout ratio of 60% of Underlying NPAT ("UNPAT") (HY 2016 5.6 cps, 50% franked).
- Primary delivered free cash flow of \$23.9 million, notwithstanding the reduction in profit, with savings in interest costs, HCP acquisition costs and property, plant and equipment. This included cash invested for growth. Primary's lower financial leverage, due to the successful capital recycling program in FY 2016, continued in HY 2017 with gearing stable and interest costs reduced.
- As announced in January 2017, the Board of Primary has accepted the resignation of Mr Peter Gregg, its Managing Director and Chief Executive Officer. However, Mr Gregg remains in his role until the company completes its internal and external search for a new CEO, enabling Primary to benefit from Mr Gregg's strategic leadership, to maintain momentum and to continue to deliver on the Board-endorsed strategy.

Strategy

- Primary's aim is to deliver quality health services and growth to shareholders, becoming a preferred place for HCPs and employees to practise and work and for patients to visit.
- Primary's transformation agenda continued in HY 2017 with extensive initiatives underway to deliver fundamental change in:
 - HCP numbers and engagement levels,
 - Service offerings and patient service levels,
 - Technology and people capabilities,
 - Medical Centre, Health & Co and Imaging footprints,
 - Pathology specialties and offshore expansion, and
 - Employee engagement.
- The most important issue for Primary remains the recruitment and retention of HCPs and the aim is to grow HCP numbers substantially over time. Following further investment in, and strengthening of, the recruitment teams, the pipeline is improving.

Outlook

- Clarity is required on near-term Government policy including the Medicare rebates freeze for GPs, the Medicare Benefits Schedule ("MBS") review, bulk billing incentive cuts in Pathology and Imaging, the potential regulation of ACC rents in Pathology and the introduction of a quality framework for Imaging.
- Primary is focused on shifting its business model to one that is flexible, sustainable and patient-centric. Notwithstanding near-term policy concerns, the long-term drivers of the business remain positive with a growing and ageing population and demands for primary care increasing.

FY 2017 forecast

As a result of HY 2017 trading, together with the subdued environment reflected in the Medicare data and on-going uncertainty over Government policy and regulations, Primary now expects Underlying NPAT for the financial year 2017 to be in the range of \$92 million to \$102 million, subject to trading conditions in the remainder of the year and the outcome of any Government policy reviews. This compares with \$96.8 million underlying NPAT from continuing operations in FY 2016.

Review of Operations

For the Half-Year ended 31 December 2016

GROUP PERFORMANCE

This review of operations focuses on the HY 2017 underlying results which properly reflect Primary's trading performance. Underlying results can be analysed as follows:

31 December 2016

\$M	Medical Centres BB	Medical Centres PB	Pathology	Imaging	Other	Group
Revenue ⁴	157.0	0.2	504.9	162.8	0.2	808.7
EBITDA	65.4	(0.8)	64.6	27.7	(7.0)	149.9
Depreciation	(10.7)	-	(9.5)	(7.8)	(1.4)	(29.4)
Amortisation	(27.8)	-	(3.8)	(5.6)	(1.4)	(38.6)
EBIT	26.9	(0.8)	51.3	14.3	(9.8)	81.9
Finance Costs						(22.1)
PBT						59.8
Tax						(17.9)
UNPAT						41.9

31 December 2015

\$M	Medical Centres BB	Medical Centres PB	Pathology	Imaging	Other	Group
Revenue ⁴	165.3	-	482.3	162.1	0.6	794.3
EBITDA	82.7	-	64.2	30.4	(4.8)	172.5
Depreciation	(10.4)	-	(9.6)	(13.9)	(0.8)	(34.7)
Amortisation	(30.3)	-	(3.8)	(7.5)	(2.3)	(43.9)
EBIT ⁵	42.0	-	50.8	9.0	(7.9)	93.9
Finance Costs						(30.5)
PBT						63.4
Tax						(19.1)
UNPAT exc. Medical Director						44.3
UNPAT Medical Director						4.8
UNPAT inc. Medical Director						49.1

Appendix 4D sets out the reported results for Primary for HY 2017. The reported results include several items which Primary considers are not expected to occur frequently and do not form part of the core activities of the relevant divisions. In HY 2017 adjustments included items associated with business restructuring and transformation and non-recurring items relating to indirect taxes. In HY 2016 adjustments included items associated with business restructuring and transformation, the gain on disposal of Primary's shares in VEI and finalisation of the ATO settlement.

A reconciliation of the reported results in Appendix 4D and the underlying results is set out in the section titled "Reconciliation of reported and underlying performance".

⁴ \$16.4m of inter-company revenue/expenses has been eliminated at the Group level (HY 2016 \$16.0m).

⁵ Comparative EBIT for HY 2016 has been adjusted for \$1.4 million impact of the Balance Sheet review on June 2016. Where applicable, comparative information has also been restated to ensure that the allocation of expenses to operating segments is consistent with the current period.

Review of Operations

For the Half-Year ended 31 December 2016

DIVISIONAL PERFORMANCE

The underlying performance of each operating division in HY 2017 is set out immediately below. Further details on divisional strategy and outlook are set out in the section titled "Strategic initiatives".

Medical Centres – Bulk Billing

	31 December 2016 \$M	31 December 2015 \$M	Movement %
Revenue	157.0	165.3	(5.0)%
EBITDA	65.4	82.7	(20.9)%
Depreciation	(10.7)	(10.4)	(2.9)%
Amortisation	(27.8)	(30.3)	8.3%
EBIT	26.9	42.0	(36.0)%
Gross capex – HCP	(17.2)	(38.1)	54.9%
FCF contribution (EBITDA- HCP capex)	48.2	44.6	8.1%

Revenue for Medical Centres – Bulk Billing was down \$8.3 million, or 5.0%, to \$157.0 million. Of this amount, \$4.1 million related to GP revenue and \$4.1 million to sundry revenue which was down partly due to the sale of Transport Health business in HY 2016. Other revenues were broadly in line.

Underlying EBIT was down \$15.1 million, or 36.0%. The result reflects the short term implications of a fundamental repositioning of the division, as it goes through a transition process in its recruitment contracts and undertakes an extensive transformation program, to deliver a more sustainable business model.

Transition to new recruitment contracts: The change from the old one-size-fits-all contracts to capital-light flexible recruitment contracts enables Primary to attract a wider cohort of HCPs and significantly reduce its capital costs. (In 1H 2017 70% of GPs elected to sign on under the 'no up-front' option.) However revenue is impacted by offering a higher share of billings to HCPs. In addition Primary needs to recruit more HCP numbers than in the past due to lower average contracted hours under the new contracts. This process has been slower than expected but pleasingly the recruitment pipeline is improving and retention continues to be strong.

Extensive transformation program: Additional investments have been made in support services and nursing capabilities for GPs, GP recruitment capabilities and employee engagement. The division also expanded its service offerings and piloted new offerings in specialist, dental, occupational health and integrated (chronic) care. While these initiatives have increased costs in the near-term, they are aimed at increasing HCP numbers, improving service levels to HCPs and patients, and expanding our revenue base. Hence they represent an important investment in the future of Medical Centres (refer "Strategic imperatives" below).

Focus on free cash flow: As a corollary to the reduced share of billings, the capital light HCP contracts have driven greater free cash flow in the division with gross capital expenditure on HCPs down \$20.9 million, or 54.9%, in 1H 2017. This delivered an 8.1% increase in contribution to free cash flow, measured as EBITDA less HCP gross capital expenditure.

Medicare freeze: The ability to attract GPs to the bulk billing centres or to grow MBS revenue has been impacted by the on-going Medicare rebate freeze. The division continues to explore options to mitigate revenue pressures with the introduction of non-MBS services.

Review of Operations

For the Half-Year ended 31 December 2016

Medical Centres – Private Billing

	31 December 2016 \$M	31 December 2015 \$M	Movement %
Revenue	0.2	-	-
EBITDA	(0.8)	-	-
Depreciation	-	-	-
Amortisation	-	-	-
EBIT	(0.8)	-	-

Primary announced the diversification of its Medical Centres business into private billing in March 2016. In the current financial year it has established Health & Co as its private billing brand and announced a foundation partnership with Professor Kerryn Phelps with her two clinics joining the Health & Co network. The new segment delivered an underlying EBIT loss of \$0.8 million for HY 2017 resulting from start-up costs.

Pathology

	31 December 2016 \$M	31 December 2015 \$M	Movement %
Revenue	504.9	482.3	4.7%
EBITDA	64.6	64.2	0.6%
Depreciation	(9.5)	(9.6)	1.0%
Amortisation	(3.8)	(3.8)	-
EBIT	51.3	50.8	1.0%

Primary's Pathology division delivered a small EBIT increase, on the back of historically strong results.

Revenue grew by \$22.6 million, or 4.7%, notwithstanding a highly competitive sector and on-going subdued Medicare growth rates. The growth was due, in part, to Primary's expansion into speciality areas and the acquisition of Border Pathology.

EBIT was up \$0.5 million, or 1%. Property costs increased partly due to an expansion in the number of ACCs, with a net 60 ACCs opening in HY 2017. The opening of ACCs was a direct response to Government policy uncertainty. As noted in the "Strategic Imperatives" section below, the Government's recent deferral of the proposed bulk-bill incentive cuts and rent regulation of ACCs is expected to result in continued industry expansion, in advance of the potential implementation date of 1 July 2017. Primary will look to reset its strategy once the Government has provided clarity on these policy areas.

As part of its ACC strategy, Primary closed underperforming centres. In addition, in June 2016 Primary announced that it would divest a number of ex-Healthscope ACCs which were acquired in December 2014. The divestment was the result of a review undertaken by the Australian Competition and Consumer Commission ("ACCC"), which found that the transaction lessened competition in QLD and NSW. While Primary did not consider the transaction impacted or lessened competition, the Company entered into an agreement with MedLab Pathology Pty Ltd in order to address the ACCC's concerns. To-date around half the sites have been disposed of and the impact has not been material.

The division maintained its focus on efficiencies, including ongoing optimisation of its laboratory infrastructure and procurement processes. Investment in niche specialty areas of the business including Kossard Dermatopathology and Genomic Diagnostics continued. These speciality businesses are expected to increase their contribution to profit as they mature.

Review of Operations

For the Half-Year ended 31 December 2016

Imaging

	31 December 2016 \$M	31 December 2015 \$M	Movement %
Revenue	162.8	162.1	0.4%
EBITDA	27.7	30.4	(8.9)%
Depreciation	(7.8)	(13.9)	43.9%
Amortisation	(5.6)	(7.5)	25.3%
EBIT	14.3	9.0	58.9%

The Imaging division delivered a strong HY 2017 performance, with EBIT up 58.9% to \$14.3 million and the margin expanding from 5.6% to 8.8%.

Revenue was stable at \$162.8 million, with continued growth from new and expanded sites offset by hospital contract losses and the closure of underperforming community sites. Adjusted for these movements, Primary's 'normalised' revenue was up 3.5%, driven by increases in average fees primarily from CT utilisation.

New and expanded sites in HY 2017 included:

- Bridge Road Imaging Centre in Victoria;
- Varsity Lakes and River City in Queensland;
- National Capital Hospital in the Australian Capital Territory; and
- Knox Private Hospital expansion and Holmesglen Private Hospital in Victoria.

These new and expanded sites are expected to increase their contribution to profit as they mature.

Primary continued its strategic response to subdued market growth rates by realigning the business portfolio and optimising its asset base. The strong EBIT margin expansion noted above reflects benefits of these initiatives, with savings in labor costs from improved rostering and the closure of uneconomic sites. On a normalised basis labour costs grew at 1.2%, below revenue growth of 3.5%.

Other costs were up on HY 2016, driven by the sale and leaseback transaction at the end of FY 2016 which added \$5.3 million of operating lease costs. This is offset by a reduction in depreciation of \$4.2 million and a notional interest reduction of \$1.4 million (not reflected in the divisional EBIT result). The sale of the Bridge Road fit-out costs into the Primary Health Care Property Trust ("PHPT") also contributed a minor increase in costs, offset by a reduction in depreciation. These transactions are the reason for the decline in EBITDA margin but are offset at the PBT line.

Imaging was self-funding in HY 2017, delivering a significant improvement in capital expenditure discipline.

Corporate

	31 December 2016 \$M	31 December 2015 \$M	Movement %
Revenue	0.2	0.6	(66.7)%
EBITDA	(7.0)	(4.8)	(45.8)%
Depreciation	(1.4)	(0.8)	(75.0)%
Amortisation	(1.4)	(2.3)	39.1%
EBIT	(9.8)	(7.9)	(24.1)%

Corporate costs for HY 2017 were up 24% on the prior comparative period. As noted in FY 2016, the business has increased its investment in new capabilities, in order to provide a scaleable platform to support the existing business and the growth agenda for the future.

The HY 2017 increase reflects the costs of those capabilities which were brought on in the 2H 2016, including upscaling of strategy, innovation, internal audit, risk management and human resource capabilities.

Review of Operations

For the Half-Year ended 31 December 2016

FINANCE COSTS

Total finance costs in HY 2017 were \$22.1 million, representing a reduction of 28% from \$30.5 million in HY 2016. The savings were predominately due to \$244.4 million of lower interest bearing liabilities together with a reduced weighted average cost of debt.

TAX EXPENSE

Group reported income tax expense for HY 2017 is set out below in comparison to HY 2016. For underlying results, an effective tax rate of 30% has been adopted.

\$M	31 December 2016 Reported	31 December 2015 Reported
PBT	39.0	84.6
Income tax	(17.9)	(22.5)
NPAT	21.1	62.1

The reported tax expense for HY 2017 of \$17.9 million represented an overall effective tax rate of 46%. This was \$6.2 million above a prima facie tax expense of \$11.7 million, calculated at 30% of Profit before Tax.

The increase is due to the impact of a \$6.4 million permanent difference associated with amortisation of healthcare practice acquisitions that occurred prior to 30 June 2015. Since no deferred tax liability was recognised in relation to the healthcare practice intangible assets which were capitalised as part of these acquisitions, the amortisation expense is a non-deductible (permanent) difference.

This accounting treatment increases the notional effective tax rate for Primary above 30% and throughout the period these intangible assets continue to be amortised. Once fully amortised, which will occur progressively over the next three and a half years, there will be no ongoing impact on the effective tax rate. The additional accounting tax expense over the next three and a half years is calculated to be as follows:

\$M	2H 2017	FY 2018	FY 2019	FY 2020
Additional accounting tax expense	5.0	8.6	5.7	2.4

DIVIDENDS

The directors have declared a fully franked interim dividend of 4.8 cents per share, compared to 5.6 cents per share, 50% franked, in HY 2016.

The interim dividend equates to a payout ratio of 60% of Underlying Net Profit after Tax. This payout ratio was reset during FY 2016 to better reflect the company's growth strategy.

Review of Operations

For the Half-Year ended 31 December 2016

RECONCILIATION OF REPORTED AND UNDERLYING PERFORMANCE

Appendix 4D sets out the reported results for Primary for HY 2017. The reported results include several items which Primary consider to be unrelated to the underlying performance of the business, analysed as:

- Business restructuring and strategic initiatives including establishment of the transformation office and transformation programs including HCP recruitment, patient experience, technology, and outsourcing (\$5 million), set-up costs for Health & Co and Pathology in SE Asia (\$2.5 million) and redundancies (\$2 million).
- Non-recurring items including indirect taxes and related imposts (\$8 million) and legal costs (\$2 million).
- Other items.

The reconciliation of HY 2017 reported results to underlying results is as follows:

\$M	Reported	Restructuring & strategic initiatives	Non-recurring items	Other	Underlying
Revenue	808.7				808.7
EBITDA	129.1	9.7	10.4	0.7	149.9
Depreciation	(29.4)				(29.4)
Amortisation	(38.6)				(38.6)
EBIT	61.1	9.7	10.4	0.7	81.9
Finance costs	(22.1)				(22.1)
PBT	39.0	9.7	10.4	0.7	59.8
Tax	17.9				17.9
NPAT	21.1				41.9

In HY 2016 the non-underlying items were analysed as:

- Gain on disposal/dissolution including Primary's shares in VEI.
- Finalisation of the ATO Settlement relating to potential Healthcare Practitioners tax liabilities.
- Business restructuring and strategic initiatives items.

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

\$M	Reported	Restructuring & strategic initiatives	Gain on sale	ATO settlement	Underlying
Revenue	814.1		(19.8)		794.3
EBITDA	194.7	11.2	(19.8)	(13.5)	172.5
Depreciation	(35.7)	0.9			(34.7)
Amortisation	(43.9)				(43.9)
EBIT	115.1	12.1	(19.8)	(13.5)	93.9
Finance costs	(30.5)				(30.5)
PBT	84.6	12.1	(19.8)	(13.5)	63.4
Tax	(22.5)				(19.1)
NPAT exc. MedicalDirector	62.1				44.3
MedicalDirector ⁶	5.5				4.8
NPAT inc. MedicalDirector	67.6				49.1

⁶ The underlying adjustment for MedicalDirector represents the difference between the actual tax rate of 19% and the 30% notional tax rate adopted for reporting Primary's underlying results.

Review of Operations

For the Half-Year ended 31 December 2016

CASH FLOW

Group cash flow for HY 2017 is set out below in comparison to HY 2016.

AS AT \$M	31 December 2016	31 December 2015	Movement \$
Cash flows from operating activities	90.4	148.9	(58.5)
Cash flows from investing activities	(60.6)	(54.8)	(5.8)
Cash flows from financing activities	(15.4)	(80.1)	64.7
Net increase in cash held	14.4	14.0	0.4
Opening cash	82.3	50.0	32.3
F/X	0.1	0.2	(0.1)
Closing cash	96.8	64.2	32.6

Free cash flow

Reported cash flow includes the benefit in 1H 2016 of the ATO refund of \$45.0 million and capital recycling inflows of \$60.1 million from the sale of VEI and sale of assets into the PHPT. In 1H 2017 there was a net capital recycling benefit of \$5.9 million.

Adjusting for these items, 'underlying' operating cash flow less 'underlying' investing cash flow resulted in free cash flow of \$23.9 million, an improvement of \$34.9 million over 1H 2016, notwithstanding the reduction in EBITDA, as follows:

AS AT \$M	31 December 2016	31 December 2015	Movement \$
'Underlying' cash flows from operating activities	90.4	103.9	(13.5)
'Underlying' cash flows from investing activities	(66.5)	(114.9)	48.4
Free cash flow	23.9	(11.0)	34.9

The improvement in free cash flow includes:

- Interest savings of \$12 million from the successful capital recycling program and debt refinancings;
- \$21 million reduction in gross HCP acquisition costs in Bulk Billing due to the capital light HCP contracts; and
- \$21 million saving in property, plant and equipment capital from the establishment of the PHPT, imaging equipment sale and leaseback and from a tighter focus on return on investment criteria.

In addition it should be noted that approximately half of the total invested cash relates to growth capital expenditure. This includes:

- Acquiring private billing clinics under the Health & Co brand;
- Opening Primary's 3rd IVF centre in Brisbane and commencement of development of four new medical centres due to open in FY 2017/18;
- Investment in a leading-edge dermatopathology laboratory in Pathology; and
- Opening a state-of-the-art imaging centre in Brisbane and expanding our Imaging footprint in the private hospital sector in Victoria.

Cash flows from financing activities

Primary paid \$33.4 million in dividends to its shareholders during the year. It increased its borrowings and finance lease liabilities during the period by \$18.4 million, which delivered an increase in cash of \$14.4 million, with the group predominantly self-funding.

Review of Operations

For the Half-Year ended 31 December 2016

BALANCE SHEET

Overall the Group had \$3.6 billion in assets and \$2.4 billion of shareholders equity. Group net debt at 31 December 2016 was \$821 million compared to \$816 million in FY 2016. It can be analysed as follows:

AS AT \$M	31 December 2016	30 June 2016	Movement \$
Bank and finance debt	918.2	898.3	19.9
Cash	(96.8)	(82.3)	(14.5)
Net debt	821.4	816.0	5.4
Gearing (net debt: net debt + equity)	25.3%	25.2%	
Bank gearing ratio (covenant <3.5x)	2.53x	2.37x	

Gearing (expressed as the ratio of net debt to net debt plus equity) remained stable at 25%.

The bank gearing ratio for the syndicated bank facility at 31 December 2016 was 2.5x, compared to a ceiling covenant requirement of 3.5x. This ratio is subject to finalisation of the compliance certificate.

At 31 December 2016, Primary had available headroom on its banking facilities of \$325 million. The first tranche of two facilities is due to mature in November 2018 and the second in April 2020.

Review of Operations

For the Half-Year ended 31 December 2016

STRATEGIC INITIATIVES

Primary is on a transformation journey with extensive initiatives underway in all divisions to deliver fundamental change in HCP numbers and engagement, patient service offerings and levels, upgrade in technology and people capabilities, and improved employee engagement.

Transformation of the culture and reputation will not be immediate and the initiatives associated with the wholesale changes underway will take time to translate into improvements in revenue and profit. However, the eventual outcomes are expected to deliver the pathway for sustainability and growth.

Medical Centres - Bulk Billing

The Medical Centres – Bulk Billings division remains core to Primary's strategies and drives value to the rest of the Group. The demand for Medical Centres services remains strong, with a growing and ageing population.

The key area of focus in FY 2017 is the improvement in HCP recruitment and retention and patient services. Coupled with this, there is an emphasis on growing free cash flow and return on invested capital.

While it will take time to improve Primary's reputation with GPs, Primary is committed to establishing its Medical Centres as a preferred brand for HCPs and staff to practise, and for patients to trust. The strategy represents fundamental investment in the future of the business.

The most important issue for Primary is the recruitment and retention of healthcare practitioners. The aim is to grow HCP numbers substantially over time. Flexible, capital-light recruitment models have been introduced offering a range of upfront and revenue sharing options to attract a wider cohort of practitioners. Primary views this flexibility as essential to the future, with the old one-size-fits-all approach no longer viable, in particular with less favourable tax treatment following the ATO settlement in 2015. However revenue is impacted by offering a higher share of billings to GPs. In addition Primary needs to recruit more GP numbers than in the past due to lower average contracted hours under the new contracts.

Recruitment was slower than expected in Q4 2016 and Q1 2017. Overall in 1H 2017 there were 61 new GPs on board. Following further investment in, and strengthening of, the internal and external recruitment team and the introduction of simplified contracts, pleasingly indications are that the recruitment of GPs is starting to improve. There were 16 new starters in January and a strong pipeline of GPs with contracts signed awaiting commencement and in negotiations. This should set a stronger base for FY 2018 revenue.

Retention of GPs has been a key success factor from the new models and has stemmed the outflow of GPs following uncertainty over the taxation treatment of GP upfronts. Overall, the total number of leavers in 1H 2017 reflected the improved levels of FY 2016.

Medical Centres remains focussed on improving engagement through broader initiatives such as Primary Health Care Institute, the establishment of the Primary Clinical Councils, and the clinical governance structure. The roll out of Helix, the next-generation GP and practice management system, is expected to commence in the second half of the year and should improve GP efficiency and experience.

Primary continues to invest in the growth of its Medical Centres footprint. A new medical centre has opened in Corrimal, NSW in February 2017 and four new centres are due to open in FY 2018. Further, a program to improve utilisation of space in existing centres will result in capacity expansion at sites during FY 2017.

Medical Centres continues to explore options to mitigate the ongoing revenue pressure arising from the current freeze on Medicare rebates and the MBS review. These initiatives include the establishment of Integrated Care and Occupational Health businesses in HY 2017 as well as the expansion of the Primary Dental business.

A Primary IVF centre opened in Oxley, Brisbane in November 2016. Further expansion of the Primary IVF business is planned, with a new site to open either later this financial year or early in FY 2018.

Considerable work is also underway to better understand patient needs and design an improved patient experience within our bulk billing centres.

Medical Centres - Private Billing

Primary announced the diversification of its Medical Centres business into a new Private Billing business in March 2016, having identified an opportunity to grow its share of GP services by participating in this market segment, thereby diversifying revenue and increasing resilience.

Review of Operations

For the Half-Year ended 31 December 2016

In November 2016, the Health & Co business was launched. Health & Co is operating as a separate entity with a separate brand to Primary. Health & Co will leverage Primary's scale to deliver a model that is patient centric and focused on quality outcomes while retaining the elements both GPs and patients value from traditional practices. To do this, the business is building capability in innovative health care, with a strong focus on digital health and technology.

Progress for Health & Co to-date has been:

- Launch of the Health & Co brand;
- Foundational partnership with Professor Kerry Phelps - Professor Phelps to work with Health & Co to develop its brand and business while her two clinics have become the first two practices in the Health & Co network; and
- Mobilisation of the Health & Co digital health program.

The priority for the second half of FY 2017 is:

- Accelerate the growth of the Health & Co medical centre footprint;
- Invest in Health & Co brand awareness and recognition; and
- Establish the Health & Co technology and operational platforms.

Pathology

Primary's Pathology division is the Group's largest business. It operates leading medical laboratory and pathology services covering key diagnostic activities including histopathology, cytology, microbiology, genomics and veterinary pathology.

In December 2016, Mr Wesley Lawrence was appointed as the divisional CEO of Pathology. Mr Lawrence has a wealth of operational expertise and knowledge of the regulatory landscape, having been CEO of Laverty Pathology in New South Wales since 2014 and, prior to that, holding a variety of roles within QML Pathology in Queensland for 22 years.

With the Coalition Government's change in policy before the last election to regulate ACC rents, there was growth in new ACCs across the industry in 1H 2017. Primary Pathology division opened a net 60 centres in the period, in direct response to this policy change. The Government's recent deferral of the rent regulation of ACCs is expected to result in continued industry expansion, in advance of the potential implementation date of 1 July 2017. The strategy will be reset once the Government clarifies its policy. The Group has the ability to negotiate approximately 67% of its ACC leases over the next 18 months, providing the flexibility to react quickly to any change in the macro environment.

Primary also closed some underperforming sites during the period as the division has implemented tighter hurdle rates for both new collection sites and re-signed sites. A review process has been developed for new sites to ensure they meet expected financial returns.

During the period, the division improved efficiencies in laboratory operations, with a focus on moving testings to lower cost structures, enhancing automation of laboratory infrastructure and improving procurement. This has seen the consolidation of testing to major laboratories where possible and the reduction of duplication in back office activities.

The Australian pathology market is highly consolidated and competitive, offering little scope for Primary to grow further through acquisitions. As a result, the division is focused on organic opportunities to increase its market share by increasing ACCs in certain strategically selected locations and exploring geographical diversification into Southeast Asia via capital-light joint ventures with local partners.

In addition, Pathology is diversifying its revenue stream by expanding into niche specialty disciplines, with the acquisition of Kossard Dermatopathology in early 2016 and the development of the dermatopathology unit, one of the largest of its kind in Australia. The genetics business also continues to grow.

Pathology is continuing to selectively trial private billing for specific specialist tests.

Imaging

Primary's Imaging business is one of Australia's leading providers of diagnostic imaging services and is the largest provider of imaging services in private hospitals across Australia.

The Imaging sector in Australia remains restrained. The market growth has improved over the past six months to around 3%, still well below the long-term average of 6-7%.

The division is transforming as it looks to realign its portfolio, optimise its asset base, and diversify its revenue streams. The business is focusing on hospital contracts, high-value, large-scale imaging centres and its presence in Primary's medical centres, to deliver growth on its capital-intensive asset base.

Review of Operations

For the Half-Year ended 31 December 2016

In line with this strategy, Imaging launched a new centre in Queensland during HY 2017. The River City Imaging Centre is a state-of-the-art facility designed to meet the growing healthcare needs in Brisbane. The facility is located close to the Wesley Hospital and is the third centre of its kind opened by Primary over the last two years, after the opening of Bridge Road in Melbourne and Varsity Lakes on the Gold Coast.

The division also strengthened its hospital portfolio, with the award of a ten-year contract to provide diagnostic imaging services at the Northern Beaches Hospital in Frenchs Forest, NSW, the expansion of Knox Private Hospital and a new contract at the Holmesglen Private Hospital in Victoria. Public outsourcing of hospital imaging is expected to continue especially in NSW where the State Government's announced four new Health Partnerships in September 2016, following the Northern Beaches partnership.

In February 2017, Imaging opened a site in Primary's Corrimal Medical Centre in NSW, the first medical centre to be opened by Primary since 2012. This site reflects ongoing strategy across the Company to integrate a "Whole of Primary" approach when investing in new centres.

Imaging continues to rationalise existing sites where appropriate and consolidate small scale sites. Key initiatives are centred around employee and clinician engagement, improved asset utilisation and improved service provision for referrers.

The division is also in the process of rolling out a major IT transformation project to replace two existing software platforms. This will deliver benefits and improvements in how Imaging interacts with both patients and referrers.

GOVERNMENT REVIEWS

Timely diagnosis and effective treatment can prevent more expensive hospital care, and it is widely recognised that a well-supported and funded frontline health system is the key to delivering efficient and effective care. However, while GP visits account for only 7% ⁷ of Australia's total health expenditure, there remains a push by the Federal Government to reduce frontline healthcare funding.

Following the Coalition's return to Government in July 2016, the broader healthcare sector continues to seek clarity on a range of matters, including the duration of the freeze on Medicare rebates for GPs, the outcomes of the MBS review, and the proposed bulk billing incentive cuts in Pathology and Imaging.

Furthermore, clarity regarding the potential regulation of ACC rents in the pathology sector is yet to be reached, with the decision delayed until 1 July 2017. Primary is also working through the implications of the introduction of a quality framework for Diagnostic Imaging, which will see minimum radiologist attendance required for the provision of CT services. Primary believe the introduction of this framework will increase costs, decrease accessibility and is not in the interests of patients.

Given the pressures on funding frontline care and the headwinds experienced from ongoing policy uncertainty, Primary is diversifying its revenue base, having established a private billing Medical Business under Health & Co, expanding its pathology revenue streams with investment in speciality services including dermatopathology, and offering non-MBS services such as Integrated Care and Occupational Health services in its bulk-billing centres.

Regardless of current or future health policy, Primary remains focused on shifting its business model to one that is flexible, sustainable and, most importantly, patient-centric. To do this, Primary will continue to diversify its revenues stream, expand services and capabilities, and look to innovate in e-health technology to deliver patients with quality, efficient and integrated care.

OUTLOOK

The long-term drivers for healthcare remain positive. There is strong underlying demand for healthcare in Australia, underpinned by a growing and ageing population, increasing chronic and complex conditions, rising patient expectations and expanding wealth per capita. In addition, as state governments look to manage public hospital costs, the opportunity for the private sector to partner with government is gaining momentum, highlighted by the New South Wales Government's recent Public Private Partnership initiatives.

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

⁷ Royal Australian College of General Practitioners.

Review of Operations

For the Half-Year ended 31 December 2016

Primary's aim is to be at the forefront of the efficiency drive in the health sector, and cement its position as a leading quality healthcare provider. Combining this with more diversified revenue streams, a more flexible cost base, lower financial leverage, and greater focus on returns on investment, the Group sees the pathway for sustainability and growth.

FY 2017 GUIDANCE

As a result of HY 2017 trading, together with the subdued environment reflected in the Medicare data and on-going uncertainty over Government policy and regulations, Primary now expects underlying NPAT for the financial year 2017 to be in the range of \$92 million to \$102 million, subject to trading conditions in the remainder of the year and the outcome of any Government policy reviews. This compares with \$96.8 million underlying NPAT from continuing operations in FY 2016.

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

15 February 2017

Dear Board Members

Primary Health Care Limited

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

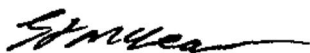
As lead audit partner for the review of the financial statements of Primary Health Care Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



G J McLean
Partner
Chartered Accountants
Sydney, 15 February 2017

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Primary Health Care Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the half-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 end of the half-year or from time to time during the half-year as set out on pages 20 to 39.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Primary Health Care Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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



Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that reads "G J McLean".

G J McLean
Partner
Chartered Accountants
Sydney, 15 February 2017

Directors' declaration

For the Half-Year ended 31 December 2016

The Directors declare that:

- (a) in the Directors' opinion, the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including section 304 (compliance with Accounting Standards) and section 305 (true and fair view); and
- (b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Peter Gregg
Managing Director & Chief Executive Officer

Sydney, 15 February 2017

Condensed consolidated statement of profit or loss

For the Half-Year ended 31 December 2016

	Note	31 December 2016 \$M	Restated 31 December 2015 \$M
Revenue		808.7	814.1
Employee benefits expense		374.3	357.1
Property expenses		122.2	113.1
Consumables		86.0	80.2
Other expenses		97.1	69.0
Depreciation		29.4	35.7
Amortisation of intangibles		38.6	43.9
EBIT		61.1	115.1
Finance costs	3	22.1	30.5
Profit before tax		39.0	84.6
Income tax expense	4	17.9	22.5
Profit for the period from continuing operations		21.1	62.1
Profit for the period from discontinued operations	13	-	5.5
Profit for the period		21.1	67.6
Attributable to:			
Equity holders of Primary Health Care Limited		21.1	67.6
Non-controlling interest		-	-
Profit for the period		21.1	67.6

	2016 Cents per share	Restated 2015 Cents per share
Earnings per share		
Basic and diluted earnings per share from continuing operations	4.0	12.0
Basic and diluted earnings per share from continuing and discontinued operations	4.0	13.0

Notes to the financial statements are included on pages 26 to 39

Condensed consolidated statement of comprehensive income

For the Half-Year ended 31 December 2016

	31 December 2016 \$M	Restated 31 December 2015 \$M
Profit for the period	21.1	67.6
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value gain/(loss) on cash flow hedges	0.2	(1.5)
Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss	5.4	6.1
Reclassification adjustments relating to available-for-sale financial assets disposed in the period	-	(5.4)
Exchange differences arising on translation of foreign operations	(1.2)	(0.1)
Income tax relating to items that may be reclassified subsequently to profit and loss	(1.7)	0.2
Other comprehensive income/(loss) for the period, net of income tax	2.7	(0.7)
Total comprehensive income for the period	23.8	66.9
Attributable to:		
Equity holders of Primary Health Care Limited	23.8	66.9
Non-controlling interest	-	-
	23.8	66.9

Notes to the financial statements are included on pages 26 to 39

Condensed consolidated statement of financial position

As at	Note	31 December 2016 \$M	30 June 2016 \$M
Current assets			
Cash		96.8	82.3
Receivables		138.4	136.8
Consumables		27.2	25.5
Tax receivable		17.0	5.7
Total current assets		279.4	250.3
Non-current assets			
Receivables		2.7	4.4
Goodwill	5	2,784.1	2,772.2
Property, plant and equipment	6	337.4	342.2
Other intangible assets	7	204.5	220.7
Other financial assets		1.2	1.3
Deferred tax asset		29.0	33.5
Total non-current assets		3,358.9	3,374.3
Total assets		3,638.3	3,624.6
Current liabilities			
Payables		185.4	181.0
Provisions		88.5	87.2
Other financial liabilities		5.8	10.6
Interest bearing liabilities		0.3	2.0
Total current liabilities		280.0	280.8
Non-current liabilities			
Payables		8.6	7.8
Provisions		12.3	11.2
Other financial liabilities		-	0.8
Interest bearing liabilities		917.9	896.3
Total non-current liabilities		938.8	916.1
Total liabilities		1,218.8	1,196.9
Net assets		2,419.5	2,427.7
Equity			
Issued capital	10	2,422.8	2,422.8
Reserves		(1.8)	(5.2)
Retained earnings		(3.1)	8.5
Equity attributable to equity holders		2,417.9	2,426.1
Non-controlling interest		1.6	1.6
Total equity		2,419.5	2,427.7

Notes to the financial statements are included on pages 26 to 39

Condensed consolidated statement of changes in equity

For the Half-Year ended 31 December 2016

\$M	Issued capital	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payments reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2016	2,422.8	(8.0)	0.7	2.1	8.5	2,426.1	1.6	2,427.7
Profit for the period	-	-	-	-	21.1	21.1	-	21.1
Exchange differences arising on translation of foreign operations	-	-	(1.2)	-	-	(1.2)	-	(1.2)
Fair value gain/(loss) on cash flow hedges	-	0.2	-	-	-	0.2	-	0.2
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	-	5.4	-	-	-	5.4	-	5.4
Income tax relating to components of other comprehensive income	-	(1.7)	-	-	-	(1.7)	-	(1.7)
Total comprehensive income for the period	-	3.9	(1.2)	-	21.1	23.8	-	23.8
Payment of dividends	-	-	-	-	(33.4)	(33.4)	-	(33.4)
Share based payments	-	-	-	1.4	-	1.4	-	1.4
Transfers	-	-	-	(0.7)	0.7	-	-	-
Balance at 31 December 2016	2,422.8	(4.1)	(0.5)	2.8	(3.1)	2,417.9	1.6	2,419.5

\$M	Issued capital	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Investment revaluation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance as at 1 July 2015	2,407.3	(13.4)	0.9	2.8	3.8	12.2	2,413.6	1.8	2,415.4
Profit for the period	-	-	-	-	-	67.6	67.6	-	67.6
Exchange differences arising on translation of foreign operations	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Reclassification adjustments relating to available-for-sale financial assets disposed in the period	-	-	-	-	(5.4)	-	(5.4)	-	(5.4)
Fair value (loss) on cash flow hedges	-	(1.5)	-	-	-	-	(1.5)	-	(1.5)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	-	6.1	-	-	-	-	6.1	-	6.1
Income tax relating to components of other comprehensive income	-	(1.4)	-	-	1.6	-	0.2	-	0.2
Total comprehensive income for the period	-	3.2	(0.1)	-	(3.8)	67.6	66.9	-	66.9
Payment of dividends	-	-	-	-	-	(50.7)	(50.7)	-	(50.7)
Movement in share capital (note 10)	15.5	-	-	-	-	-	15.5	-	15.5
Balance at 31 December 2015	2,422.8	(10.2)	0.8	2.8	-	29.1	2,445.3	1.8	2,447.1

Notes to the financial statements are included on pages 26 to 39

Condensed consolidated cash flow statement

For the Half-Year ended 31 December 2016

	31 December 2016 \$M	31 December 2015 \$M
	Note	
Cash flows from operating activities		
Receipts from customers	839.8	840.7
Payments to suppliers and employees	(702.6)	(666.6)
Cash generated from operating activities	137.2	174.1
Interest paid	(20.6)	(32.8)
Net income tax (paid)/received	(26.2)	7.2
Interest received	-	0.4
Net cash provided by operating activities	12(b) 90.4	148.9
Cash flows from investing activities		
Payments for Medical Centre healthcare practitioners	(17.2)	(38.1)
Payments for Pathology healthcare practices	-	(5.2)
Payment for Imaging healthcare practitioners	(2.1)	(4.8)
Net payments for subsidiaries acquired	(8.8)	-
Payments for property plant and equipment	(32.9)	(53.7)
Proceeds from the sale of property plant and equipment	8.0	23.4
Payments for other intangibles	(5.5)	(13.1)
Net proceeds from sale of investments	-	36.7
Payments related to sale of subsidiary	(2.1)	-
Net cash (used in) investing activities	(60.6)	(54.8)
Cash flows from financing activities		
Repayment of borrowings and finance lease liabilities	(1.6)	(251.7)
Proceeds from borrowings	20.0	207.3
Dividends paid	(33.4)	(35.2)
Other finance costs	(0.4)	(0.5)
Net cash (used in) financing activities	(15.4)	(80.1)
Net increase in cash held	14.4	14.0
Cash at the beginning of the period	82.3	50.0
Effect of exchange rate movements on cash held in foreign currencies	0.1	0.2
Cash at the end of the period	12 (a) 96.8	64.2

Notes to the financial statements are included on pages 26 to 39

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

1. Significant accounting policies

Primary Health Care Limited ("Primary") is a for-profit entity domiciled in Australia. These financial statements represent the condensed consolidated financial statements of Primary for the half-year ended 31 December 2016 and comprises Primary and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

Statement of compliance

This half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. This financial report does not include all of the notes normally included within the annual financial report and should be read in conjunction with the 30 June 2016 annual financial report of Primary Health Care Limited.

Basis of preparation

This half-year financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2016. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

Rounding of amounts

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

Comparative information

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

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

2. Segment information

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

Operating segment	Activity
Medical Centres: Bulk Billing	This division provides a range of services and facilities to general practitioners, specialists and other health care providers operating in the bulk billing market segment.
Medical Centres: Private Billing	This division provides a range of services and facilities to general practitioners operating in the private billing market segment.
Pathology	This division provides pathology services.
Imaging	This division provides imaging and scanning services from stand-alone imaging sites and from within the Group's medical centres.

In May 2016 the entities comprising the Health Technology (MedicalDirector) segment were sold (primarily Health Communication Network Limited – refer to note 13 for further details). The results of the Health Technology segment are classified and disclosed as a discontinued operation in this financial report including the segment information below. The Group operates predominantly in Australia.

Intersegment

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

Presentation of segment revenue and results

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

Underlying results for the six months ended 31 December 2016 exclude the impact of non-underlying items relating to:

- Non-recurring items including indirect taxes and related imposts; and
- Items associated with restructuring and strategic initiatives.

Underlying results for the six months ended 31 December 2015 exclude the impact of non-underlying items relating to:

- Gain on disposal of Primary's shareholding in Vision Eye Institute and non-cash gains on dissolution of a Joint Venture;
- Finalisation of the Australian Taxation Office ("ATO") Settlement relating to certain healthcare practitioner ("HCP") tax liabilities and refunds to Primary arising from the acquisition of the practices of those HCPs; and
- Non-cash adjustments and one off items associated with restructuring and strategic initiatives.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

2. Segment information (continued)

Underlying

31 December 2016	Medical Centres: Bulk Billing \$M	Medical Centres: Private Billing \$M	Pathology \$M	Imaging \$M	Other \$M	Total \$M
Segment Revenue	157.0	0.2	504.9	162.8	0.2	825.1
Intersegment sales						(16.4)
Total Revenue						808.7
EBITDA	65.4	(0.8)	64.6	27.7	(7.0)	149.9
Depreciation	10.7	-	9.5	7.8	1.4	29.4
Amortisation of intangibles	27.8	-	3.8	5.6	1.4	38.6
EBIT	26.9	(0.8)	51.3	14.3	(9.8)	81.9
Finance costs						22.1
Profit before tax						59.8
Income tax expense ¹						17.9
Profit for the period						41.9

31 December 2015	Medical Centres: Bulk Billing \$M	Medical Centres: Private Billing \$M	Pathology \$M	Imaging \$M	Other \$M	Total \$M
Segment Revenue	165.3	-	482.3	162.1	0.6	810.3
Intersegment sales						(16.0)
Total Revenue						794.3
EBITDA ²	82.7	-	64.2	30.4	(4.8)	172.5
Depreciation ²	10.4	-	9.6	13.9	0.8	34.7
Amortisation of intangibles ²	30.3	-	3.8	7.5	2.3	43.9
EBIT	42.0	-	50.8	9.0	(7.9)	93.9
Finance costs						30.5
Profit before tax						63.4
Income tax expense ¹						19.1
Profit for the period from continuing operations						44.3
Profit for period from discontinued operations						4.8
Profit for the period						49.1

1. Underlying income tax is calculated as 30% of underlying profit before tax.

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

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

2. Segment information (continued)

Reconciliation of underlying revenue to statutory revenue:

	Segment Revenue	
	31 December 2016 \$M	31 December 2015 \$M
Total underlying revenue from continuing operations	808.7	794.3
Gains on sale/ dissolution of joint ventures	-	19.8
Total statutory revenue	808.7	814.1

Reconciliation of underlying result to statutory profit before tax:

	Segment Result	
	31 December 2016 \$M	31 December 2015 \$M
Total underlying result from continuing operations	59.8	63.4
Non-recurring items	(10.4)	-
Restructuring and strategic initiatives	(9.7)	(12.1)
Gains on sale/ dissolution of joint ventures	-	19.8
ATO settlement	-	13.5
Other	(0.7)	-
Total statutory profit before tax	39.0	84.6

Further information on the reconciliation between reported and underlying performance can be found in the review of operations on pages 3 to 16.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

2. Segment information (continued)

Statutory

31 December 2016	Medical Centres: Bulk Billing \$M	Medical Centres: Private Billing \$M	Pathology \$M	Imaging \$M	Other \$M	Total \$M
Segment Revenue	157.0	0.2	504.9	162.8	0.2	825.1
Intersegment sales						(16.4)
Total Statutory Revenue						808.7
EBITDA	63.2	(2.5)	60.2	21.8	(13.6)	129.1
Depreciation	10.7	-	9.5	7.8	1.4	29.4
Amortisation of intangibles	27.8	-	3.8	5.6	1.4	38.6
EBIT	24.7	(2.5)	46.9	8.4	(16.4)	61.1
Finance costs						22.1
Profit before tax						39.0
Income tax expense						17.9
Profit for the period						21.1

31 December 2015	Medical Centres: Bulk Billing \$M	Medical Centres: Private Billing \$M	Pathology \$M	Imaging \$M	Other \$M	Total \$M
Segment Revenue	165.3	-	482.3	164.9	17.6	830.1
Intersegment sales						(16.0)
Total Statutory Revenue						814.1
EBITDA ¹	82.2	-	61.9	30.6	20.0	194.7
Depreciation ¹	11.4	-	9.6	13.9	0.8	35.7
Amortisation of intangibles ¹	30.3	-	3.8	7.5	2.3	43.9
EBIT	40.5	-	48.5	9.2	16.9	115.1
Finance costs						30.5
Profit before tax						84.6
Income tax expense						22.5
Profit for the period from continuing operations						62.1
Profit for period from discontinued operations						5.5
Profit for the period						67.6

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

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

	31 December 2016 \$M	31 December 2015 \$M
3. Finance costs		
Interest expense	20.4	28.6
Amortisation of borrowing costs	1.7	2.1
Capitalised interest	-	(0.2)
	22.1	30.5

	31 December 2016 \$M	Restated 31 December 2015 \$M
4. Income tax expense		

The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before tax	39.0	84.6
Income tax calculated at 30% (2015: 30%)	11.7	25.4
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
ATO settlement of healthcare practitioner tax liabilities	-	(4.1)
Amortisation of healthcare practitioner contractual relationships intangible	6.4	7.5
Other items	-	(1.5)
	6.4	1.9
ATO settlement for the cost of acquiring healthcare practices now deductible	-	(1.8)
(Over) provision in prior years	(0.2)	(3.0)
Income tax expense	17.9	22.5

Amortisation of healthcare practitioner contractual relationships intangible

On 30 June 2015 the ATO advised Primary that the cost of acquiring medical and healthcare practices was tax deductible.

For any acquisitions that occurred prior to 30 June 2015 (that is, prior to the date the above tax treatment was advised by the ATO), no deferred tax liability has been recognised in relation to the intangible assets that were not recognised as business combinations and the amortisation expense is therefore a non-deductible (permanent) difference for the purpose of calculating income tax expense (benefit) in the statement of profit or loss.

This accounting treatment increases the notional effective tax rate for Primary above 30% throughout the period the intangible assets continue to be amortised. Once these intangible assets have been fully amortised (which will occur progressively over the next 3.5 years) these historical practice acquisitions will have no ongoing impact on the effective tax rate.

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

ATO objection decisions – years 2003-2007

Primary's appeal in the Administrative Appeals Tribunal ("AAT") against a decision of the Commissioner of Taxation not to exercise his discretion to allow objections for the years ended 30 June 2003 to 2007 in relation to medical practice acquisitions was heard on 1 December 2016. Primary is awaiting the AAT's judgement. No amounts have been recognised in relation to this matter in either the current or comparative periods.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

5. Goodwill	31 December 2016 \$M	30 June 2016 \$M
Opening balance – beginning of financial year	2,772.2	2,832.1
Acquisition of subsidiaries	11.9	2.8
Acquisition of businesses	-	9.5
Disposal of subsidiaries	-	(72.2)
	2,784.1	2,772.2

As at 31 December 2016 goodwill of \$849.6 million is allocated to the Medical Centres cash-generating unit (“CGU”) and has been tested for impairment due to the declining financial results of this CGU in the current period. Testing of goodwill for impairment has not been performed for the Group’s other CGU’s (Pathology, Imaging and Private Billing) as no impairment indicators exist as at 31 December 2016.

In its impairment assessment, the Group determines the recoverable amount based on a fair value less costs to sell calculation, under a five year Discounted Cash Flow model cross checked to available market data. The five year Discounted Cash Flow uses:

- the FY2017 forecast as year one in the five year cash flow;
- for FY2018-FY2021 growth rates have been determined with reference to historical company experience, industry data and a long term growth rate consistent with the historic industry trend levels.

The key assumptions in the Medical Centres Discounted Cash Flow model as at 31 December 2016 are as follows:

ASSUMPTION	HOW DETERMINED – MEDICAL CENTRES
Forecast Revenue	Forecast revenue has been calculated assuming FY2017-FY2020 average growth rates of 4.5% (30 June 2016: 7.9%). Changes to forecast revenue in the current year have been determined with reference to historical company experience and industry data. Revenue growth is driven by a number of factors including GP recruitment and retention, annual billings per GP and service fee percentages.
Terminal value growth rate	The terminal value growth rate assumed is 3.0% (30 June 2016: 3.0%).
Weighted Average Cost of Capital (WACC)	Post-tax discount rates reflect the Group’s estimate of the time value of money and risks specific to the Medical Centres CGU. In determining the appropriate discount rate consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for business risks specific to the Medical Centres CGU. The post-tax discount rate for Medical Centres is 8.5% (30 June 2016: 8.5%).

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

5. Goodwill (continued)

Sensitivity analysis

Sensitivity analysis has been conducted on the assumptions above to assess the effect on the recoverable amount of changes in the key assumptions.

The following table sets out the change in each of the key assumptions that would be required in order for the carrying value of the Medical Centres CGU to equal the recoverable amount.

CGU	Increase / (decrease) in assumptions required for recoverable amount to equal carrying amount	
	Revenue growth per annum	WACC
Medical Centres	(0.4%)	0.2%

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

6. Property, plant and equipment

31 December 2016 \$M	Freehold Land and Building	Leasehold Improvement	Plant and Equipment	Asset under construction	Total
Net book value					
Opening balance	2.0	206.3	115.0	18.9	342.2
Additions	-	6.2	12.6	14.7	33.5
Capitalisation of assets under construction	-	6.2	3.2	(9.4)	-
Disposals	-	(5.5)	(0.3)	(3.1)	(8.9)
Depreciation expense	-	(12.8)	(16.6)	-	(29.4)
Closing balance	2.0	200.4	113.9	21.1	337.4
Cost					
Accumulated depreciation	(0.3)	(205.6)	(365.6)	-	(571.5)
Closing balance	2.0	200.4	113.9	21.1	337.4

31 December 2015 ¹ \$M	Freehold Land and Building	Leasehold Improvement	Plant and Equipment	Asset under construction	Restated Total
Net book value					
Opening balance	4.1	225.9	184.9	54.0	468.9
Additions	0.1	1.5	11.2	28.3	41.1
Capitalised borrowing costs	-	0.2	-	-	0.2
Capitalisation of assets under construction	19.0	14.9	2.7	(36.6)	-
Disposals	(22.1)	(1.0)	(0.3)	-	(23.4)
Depreciation expense ²	(0.2)	(14.1)	(21.6)	-	(35.9)
Closing balance	0.9	227.4	176.9	45.7	450.9
Cost					
Accumulated depreciation	(0.2)	(151.1)	(374.7)	-	(526.0)
Closing balance	0.9	227.4	176.9	45.7	450.9

- Comparative information has been provided for the 6 months ended 31 December 2015 in order to provide a meaningful comparison for movements in property, plant and equipment during the 6 month period. Comparative information for the 12 months ended 30 June 2016 can be found in the Group's 2016 annual report.
- Includes \$0.2 million of depreciation expense included within discontinued operations.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

7. Other intangible assets

31 December 2016 \$M	HCP Contractual Relationship	IT Software	Licences	Intangible Under Construction	Total
Net book value					
Opening balance	164.9	38.8	8.5	8.5	220.7
Additions	20.4	1.1	-	4.4	25.9
Capitalisation of intangible assets under construction	-	8.1	-	(8.1)	-
Disposals	(2.5)	(0.3)	(0.2)	(0.5)	(3.5)
Amortisation expense	(31.2)	(6.9)	(0.5)	-	(38.6)
Closing balance	151.6	40.8	7.8	4.3	204.5
Cost					
Cost	410.4	150.1	35.5	4.3	600.3
Accumulated amortisation	(258.8)	(109.3)	(27.7)	-	(395.8)
Closing balance	151.6	40.8	7.8	4.3	204.5

31 December 2015 ¹ \$M	HCP Contractual Relationship	IT Software	Licences	Intangible Under Construction	Total
Net book value					
Opening balance	167.4	88.2	14.9	19.5	290.0
Additions	43.8	2.2	0.1	10.7	56.8
Capitalisation of intangible assets under construction	-	9.0	-	(9.0)	-
Amortisation expense ²	(33.4)	(10.3)	(2.5)	-	(46.2)
Closing balance	177.8	89.1	12.5	21.2	300.6
Cost					
Cost	671.4	190.3	45.2	21.2	928.1
Accumulated amortisation	(493.6)	(101.2)	(32.7)	-	(627.5)
Closing balance	177.8	89.1	12.5	21.2	300.6

1. Comparative information has been provided for the 6 months ended 31 December 2015 in order to provide a meaningful comparison for movements in intangibles during the 6 month period. Comparative information for the 12 months ended 30 June 2016 can be found in the Group's 2016 annual report.

2. Includes \$2.3 million of amortisation expense included within discontinued operations.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

	31 December 2016 \$	30 June 2016 \$
8. Net tangible asset backing		
Net tangible asset backing per share	(1.15)	(1.16)

9. Contingent liabilities

There were no material changes in contingent liabilities since 30 June 2016.

	No. of Shares 31 December 2016 000's	No. of Shares 30 June 2016 000's	31 December 2016 \$M	30 June 2016 \$M
10. Issued capital				
Opening balance	521,433	515,999	2,422.8	2,407.3
Shares issued via Dividend Reinvestment Plan	-	3,899	-	15.5
Shares issued via Bonus Share Plan	-	1,535	-	-
Closing balance	521,433	521,433	2,422.8	2,422.8

	31 December 2016 Cents per share	31 December 2015 Cents per share	31 December 2016 \$M	31 December 2015 \$M
11. Dividends on equity instruments				
Recognised amounts				
Final dividend – previous financial year	6.4	11.0	33.4	56.8
Dividend forgone under the Bonus Share Plan	-	-	-	(6.1)
Total dividends paid	6.4	11.0	33.4	50.7

Unrecognised amounts

Interim dividend – current financial period	4.8	5.6
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The Directors have approved the payment of an interim dividend of 4.8cps 100% franked, to the holders of fully paid ordinary shares, the record date being 20 March 2017 and payable on 28 March 2017.

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

The final dividend for the year ended 30 June 2016 was 100% franked (2015: 50% franked).

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

	31 December 2016 \$M	Restated 31 December 2015 \$M
12. Notes to the cash flow statement		

(a) Reconciliation of cash

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

Cash	96.8	64.2
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(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities

Profit attributable to equity holders	21.1	67.6
Depreciation of plant and equipment	29.4	35.9
Amortisation of intangibles	38.6	46.2
Amortisation of borrowing costs	1.7	2.1
Share based payments expense	1.4	-
Non-cash expenses	1.0	-
Profit on sale of other investments	-	(17.0)
Increase/(decrease) in liabilities;		
Trade payables and accruals	0.9	(2.7)
Provisions	4.7	0.8
Deferred revenue	-	1.7
Decrease/(increase) in assets;		
Consumables	(1.8)	(2.5)
Receivables and prepayments	0.2	(4.3)
Tax balances	(6.8)	21.1
Net cash provided by operating activities	90.4	148.9

(c) Non cash investing and financing

During the period nil (2015: 3,899,358) and nil (2015: 1,534,600) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively.

These transactions are not reflected in the cash flow statement.

Condensed consolidated notes to the financial statements

For the Half-Year ended 31 December 2016

13. Discontinued operations

On 18 May 2016 the Group disposed of 100% of its shareholding in Health Communications Network Limited ("HCN"). The operations of HCN comprised the Health Technology segment and have been classified as a discontinued operation and disclosed as such in the Statement of Profit or Loss in the comparative period.

The comparative profit and cash flows from discontinued operations have been re-presented to include the operations of HCN that have been classified as discontinued.

	31 December 2016 \$M	31 December 2015 \$M
Profit for the period from discontinued operations		
Revenue	-	21.0
Expenses	-	14.2
Profit before tax from discontinued operations	-	6.8
Income tax expense on discontinued operations	-	1.3
Profit for the period from discontinued operations	-	5.5

	31 December 2016 \$M	31 December 2015 \$M
Cash flows from discontinued operations		
Net cash from operating activities	-	4.0
Net cash (used in) investing activities	-	(6.7)
Net cash from/(used in) financing activities	-	-
Net cash flow for the period	-	(2.7)

14. Prior period restatement – correction of error

As reported in the 30 June 2016 annual financial report a detailed review of the balance sheet resulted in the identification of a number of adjustments whereby certain assets were impaired and provisions were understated. Where these adjustments arose as a result of information that existed in prior periods but was incorrectly taken into consideration when assessing the carrying amount of assets and the adequacy of liabilities the errors are prior period errors that have been corrected by restating each of the affected financial statement line items for the prior period as set out below.

Impact on the consolidated statement of profit or loss for the half-year ended 31 December 2015 (Extract)

	Restated 31 December 2015 \$M	Restatement Increase / (Decrease) \$M	As Reported 31 December 2015 ¹ \$M
Depreciation	35.7	1.4	34.3
EBIT	115.1	(1.4)	116.5
Profit before tax	84.6	(1.4)	86.0
Income tax expense	22.5	(0.4)	22.9
Profit for the period	62.1	(1.0)	63.1

1. After adjusting to exclude the operations of HCN that have been classified as discontinued during the prior period (refer note 13).

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For the Half-Year ended 31 December 2016

14. Prior period restatement – correction of error (continued)

For details of the impact on the opening Statement of Financial Position for the comparative period, including opening retained earnings (that is, the Statement of Financial Position as at 30 June 2015) please refer to the 30 June 2016 annual financial report. There is no impact on the cash flow statement for the prior period arising from the correction of the prior period errors.

15. Subsequent events

On 10 January 2017, Primary announced that it had been informed by Mr Peter Gregg, its Managing Director and Chief Executive Officer, that he had been served with a Local Court attendance notice by the Australian Securities and Investments Commission (“ASIC”). ASIC alleges two contraventions of Section 1307(1) of the *Corporations Act 2001* during his time as an officer of Leighton Holdings Limited. Mr Gregg informed Primary that he denied the allegations.

On 13 January 2017 the Board of Primary Health Care Limited announced that it had accepted the resignation of Mr Gregg. Mr Gregg will remain in his role until the Company completes its internal and external search for a new Chief Executive Officer.

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