

---

# Message from the Chief Financial Officer

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

Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world class facilities and support services to independent general practitioners, radiologists and other healthcare professionals, enabling them to deliver quality care to their patients in partnership with Primary's pathologists, nurses and other employees.

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

Our strategy on supporting healthcare professionals so that they can deliver quality health outcomes to their patients and growth to our shareholders is underpinned by our strong commitment to compliance and reporting from a regulatory

standpoint. That is why Primary welcomes the opportunity to present this Tax Transparency Report for 2017. In preparing the Tax Transparency Report, Primary has adopted the disclosure recommendations made by the Board of Taxation in the Voluntary Tax Transparency Code.

Consistent with our commitment to strong corporate governance and transparent relations with our stakeholders, we believe the Tax Transparency Report together with the Annual Report for 2017 provide comprehensive detail of Primary's tax matters including our tax strategy and approach to tax risk management.



**MALCOLM ASHCROFT**  
CHIEF FINANCIAL OFFICER  
12 March 2018

## 2 Tax strategy and governance

Primary pursues a tax strategy that is governed by the following principles endorsed by its Board of Directors:

- Commitment to ensuring integrity in compliance with all statutory obligations, and full disclosure to Revenue Authorities.
- Maintenance of documented policies and procedures in relation to tax risk management and sustaining constructive and transparent relations with Revenue Authorities.
- Management of tax affairs in a pro-active manner that seeks to enhance shareholder value, while operating in accordance with all taxation laws.

The tax strategy is implemented through Primary's Tax Risk Management Framework which is founded on a low risk appetite to all taxation affairs including tax positions adopted in respect of strategic transactions, tax planning activities and compliance and reporting.

Primary's overarching and systematic approach to the management of tax risk involves the proactive assessment, mitigation, monitoring and reporting of identified risks. Primary's tax risks are regularly considered by its Management and Executive Risk Committees and tax is a regular agenda item for Audit Committee meetings with appropriate tax matters reported to the Board.

Primary's Tax Risk Management Framework has been documented and approved by its Audit Committee and is aligned with its overall Risk Management Policy and the Australian Taxation Office's Tax Risk Management and Governance Review Guide.



## 3 Income tax reported in Primary's 2017 Annual Report

The income tax expense disclosed in the Annual Report for 2017 is calculated based on Australian equivalents to International Financial Reporting Standards. In any year, there are common and typical differences between income tax expense reported in the Annual Report and the amount of cash taxes paid to Revenue Authorities due to factors such as timing differences and other taxes being excluded from income tax expense, such as FBT, payroll and employee taxes. Income tax expense is also reduced by available tax offsets, with the main offset applied by Primary being the R&D tax offset.

As reported in the 2017 Annual Report, Primary's effective tax rate for the 30 June 2017 year is impacted by the following items:

- Difference in tax and accounting treatment of lump sum payments made to healthcare practitioners by Primary. For acquisitions that occurred prior to 30 June 2015 no deferred tax liability was 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).
- Difference in tax and accounting treatment of the impairment of goodwill and other non-financial assets. The impairment loss recognised in the 2017 year relates to Medical Centres and is due to the repositioning of the division to deliver a sustainable business model which is taking longer than expected and has not yet translated into an uplift to Medical Centre's profit performance. As the impairment relates to the reduction of a DTL on goodwill that was prohibited from being recognised at the time of initial recognition under the accounting standards, it is therefore treated as a non-deductible (permanent) difference for the purpose of calculating income tax expense (benefit).

# Tax Transparency Report for the year ended 30 June 2017

## 3.1 Reconciliation of accounting profit to income tax expense

Primary's effective tax rate calculated as income tax expense divided by accounting profit before income tax expense was (0.79%) for 2017. However, excluding the impact of the significant permanent difference adjustments noted above, Primary's notional effective tax rate should be approximately 30%. The details of the impact of the above items are explained below:

- The difference in tax and accounting treatment of lump sum payments made to healthcare practitioners by Primary has increased the notional effective tax rate for Primary in the 2017 year. The effective tax rate will continue to be above 30% (excluding the impact of other permanent difference adjustments) throughout the period these intangible assets continue to be amortised. Once these intangible assets have been fully amortised (which will occur progressively over the next three years) these historical lump sum payments will have no ongoing impact on the effective tax rate. Primary's expectation is that the long term effective tax rate will be approximately 30% (based on the current structure and nature of its business).
- The difference in tax and accounting treatment of the impairment of goodwill and other non-financial assets has significantly reduced the notional effective tax rate for Primary in the 2017 year. Primary's expectation is that this should not be a recurring item in future years and that the effective tax rate will remain at approximate 30% (based on the current structure and nature of its business).

The following table provides the calculation of income tax expense for Primary and shows the impact of adjustments to the income tax expense on the calculation of the effective tax rate.

PRIMARY HEALTH CARE LIMITED	2017		2016	
	A\$M	%	A\$M	%
Net profit/(loss)	(516.9)		74.7	
Income tax expense	4.1		18.2	
Profit/(loss) before income tax	(512.8)		56.4	
<b>Tax at the Australian tax rate of 30%</b>	<b>(153.8)</b>	<b>30.0</b>	16.9	30.0
Goodwill impairment	140.6	(27.4)	-	-
Amortisation of pre FY15 contractual relationship intangibles	13.3	(2.6)	14.7	26.1
ATO settlement of healthcare practitioner tax liabilities	(0.1)	0.0	(4.1)	(7.3)
Other items	4.3	(0.8)	(0.5)	(0.9)
(Over) provision in prior years	(0.2)	0.0	(7.0)	(12.4)
ATO settlement of healthcare practitioner now deductible	-	-	(1.8)	(3.2)
<b>Income tax expense on profit before income tax</b>	<b>4.1</b>	<b>(0.79)</b>	18.2	32.3

## 3.2 Reconciliation of income tax expense to cash tax paid

The following table shows the reconciliation of income tax expense to cash income tax paid.

PRIMARY HEALTH CARE LIMITED	2017 A\$M
<b>Income tax expense on profit before income tax</b>	<b>4.1</b>
Timing differences recognised in deferred tax	23.6
(Over) provision in prior years	3.9
<b>Current income tax expense reflected in 2017 financial statements</b>	<b>31.6</b>
Tax refund for prior periods received in 2017	(5.1)
Tax payments for prior periods made in 2017	5.7
Tax payments relating to subsidiaries acquired in 2017	0.2
<b>Cash taxes paid per cash flow statement</b>	<b>32.2</b>

# Tax Transparency Report for the year ended 30 June 2017

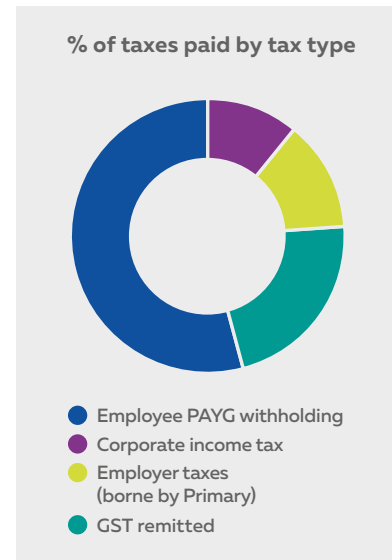
## 4 Tax contribution summary

Set out below is a summary of Australian taxes paid and collected by Primary for the financial year ended 30 June 2017.

The summary excludes property taxes such as land tax and stamp duties.

TAX AUTHORITY	CORPORATE INCOME TAX A\$M	EMPLOYER/PAYROLL TAXES <sup>1</sup> A\$M	INDIRECT TAXES <sup>2</sup> A\$M	TOTAL TAXES PAID A\$M	EMPLOYEE TAXES REMITTED A\$M
Australia (Federal)	32.2	-	62.7	94.9	152.2
Australia (State)	-	36.9	-	36.9	-
Foreign jurisdictions <sup>3</sup>	0.3	-	-	0.3	-
<b>Total</b>	<b>32.5</b>	<b>36.9</b>	<b>62.7</b>	<b>132.1</b>	<b>152.2</b>

- 1 Fringe benefits tax and payroll tax.
- 2 GST net of recoveries is (\$11.3m).
- 3 Income taxes paid in India and the Philippines.



## 5 International related party dealings

Primary's Australian operations contributes more than 99% of Primary group's total income tax paid globally.

Currently, Primary's main international dealings comprises of the provision of low end data processing services provided by its India and Philippines subsidiaries. Primary also has presence in the US, UK, the Netherlands and Singapore – these subsidiaries are dormant for the 2017 year.

The international related party dealings are in accordance with arm's length principles and represent a very insignificant proportion of Primary's overall transactions.

The split of income tax contributions by country is illustrated on the right.



# Tax Transparency Report for the year ended 30 June 2017

---

## 6 ATO tax transparency disclosures

In December 2016, the Australian Taxation Office published the following taxation information from Primary's Australian tax consolidated group income tax return for the year ended 30 June 2015:

<b>2015</b>	<b>A\$M</b>
Total income	1,660.4
Taxable/net income	220.6
Total tax payable	59.9

Similarly, in December 2017, the Australian Taxation Office published the following taxation information from Primary's Australian tax consolidated group income tax return for the year ended 30 June 2016:

<b>2016</b>	<b>A\$M</b>
Total income	1,714.6
Taxable/net income	213.9
Total tax payable	57.8

Taxable income is calculated based on accounting concept and adjusted for applicable tax timing and permanent difference adjustments required under the Australian taxation laws. Tax payable is calculated as taxable income at the corporate income tax rate (30% for 2015 and 2016), reduced by available tax offsets.

Primary's available tax offsets is primarily the research and development tax offset which was \$6.1m for both financial year ended 30 June 2015 and 30 June 2016.

**PRIMARY**  
HEALTH CARE LIMITED

[www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au)