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Pro Medicus Limited said today that profit for the second half to June 2009 would be stronger than the first half, when you reported a 35 percent fall in net profit to \$2.4 million. In February when you announced the first half result you flagged a continued flattening of growth in the Australian business and reduced contribution from the North American business as you ramped up the new direct selling model. You also expected Visage Imaging, which you acquired in February, to be earnings neutral this year. How did these factors play out in the second half?

CEO David Chambers

The Australian market is starting to mature with more and more clients having adopted digital technology over the last two years, however we expect the addition of the new products from Visage Imaging to increase our position here over the coming 12 months. What was pleasing was that we've been able to establish a strong team on the ground in the US which has now been combined with the Visage team and makes for a stronger sales force that's already had several wins at some prestigious institutions. What's a bonus is that the Visage acquisition gave us some infrastructure to gain forward momentum in the UK and Europe as well.

On a further positive note, Visage is ahead of the business case we had pre-acquisition, with income moving steadily upwards and costs under control. These elements all add up to us being on track to make Visage profitable within the current financial year.

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When do you expect Pro Medicus to emerge from this “transition phase” in its operations?

CEO David Chambers

I believe we’ve moved faster than our acquisition business case predicted and that we’re now ready to enter the next phase of growing our group business. The only uncertainty is the speed with which the global economy can move beyond the doldrums we’ve all been facing, but even with that in mind, we’re growing increasingly confident that the addition of our new product technology will provide a strong basis for global growth.

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What has been the progress in integrating Visage at both product and operational levels and what costs have you incurred in the integration process?

CEO David Chambers

We’ve made great strides in the integration of Visage at various levels across the organisation including sales, support, and operations, and in most areas are on, or ahead of, the schedule we set ourselves. Shortly after the acquisition we showed our first level of integrated product at the European College of Radiology Conference (ECR) in Vienna, and have since shown further iterations at the Society for Imaging Informatics in Medicine (SIIM) meeting in Charlotte, North Carolina in the US, and the UK Radiology Conference (UKRC) in Manchester in the UK.

The feedback we’ve had in terms of both the standalone and integrated versions of our radiology information system (RIS), picture archive communication system (PACS) and 3D technologies, has been very positive and our products have attracted a lot of attention in the market, with one leading PACS technology commentator calling us “the 800 pound gorilla” of the sector.

As well as making strong advances in the integration of our sales and support teams, we’re moving well down the track in aligning our R&D, and now have the basis for a future development road map. The unification of our businesses at an operational level is also being underpinned by implementation of a common IT infrastructure. The benefits of this, in terms of efficiency and management information to drive our business globally, will be felt well into the future.

The costs of integration have been quite modest and have been funded from our operating cash flows. So far our operating costs have been at or below what we’d predicted in our acquisition business case.

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What has been the sales performance of Visage since the acquisition and how does it compare with your expectations?

CEO David Chambers

Visage has picked up some key clients in several very prestigious institutions in the US and Europe, and our ability to generate income has been at or around the expectation we had when we acquired the company. As we've indicated previously, the Visage technology is ahead of the market curve and the products will take some time to ramp up, but the response at this early stage has been extremely positive. We believe our faith in the technology will be rewarded.

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The Australian business was impacted in the first half by a delay in implementation of a major project, which appears to have contributed to the second half. Will the project make a full contribution to the second half? What opportunities are there in the Australian market for further major projects?

CEO David Chambers

The delayed project came in as expected late in the second half and was a welcome addition to our Australian business. It will make close to a full contribution, with only a small residual remaining in the June 2010 financial year.

We believe the outlook is quite strong for future projects due to our ability to harness the new Visage technology which also allows us to enter the public hospital market here in Australia. That's one of the other big positives about our acquisition of Visage: it's enabling us to not only up-sell to our existing clients and find new customer sites in imaging centres but also to move into the hospital market both here and overseas.

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Given the relative maturity of the Australian market, to what extent will Pro Medicus' focus now shift to North America and Europe?

CEO David Chambers

The Australian market has been the bedrock of our company and it will continue to be very important to our business. We'll endeavour to use our new technology to stimulate new interest as well as up-sell to our existing client base here. But we're also in the fortunate position of having enough resources on the ground in both the US and Europe to run parallel streams of business development. Over time we'd expect to see a relatively higher proportion of our revenues being generated in geographies with higher populations. This is also reflected in our future strategic plans.

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Pro Medicus had cash of \$11.5 million as at the end of December 2008, down from \$12.9 million in June 2008. Can you comment on the level of cash at the end of June? Do you have adequate reserves to continue to fund the anticipated growth of the business from internal sources?

CEO David Chambers

Since December we've paid for Visage in full out of cash reserves, and paid our half year dividend as well. We expect to have cash reserves of around \$5.5 million as at the end of June, not to mention that we are also debt free. Of course

the accounts have yet to be audited, but we think we're in a healthy position. We remain confident we have more than adequate reserves to underpin the growth of the business but like all other businesses we'll continue to monitor our cash reserves closely.

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Pro Medicus paid a fully franked interim dividend of 1.5 cents per share, down from 2.75 cents last year. How will dividends and franking be impacted shorter term as you ramp up the international side of the business?

CEO David Chambers

We're expecting to pay a dividend but are yet to make a determination on the quantum.

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Thank you David.

For more information about Pro Medicus, visit www.promedicus.com.au or call David Chambers on (+61 3) 9429 8800.

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