ANNUAL REPORT 2017

ABN 80 129 643 492

virtus HEALTH

Fertility Specialists	Fresh IVF Cycles	Scientists	Nurse, counsellor & patient support
122	18,669	231	951

Fertility Clinics

46

Day Hospitals

6

Laboratories

62

Leading Minds Leading Science

Virtus Health is one of the most successful medical collaborations of its kind in the world.

We combine the strength of clinical collaboration with advanced scientific techniques to deliver the best possible outcomes for our patients.

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CHAIRMAN'S STATEMENT

Results for the financial year ended 30 June 2017 reflect a challenging year in our core Australian fertility operations and continued growth from our international activities reaffirming the strategic vision of Virtus Health.

Group revenue decreased 1.8% to $256.5 million primarily as a result of market volume weakness and price pressure in a competitive Australian market where revenue declined by 1.3%. International revenue also declined slightly, primarily a result of foreign exchange translation impact on our euro earnings.

For the year ended 30 June 2017 the Directors are pleased to announce a final dividend of 12.0 cents per share fully franked and this results in a full year dividend payout of 25.0 cents per share fully franked; this is a decrease on the prior year due to the lower results although the underlying cash generation of the business remains solid.

Our international activities achieved further improvement in EBITDA to $7.1 million compared to $5.7 million in the prior year with Ireland continuing to deliver solid results. In Singapore we progressively improved performance reducing EBITDA losses by $0.4 million to $0.1 million and in the last six months we achieved a positive EBITDA result. The Singapore team's clinical success and patient care continues to attract more patients and specialists and we anticipate a profitable performance in the new financial year.

Virtus also welcomed Aagaard to the group and this well appointed clinic has been immediately earnings enhancing; the Aagaard team have quickly embraced the opportunity to integrate with Virtus international teams.

In the Australian eastern state markets in which we operate there was an overall market volume decrease of 0.4% for Assisted Reproductive Services ("ARS"). This small decrease was largely supported by strong growth in Queensland where new entrants providing low cost ARS to a broader population helped drive volume growth of 27% in the last six months.

Underlying cycle volume in Virtus Australian clinics decreased 3.7% and reflected two main issues; our Victorian premium service activity continued to lose market share and several other markets were fundamentally weaker than in the prior year. Indeed the NSW market which has seen strong growth over the previous two years saw volumes decline by 5% in FY2017 although Virtus clinics achieved a better result. Our Sydney and Melbourne metropolitan based "The Fertility Centre" ("TFC") branded clinics experienced a slowdown in the first half of the financial year; management made several changes to the TFC service and we have seen improvements in volumes and financial performance in the second half of the year. Management has also enhanced the range of services offered by several regionally positioned clinics and this led to improvements in volume and profit.

The underlying demographic drivers of ARS remain favourable in all markets with the key factors stimulating volume growth being the impact of rising maternal age, the impact of underlying medical conditions on fertility, and increasing demand from same sex couples and single women accessing donor sperm and ARS to start a family. The Virtus Board believe that providing services to support patients across a range of social and economic demographics, as well as meeting the full range of clinical demands is essential to the sustainability of the Virtus business.

On a similar theme diagnostic revenue increased by nearly 9% in FY2017, largely driven by the new applications of genetic testing and screening in reproductive medicine which are improving success rates for patients and providing access to new patient segments, including the fertile population. The strong improvement in financial performance of Virtus Health Diagnostics reflects the efforts of a committed team, management and employees, who have undertaken major changes to the operational capability of the Virtus laboratories. The addition of the "G" laboratory capability in 2015 secured our service delivery to patients and fertility specialists and also allowed further expansion of Virtus diagnostic screening capabilities.

The day hospitals experienced a quiet year with weakness in full service IVF activity a key factor in procedure volume declines. Non-IVF revenue was also weaker than in the prior year.

Recognising the continued evolution in the Australian market and the competitive pressure on revenue the management team have made changes to the domestic operation. This resulted in a restructure of Melbourne IVF in particular, where financial and competitive performance over the last two years had been disappointing. Under a new management team major changes have been made to the Victorian operation and this includes the recruitment of a world renowned laboratory management team. Additionally, changes were made to our diagnostic laboratories and our national sales and marketing team; we believe these changes were essential to meet the evolving demands of the ARS sector.

Group revenue decreased 1.8% to

$256.5m

Net Profit after tax decreased 14.6% to

$28.1m

In the Chief Executive's review Sue Channon provides further details on the evolution of the group's activities, research and development, and our strategies to ensure the continued development of Virtus Health. The Board continues to work closely with management to identify international opportunities in UK and Europe. Opportunities continue to present themselves but the Board is focused on ensuring that financial returns to shareholders are appropriate.

Changes to federal and territory legislation are an important feature of the future landscape for ARS across the world. In Australia the Federal Health department continues its review of the Medicare Benefits Schedule; to date there have been no announcements regarding the ARS sector. The National Health and Medical Research Council ("NHMRC") published a review on Australian regulations for sex selection for family balancing (not currently permitted) and separately, certain legal and ethical aspects of donor services. The review suggests a relaxation of rules relating to sex selection for family balancing and seeks to clarify certain aspects of donor ARS but actual changes to legislation have not been made yet. In Europe changes to donor services are occurring in several countries and our Irish and Danish clinics are continually reviewing the opportunities for further business development.

I would like to thank all our staff, fertility specialists and management teams who contribute daily to the success of Virtus Health and would commend their flexibility and resilience in a year where organisational change has been significant. Finally, following Dennis O'Neill's retirement from the Virtus Board at the AGM in November the Board welcomed Greg Couttas to Virtus Health.

Peter Macourt

Peter Macourt
Chairman

CHIEF EXECUTIVE'S OVERVIEW

Virtus Health is an internationally recognised provider of Assisted Reproductive Technologies and related services and the market leading Assisted Reproductive Services ("ARS") provider in Australia and Ireland with a growing international presence in Singapore and Denmark.

In FY17 our teams completed 18,669 fresh IVF cycles, 35,360 IVF treatments and 32,420 day hospital procedures across our network.

As one of the world's most successful medical collaborations we now have 122 fertility specialists (109 in Australia) increasing from 116 in June FY16 supported by nearly 1,200 professional staff including scientists, nurses, researchers and administrators to provide the highest standards of clinical care and patient outcomes.

Our scientific team was strengthened this year with the addition of the internationally renowned reproductive biologist Professor David Gardner who was recognised for his work in reproductive science by being inducted into the Australian Academy of Science in May achieving the highest national scientific acclaim – the only Academy member in the field of human reproduction. Professor Gardner has also achieved the 2017 American Society of Reproductive Medicine (ASRM) Distinguished Scientist Award, the second Australian to be acknowledged by the ASRM in this way. We are exceptionally proud of the success rates we deliver to our patients and Professor Gardner brings to our organisation a new level of scientific research capability for improved patient outcomes.

Virtus Health core values, our medical leadership capability, our commitment to clinical sovereignty our 'Leading minds, Leading science' philosophy and our uncompromising commitment to quality health outcomes and service will ensure that we continue to deliver women and men aspiring to have a child the best possible chance to create the family they desire.

Virtus Health Australia – Fertility

While the Australian fertility market experienced ongoing structural changes Virtus remains in a strong and sustainable competitive position as market leader. The Australian ARS markets in which Virtus operates were down 0.24% against the prior year with the negative market growth minimised by increased competition in Queensland.

Virtus cycle activity in Australia declined by 3.7% impacted by Victorian market share losses and the low cost competitors in Queensland impacting market share which declined to 42.1% from 43.9%.in the pcp.

Virtus has undertaken a significant cost review particularly in Victoria where a new management team has been focused on staffing and efficiency gains and building the reputation of Melbourne IVF through an enhanced patient experience and scientific and clinical outcomes. These actions, coupled with improved marketing have arrested the declines in the Victorian market share in the last 3 months. Restructure costs have been significant in FY17 but the cost base reset should deliver margin improvement through FY18.

Our strategy to have our regional domestic clinics provide a full range of fertility treatments at different price points has been successful and positions Virtus for optimal market penetration in our regional centres. We remain committed to operating both our premium brand and our low cost fertility specialist driven model as it provides our patients with a full range of treatment options and achieves our strategic ambition for diversification and access to the full ARS market. We remain heavily committed to our integrated and diversified business model as it provides the platform to participate in all service segments.

While Tasmania experienced the additional challenge of a new competitor coming into the market our expanded services in Launceston and the introduction of the regional service model delivered a 3% cycle growth on the pcp. Advanced diagnostic services (PGD/PGS, Cytogenetic) have now also been made available to patients in Tasmania and the ACT.

A number of specific "harmonisation" projects aimed at delivering a streamlined approach and efficiencies across the whole business were launched at the beginning of FY17 and significant inroads have been made. Work to deliver a standardised revenue and patient billing approach across all businesses, a "one laboratory" approach, customer service standardisation, procurement rationalisation and reorganisation of the marketing team to a group wide structure have all been undertaken.

On the political front there are no legislative or proposed changes to IVF before Parliament or currently under consideration by the Federal Minister. The MBS review is progressing and the IVF profession is participating in this discussion.

Virtus Health International

Our strategy to drive the Virtus collaborative model in carefully selected international markets is achieving results and we will continue to pursue acquisition opportunities in the UK and Europe.

In support of this strategy and with 4 clinics in the region comprising 15% of Virtus revenue we have expanded the European management team to include the appointment of a European Managing Director. This role has been established to ensure the momentum around our acquisition strategy is enhanced and to provide Virtus leadership capabilities in the northern hemisphere.

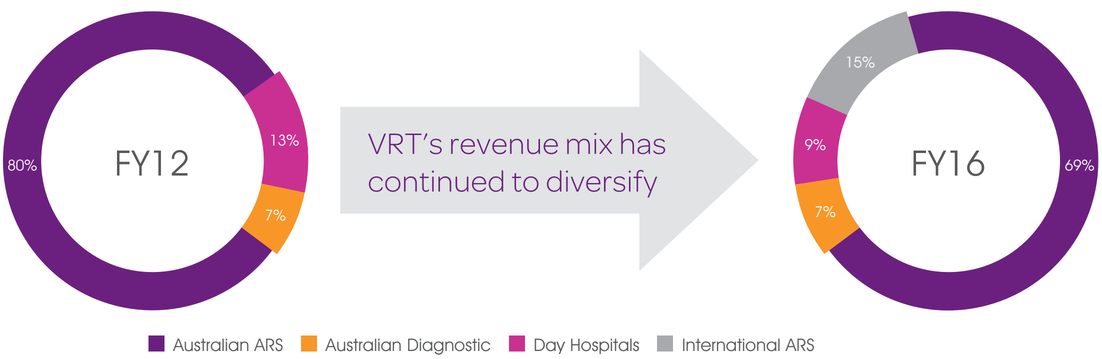
Newest Member Aagaard Fertility Clinic, Denmark joined Virtus December 2016

Aagaard Fertility Clinic founded in 2004, is the leading Danish fertility clinic outside Copenhagen and at the forefront of fertility medical development. The clinic offers a full and comprehensive range of fertility treatments and advanced scientific technologies and sperm bank Skejby CryoBank.

Aagaard is the first fertility clinic in Scandinavia to offer *pre-implantation genetic diagnosis* and *pre-implantation genetic screening*. All services are provided from a modern purpose built facility which is strategically positioned close to the Aarhus University hospital, the second largest public hospital in Scandinavia.

The highly specialised staff are trained in all types of modern assisted reproductive service treatment methods ranging from IUI and regular IVF treatment to egg donation and preimplantation genetic diagnostics and screening. An additional fertility specialist joined the team on 1st July in anticipation of future growth expectations.

Multiple Sources of Revenue



CHIEF EXECUTIVE'S OVERVIEW

The Aagaard Fertility centre in Aarhus Denmark was added to the European portfolio in November 2016. Aagaard is the leading Danish Fertility clinic outside Copenhagen with the highest national reported success rates. This acquisition opens up further opportunities for Virtus within the Scandinavian region.

Our Irish clinics continue to be the leading provider in the Irish market and while performance was solid the full year result was impacted by a six week closure of the Rotunda clinic for laboratory upgrades and a disruption to services in Cork as a result of doctor recruitment issues; these issues have now been addressed.

The performance of our Singapore operation continued to improve through the year with the second half delivering a positive EBITDA. An additional contracted doctor was added in the second half and we now have 8 clinicians utilising the service in Singapore.

The international partnerships have facilitated positive flow-on effects including collaboration on research and science, sharing best practice treatment options for patients, attracting the best fertility specialists and providing international opportunities for career advancement for staff. We are seeing the value of the Virtus collaborative network in action with the Aagaard Clinical and Scientific team attending the Virtus International Clinical day in Australia in March and the Irish and Aagaard Medical Directors attending clinical meetings in Australia via electronic communications on a monthly basis.

Diagnostics

The Virtus diversification and vertical integration strategy into diagnostics continues its positive momentum by expanding its specialist fertility and genetic pathology screening services under the brand "Virtus Diagnostics". This service is now underpinned by an increased capability in general pathology testing. With a restructured footprint and new testing platforms fully commissioned in FY17 Virtus Diagnostics has the capability to deliver an efficient and comprehensive testing service to Virtus clinicians and external referrers as evidenced by the growth in testing and screening revenue.

The expansion of our diagnostic services under the brand "Virtus Diagnostics" saw us perform an increasing number of general pathology and specialised genetic testing episodes delivering an EBITDA improvement over the prior year of 37%. Significant efficiency gains were also achieved in this portfolio.

Significant growth and scope of testing has already been achieved in the area of Pre-Implantation Genetic Screening (33% increase on pcp) and Pre-Conception Genetics. The area of Genetics is rapidly evolving and Virtus Diagnostics has the capability to deliver the latest screening with its advanced technology. Through our expanded collection centre footprint we aim to be more accessible to patients and requesting clinicians.

Technology, patient service and safety standards

The Virtus Board, Risk Committee and management have continued to focus on risk management and patient service standards with a number of key initiatives rolled out across FY17 in support of our ambition to provide the highest level of care and outcomes to our patients in the safest environment. All of our facilities maintained their accreditation status with many achieving commendations through the external quality auditing process.

Virtus Health remains committed to the highest quality health care and outcomes for the increasing number of patients we care for every year. Our core value to ensure the needs of patients come first has guided our commitment to enhanced patient service and safety in parallel with our investment strategy into key technologies in support of this goal.

FY17 saw the continued roll out of radio-frequency identification ("RFID") electronic witnessing and verification systems which are to be installed across all laboratories in the network giving patients added peace of mind in the care and management of their precious gametes.

Virtus introduced a number of internal initiatives in support of staff communication, induction and training activities with the introduction of MyRapid, an online training and induction program, and MyVirtus, an enhanced intranet for internal communications and quality management.

The Virtus Patient System (VPS) has now been rolled out to all clinics on the mainland with Tasmania to be completed during August. This now provides a standard enterprise platform for the management of our patients with clinicians having immediate access to patient information.

The implementation of VPS has enabled the launch of the Virtus patient app which provides patients with immediate access to their treatment schedule. The app is the only one of its kind in Australia and the first in-category worldwide which includes comprehensive supporting material for women undergoing IVF treatment. In addition to consolidating key information about a patient's IVF cycle into the one device, it allows real time discreet information sharing between a patient and their doctor, nurse and scientific team. For the first time all appointments, medication and results traditionally stored within the clinic patient management system are accessible to a patient and linked to both her and her partner's personal calendar enabling instant updates and results on their IVF cycle.

In order to enhance service standards for patients we introduced a standard global patient satisfaction survey tool which includes the Net Promoter Score (NPS). A member of the patient service team proactively contacts patients, who having completed the survey are classified as detractors.

The Virtus Health Fertility App, first in category worldwide

The Virtus Fertility App was launched this year, the only one of its kind in Australia and the first in category worldwide. "We are very pleased to bring this innovation to our patients, and believe it will help ease some of the anxiety involved in the IVF process. In addition to consolidating all key information about a patient's IVF cycle into the one device, the Virtus Health Fertility App allows for more discrete communication between patients and the clinic." said Dr Lyndon Hale, Virtus Health.

For the first time all appointments, medication and results traditionally stored within the clinic patient management system are accessible to a patient and linked to both her and her partner's personal calendar enabling instant updates, reminders and results on their IVF cycle. Links to videos on how to administer different IVF medications, expert supporting content including IVF cycle FAQs, medication A-Z, well-being exercises and quick access to contact details for a patient's support team help place patients in the best possible frame of mind when undergoing IVF treatment.

Virtus International EBITDA increased 24.4% to

$7.1m

Virtus Diagnostics EBITDA increased

37%

CHIEF EXECUTIVE'S OVERVIEW

To ensure that our information and communications technology ("ICT") strategy continues to underpin our business vision and expansion objectives while optimising service delivery and user experience the Board approved a comprehensive review of our existing ICT software and hardware. This project commences in FY18.

Research

Research features prominently in our organisation enabling our commitment to improving patient outcomes and staying abreast of the most current technology and treatment options. Our clinicians and scientists have been pioneers in fertility care for over 30 years and we continue to be a leader in this advanced field of healthcare through our scientific and clinical research activities with an annual R&D investment of approximately $3 million.

The Virtus Research Grant committee was established in FY17 and oversees access to funds available to support PhD students and researchers for specific projects that meet the Virtus vision and support our key strategic imperative and ambition to be a leading global provider of ARS based on clinical and scientific effectiveness and the improvement of IVF outcomes.

The Virtus PhD Scholarship in Reproductive Science initiative launched in FY16 has been awarded to two PhD students and the Research grant is continuing to support a major internal research project to explore the growing 'freeze all' treatment approach all of which will directly benefit patients. In addition Virtus has 5 PhD students working alongside our scientists and clinicians on various scientific and clinical research programs.

The R&D Committees across Virtus continue to oversee a range of in-house research projects and desk top audits evaluating the success, safety and efficacy of our programs.

Fertility specialists and employees

Virtus fertility specialists and scientists continue to contribute to innovation and development within the fertility profession in Australia and internationally. We continue to collaborate with universities and public hospitals through the academic appointments of our clinicians. This collaboration between Virtus, academia and the public health system ensures a solid training profile for new specialists and provides strong support for our succession program.

We continue to attract and retain fertility specialists, scientists, nurses, counsellors and administrative professionals for the delivery of exceptional patient care. Our fertility specialists have the ability to create the practice they desire, combining private practice with public appointments, research and academic activities dependant on their individual aspirations.

The average age of our fertility specialists remains at 50 unchanged since our ASX listing reflecting the recruitment of new specialists to balance the retirement of established specialists. Our medical and scientific teams have been collectively responsible for the creation of over 70,000 babies since our inception. All of our fertility specialists are qualified obstetricians and gynaecologists many of whom have subspecialty training in infertility and have achieved the highest possible level of qualification in this field obtaining a Certificate of Reproductive Endocrinology and Infertility (CREI), and its worldwide equivalents.

As part of our commitment to all employees Virtus has recently appointed a National Workers Health and Safety Officer to ensure the ongoing health and wellbeing of all staff and contractors.

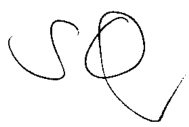
Outlook

Infertility is a medical condition affecting 1 in 6 couples of reproductive age globally; the social and demographic factors contributing to this global dynamic continue to drive demand for Assisted Reproductive Services.

Virtus has invested in scientific and diagnostic platforms, facilities and research over the last 10 years and we have continued to develop our services to meet the scientific and clinical needs of our patients. It is this technically advanced platform that is one of the key drivers to growth and ensures we are able to diagnose and treat a full range of reproductive and fertility issues thus maintaining our competitive advantage. We continue to invest in our facilities, research, people and technologies to ensure we can attract the very best specialists and scientific teams to meet the growing needs of the patients we treat.

While it has been a challenging year for the ARS sector in Australia the market variability experienced through FY17 is not unusual and Virtus' patient centric approach to strategy has proactively driven our diversified model reducing dependence to one segment of the market. We have revised the Australian cost base and combined with our diversified revenue model Virtus has the flexibility to respond to changing market conditions.

Finally, I would like to take this opportunity to thank the Board of Virtus, the Virtus Executive team and all of our doctors and staff around the world for their support and ongoing commitment to the organisation and the patients who place their care in our hands. Thanks to all for your continued effort and commitment to our vision and values.



Sue Channon
Group CEO

Technology delivers highest patient safety standards

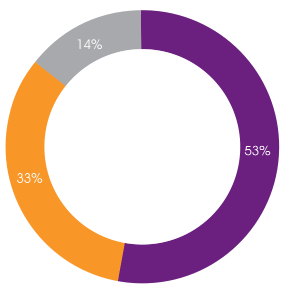
The RI witness system being introduced across all Virtus embryology laboratories uses Radio Frequency Identification (RFID) to detect and monitor activity in the IVF Laboratory. The system helps provide extra peace of mind for patients and embryology staff alike, safeguarding every step of the IVF process reducing potential risk of human error.

The electronic witnessing and verification system identifies and tracks procedures and events beyond current work practice standards providing the highest patient safety standards and valuable analytical data on processes and techniques for quality control, auditing and efficiency improvements.

Virtus Fertility Group Treatments* increased 3.6%

35,360

*including IVF, FET, IUI & Cancelled



Fertility Treatment Mix

- Cycle
- Frozen
- AI/OI

BOARD OF DIRECTORS

Peter Macourt

Chairman

Peter is a former director and Chief Operating Officer of News Limited. Whilst at News Limited, he served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited. Peter is also Chairman of SKY Network Television Limited and Director of Prime Media Limited.

Sue Channon

Chief Executive Officer

Susan (Sue) has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to Chief Executive Officer ('CEO') of the company in November 2010, Sue was CEO of IVF Australia Pty Ltd. Prior to joining the company, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.

Peter Turner

Non-executive Director

Prior to joining the company, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently Chairman of NPS MedicineWise and Non-Executive Director at Bionomics Limited.

“Our Board sets and reviews the direction of Virtus Health and monitors executive management’s implementation of the strategy.”

Greg Couttas

Non-executive Director

Greg was a highly experienced auditor having spent 40 years with Deloitte including 28 years as partner. During his formative years he worked in audit across various sectors, specialising in ASX100 clients. Greg’s expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence.

Additionally, Greg held a number of management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008, chairing the Audit and Risk Committee for eleven years, and was a member of the Board of Partners for Deloitte Australia from 2005 to 2016. Greg was appointed to the Board of Sydney Water Corporation in 2016.

Sonia Petering

Non-executive Director

Sonia is a corporate lawyer who brings extensive experience as a Director. She also served as Chair of the Rural Finance Corporation of Victoria and a Non-Executive Director of Victoria’s Transport Accident Commission until July 2016. Sonia is also a Non-Executive Director of TAL, Dai-Ichi Life Australia Pty Limited and Qantm IP Limited.

Lyndon Hale

Executive Director

Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also director of Reproductive Surgery at The Women’s Hospital, and is a board member of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.

DIRECTORS' REPORT

for the year ended 30 June 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of Virtus Health Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Macourt – Chairman
Susan Channon
Dennis O'Neill (resigned on 9 November 2016)
Lyndon Hale
Peter Turner
Sonia Petering
Greg Couttas (appointed on 5 October 2016)

Principal activities

During the financial year the principal continuing activities of the consolidated entity were the provision of healthcare services which included fertility services, medical day procedure services and medical diagnostic services.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017 $'000	**2016 $'000**
Interim ordinary dividend for the year ended 30 June 2017 of 13.0 cents (2016: 14.0 cents) per fully paid share paid in April 2017	10,450	11,191
Final ordinary dividend for the year ended 30 June 2016 of 15.0 cents (2015: 14.0 cents) per fully paid ordinary share paid in October 2016	12,057	11,191
	22,507	22,382

A final dividend of 12.00 cents per share, fully franked, will be paid on 13 October 2017 to the shareholders on the register at 15 September 2017.

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $28,103,000 (30 June 2016: $32,918,000).

A reconciliation of Segment EBITDA to profit before tax for the year is as follows:

	Consolidated	
	2017 $'000	**2016 $'000**
Segment EBITDA	72,875	76,878
Share-based payment expense	(440)	(559)
Other non-trading expenses	(11,447)	(9,568)
Fair value adjustment to put liabilities and contingent consideration	3,846	2,165
EBITDA (reported excluding impairment of goodwill)	64,834	68,916
Depreciation, amortisation and impairment expense	(14,035)	(11,180)
EBIT	50,799	57,736
Interest revenue	127	143
Interest expense	(6,684)	(7,240)
Interest on other financial liabilities – non-cash interest	(1,202)	(1,338)
Amortisation of bank facility fee	(207)	(208)
Profit before income tax from continuing activities	42,833	49,093

The consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

Key features of the results are:

- Revenue decreased by 1.8% to $256.5 million;
- Group EBITDA decreased by 5.9% to $64.8 million;
- Segment EBITDA decreased by 5.2% to $72.9 million;
- Australian segment EBITDA decreased by 7.6% to $65.8 million;
- International segment EBITDA increased by 24.4% $7.1 million;
- Net profit after tax ("NPAT") attributable to equity holders decreased by 14.6% to $28.1 million; and

NPAT for FY2017 included the following non-recurring gains, non-recurring expenses and non-cash acquisition related items:

- Acquisition transaction costs of $773,000;
- Restructure costs of $575,000 ($822,000 pre-tax);
- Non-cash put interest expense of $1,202,000 related to put option liabilities to acquire non-controlling interests and contingent consideration liabilities;
- Fair value gain of $3,846,000 on the put option liabilities relating to Sims and Tasmania and contingent consideration of the Canberra Fertility acquisition; and
- Impairment of Tasmania's goodwill of $1,870,000.

Operating Overview

Australia segment

There was an overall annual market volume decrease in the New South Wales, ACT, Queensland, Tasmania and Victoria markets of 0.2% for Assisted Reproductive Services ("ARS"). (Note: market volume reflects fresh and cancelled cycles). Volumes improved in H2FY17 after a weak first half although the improvement was largely confined to the Queensland market.

Cycle volume in Virtus clinics decreased by 3.7% with growth achieved in Queensland and Tasmania. Like for like volumes in The Fertility Centre ("TFC") clinics increased by 3.9% and this reflected changes made to the Virtus service in the second half of the year. Full service activity declined by 3.1% although it should be noted that IVF Australia performed ahead of the NSW market.

The performance of Melbourne IVF highlighted at the half year was a key reason for the decline in profitability of the Australian segment. Compared to prior year, Victorian EBITDA declined by $3.8 million. Under a new management team significant reductions in operating expenses have been realised and together with changes in marketing and science Virtus has seen improvements in profitability. In the last quarter Melbourne IVF maintained its market share position after a period of decline.

Specialist diagnostic revenue increased by 8.7% in FY2017, with greater utilisation of pre-implantation genetic diagnosis ("PGD") and screening ("PGS") and when combined with changes in the supply of consumables and laboratory restructuring, diagnostic EBITDA increased by 37%. Day hospital revenue was lower than anticipated with total revenue down by 7.2% and non-IVF revenue declining by 9.2% as a result of the loss of a high volume ophthalmic specialist from one of our Sydney day hospitals. We increased non-IVF revenue in two of the other five day hospitals and non-IVF procedure revenue continues to account for 54% of day hospital revenue.

Overall the Australian segment EBITDA was suppressed by the margin decline in TFCs ($1.2 million), day hospital revenue weakness ($1.1 million), Melbourne IVF volume weakness ($3.0 million) and restructure costs ($0.7 million).

International

The company's international activities achieved further improvements in FY2017 with segment EBITDA increasing to $7.1 million from $5.7 million in the prior year.

Singapore EBITDA losses reduced from $0.5 million in the prior year to $0.1 million and in the last six months the clinic achieved a positive EBITDA result.

Ireland delivered a steady result with EBITDA virtually unchanged on a local currency basis compared to prior year at €4.3 million. This result was achieved after incurring restructuring costs of $0.1 million and the loss of revenue related to the previously reported temporary Rotunda IVF laboratory closure in August.

The Danish clinic, Aagaard, delivered EBITDA of $0.9 million in the seven months since acquisition and the integration of the clinic team into Virtus has been very positive.

Capital expenditure

Total expenditure on tangible and intangible assets was $9.8 million in FY2017 (FY2016; $9.6 million). The largest investment related to the continued development and rollout of the company's Virtus Patient Management software in Australia; as reported in the CEO report this is largely complete.

Acquisitions

Virtus completed one acquisition during the year being the acquisition of Aagaard Fertility Clinic in Aarhus Denmark. The maximum transaction value could be $15.7 million although the estimated transaction value per the statutory accounts is $14.5 million. It assumes the estimated fair value of the earnout payable in March 2018 is $3.8 million.

Outlook

The long term trend of women over 30 delaying the birth of children remains a key factor in each of our geographic markets and demand for ARS is expected to grow. In Australia the median age of the first time mother in 2015 increased slightly to 31.0 years (2014: 30.9). Market compound average growth rate ("CAGR") for fresh cycles in the eastern state markets over the last four years has been 3.0% compared to a five year CAGR of 2.6% supporting the view that demand for IVF services is continuing to grow.

Virtus believes that demand for ARS will continue to be supported by a range of social and demographic drivers continued improvements in success rates, the application of specialist diagnostic services (PGD, PGS) and the demand from same sex couples and single females for donor services. This position is largely unchanged from previous years.

Although the Australian ARS market has become more competitive in the last two years with increased price competition a significant factor, Virtus believes that it remains well positioned to deliver an integrated range of ARS, diagnostics, genetic screening and day hospital procedures to a broad range of patients.

Debt and interest expense

At 30 June 2017, total facilities drawn were $154 million in cash and $5 million in guarantees. Cash balances at the end of June 2017 were $27 million. Net debt increased by $0.8 million. The company continued to comply with the financial covenants of its facility agreement.

Other financial liabilities ($25.8 million)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold put options established at the time of acquisition. Consequently in accordance with accounting standards the group is required to recognise liabilities for the estimated consideration to acquire the non-controlling interests. The liabilities have been discounted at the date of acquisition and the corresponding entry is included in the business combinations reserve. The unwinding of the inherent discounting within the liabilities has resulted in a non-cash interest expense in FY2017 of $1.1 million (FY2016: $1.1 million).

The company has also undertaken a review of the underlying liabilities and recognising the forecast trading outlook for each of these businesses has reduced the aggregate fair value of the financial liabilities by $3.3 million to $21.8 million. It should be noted that $14.0 million of the estimated liabilities are now classified as current liabilities. The remaining $4.0 million of the balance of other financial liabilities totalling $25.8 million relates to contingent consideration in relation to the acquisition of Aagaard Fertilitetsklinik Aps (refer to Note 36).

Impairment of goodwill

Virtus undertakes impairment testing on the goodwill carrying value on a six monthly basis. Virtus reviewed the assumptions relating to the Tasmanian activities and reduced the terminal growth rate to 1% (previously 2.5%) and increased the pre-tax discount rate to 14.1% (previously 11.4%) to reflect changes in the competitive landscape and recent delays in business development. Based on these changes a goodwill impairment charge of $1.9 million has been recognised for Tasmania. Further details and sensitivities are provided in Note 15 of the financial report. This also impacted the value of the related Tasmanian put option liability resulting in a reduction of $1.6 million in the value of that liability (included in the $3.3 million reduction in the fair value of other financial liabilities referred to in the preceding paragraph).

Amortisation of borrowing costs

Amortisation of borrowing cost expense for FY2017 was $207,000, (FY2016: $208,000).

Taxation

The effective tax rate on operating earnings for FY2017 was 29.9% (FY2016; 29.0%) as a consequence of the non-deductibility of certain costs and expenses and a true up in respect of R&D tax concession claims from the prior year.

Earnings per share

Basic earnings per share decreased by 15.0% to 35.00 cents per share (FY2016: 41.18 cents per share). Diluted earnings per share decreased by 14.7% to 34.79 cents per share (FY2016: 40.79 cents per share).

Dividend

A final dividend of 12.00 cents per share fully franked (2016:15.00 cents per share) will be paid on 13 October 2017 to shareholders on the register at 15 September 2017.

Significant changes in the state of affairs

On 30 November 2016, Virtus acquired Aagaard Fertility Clinic ("Aagaard"), based in Aarhus Denmark for an estimated consideration of $14,460,000 (discounted). This acquisition adds to Virtus' international growth strategy reaffirming its vision for diversification and to expand the Virtus model in carefully selected international markets.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Based on the long-term trend of women in Australia delaying the birth of children and the fertility rate among Australian women aged over 30 continuing to increase as a consequence of a range of social and economic demographic factors, we expect that demand for assisted reproductive services and the associated diagnostic testing and day hospital procedures will continue to increase.

We will continue to invest in our network of fertility clinics and also the clinical and scientific services offered to patients to enable the consolidated entity to meet the demand from the Australian market. Recognising that the demographic drivers influencing the demand for fertility services are also prevalent internationally we will consider further investment in our international network of fertility clinics.

Business sustainability risks

The consolidated entity is faced with certain material business risks that could have an effect on the financial prospects of the consolidated entity. These include but are not limited to:

Change in Commonwealth Government funding/increasing patient out of pocket expenses
Patients receive partial reimbursement for the consolidated entity's services through Commonwealth Government programs, including the Medicare Benefits Schedule ('MBS') and the Extended Medicare Safety Net ('EMSN'). We anticipate that each of these programs will be reviewed in the next twelve months.

If the level of reimbursement provided by these programs for the consolidated entity's services were to change, the consolidated entity's patients may face higher out-of-pocket expenses for Assisted Reproductive Services. This may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

Availability of fertility specialists
The consolidated entity relies on maintaining its relationship with existing fertility specialists, as well as contracting with and growing In-Vitro Fertilisation ('IVF') cycles for new fertility specialists to assist in capturing market growth, increasing market share and replacing any retiring fertility specialists. If the consolidated entity cannot successfully maintain its relationship with existing fertility specialists or contract and grow IVF cycles for new fertility specialists this may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

Variability of growth
The growth in patient demand and IVF cycles has historically experienced variability over short-term periods notwithstanding the long-term social and demographic trends driving patient demand for Assisted Reproductive Services. Variability in the historic growth in IVF cycles over short-term periods has been attributable to changes in local economic conditions, natural disasters and regulatory changes. Whilst Virtus is diversified across regional markets, the consolidated entity's revenue generation and profitability can be positively and negatively affected in the short term by variability in the growth in IVF cycles in the regional markets in which it operates.

Increased competition
The consolidated entity may face increased competition from new IVF providers and this may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

Further information on business risk and sustainability is provided in the Corporate Governance Statement at www.virtushealth.com.au/corporategovernance.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	**Peter Macourt**
Title:	Chairman
Qualifications:	BCom.; ACA; GAICD
Experience and expertise:	Peter is a former director and Chief Operating Officer of News Limited. Whilst at News Limited, he served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited.
Other current directorships:	Chairman of SKY Network Television Limited (since August 2002); Director of Prime Media Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and the Nomination and Remuneration Committee.
Interests in shares:	18,485 ordinary shares held directly
Interests in options:	None

Name:	**Susan Channon**
Title:	Chief Executive Officer
Qualifications:	Registered Nurse Div1; OR Management Certificate
Experience and expertise:	Susan (Sue) has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to Chief Executive Officer ('CEO') of the company in November 2010, Sue was CEO of IVF Australia Pty Ltd. Prior to joining the company, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Risk Committee
Interests in shares:	448,633 ordinary shares
Interests in options:	116,050 options over ordinary shares

Name:	**Greg Couttas**
Title:	Non-Executive Director
Qualifications:	BCom; FCA; MAICD
Experience and expertise:	Greg was a highly experienced auditor having spent 40 years with Deloitte including 28 years as partner. During his formative years he worked in audit across various sectors, specialising in ASX100 clients. Greg's expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Additionally, Greg held a number of management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008, chairing the Audit and Risk Committee for eleven years, and was a member of the Board of Partners for Deloitte Australia from 2005 to 2016. Greg was appointed to the Board of Sydney Water Corporation in 2016.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit Committee
Interests in shares:	3,748 ordinary shares
Interests in options:	None

Name:	**Lyndon Hale**
Title:	Executive Director
Qualifications:	MBBS; FRACOG; CREI
Experience and expertise:	Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also director of Reproductive Surgery at The Women's Hospital, and is a board member of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Risk Committee
Interests in shares:	823,694 ordinary shares
Interests in options:	None

Name:	**Peter Turner**
Title:	Non-Executive Director
Qualifications:	BSc.; MBA; GAICD
Experience and expertise:	Prior to joining the company, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently Chairman of NPS MedicineWise.
Other current directorships:	Bionomics Limited
Former directorships (last 3 years):	CSL Limited, Ashley Services Group Limited
Special responsibilities:	Chair of the Risk Committee and the Nomination and Remuneration Committee and member of the Audit Committee.
Interests in shares:	50,000 ordinary shares
Interests in options:	None

Name:	**Sonia Petering**
Title:	Non-Executive Director
Qualifications:	LLB; BComm; FAICD
Experience and expertise:	Sonia is a corporate lawyer who brings extensive experience as a Director. She also served as Chair of the Rural Finance Corporation of Victoria and a Non-Executive Director of Victoria's Transport Accident Commission until July 2016. Sonia is also a director of TAL, Dai-Ichi Life Australia Pty Limited and Qantm IP Limited.
Other current directorships:	Qantm IP Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Risk Committee and the Nomination and Remuneration Committee.
Interests in shares:	5,966 ordinary shares
Interests in options:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Glenn Powers joined Virtus as Chief Financial Officer ('CFO') and Company Secretary in August 2008. Prior to joining Virtus, Glenn was CFO and Company Secretary of Tower Software Limited. Glenn has a broad range of experience in private equity backed businesses, working in a range of engineering, electronics, software and service businesses. Glenn has also been a Director for both main and AIM market listed businesses in the UK. Glenn is a Chartered Management Accountant (CMA).

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held
Peter Macourt – Chairman	12	12	2	2
Susan Channon	12	12	2	2
Greg Couttas	8	9	–	–
Dennis O'Neill	4	4	–	–
Lyndon Hale	12	12	–	–
Peter Turner	12	12	2	2
Sonia Petering	12	12	2	2

	Audit Committee		Risk Committee	
	Attended	Held	Attended	Held
Peter Macourt – Chairman	4	4	–	–
Susan Channon	–	–	4	4
Greg Couttas	3	3	–	–
Dennis O'Neill	2	2	–	–
Lyndon Hale	–	–	4	4
Peter Turner	4	4	4	4
Sonia Petering	–	–	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The directors present the remuneration report, which outlines the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The information provided in this remuneration report, which forms part of the directors' report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report is set out under the following main headings:

A. Executive summary;

B. Role of the Nomination and Remuneration Committee;

C. Executive remuneration framework;

D. Link between remuneration and consolidated entity performance;

E. Executive services agreements;

F. Remuneration, share and option disclosures for FY2017;

G. Non-executive director remuneration; and

H. Fertility specialist performance rights incentives.

A. Executive summary

Remuneration framework update and key management personnel

There were no changes made to the remuneration framework in FY2017. The objective of our remuneration framework is to attract and retain high calibre, talented Executives while ensuring that pay outcomes are aligned to building long-term shareholder value. The remuneration framework must also be fair to our shareholders.

The Board has determined that the KMP, as defined by AASB 124 'Related Party Disclosures' are as follows:

Non-Executive Directors

Peter Macourt – Chairman, non-executive director
Peter Turner – Non-executive director
Greg Couttas – Non-executive director (appointed 5 October 2016)
Sonia Petering – Non-executive director
Dennis O'Neill – Non-executive director (resigned 9 November 2016)

During the financial year, Dennis O'Neill retired from the Board and he was replaced in the role of Chairman of the Audit Committee by Greg Couttas. A profile of each director is provided in the Directors' Report.

Executive KMP

Sue Channon – Chief Executive Officer
Glenn Powers – Chief Financial Officer
Lyndon Hale – Director and Medical Director, Victoria
Andrew Othen – Managing Director, Victoria, (resigned 16 December 2016)
Jade Phelan – Managing Director, Victoria, (appointed 19 December 2016)
Nadia Stankovic – Managing Director, New South Wales
Steve Zappia – Managing Director, Queensland and Virtus Health Diagnostics
Anthony Walsh – Executive Chairman, Ireland
Peter Illingworth – Medical Director, New South Wales
David Molloy – Medical Director, Queensland
William Watkins – Medical Director, Tasmania

For the year ended 30 June 2017 base salaries show a small decline on FY2016 which reflects a decrease in the vacation leave accrual for certain individuals in FY2017 compared to FY2016. Actual fixed remuneration (including superannuation) for the executive KMP decreased by 0.9% during FY2017.

The short term incentives ("STI") achieved in FY2017 are set out in Section D. As the financial hurdles were not achieved this financial year, the five KMPs who participated in the STI scheme for FY2017 did not receive any STI payments as the Company failed to grow earnings per share. One of the participants ceased to be eligible as he resigned from his role in December 2016. Jade Phelan did not participate in the STI scheme this financial year, as she only joined the Company on 19 December 2016 although she did have KPIs and STIs specific to her new role with Virtus. Ms. Phelan will join the main scheme in FY2018.

The long-term incentives ("LTI") achieved in FY2017 are set out in Section D. The earnings per share element of the LTIs granted in November 2014 were not achieved and accordingly 63,229 performance rights lapsed on 30 June 2017. The directors also report that it is unlikely that the total shareholder return performance hurdle, which is tested on 15 September 2017, will be achieved. Accordingly it is expected that a further 63,228 performance rights will lapse in respect of this performance hurdle.

Accordingly, total KMP remuneration for FY17 declined by 14.3%. After adjusting for non-cash share based payment accruals, the cash remuneration payable to KMPs declined by 5.6%.

B. Role of the Nomination and Remuneration Committee

The Board of Directors ("the Board") maintains a combined Nomination and Remuneration Committee (the 'Committee'). The members of the Committee are: Peter Turner (Chairman), Peter Macourt and Sonia Petering. Details of the qualifications and experience of the members of the Committee are provided in the 'Information on directors' section of the directors' report.

The Committee assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, senior executives and other key management personnel whose activities, individually or collectively, affect the financial soundness of the consolidated entity as follows:

a. The Committee is responsible for developing, reviewing and making recommendations to the Board on:
    a. The ongoing appropriateness and relevance of the remuneration framework for the Chairperson and the non-executive directors;
    b. The policy on remuneration for the CEO and senior executives, any changes to the policy and the implementation of the policy (including any shareholder approvals required);
    c. The total remuneration packages for the CEO and senior executives (including base pay, incentive payments, equity based awards, superannuation and other retirement rights and employment contracts), any changes to remuneration packages and recommending proposed STI and LTI awards after performance assessment; and
    d. The recruitment, retention and termination policies for the CEO and senior executives and any changes to those policies.
b. The Committee is also responsible for monitoring and providing input to the Board regarding:
    a. Legislative, regulatory or market developments likely to have a significant impact on the consolidated entity and legislative compliance in relation to employment issues;
    b. The remuneration trends across the consolidated entity, including:
        a. The trends in base pay for senior management relative to that of all the employees;
        b. Remuneration by gender; and
    c. Major changes to the consolidated entity's employee remuneration structure.

For any incentive schemes or equity based plans which are adopted, the Committee is responsible for:

a. Reviewing their terms and conditions (including any performance hurdles);
b. Overseeing their administration (including compliance with applicable laws that restrict participants from hedging the economic risk of their security holdings);
c. Considering whether shareholder approval is required or desirable for the schemes or plans and for any changes to them; and
d. Ensuring that payments and awards of equity are made in accordance with their terms and any shareholder approval.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the directors' report.

Use of remuneration consultants

When considered necessary, the Committee may obtain external advice from independent consultants in determining the consolidated entity's remuneration practices including remuneration levels, independent benchmarking data and information regarding best practice, trends and regulatory developments. The Committee and Board consider this input, along with several other factors when making decisions regarding remuneration.

The Committee has previously engaged KPMG to provide recommendations on the following matters:

- Long-term incentive performance hurdles;
- Executive remuneration benchmarking; and
- Non-executive director fees benchmarking.

In the current year the Committee elected not to seek advice from KPMG or any other remuneration consultant and the committee members relied on previous reports provided by KPMG and the Committee's own enquiries relating to remuneration matters.

The Chairman of the Committee is also satisfied that the recommendation relating to non-executive director fees, including the fees for the Chairman, has not been subject to any undue influence by the Chairman or other independent directors.

Remuneration framework review for FY2018

The Board continually monitors the effectiveness of the remuneration framework in terms of alignment with shareholder interests and market practice.

The Board introduced a new pooled STI plan for all qualifying KMPs in FY2017. Participants in the STI plan will receive a share of the STI pool based on the performance of the Australian segment and their own individual state or functional responsibility (NSW, Victoria, Queensland, or Diagnostics). Key features of the new arrangements are as follows:

- The maximum aggregate size of the STI pool for the KMPs is $750,000;
- The actual size of the pool will be determined with reference to the annual increase in earnings per share as follows:
  - 1% EPS growth on prior year will generate a pool equal to 10% of the maximum aggregate ($75,000);
  - 10% EPS growth on prior year will generate a pool equal to 100% of the maximum aggregate ($750,000); and
  - Pool size between 1% and 10% EPS growth will be determined by straight line interpolation.

60% of this pool will be payable on the achievement of individual financial KPIs and 40% of this pool will be payable on the achievement of individual non-financial KPIs established by the Nomination and Remuneration Committee.

The financial KPIs initially include:

- Increase in EBIT return as a % of net operating assets over prior year;
- Increase in EBIT over prior year; and
- Increase in NPAT over prior year (applicable to CEO and CFO).

In FY2018 and FY2019 the STI pool will be $750,000.

The maximum aggregate STI payout in any given financial period will not exceed the maximum pool size for a single year which equates to the aggregate contractual STIs for the participating KMPs.

Thereafter, the pool will be calculated as a rolling three year average with all pool calculations linked to growth in EPS. This approach aligns the STI payouts with shareholder returns and reduces the impact of short term one-off events which may impact EPS. This relationship has been demonstrated in FY2017 where, as a consequence of zero earnings growth, the value of the STI pool for distribution was nil. Newly recruited executive KMPs may receive KPIs and STIs outside the STI pool during the first year of their employment.

Following a review of the LTI arrangements no changes to the plan structure are proposed for FY2018. However the Remuneration Committee has decided to review the LTI arrangements for FY2019, noting that:

- No LTI performance rights are vesting in relation to the November 2014 grant; and
- It is unlikely that LTI performance rights will vest in relation to the November 2015 grant.

C. Executive remuneration framework

Remuneration philosophy and principles
The objective of the consolidated entity's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice. The Board seeks to ensure that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage/alignment of executive compensation; and
- Transparency.

The executive remuneration and reward framework has four components:

- Base pay and non-monetary benefits;
- STIs;
- LTIs; and
- Other remuneration such as superannuation and long service leave.

In previous consultation with external remuneration consultants (refer to the paragraph 'Use of remuneration consultants' in Section B), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. The key objective of the remuneration framework is the alignment to shareholder interests and this is achieved by ensuring that:

- Profit is a major component of plan design;
- The framework focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on equity as well as focusing the executive on key non-financial drivers of value;
- The remuneration framework attracts and retains high calibre executives;
- The framework rewards capability and experience;
- The framework reflects competitive reward for contribution to growth in shareholder wealth; and
- The framework provides a clear structure for earning rewards.

Fixed remuneration
Fixed remuneration comprises base salary, superannuation and other short term benefits such as annual leave and long service leave. Fixed remuneration is targeted to be similar to the median of the market for positions and roles in ASX listed companies of a similar size. The Nomination and Remuneration Committee will consider variations to the remuneration benchmark where market demand or superior performance may be factors which could influence remuneration.

Short term incentive plan – STI
The STI program is designed to align the targets of the business units with the targets of those executives in charge of meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. Financial and non-financial KPIs are reviewed and amended annually by the Nomination and Remuneration Committee to ensure STI payments are aligned with the short term objectives of the business. STIs are not made available to the Group's Medical Directors.

The STI KPIs, which are set by the Nomination and Remuneration Committee and the CEO, will normally include:

- NPAT KPI for CEO and CFO;
- Cost reduction targets;
- EBIT margin improvement targets;
- Segment EBIT KPI for senior state and territory management; and
- Individual objectives for all STI participants which may be non-financial in nature. Such objectives could include KPIs related to:
  - Risk management;
  - Corporate governance objectives; and
  - Other individual personal goals.

At least 60% of the STI KPIs in any financial year are financial in nature.

The STI plan provides for cash settlement where successful performance against KPIs has been achieved. Performance is assessed by the immediate manager of the STI participant and for KMPs the cash settlements are approved by the Nomination and Remuneration Committee after completion of the annual group audit. Hence, STI cash settlements are normally paid to recipients in the month following the announcement of the Group's financial results.

The KPI structure for FY17, established by the Nomination and Remuneration Committee, was as follows:

- Applicable to Sue Channon and Glenn Powers – 60% of STI relates to the achievement of Net Profit after Tax ('NPAT') attributable to the company's shareholders; 15% of STI relates to the addition of earnings enhancing acquisitions; and 25% of the STI relates to non-financial management objectives set by the Board.
- Applicable to Andrew Othen, Steve Zappia and Nadia Stankovic – 15% of STI relates to the achievement of consolidated Australian EBIT; 45% of STI relates to the achievement of State EBIT; and 40% of STI relates to the achievement of other non-financial management objectives.

EBIT and NPAT targets include individual interpolation schedules for national and territory percentage growth which normally provides for payment of bonus as follows:

For achievement of 5% growth, 50% of relevant STI component is payable
For achievement of 6% growth, 60% of relevant STI component is payable
For achievement of 7% growth, 70% of relevant STI component is payable
For achievement of 8% growth, 80% of relevant STI component is payable
For achievement of 9% growth, 90% of relevant STI component is payable
For achievement of 10% growth, 100% of relevant STI component is payable

The Remuneration Committee may apply variations to these targets after consideration of local market conditions which may result in higher or lower profit growth expectations.

Long-term incentive plans – LTI
The company has adopted an option plan ('Plan') to assist in the reward, motivation and retention of personnel including executive directors, eligible employees and fertility specialists (see Section H). The Plan is also designed to recognise the abilities, efforts and contributions of participants to Virtus' performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the company. The LTI plan provides Virtus executives with grants of performance rights that vest over three year performance periods. Performance rights are granted annually and vested performance rights convert into shares. Holders of unvested performance rights do not receive dividends until rights have vested and converted into shares.

Generally, vesting conditions attaching to grants of options or performance rights made to senior executives will relate to the performance of the consolidated entity over the performance period, normally three years, as well as continued employment. Options or performance rights may also be granted to other employees from time to time subject to consideration by the Board. There is no ability for the company to provide any cash equivalent on exercise.

In the event of a future change of control the Board has the discretion to allow for vesting of options or performance rights and in the event of failure to meet vesting hurdles or objectives there is no facility to allow retesting of vesting conditions.

Eligibility to participate in the Plan and the number of options or performance rights offered to each individual participant is determined by the Board.

Currently there are three executive performance grants in operation as follows:

1. *Senior executives – FY2015 grant*

On 10 November 2014, performance rights were granted to the following members of the executive management team:

Sue Channon
Glenn Powers
Andrew Othen
Nadia Stankovic
Steve Zappia
Anthony Walsh

The performance rights vest subject to the following performance hurdles:

- The performance hurdles for the FY2015 grant are relative TSR and earnings per share ('EPS') growth. Each hurdle applies to 50% of the grant. TSR is measured on the company's TSR relative to a peer group of companies in both the S&P ASX 200 Index and the S&P ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.
- The percentage of the TSR component which may vest is based on a sliding scale as follows:
  - 0% if the TSR does not reach the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
  - 50% if the TSR reaches the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);

  - Progressive rate (straight-line) vesting from 50% to 100% if the TSR exceeds the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each) but does not reach the 75th percentile;
  - 100% if the TSR reaches or exceeds the 75th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each); and
  - The base share price for the TSR calculation for the FY2015 grant is $7.88.
- The percentage of the EPS growth component which may vest is based on a sliding scale as follows:
  - 0% if the compound average growth rate ('CAGR') does not reach 7.5%;
  - 50% if the CAGR reaches 7.5%;
  - Progressive rate (straight-line) vesting from 50% to 100% if the CAGR exceeds 7.5% but does not reach 10%; and
  - 100% if the CAGR reaches or exceeds 10%.

Calculations of the company's TSR and EPS will be determined at the end of the three year vesting period by the Board with verification performed by an external party.

The annual AASB 2 'Share-Based Payments' accounting charge of this scheme is $109,001 and the maximum earnings dilution to existing shareholders is 0.14%. This accounting charge may vary depending on the satisfaction of non-market performance hurdles.

As at 30 June 2017, it is expected that the TSR performance hurdle, to be tested on 15 September 2017 (three years after the grant of performance rights), will not be achieved. Further the EPS performance hurdle, tested on 30 June 2017 has not been achieved.

2. Senior executives – FY2016 grant

On 10 November 2015, performance rights were granted to the following members of the executive management team:

Sue Channon
Glenn Powers
Andrew Othen
Nadia Stankovic
Steve Zappia
Anthony Walsh

The performance rights vest subject to the following performance hurdles:

- The performance hurdles for the FY2016 grant are relative TSR and average return on equity attributable to shareholders ('ROE'). Each hurdle applies to 50% of the grant. TSR is measured on the company's TSR relative to a peer group of companies in both the S&P ASX 200 Index and the S&P ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.
- The percentage of the TSR component which may vest is based on a sliding scale as follows:
  - 0% if the TSR does not reach the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
  - 50% if the TSR reaches the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
  - Progressive rate (straight-line) vesting from 50% to 100% if the TSR exceeds the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each) but does not reach the 75th percentile;
  - 100% if the TSR reaches or exceeds the 75th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each); and
  - The base share price for the TSR calculation for the FY2016 grant is $5.13.
- The second performance hurdle relates to the average annual return on shareholder equity ("ROE") achieved over a three year performance period from 1 July 2015 to 30 June 2018. The percentage of the ROE component which may vest is based on a sliding scale which will provide a progressive pro-rata vesting against the following average annual ROE targets:
  - 0% if the average annual ROE does not reach 15.0%;
  - 50% if the average annual ROE does reach 15.0%;
  - Progressive rate vesting from 50% to 100% on a straight line basis if the average annual ROE exceeds 15.0% but does not reach 17.5%; and
  - 100% if the average annual ROE reaches or exceeds 17.5%.

Calculations of the company's TSR and ROE will be determined at the end of the three year vesting period by the Board with verification performed by an external party.

As at 30 June 2017, it is expected that the TSR performance hurdle, to be tested on 15 September 2018 is potentially achievable. However the ROE performance hurdle, tested on 30 June 2018 may not be achievable based on current assumptions.

The annual AASB 2 accounting charge of this scheme is currently $139,606 and the maximum earnings dilution to existing shareholders is 0.18%.

3. Senior executives – FY2017 grant

On 10 November 2016, performance rights were granted to the following members of the executive management team:

Sue Channon
Glenn Powers
Nadia Stankovic
Steve Zappia
Anthony Walsh

The main features of the performance rights are set out below. The performance rights vest subject to the following performance hurdles:

- The performance hurdles for the FY2017 grant are relative TSR and average return on equity attributable to shareholders ('ROE'). Each hurdle applies to 50% of the grant. TSR is measured on the company's TSR relative to a peer group of companies in both the S&P ASX 200 Index and the S&P ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.
- The percentage of the TSR component which may vest is based on a sliding scale as follows:
    - 0% if the TSR does not reach the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
    - 50% if the TSR reaches the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
    - Progressive rate (straight-line) vesting from 50% to 100% if the TSR exceeds the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each) but does not reach the 75th percentile;
    - 100% if the TSR reaches or exceeds the 75th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each); and
    - The base share price for the TSR calculation for the FY2017 grant is $8.05.
- The second performance hurdle relates to the average annual return on shareholder equity ("ROE") achieved over a three year performance period from 1 July 2016 to 30 June 2019. The percentage of the ROE component which may vest is based on a sliding scale which will provide a progressive pro-rata vesting against the following average annual ROE targets:
    - 0% if the average annual ROE does not reach 15.0%;
    - 50% if the average annual ROE does reach 15.0%;
    - Progressive rate (straight-line) vesting from 50% to 100% on a straight line basis if the average annual ROE exceeds 15.0% but does not reach 17.5%; and
    - 100% if the average annual ROE reaches or exceeds 17.5%

Calculations of the company's TSR and ROE will be determined at the end of the three year vesting period by the Board with verification performed by an external party.

As at 30 June 2017, it is too early to consider the achievement of the TSR and ROE hurdles.

The annual AASB 2 accounting charge of this scheme is currently $119,089 and the maximum earnings dilution to existing shareholders is 0.14%.

Other remuneration

KMPs who are Australian employees receive superannuation contributions, in accordance with statutory provisions, and long service leave benefits in accordance with the Australian state where they are employed.

D. Link between remuneration and consolidated entity performance

Consolidated entity performance and link to remuneration
Remuneration for certain individuals is directly linked to performance of the consolidated entity. A portion of bonus and incentive payments are dependent on defined earnings per share targets being met. Assuming that all performance conditions are met the proportion of remuneration linked to performance and the fixed proportion is as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-Executive Directors:						
P Macourt	100%	100%	–	–	–	–
P Turner	100%	100%	–	–	–	–
D O'Neill	100%	100%	–	–	–	–
S Petering	100%	100%	–	–	–	–
G Couttas	100%	N/A	–	–	–	–
Executive Directors:						
S Channon	48%	48%	24%	24%	28%	28%
L Hale	100%	100%	–	–	–	–
Other Key Management Personnel:						
G Powers	48%	48%	24%	23%	28%	29%
A Othen	60%	60%	16%	16%	24%	24%
J Phelan	77%	N/A	23%	N/A	–	N/A
N Stankovic	58%	59%	18%	18%	24%	23%
S Zappia	58%	58%	18%	18%	24%	24%
A Walsh	71%	78%	–	–	29%	22%
P Illingworth	100%	100%	–	–	–	–
D Molloy	100%	100%	–	–	–	–

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/ payable		Cash bonus forfeited	
Name	**2017**	**2016**	**2017**	**2016**
Executive Directors:				
S Channon	–	25%	100%	75%
Other Key Management Personnel:				
G Powers	–	30%	100%	70%
A Othen	–	10%	100%	90%
J Phelan	100%	–	0%	–
S Zappia	–	35%	100%	65%
N Stankovic	–	46%	100%	54%

Accordingly the actual proportion of remuneration linked to performance and the fixed proportion in FY2017 is as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Executive Directors:						
S Channon	96%	70%	–	9%	4%	21%
L Hale	100%	100%	–	–	–	–
Other Key Management Personnel:						
G Powers	96%	71%	–	10%	4%	19%
A Othen	100%	92%	–	2%	–	6%
J Phelan	77%	N/A	23%	N/A	–	–
N Stankovic	97%	82%	–	12%	3%	6%
S Zappia	94%	85%	–	9%	6%	6%
A Walsh	94%	96%	–	–	6%	4%
P Illingworth	100%	100%	–	–	–	–
D Molloy	100%	100%	–	–	–	–

The earnings of the consolidated entity that are considered to affect total shareholders return ('TSR') for the five years to 30 June 2017 are summarised below:

	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Revenue	256,518	261,210	234,142	201,249	186,581
EBITDA*	64,834	68,916	61,355	59,404	43,429
EBIT	50,799	57,736	51,361	51,212	34,684
Profit after income tax	30,004	34,865	30,441	30,957	10,104
NPAT attributable to Virtus shareholders	28,103	32,918	29,434	30,885	10,104

* EBITDA 2013 is stated after deduction of initial public offering costs.

	2017	2016	2015	2014	2013
Share price at financial year end ($)	5.38	6.87	5.37	8.16	6.45
Total dividends paid (cents per share)	28.00	28.00	27.00	12.00	133.50
Basic earnings per share (cents per share)	35.00	41.18	36.86	38.80	17.78
Diluted earnings per share (cents per share)	34.79	40.79	36.54	38.48	16.78

Remuneration outcomes for FY2017
The following is a summary of the key KMP remuneration outcomes for FY2017:

Total remuneration decreased by $471,614 (14.3%) reflecting the low level of STI bonuses and LTI accounting charge in FY17.

STI Outcomes for FY2017
Based on the achievements of the consolidated entity this year the Committee determined that as a consequence of the negative movement on EPS, executives have achieved the following percentages of their overall STI targets:

Susan Channon – 0%;
Glenn Powers – 0%;
Andrew Othen – 0%;
Steve Zappia – 0%;
Nadia Stankovic – 0%;
Anthony Walsh – no STI as he is incentivised by way of his minority shareholder interest in the business of Sims Clinic.
Jade Phelan achieved 100% of her STI target. This was related to an initial set of specific KPIs related to business and profit improvement at Virtus operations in Victoria.

LTI outcomes for FY2017
In FY17 the following performance hurdles were tested in respect of the performance rights grant dated 10 November 2014:

- From a potential total of 50% of the performance rights available, 0% of available rights vested in respect of EPS growth over the three year performance period.

Accordingly 63,228 of the performance options granted on 10 November 2014 did not vest and have lapsed. In addition a further 33,718 options have lapsed as a consequence of Andrew Othen's resignation from the Group.

E. Executive service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Lyndon Hale
Title:	Executive Director and Medical Director, Victoria
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	The Executive may terminate the fertility specialist contract by giving a minimum of 6 months' notice or maximum of 12 months' notice in writing. The company may terminate by giving 12 months' notice in writing. Upon the termination of the fertility specialist contract, the fertility specialist will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.
Name:	Susan Channon
Title:	Chief Executive Officer
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	The Executive may terminate the employment contract by giving 3 months' notice in writing. The company may terminate by giving 12 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the company may terminate the employment contract immediately by notice in writing and without payment in lieu of notice. Upon the termination of the employment contract, the Executive will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.
Name:	Glenn Powers
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	The Executive may terminate the employment contract by giving 3 months' notice in writing. The company may terminate by giving 6 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the company may terminate the employment contract immediately by notice in writing and without payment in lieu of notice. Upon the termination of the employment contract, the Executive will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Other Key Management Personnel
Jade Phelan, Steve Zappia, Nadia Stankovic and Anthony Walsh are employed under individual executive services agreements. These establish:

- Total compensation including a base salary, superannuation contribution and incentive arrangements;
- Variable notice and termination provisions of up to six months;
- Confidentiality provisions;
- Leave entitlements, as a minimum, as per the National Employment Standard (applicable to Australia based employees); and
- Restraint provisions.

The company's remaining Australian state Medical Directors, Peter Illingworth, David Molloy and William Watkins are contracted under fertility specialist agreements. The individual may terminate their fertility specialist contract by giving a minimum of six months' notice or maximum of twelve months' notice in writing. The company may terminate by giving 12 months' notice in writing and upon the termination of the fertility specialist contract the fertility specialist will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

F. Remuneration, share and option disclosures for FY2017

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2017	**Cash salary and fees $**	**Bonus $**	**Non-monetary and termination $**	**Super-annuation $**	**Employee leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
P Macourt	133,562	–	–	12,688	–	–	146,250
D O'Neill	38,550	–	–	3,662	–	–	42,212
P Turner	102,968	–	–	9,782	–	–	112,750
S Petering	84,703	–	–	8,047	–	–	92,750
G Couttas	57,332	–	–	5,446	–	–	62,778
Executive Directors:							
S Channon	475,834	–	–	29,545	12,820	21,829	540,028
L Hale	179,400	–	–	8,680	–	–	188,080
Other Key Management Personnel:							
G Powers	341,833	–	–	30,632	14,874	15,040	402,379
N Stankovic	256,980	–	–	23,990	4,624	7,748	293,342
A Othen	146,869	–	–	13,724	(37,133)	(39,407)	84,053
J Phelan	142,951	47,671	–	17,624	162	–	208,408
S Zappia	265,850	–	–	24,060	1,006	7,677	298,593
A Walsh	40,036	–	–	–	–	2,678	42,714
P Illingworth	188,612	–	–	–	–	–	188,612
D Molloy	130,912	–	–	–	–	–	130,912
	2,586,392	47,671	–	187,880	(3,647)	15,565	2,833,861

2016	Short-term benefits: Cash salary and fees $	Short-term benefits: Bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Employee leave $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
P Macourt	131,964	–	–	12,536	–	–	144,500
D O'Neill	86,027	–	–	8,173	–	–	94,200
P Turner	102,009	–	–	9,691	–	–	111,700
S Petering	83,744	–	–	7,956	–	–	91,700
Executive Directors:							
S Channon	464,378	62,875	–	32,901	11,990	156,365	728,509
L Hale	114,656	–	–	–	–	–	114,656
Other Key Management Personnel:							
G Powers	318,212	50,343	–	34,037	10,287	96,499	509,378
N Stankovic	242,373	38,270	–	26,701	6,581	18,502	332,427
A Othen	302,877	8,728	–	29,066	13,863	22,707	377,241
S Zappia	261,376	29,705	–	26,162	3,043	18,759	339,045
A Walsh	167,657	–	–	–	–	6,992	174,649
P Illingworth	183,758	–	–	–	–	–	183,758
D Molloy	103,712	–	–	–	–	–	103,712
	2,562,743	189,921	–	187,223	45,764	319,824	3,305,475

Greg Couttas joined the Board in October 2016 so the total benefit in FY2017 does not represent a full year of fees. Similarly, Dennis O'Neill retired from the Board in November 2016 so the total benefit in FY2017 does not represent a full year of fees.

Jade Phelan joined the Group in December 2016 so the total benefit in FY2017 does not represent a full year salary. William Watkins did not receive any remuneration in his capacity as a key management person for the financial years ended 30 June 2017 and 30 June 2016.

The value of share-based payments and the long-term employee leave represents the accounting charge or accrual and not the cash benefit received by the KMP. The value of share-based payments during the financial year also includes options which lapsed during the year.

The bonus represents the accrual in respect of a KMP's performance in the financial year and this is normally paid in the month following the publication of the consolidated entity's financial statements.

Long-term leave benefits are the long service leave accruals calculated in accordance with state entitlements.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remunera-tion	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Peter Macourt	18,485	–	–	–	18,485
Susan Channon	448,633	–	113,138	(113,138)	448,633
Dennis O'Neill	50,000	–	–	(50,000)	–
Sonia Petering	2,500	–	3,466	–	5,966
Greg Couttas	–	–	3,748	–	3,748
Lyndon Hale	823,694	–	–	–	823,694
Peter Turner	50,000	–	–	–	50,000
Glenn Powers	114,150	–	64,650	(64,650)	114,150
Peter Illingworth	354,020	–	50,000	(50,000)	354,020
David Molloy	364,207	–	–	–	364,207
	2,225,689	–	235,002	(277,788)	2,182,903

Option holding

The number of options and performance rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Susan Channon	208,435	38,989	(113,138)	(18,236)	116,050
Andrew Othen	79,851	–	(38,000)	(41,851)	–
Glenn Powers	132,292	27,675	(64,650)	(12,944)	82,373
Peter Illingworth	50,000	–	(50,000)	–	–
Nadia Stankovic	34,127	13,929	–	(6,559)	41,497
Steve Zappia	34,583	13,929	–	(6,696)	41,816
Anthony Walsh	12,873	4,969	–	(2,538)	15,304
	552,161	99,491	(265,788)	(88,824)	297,040

Share based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Options or performance rights

The terms and conditions of each grant over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
10 November 2014	10 November 2017	10 November 2024	$0.00	$6.90
10 November 2015	10 November 2018	10 November 2025	$0.00	$4.41
10 November 2016	10 November 2019	10 November 2026	$0.00	$4.52

Options or performance rights do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an option carry the same rights and entitlements as other issued shares, including dividend and voting rights.

Refer to section C of this report for details of the KMP LTI arrangements.

The number of options or performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the years ended 30 June 2017 and 30 June 2016 are set out below:

Name	Number of options granted during the year 2017	Number of options granted during the year 2016	Number of options vested during the year 2017	Number of options vested during the year 2016
Susan Channon	38,989	58,825	–	113,138
Glenn Powers	27,675	41,754	–	64,650
Andrew Othen	–	25,585	–	–
Nadia Stankovic	13,929	21,009	–	–
Steve Zappia	13,929	21,190	–	–
Anthony Walsh	4,969	7,797	–	–

Fair values of options and performance rights over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Value of options granted during the year $	Net market value of options exercised during the year $	Number of options lapsed during the year
Susan Channon	176,230	252,032	18,236
Glenn Powers	120,273	144,610	12,944
Andrew Othen	–	96,862	41,851
Peter Illingworth	–	118,000	–
Nadia Stankovic	62,959	–	6,559
Steve Zappia	62,959	–	6,696
Anthony Walsh	22,459	–	2,538

Note: Of the options lapsing 63,239 were granted on 10 November 2014 and 25,585 were granted on 10 November 2015.

G. Non-executive director remuneration

Overview of non-executive director remuneration
In accordance with best practice corporate governance, the structure of non-executive directors' and executive remunerations are different. Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

Under the Constitution, the directors decide the total amount paid to each director as remuneration for their services as a director to the company. However, under the listing rules of the ASX ('ASX Listing Rules'), the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount approved by the shareholders. Aggregate annual directors' fees paid to directors for the financial year ended 30 June 2017 were $456,740. Details of the fees payable to each director are set out in section F of this report. The maximum authorised amount payable including superannuation to all non-executive directors for their services approved by the shareholders is currently $600,000 per annum.

Non-executive director fees comprise a base director fee and an additional payment to reflect a director's involvement in Board committees as follows:

- Chairman of Audit Committee receives an additional fee of $15,000;
- Chairman of Risk Committee receives an additional fee of $15,000;
- Chairman of Nomination and Remuneration Committee receives an additional fee of $10,000;
- Member of Audit or Risk Committee receives an additional fee of $7,500 per committee; and
- Member of Nomination and Remuneration Committee receives an additional fee of $5,000.

Other information about directors' remuneration
Directors may also be reimbursed for expenses reasonably incurred in attending to the company's affairs. Non-executive directors may be paid such additional or special remuneration as the directors decide is appropriate where a director performs extra work or services which are not in the capacity as a director of the company or a subsidiary. There is no contractual redundancy benefit for directors.

H. Fertility specialist performance rights incentives

Grants of performance rights – fertility specialists
Performance rights are granted on an annual basis to existing fertility specialists who achieve a benchmark level of IVF cycles above a base or adjusted base number of IVF cycles established in one of the financial years ending after June 2008 up to June 2015.

In addition, performance rights will also be granted to new fertility specialists upon commencing a contractual relationship with the consolidated entity. The initial benchmark level for new fertility specialists is 50 IVF cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

The key terms and conditions to these performance rights for all grants made before September 2016 are set out below:

For existing fertility specialists, performance rights will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the performance rights, conditional upon the fertility specialist performing a number of IVF cycles in the immediately preceding year not less than 75% of the relevant benchmark in the year pursuant to which the performance rights were awarded.

For new fertility specialists who join the consolidated entity, performance rights will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the performance rights, subject to:

- The fertility specialist achieving the relevant benchmark (currently 50 IVF cycles) in a 12 month period during the two years post commencement of the contractual relationship with the consolidated entity and concurrent grant of performance rights; and
- The fertility specialist then achieving a number of IVF cycles in the year before the relevant vesting date that is not less than 75% of the benchmark number.

In addition, a performance right may not be exercised unless it is "in the money" (i.e. if the share price at the relevant time is greater than the company's share price at the time of the performance rights grant).

Vesting conditions
Performance rights will vest and become exercisable to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied. Vesting conditions may include conditions relating to continuous service and the individual performance of the participant in the Plan.

The Board has the discretion to set the value, terms and conditions on which it will offer performance rights under the Plan, including the vesting conditions and different terms and conditions which apply to different participants in the Plan.

Upon the satisfaction of the vesting conditions and any other conditions to exercise, each performance right will be exercisable into a variable number of shares based on the terms of issue of the performance rights. The number of shares to be issued will be calculated by multiplying the applicable component of the offer value of the grant by the amount of the increase in the share price between the share price at vesting compared to the price at grant all divided by the share price at vesting.

Participants will not be required to pay any money to be granted performance rights under the Plan.

The Committee reviewed the performance right grant and vesting conditions of all fertility specialist incentive arrangements in September 2016 and made three significant changes to the scheme effective for all grants made with effect from 1 September 2016:

- The requirement for the share price at vesting to be greater than the share price at grant was removed; and
- The number of performance rights granted to a fertility specialist will be derived using the average closing share price for the previous 15 business days immediately following the announcement of the Company's results to the ASX for the financial periods ending 31 December and 30 June and accordingly the number of performance rights granted will be fixed at grant. There will be two grants of rights annually as follows:
  - March grants for new fertility specialists contracting in the 6 month period ending 31 December; and
  - September grants for standard and high performance rights in relation to KPI achievement in the 12 month period ending 30 June and new fertility specialists contracting in the 6 month period ending 30 June.
- Amendments were made to the high performance scheme including the removal of the requirement for the company's ordinary share price at exercise to be higher than the base price set at the time of incentive commencement, the number of performance rights to be fixed at grant, and the high performance period to be aligned with the financial year. These changes were effective for the third high performance incentive period set out below.

In FY17 11,768 performance rights vested in respect of performance hurdles for the year ended 30 June 2016. No options will vest in respect of the performance hurdles for the year ended 30 June 2017 as the vesting conditions included share price hurdles which were not met. Accordingly, 11,789 options lapsed.

High performance options – fertility specialists
The Board recognises those fertility specialists that achieve a high level of fresh cycles over a defined period acknowledging the value they generate for shareholders. The High Performer Share Incentive Scheme rewards fertility specialists who consistently deliver more than 400 cycles per annum for a consecutive three year period.

The High Performer Share Incentive Scheme has a performance hurdle whereby fertility specialists are required to achieve fresh cycle activity at greater than or equal to 400 cycles per annum over a consecutive three year qualifying period:

- The first incentive period commenced on 1 January 2014 and ended on 31 December 2016; no fertility specialists met the performance criteria;
- The second incentive period commenced on 1 January 2015 and runs for a three year period ending 31 December 2017. The base price at date of grant is the average daily closing share price for the month ending 31 December 2014; this was calculated to be $7.42; the base price value of the incentive is $500,000. Currently two specialists qualify under performance criteria although the vesting date for this incentive period is 1 January 2018 and vesting is also dependent on the company's ordinary share price at exercise being higher than the base price of $7.42.
- The third incentive period commenced on 1 July 2016 and runs for a three year period ending 30 June 2018. The base price is the average closing share price for the previous 15 business days immediately following the announcement of the Company's results to the ASX for the financial period ending 30 June 2016 and accordingly the number of performance rights granted will be fixed at grant at a price of $8.05 per right; the base value of the incentive is $160,000.

Other features of the scheme are as follows:

- The actual number of vested performance rights awarded will be in accordance with the calculation methodology applied to the fertility specialist performance incentive structure;
- Performance rights grants may still be accrued for incremental performance above 400 cycles;
- Once a vesting award is achieved after three years of consecutive high performance, a fertility specialist may then commence a new three year high performer incentive period. For example in a six year period commencing 1 July 2016 a fertility specialist may achieve two vested awards each with a base value of $160,000 if he/she achieves 400 cycles per annum for a consecutive period of six years; and
- The High Performer Share Incentive Scheme is administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

This concludes the remuneration report which has been audited.

Shares under option

Unissued ordinary shares of Virtus Health Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise or base price	Number under option or shares to be issued
20 January 2014*	20 January 2024	$0.00	8,808
21 January 2014*	21 January 2024	$0.00	63,573
03 October 2014*	03 October 2024	$8.57	106,536
10 November 2014	10 November 2024	$0.00	55,095
13 May 2015*	13 May 2025	$8.57	3,686
13 May 2015*	13 May 2025	$7.53	912
13 May 2015*	13 May 2025	$7.34	794
13 May 2015*	13 May 2025	$7.96	343
13 May 2015*	13 May 2025	$8.01	262
11 November 2015*	11 November 2025	$5.13	175,526
21 August 2015*	21 August 2025	$5.67	7,434
28 October 2015*	28 October 2025	$5.01	16,406
16 December 2015*	16 December 2025	$6.07	6,197
16 December 2015*	16 December 2025	$6.17	5,509
16 December 2015*	16 December 2025	$6.28	4,776
21 September 2016*	21 September 2026	$8.05	8,616
21 September 2016*	21 September 2026	$8.05	4,332
11 November 2016	11 November 2026	$0.00	99,491
21 June 2017*	21 June 2027	$5.35	3,129
			571,425

* The consolidated entity grants performance rights to fertility specialists as a dollar value; for the purpose of calculating the estimated number of shares under option, estimates of the share price at the time of vesting are forecast to facilitate an estimate of the number of shares to be issued at vesting.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

During the financial year 452,556 ordinary shares were issued on the exercise of options. No share options were cancelled during the financial year. There were no shares of Virtus Health Limited issued on the exercise of options from 1 July 2017 up to and including the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified, and the amount of the premium, not be disclosed.

Indemnity and insurance of auditor

The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 38 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 38 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of PricewaterhouseCoopers

There are no officers of the company who are former partners of PricewaterhouseCoopers.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows this report.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Macourt
Chairman

22 August 2017
Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Virtus Health Limited and the entities it controlled during the period.

Eddie Wilkie

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
22 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
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FINANCIAL REPORT 2017

for the year ended 30 June 2017

General information

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Virtus Health Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3
176 Pacific Highway
Greenwich NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 August 2017. The directors have the power to amend and reissue the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

		Consolidated	
	Note	2017 $'000	2016 $'000
Revenue	4	256,518	261,210
Share of profits of associates accounted for using the equity method	5	483	681
Other income	6	4,849	3,519
Expenses			
Fertility specialists, consumables and associated costs		(71,204)	(74,383)
Employee benefits expense		(86,594)	(84,293)
Depreciation and amortisation expense	7	(12,165)	(11,180)
Impairment of goodwill	7	(1,870)	–
Occupancy expense		(16,227)	(15,608)
Advertising and marketing		(4,343)	(4,102)
Practice equipment expenses		(2,227)	(2,092)
Professional and consulting fees		(2,518)	(2,919)
Other expenses		(13,776)	(12,954)
Finance costs	7	(8,093)	(8,786)
Profit before income tax expense		42,833	49,093
Income tax expense	8	(12,829)	(14,228)
Profit after income tax expense for the year		30,004	34,865
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax	31	554	(756)
Foreign currency translation		425	575
Other comprehensive income/(loss) for the year, net of tax		979	(181)
Total comprehensive income for the year		30,983	34,684
Profit for the year is attributable to:			
Non-controlling interest		1,901	1,947
Owners of Virtus Health Limited	32	28,103	32,918
		30,004	34,865
Total comprehensive income for the year is attributable to:			
Non-controlling interest		1,972	2,100
Owners of Virtus Health Limited		29,011	32,584
		30,983	34,684

		Cents	Cents
Basic earnings per share	49	35.00	41.18
Diluted earnings per share	49	34.79	40.79

The above statement of comprehensive income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	9	27,337	22,215
Trade and other receivables	10	12,341	11,332
Inventories	11	758	550
Other	12	2,434	1,934
Total current assets		42,870	36,031
Non-current assets			
Investments accounted for using the equity method	13	1,489	1,489
Property, plant and equipment	14	28,989	30,320
Intangibles	15	411,483	399,000
Deferred tax	16	3,966	6,013
Other	17	531	335
Total non-current assets		446,458	437,157
Total assets		489,328	473,188
Liabilities			
Current liabilities			
Trade and other payables	18	20,925	23,539
Borrowings	19	–	22
Derivative financial instruments	20	527	–
Income tax	21	378	12
Provisions	22	3,768	3,236
Other financial liabilities	23	14,044	1,355
Other	24	8,169	5,826
Total current liabilities		47,811	33,990
Non-current liabilities			
Borrowings	25	153,564	147,357
Derivative financial instruments	26	437	1,756
Provisions	27	6,063	6,348
Other financial liabilities	28	11,755	24,130
Other payables	29	1,327	1,563
Total non-current liabilities		173,146	181,154
Total liabilities		220,957	215,144
Net assets		268,371	258,044
Equity			
Issued capital	30	242,001	238,829
Reserves	31	(11,416)	(12,764)
Retained profits	32	18,127	12,531
Equity attributable to the owners of Virtus Health Limited		248,712	238,596
Non-controlling interest	33	19,659	19,448
Total equity		268,371	258,044

The above statement of financial position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015	238,429	(12,989)	1,995	18,886	246,321
Profit after income tax expense for the year	–	–	32,918	1,947	34,865
Other comprehensive income/(loss) for the year, net of tax	–	(334)	–	153	(181)
Total comprehensive income/(loss) for the year	–	(334)	32,918	2,100	34,684
Transactions with owners in their capacity as owners:					
Payment of partly paid shares	400	–	–	–	400
Dividends payable by subsidiaries to non-controlling interests	–	–	–	(1,567)	(1,567)
Non-controlling interest on acquisition of subsidiary	–	–	–	29	29
Share-based payments	–	559	–	–	559
Dividends paid (note 34)	–	–	(22,382)	–	(22,382)
Balance at 30 June 2016	238,829	(12,764)	12,531	19,448	258,044

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	238,829	(12,764)	12,531	19,448	258,044
Profit after income tax expense for the year	–	–	28,103	1,901	30,004
Other comprehensive income for the year, net of tax	–	908	–	71	979
Total comprehensive income for the year	–	908	28,103	1,972	30,983
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 30)	2,504	–	–	–	2,504
Payment of partly paid shares	668	–	–	–	668
Dividends payable by subsidiaries to non-controlling interests	–	–	–	(1,761)	(1,761)
Share-based payments	–	440	–	–	440
Dividends paid (note 34)	–	–	(22,507)	–	(22,507)
Balance at 30 June 2017	242,001	(11,416)	18,127	19,659	268,371

The above statement of changes in equity should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		255,569	259,964
Payments to suppliers (inclusive of GST)		(202,363)	(190,263)
		53,206	69,701
Other revenue		2,761	1,354
Interest and other finance costs paid		(6,560)	(7,097)
Income taxes paid		(10,701)	(16,270)
Net cash from operating activities	48	38,706	47,688
Cash flows from investing activities			
Final payment for prior period's business acquisition	43	(826)	–
Payments for acquisition of subsidiaries and businesses, net of cash acquired	43	(9,965)	(5,775)
Payments for property, plant and equipment and intangibles		(9,849)	(9,628)
Payment of security deposits		(196)	–
Proceeds from disposal of property, plant and equipment		26	18
Interest received		127	143
Associate distributions received		500	–
Net cash used in investing activities		(20,183)	(15,242)
Cash flows from financing activities			
Proceeds from partly paid shares	30	668	122
Proceeds from issue of shares	30	2,504	–
Payment of dividends		(22,507)	(22,104)
Dividend paid to non-controlling interest in subsidiaries		–	(1,567)
Proceeds from (repayment of) borrowings		6,000	(5,000)
Payment for finance lease facility		(22)	(125)
Net cash used in financing activities		(13,357)	(28,674)
Net increase in cash and cash equivalents		5,166	3,772
Cash and cash equivalents at the beginning of the financial year		22,215	18,371
Effects of exchange rate changes on cash and cash equivalents		(44)	72
Cash and cash equivalents at the end of the financial year	9	27,337	22,215

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 42.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Virtus Health Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Virtus Health Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries and businesses are accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services
Revenue from the rendering of services is recognised upon the delivery of the service to a patient or customer. Revenue is recognised on completion of a medical procedure, on supply of drugs, or on completion of an analytical test. If payments received from patients exceed the revenue recognised the difference is disclosed as deferred revenue.

Deferred revenue
Fees for fertility treatment cycles paid in advance are recognised as deferred revenue until the service has been provided whereupon the fees are recognised as revenue.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent
Rent revenue is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Virtus Health Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 1. Significant accounting policies (continued)

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories
Stock on hand consists of donor gametes held to provide donor fertility treatments and medical supplies used in the diagnostic fertility procedures performed in the consolidated entity's fertility clinics. Stock on hand is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges
Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Associates
Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	Shorter of the useful and the expected life of the lease
Furniture and fittings	2 to 10 years
Office equipment	2 to 5 years
Medical equipment	2 to 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The amortisation method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested six monthly for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 5 years.

Brand names

Brand names are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 – 15 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested every six months for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 1. Significant accounting policies (continued)

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits
Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave where there is no unconditional right to defer settlement of the liability are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees and fertility specialists.

Equity-settled transactions are awards of shares, options or performance rights over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using option pricing models that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the recipient to receive payment. The fair value excludes the impact of any service or non-market performing vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Profit sharing and bonus plans
The consolidated entity recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The consolidated entity recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends
Dividends are recognised when declared during the financial year.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 1. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Virtus Health Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, is set out below.

IFRS 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of IFRS 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The consolidated entity has assessed the effects of applying the new standard on the consolidated entity's financial statements and does not expect the new standard to have a material impact on transition. This new standard will first be adopted for the financial year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers, which replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts, addresses the recognition of revenue. The standard is applicable for annual reporting periods beginning on or after 1 January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2018), (i.e. without restating the comparative period). They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

The consolidated entity has assessed the effects of applying the new standard on the consolidated entity's financial statements and does not expect the new standard to have a material impact on transition. This new standard will first be adopted for the financial year ending 30 June 2019.

IFRS 16 Leases
In January 2016 the International Accounting Standards Board (IASB) issued IFRS 16, 'Leases', which amends the accounting for leases. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. The standard requires lessees to bring all leases on balance sheet as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged.

The consolidated entity has performed some detailed work on a sample of leases. Initial indications are that the consolidated entity will likely apply this standard retrospectively to each prior period presented although further work is required before a final decision is made. It is too early to properly quantify the impacts on the results and financial position for the 2019 and 2020 financial years and further work will be performed over the next 12 months to assess the full impacts on the consolidated entity. The consolidated entity has not yet decided whether to adopt the new standard before its normal application date of 1 July 2019.

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using option-pricing models taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Goodwill and other indefinite life intangible assets
The consolidated entity tests six monthly, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Business combinations
As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

The determination of the liability relating to put options linked to business combinations requires estimations to be made of the future profitability of the acquired entity and the discount rates used.

Note 3. Operating segments

Identification of reportable operating segments
AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board of directors and senior management are identified as the chief operating decision makers in assessing performance and in determining the allocation of resources. The consolidated entity currently has six operating segments being New South Wales, Queensland, Victoria, Tasmania, Australian Diagnostics and International. The consolidated entity has determined that the disclosure of two segments, being an Australian aggregated healthcare services segment and an International healthcare services segment is most appropriate. Disclosure of an aggregated segment for Australia is considered appropriate due to the similar economic characteristics faced by the operating segments and the similar nature of the products and services being delivered to a similar customer base.

Segment revenue
Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

Revenue from external customers is derived from the provision of healthcare services. A breakdown of revenue and results is provided below:

Segment EBITDA
Segment performance is assessed on the basis of Segment EBITDA. Segment EBITDA comprises expenses which are incurred in the normal trading activity of the segments and excludes the impact of corporate costs, depreciation, amortisation, goodwill impairment, interest, share-based payments and other items which are determined to be outside of the control of the respective segments.

Consolidated – 2017	Healthcare Services Australia $'000	Healthcare Services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	217,054	37,580	–	254,634
Other revenue	1,757	–	–	1,757
Interest revenue	123	–	4	127
Total revenue	218,934	37,580	4	256,518
Segment EBITDA	65,776	7,099	–	72,875
Share based payment expense				(440)
Corporate costs				(10,557)
Foreign exchange (loss)				(117)
Transaction costs				(773)
Fair value adjustments to put liabilities and contingent consideration				3,846
Depreciation and amortisation expense				(12,165)
Impairment of goodwill				(1,870)
Interest revenue				127
Interest expense				(6,684)
Interest on other financial liability – non-cash interest				(1,202)
Amortisation of bank facility fee				(207)
Profit before income tax expense				42,833
Income tax expense				(12,829)
Profit after income tax expense				30,004
Total assets includes:				
Investments in associates	1,489	–	–	1,489
Acquisition of non-current assets	9,210	15,797	–	25,007

Consolidated – 2016	Healthcare Services Australia $'000	Healthcare Services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	219,532	39,315	–	258,847
Other revenue	2,220	–	–	2,220
Interest revenue	142	–	1	143
Total revenue	221,894	39,315	1	261,210
Segment EBITDA	71,173	5,705	–	76,878
Share based payment expense				(559)
Corporate costs				(8,899)
Foreign exchange gain				217
Transaction costs				(886)
Fair value adjustments to put liabilities				2,165
Depreciation and amortisation expense				(11,180)
Interest revenue				143
Interest expense				(7,240)
Interest on other financial liability – non-cash interest				(1,338)
Amortisation of bank facility fee				(208)
Profit before income tax expense				49,093
Income tax expense				(14,228)
Profit after income tax expense				34,865
Total assets includes:				
Investments in associates	1,489	–	–	1,489
Acquisition of non-current assets	16,883	611	–	17,494

Note 4. Revenue

	Consolidated	
	2017 $'000	2016 $'000
Sales revenue		
Rendering of services	254,634	258,847
Other revenue		
Interest	127	143
Rent	1,757	2,220
	1,884	2,363
Revenue	256,518	261,210

Note 5. Share of profits of associates accounted for using the equity method

	Consolidated	
	2017 $'000	2016 $'000
Share of profits – associates	483	681

Note 6. Other income

	Consolidated	
	2017 $'000	2016 $'000
Fair value gain on put liabilities	3,317	2,165
Fair value gain on contingent consideration	529	–
Other income	1,003	1,354
Other income	4,849	3,519

Note 7. Expenses

	Consolidated	
	2017 $'000	2016 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	3,236	3,170
Furniture and fittings	366	312
Office equipment	2,450	2,032
Medical equipment	2,914	2,912
Total depreciation	8,966	8,426
Amortisation		
Software	1,696	1,268
Brand names	1,503	1,486
Total amortisation	3,199	2,754
Total depreciation and amortisation	12,165	11,180
Impairment		
Impairment of goodwill	1,870	–
Finance costs		
Interest and finance charges paid/payable	6,684	7,240
Interest on other financial liability – non-cash interest	1,202	1,338
Amortisation of bank facility fees	207	208
Finance costs expensed	8,093	8,786
Rental expense relating to operating leases		
Minimum lease payments	12,422	11,691
Superannuation expense		
Defined contribution superannuation expense	5,836	5,441
Research costs		
Research costs	2,918	3,891
Share-based payments expense		
Share-based payments expense – fertility specialists	416	217
Share-based payments expense – employee benefits	24	342
Total share-based payments expense	440	559

Note 8. Income tax expense

	Consolidated 2017 $'000	Consolidated 2016 $'000
Income tax expense		
Current tax	10,795	11,427
Deferred tax – origination and reversal of temporary differences	1,556	2,526
Adjustment recognised for prior periods	478	275
Aggregate income tax expense	12,829	14,228
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 16)	1,556	2,526
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	42,833	49,093
Tax at the statutory tax rate of 30%	12,850	14,728
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	561	–
Share-based payments	132	159
Research and development	(173)	(387)
Fair value gain on Put Liabilities and Contingent Consideration	(1,154)	(650)
Acquisition transaction costs	179	175
Other	466	496
Tax losses not recognised	282	334
	13,143	14,855
Difference in overseas tax rates	(792)	(902)
Adjustment recognised for prior periods	478	275
Income tax expense	12,829	14,228

	Consolidated 2017 $'000	Consolidated 2016 $'000
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 16)	238	(324)
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	3,778	3,919
Potential tax benefit at 17%	642	666

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses relate to Singapore and can be utilised in the future.

Note 9. Current assets – cash and cash equivalents

	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash at bank and on hand	27,337	22,215

Note 10. Current assets – trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	12,260	11,690
Less: Provision for impairment of receivables	(1,944)	(1,816)
	10,316	9,874
Other receivables	2,025	1,458
	12,341	11,332

Impairment of receivables

The consolidated entity has recognised an expense of $424,000 (2016: $598,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

The ageing of the impaired receivables provided for above is as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
3 to 6 months overdue	847	417
Over 6 months overdue	1,097	1,399
	1,944	1,816

The nominal value of the impaired receivables is $2,792,000 (2016: $2,233,000).

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Opening balance	1,816	1,535
Additional provisions recognised	779	800
Additions through business combinations	28	–
Receivables written off during the year as uncollectable	(324)	(317)
Unused amounts reversed	(355)	(202)
Closing balance	1,944	1,816

Note 10. Current assets – trade and other receivables (continued)

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $2,021,000 as at 30 June 2017 ($1,788,000 as at 30 June 2016).

The consolidated entity did not consider the credit risk to be material on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2017 $'000	2016 $'000
1 to 3 months overdue	2,021	1,788

No collateral is held in relation to the above receivables.

Note 11. Current assets – inventories

	Consolidated	
	2017 $'000	2016 $'000
Stock on hand – at cost	758	550

Note 12. Current assets – other

	Consolidated	
	2017 $'000	2016 $'000
Prepayments	2,434	1,934

Note 13. Non-current assets – investments accounted for using the equity method

	Consolidated	
	2017 $'000	2016 $'000
Investment in associates	1,489	1,489

Refer to note 45 for further information on interests in associates.

Note 14. Non-current assets – property, plant and equipment

	Consolidated 2017 $'000	Consolidated 2016 $'000
Leasehold improvements – at cost	39,281	36,553
Less: Accumulated depreciation	(25,811)	(22,609)
	13,470	13,944
Plant and equipment under lease – at cost	1,990	1,990
Less: Accumulated depreciation	(1,990)	(1,990)
	–	–
Furniture and fittings – at cost	3,143	2,727
Less: Accumulated depreciation	(1,607)	(1,238)
	1,536	1,489
Office equipment – at cost	15,977	13,228
Less: Accumulated depreciation	(10,212)	(7,363)
	5,765	5,865
Medical equipment – at cost	26,964	25,522
Less: Accumulated depreciation	(18,746)	(16,500)
	8,218	9,022
	28,989	30,320

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $'000	Plant and equipment under lease $'000	Furniture and fittings $'000	Office equipment $'000	Medical equipment $'000	Total $'000
Balance at 1 July 2015	14,414	214	1,352	5,263	9,579	30,822
Additions	2,325	–	392	2,439	2,101	7,257
Additions through business combinations	302	–	10	47	147	506
Disposals	–	–	–	(2)	(16)	(18)
Exchange differences	67	–	17	14	81	179
Transfers in/(out)	6	(214)	30	136	42	–
Depreciation expense	(3,170)	–	(312)	(2,032)	(2,912)	(8,426)
Balance at 30 June 2016	13,944	–	1,489	5,865	9,022	30,320
Additions	2,844	–	423	1,939	2,179	7,385
Additions through business combinations (note 43)	–	–	–	417	–	417
Disposals	–	–	–	(9)	(17)	(26)
Exchange differences	(82)	–	(10)	3	(52)	(141)
Depreciation expense	(3,236)	–	(366)	(2,450)	(2,914)	(8,966)
Balance at 30 June 2017	13,470	–	1,536	5,765	8,218	28,989

Property, plant and equipment secured under finance leases

Refer to note 40 for further information on property, plant and equipment secured under finance leases.

Note 15. Non-current assets – intangibles

	Consolidated 2017 $'000	Consolidated 2016 $'000
Goodwill – at cost	401,577	387,453
Less: Impairment	(1,870)	–
	399,707	387,453
Software – at cost	19,824	17,363
Less: Accumulated amortisation	(14,387)	(12,690)
	5,437	4,673
Brand names – at cost	15,775	14,798
Less: Accumulated amortisation	(9,436)	(7,924)
	6,339	6,874
	411,483	399,000

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Software $'000	Brand names $'000	Total $'000
Balance at 1 July 2015	379,168	3,557	8,038	390,763
Additions	–	2,371	–	2,371
Additions through business combinations	7,170	–	190	7,360
Disposals	–	(4)	–	(4)
Exchange differences	1,115	17	132	1,264
Amortisation expense	–	(1,268)	(1,486)	(2,754)
Balance at 30 June 2016	387,453	4,673	6,874	399,000
Additions	–	2,464	–	2,464
Additions through business combinations (note 43)	13,600	–	1,140	14,740
Exchange differences	391	(4)	(39)	348
Impairment	(1,870)	–	–	(1,870)
Transfers in/(out)	133	–	(133)	–
Amortisation expense	–	(1,696)	(1,503)	(3,199)
Balance at 30 June 2017	399,707	5,437	6,339	411,483

Impairment tests for goodwill
Goodwill is allocated to the Group's cash generating units ('CGUs') identified according to operating segment:

	Consolidated	
	2017 $'000	2016 $'000
New South Wales	111,807	111,674
Victoria	122,294	122,294
Queensland	66,626	66,626
Tasmania	20,461	22,331
Australian Diagnostics	26,719	26,719
International	51,800	37,809
	399,707	387,453

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond the one year period are extrapolated using the estimated growth rates. The terminal growth rate does not exceed the long-term average growth rate for the business.

Key assumptions used for value in use calculations
Terminal growth rate:
New South Wales – 2.5% (2016: 2.5%)
Victoria – 2.5% (2016: 2.5%)
Queensland – 2.5% (2016: 2.5%)
Tasmania – 1.0% (2016: 2.5%)
International – 2.5% (2016: 2.5%)
Australian Diagnostics – 2.0% (2016: 2.0%)

Pre-tax discount rate
New South Wales – 12.0% (2016: 11.3%)
Victoria – 12.0% (2016: 11.5%)
Queensland – 12.0% (2016: 11.5%)
Tasmania – 14.1% (2016: 11.4%)
International – 9.8% (2016: 9.6%)
Australian Diagnostics – 12.0% (2016 11.8%)

Tasmania
Compared to prior years, management have reduced the terminal growth rate to 1% and increased the pre tax discount rate to 14.1%, used in the value in use calculations for Tasmania to reflect changes in the competitive landscape and business development opportunities taking longer then expected.

Based on the above, a goodwill impairment charge of $1,870,000 has been recognised for Tasmania.

This has also impacted the value of the related Tasmanian put option liability, resulting in a reduction on this liability of $1,647,000. This has been recognised as a fair value gain on put liabilities within Other Income.

If there are any further negative changes in the key assumptions on which the recoverable amount of goodwill is based for Tasmania, this would result in a further impairment charge for the Tasmanian CGUs goodwill.

Note 15. Non-current assets – intangibles (continued)

Some of the key sensitivities are disclosed below:

Tasmania – Key Sensitivities:	From	To	Change in Value (Increase)/Decrease $'000
Adjusting revenue growth beyond the budget year:			
Downwards	3%	2%	(1,652)
Upwards	3%	4%	1,696
Adjusting discount rate:			
Upwards	14.1%	15.1%	(1,352)
Downwards	14.1%	13.1%	1,575

Note 16. Non-current assets – deferred tax

	Consolidated	
	2017 $'000	2016 $'000
Deferred tax assets comprise temporary differences attributable to:		
Amounts recognised in profit or loss:		
Impairment of receivables	397	380
Property, plant and equipment	(540)	(171)
Employee benefits	3,287	3,290
Provision for lease make good	1,114	1,090
Accrued expenses	318	483
Intangible assets	(1,250)	(1,417)
Other	351	814
	3,677	4,469
Amounts recognised in equity:		
Transaction costs on share issue	–	378
Deductible option adjustment payments	–	639
Other	289	527
	289	1,544
Deferred tax assets	3,966	6,013
Amount expected to be recovered within 12 months	2,147	4,691
Amount expected to be recovered after more than 12 months	1,819	1,322
	3,966	6,013
Movements:		
Opening balance	6,013	8,064
Charged to profit or loss (note 8)	(1,556)	(2,526)
Credited/(charged) to equity (note 8)	(238)	324
Additions through business combinations (note 43)	(253)	151
Closing balance	3,966	6,013

Note 17. Non-current assets – other

	Consolidated	
	2017 $'000	2016 $'000
Security deposits	531	335

Note 18. Current liabilities – trade and other payables

	Consolidated	
	2017 $'000	2016 $'000
Trade payables	8,880	10,039
Other payables	12,045	13,500
	20,925	23,539

Refer to note 35 for further information on financial risk management.

Note 19. Current liabilities – borrowings

	Consolidated	
	2017 $'000	2016 $'000
Lease liability	–	22

Refer to note 25 for further information on assets pledged as security and financing arrangements.

Refer to note 35 for further information on financial risk management.

Note 20. Current liabilities – derivative financial instruments

	Consolidated	
	2017 $'000	2016 $'000
Interest rate swap contracts – cash flow hedges	527	–

Refer to note 35 for further information on financial risk management.

Refer to note 36 for further information on fair value measurement.

Note 21. Current liabilities – income tax

	Consolidated	
	2017 $'000	2016 $'000
Provision for income tax	378	12

Note 22. Current liabilities – provisions

	Consolidated	
	2017 $'000	2016 $'000
Employee benefits – long service leave	3,768	3,236

Amounts not expected to be settled within the next 12 months
The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2017 $'000	2016 $'000
Long service leave obligation expected to be settled after 12 months	3,391	2,912

Note 23. Current liabilities – other financial liabilities

	Consolidated	
	2017 $'000	2016 $'000
Other financial liability	14,044	1,355

Refer to note 36 for other information on financial instruments.

The other financial liabilities represent the fair value of the put options held by the non-controlling interests in Sims Clinic Limited and TAS IVF Pty Limited and the contingent consideration in relation to the acquisition of Aagaard Fertilitetsklinik ApS (refer to note 36).

Note 24. Current liabilities – other

	Consolidated	
	2017 $'000	2016 $'000
Deferred revenue	8,169	5,826

Note 25. Non-current liabilities – borrowings

	Consolidated	
	2017 $'000	2016 $'000
Bank loans (net of borrowing costs)	153,564	147,357

Refer to note 35 for further information on financial risk management.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2017 $'000	2016 $'000
Bank loans (net of borrowing costs)	153,564	147,357
Lease liability	–	22
	153,564	147,379

Assets pledged as security
The bank loans are secured by guarantees by all Australian group companies and fixed and floating charges over the consolidated entity's assets. Guarantees are not provided by subsidiaries which are not based in Australia and there are no fixed or floating charges over the assets of the international subsidiaries of the consolidated entity. However, the shares representing the ownership interest in the international subsidiaries are included in the charges over the consolidated entity.

The assets of City West Specialist Day Hospital Pty Ltd and Obstetrics & Gynaecological Imaging Australia Pty Limited are excluded from the assets pledged as security. However, the shares or units representing the 50% interest are included in the charges over the consolidated entity.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2017 $'000	2016 $'000
Cash and cash equivalents	16,838	16,985
Receivables	8,511	9,775
Inventories	585	297
Other current assets	1,990	1,462
Investments	40,780	33,565
Plant and equipment	23,676	22,077
Intangible assets (excluding goodwill)	6,264	6,530
Deferred tax assets	4,286	6,066
Other financial assets	58	49
	102,988	96,806

Note 25. Non-current liabilities – borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2017 $'000	2016 $'000
Total facilities		
Bank loans (excluding capitalised borrowing costs)	200,000	200,000
Working capital facilities	10,000	10,000
	210,000	210,000
Used at the reporting date		
Bank loans (excluding capitalised borrowing costs)	154,000	148,000
Working capital facilities	5,148	4,002
	159,148	152,002
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	46,000	52,000
Working capital facilities	4,852	5,998
	50,852	57,998

The consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2017 and 30 June 2016.

Working capital facilities utilised consist of $5,148,000 (2016: $4,002,000) of bank guarantees.

Credit facilities expire in September 2019.

Note 26. Non-current liabilities – derivative financial instruments

	Consolidated	
	2017 $'000	2016 $'000
Interest rate swap contracts – cash flow hedges	437	1,756

Refer to note 35 for further information on financial risk management.

Refer to note 36 for further information on fair value measurement.

Note 27. Non-current liabilities – provisions

	Consolidated 2017 $'000	Consolidated 2016 $'000
Employee benefits – long service leave	1,780	2,108
Lease make good	4,283	4,240
	6,063	6,348

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated – 2017	Lease make good $'000
Carrying amount at the start of the year	4,240
Additional provisions recognised	43
Carrying amount at the end of the year	4,283

Note 28. Non-current liabilities – Other financial liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Other financial liabilities	11,755	24,130

Refer to note 35 for other information on financial instruments.

The other financial liabilities represent the fair value of the consideration to acquire the non-controlling interests in Sims Clinic Limited and Tas IVF Pty Limited on the assumption that the put options held by the non-controlling interests are exercised.

Note 29. Non-current liabilities – other payables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Other payables	1,327	1,563

Note 30. Equity – issued capital

	Consolidated			
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares – fully paid	80,388,494	79,935,938	242,001	238,829

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	30 June 2016	79,935,938		238,829
Balance	30 June 2016	79,935,938		238,829
Share issue – exercise of options	24 August 2016	138,000	$5.68	784
Share issue – exercise of options	29 August 2016	50,000	$5.68	284
Share issue – exercise of options	01 September 2016	177,788	$5.68	1,010
Share issue – exercise of options	13 September 2016	75,000	$5.68	426
Share issue – exercise of options	30 March 2017	11,768	$0.00	–
Settlement of partly paid shares	10 October 2017	–	$0.00	543
Settlement of partly paid shares	18 April 2017	–	$0.00	125
Balance	30 June 2017	80,388,494		242,001

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

All shares on issue are fully paid apart from 1,919,869 shares which are partly paid. The 1,919,869 shares were issued at $4.71 per share and are unpaid up to the extent of $2.64 per share at 30 June 2017.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

Note 31. Equity – reserves

	Consolidated 2017 $'000	Consolidated 2016 $'000
Foreign currency translation reserve	501	147
Cash flow hedges reserve	(678)	(1,232)
Share-based payments reserve	12,586	12,146
Put option business combination reserve	(23,825)	(23,825)
	(11,416)	(12,764)

Foreign currency translation reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Cash flow hedges reserve
The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Put option business combination reserve
The reserve is used to recognise the impact of the non-controlling interest put options relating to the Sims Clinic Limited and Tas IVF Pty Limited acquisitions.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation reserve $'000	Cash flow hedges reserve $'000	Share-based payments reserve $'000	Put option business combination reserve $'000	Total $'000
Balance at 1 July 2015	(275)	(476)	11,587	(23,825)	(12,989)
Revaluation – net	–	(756)	–	–	(756)
Foreign currency translation	422	–	–	–	422
Option expense	–	–	559	–	559
Balance at 30 June 2016	147	(1,232)	12,146	(23,825)	(12,764)
Revaluation – net	–	554	–	–	554
Foreign currency translation	354	–	–	–	354
Option expense	–	–	440	–	440
Balance at 30 June 2017	501	(678)	12,586	(23,825)	(11,416)

Note 32. Equity – retained profits

	Consolidated 2017 $'000	Consolidated 2016 $'000
Retained profits at the beginning of the financial year	12,531	1,995
Profit after income tax expense for the year	28,103	32,918
Dividends paid (note 34)	(22,507)	(22,382)
Retained profits at the end of the financial year	18,127	12,531

Note 33. Equity – non-controlling interest

	Consolidated 2017 $'000	Consolidated 2016 $'000
Issued capital	1,842	1,842
Reserves	14,642	14,574
Retained profits	3,175	3,032
	19,659	19,448

Note 34. Equity – dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Interim ordinary dividend for the year ended 30 June 2017 of 13.0 cents (2016: 14.0 cents) per fully paid share paid in April 2017	10,450	11,191
Final ordinary dividend for the year ended 30 June 2016 of 15.0 cents (2015: 14.0 cents) per fully paid ordinary share paid in October 2016	12,057	11,191
	22,507	22,382

A final dividend of 12.00 cents per share, fully franked, will be paid on 13 October 2017 to the shareholders on the register at 15 September 2017.

Franking credits

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	16,880	18,472

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 35. Financial risk management

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk from various currency exposures, primarily with respect to the Euro, Singapore dollars and Danish Krone.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Price risk

The consolidated entity is exposed to changes in Commonwealth Government funding for the healthcare services the consolidated entity provides which may impact patient out-of-pocket expenses and thus demand.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The policy is to maintain approximately 30% of borrowings at fixed rate using interest rate swaps to achieve this when necessary.

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

	2017		2016	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loans	3.67%	154,000	3.93%	148,000
Interest rate swaps (notional principal amount)	–	(50,000)	–	(50,000)
Net exposure to cash flow interest rate risk		104,000		98,000

Note 35. Financial risk management (continued)

An analysis by remaining contractual maturities is shown in the 'liquidity and interest rate risk management' section below.

	Basis points increase			Basis points decrease		
Consolidated – 2017	Basis points change	Effect on profit after tax $'000	Effect on equity $'000	Basis points change	Effect on profit after tax $'000	Effect on equity $'000
Bank loans	100	(728)	(728)	(100)	728	728

	Basis points increase			Basis points decrease		
Consolidated – 2016	Basis points change	Effect on profit after tax $'000	Effect on equity $'000	Basis points change	Effect on profit after tax $'000	Effect on equity $'000
Bank loans	100	(686)	(686)	(100)	686	686

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Receivables balances and ageing analysis are monitored on an on-going basis. In order to minimise the consolidated entity's exposure to bad debts, processes are in place to send reminder notices, demands for repayment and ultimately to refer to debt collection agencies.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2017 $'000	2016 $'000
Bank loans (excluding capitalised borrowing costs)	46,000	52,000
Working capital facilities	4,852	5,998
	50,852	57,998

Credit facilities expire in September 2019.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2017	Weighted average interest rate %	1 year or less $'000	Between 1 and less than 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	8,880	–	–	–	8,880
Other payables	–	12,045	–	–	–	12,045
Interest-bearing – variable						
Bank loans	4.05%	6,035	6,035	155,509	–	167,579
Other financial liabilities	3.67%	14,206	–	12,738	–	26,944
Total non-derivatives		41,166	6,035	168,247	–	215,448
Derivatives						
Derivative financial instruments	–	527	350	87	–	964
Total derivatives		527	350	87	–	964

Consolidated – 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and less than 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	10,039	–	–	–	10,039
Other payables	–	13,500	–	–	–	13,500
Other financial liability	–	1,355	–	–	–	1,355
Interest-bearing						
Bank loans	3.93%	5,826	5,826	155,279	–	166,931
Lease liability	7.66%	23	–	–	–	23
Other financial liabilities	3.93%	–	12,063	14,393	–	26,456
Total non-derivatives		30,743	17,889	169,672	–	218,304
Derivatives						
Derivative financial instruments	–	–	–	1,756	–	1,756
Total derivatives		–	–	1,756	–	1,756

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 36. Fair value measurement

Fair value hierarchy
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated – 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	–	964	–	964
Other financial liabilities	–	–	25,799	25,799
Total liabilities	–	964	25,799	26,763

Consolidated – 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	–	1,756	–	1,756
Other financial liabilities	–	–	25,485	25,485
Total liabilities	–	1,756	25,485	27,241

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of other financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. Other financial liabilities have been valued using a forecast earnings model, discounted using specific borrowing rates.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Contingent Consideration $'000	Put Option $'000	Total $'000
Balance at 1 July 2015	–	24,705	24,705
Additions	1,355	–	1,355
Foreign exchange impact	–	509	509
Interest on unwinding	–	1,081	1,081
Fair value adjustment	–	(2,165)	(2,165)
Balance at 30 June 2016	1,355	24,130	25,485
Additions	3,816	–	3,816
Foreign exchange impact	129	(103)	26
Amounts paid during the period	(826)	–	(826)
Interest on unwinding	77	1,067	1,144
Fair value adjustment	(529)	(3,317)	(3,846)
Balance at 30 June 2017	4,022	21,777	25,799

$14,044,000 of the $25,799,000 is current and the balance of $11,755,000 is non-current.

The unobservable inputs and sensitivity of level 3 assets and liabilities are as follows:

Description	Unobservable inputs	Sensitivity
Other financial liabilities	Discount rate	a 1% change would increase/decrease the fair value by $374,491/($275,438)
	EBITDA	a 1% change would increase/decrease the fair value by $210,606/($148,860)

Note 37. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2017 $	2016 $
Short-term employee benefits	2,634,063	2,752,664
Post-employment benefits	187,880	187,223
Long-term benefits	(3,647)	45,764
Share-based payments	15,565	319,824
	2,833,861	3,305,475

Note 38. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company, and its network firms:

	Consolidated	
	2017 $	2016 $
Audit services – PricewaterhouseCoopers		
Audit or review of the financial statements	498,613	528,000
Other services – PricewaterhouseCoopers		
Due diligence	112,945	261,442
Tax compliance services	7,650	83,172
Non-statutory audits and reviews relating to acquisitions	1,000	42,000
	121,595	386,614
	620,208	914,614
Audit services – network firms		
Audit or review of the financial statements	121,760	121,787
Other services – network firms		
Tax services	49,704	47,359
	171,464	169,146

It is the consolidated entity's policy to utilise appropriate accounting and consulting resource for other services which may include tax advice and due diligence reporting on acquisitions, and it is the consolidated entity's policy to seek competitive tenders for such assignments as appropriate.

Note 39. Contingent liabilities

Claims
The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess of $25,000 per claim. The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful it is expected that the claims will be covered by the consolidated entity's insurance policies.

Guarantees
Drawdowns of $5,148,000 (2016: $4,002,000) in the form of financial guarantees have been made against the working capital facility. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 2 years (2016: 3 years).

Note 40. Commitments

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	10,704	9,602
One to five years	30,821	17,720
More than five years	21,197	9,783
	62,722	37,105
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	–	23
Total commitment	–	23
Less: Future finance charges	–	(1)
Net commitment recognised as liabilities	–	22
Representing:		
Lease liability – current (note 19)	–	22

Operating lease commitments includes contracted amounts for various offices and medical centres under non-cancellable operating leases expiring within 2 to 8 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases. These leases have future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases of $419,277 (2016: $554,270).

The increase in the overall operating lease commitments is for the relocation of our existing day hospital and fertility clinic in Maroubra to a larger greenfield site in Alexandria which is a longer lease.

Note 41. Related party transactions

Parent entity
Virtus Health Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 44.

Associates
Interests in associates are set out in note 45.

Key management personnel
Disclosures relating to key management personnel are set out in note 37 and the remuneration report included in the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2017 $	2016 $
Other revenue:		
Rental income(i)	274,783	194,294
Other transactions:		
Provider fees(ii)	3,305,382	3,280,235

(i) The following key management personnel paid rent for the use of leased space in Virtus : Lyndon Hale, Peter Illingworth and David Molloy.
(ii) The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins (30 June 2016: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins).

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2017 $	2016 $
Current receivables:		
Trade receivables from associates	975,757	985,774
Other receivables	14,959	6,367
Current payables:		
Other payables for provider fees	320,024	186,015
Other payables for dividends	900,000	–

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 42. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2017 $'000	2016 $'000
Profit after income tax	26,309	29,483
Total comprehensive income	26,309	29,483

Statement of financial position

	Parent	
	2017 $'000	2016 $'000
Total current assets	34,627	1,893
Total assets	281,515	274,745
Total current liabilities	2,101	2,447
Total liabilities	2,268	2,509
Net assets	279,247	272,236
Equity		
Issued capital	242,001	238,829
Share-based payments reserve	7,340	7,303
Retained profits	29,906	26,104
Total equity	279,247	272,236

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016 apart from being a party to the deed of cross guarantee as detailed in note 46.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments – property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 43. Business combinations

Aagaard Fertilitetsklinik ApS
On the 30 November 2016, Virtus Health Europe Limited acquired 100% of the ordinary share capital in Aagaard Fertilitetsklinik Aps based in Aarhus Denmark for an estimated consideration of $14,460,000. The values identified in relation to the acquisition of the entity are provisional as at 30 June 2017.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	679
Trade receivables	211
Inventories	89
Plant and equipment	417
Brand name	1,140
Trade payables	(495)
Other payables	(105)
Deferred tax liability	(253)
Employee benefits	(129)
Other provisions	(102)
Other liabilities	(592)
Net assets acquired	860
Goodwill	13,600
Acquisition-date fair value of the total consideration transferred	14,460
Representing:	
Cash paid or payable to vendor	10,644
Contingent consideration	3,816
	14,460
Acquisition costs expensed to profit or loss	399
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	14,460
Less: cash and cash equivalents	(679)
Less: contingent consideration	(3,816)
Net cash used	9,965

The acquired business contributed revenue and other income of $1,556,000 and profit before tax of $816,000 (excluding the cost of financing the transaction) to the consolidated entity for the period from 30 November 2016 to 30 June 2017. If the acquisition had occurred on the 1 July 2016, the full year contribution would have been revenue of $2,688,000 and pro-forma profit before tax of $1,440,000 excluding any additional financing costs. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to property, plant and equipment and intangible assets had applied from 1 July 2016.

The goodwill is attributable to the workforce and the expected profitability of the acquired entity

Contingent Consideration
In the event Aagaard achieves the forecast normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') for the calendar year ending 31 December 2017, then additional consideration of $3,816,000 will be payable, made up of $1,531,100 payable in ordinary shares of Virtus Health and the balance payable in cash during March 2018. The fair value of the consideration of $3,816,000 was estimated with reference to the expected EBITDA of Aagaard from management forecasts.

Canberra Fertility Centre acquired in the prior financial year
Canberra Fertility Centre did not achieve its full earn-out targets and hence only $826,000 of the contingent consideration of $1,355,000 was paid during August 2016. The balance of $529,000 was reversed to profit and loss.

Note 44. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business/ Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
IVF Finance Pty Limited	Australia	100.00%	100.00%
IVFA Sub-Holdings Pty Ltd	Australia	100.00%	100.00%
IVF Australia Pty Ltd	Australia	100.00%	100.00%
Melbourne IVF Holdings Pty Ltd	Australia	100.00%	100.00%
Melbourne I.V.F. Pty. Ltd.	Australia	100.00%	100.00%
The Heptarchy Trust	Australia	100.00%	100.00%
North Shore Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Queensland Fertility Group Pty. Ltd.	Australia	100.00%	100.00%
Spring Hill Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
The QFG Day Theatres Unit Trust	Australia	100.00%	100.00%
Hunter Fertility Pty Limited	Australia	100.00%	100.00%
Hunter Fertility Unit Trust	Australia	100.00%	100.00%
Bremiera Pty Limited	Australia	100.00%	100.00%
Queensland Fertility Group Gold Coast Pty Ltd	Australia	100.00%	100.00%
Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd	Australia	100.00%	100.00%
Mackay Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
Maroubra Day Surgery Trust	Australia	100.00%	100.00%
City East Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Virtus Health Singapore Pte Ltd	Singapore	100.00%	100.00%
Virtus Health Europe Limited	United Kingdom	100.00%	100.00%
Virtus Health Ireland Limited	Ireland	100.00%	100.00%
SIMS Clinic Limited	Ireland	70.00%	70.00%
Xentra Pharm Limited	Ireland	70.00%	70.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	70.00%	70.00%
TAS IVF Pty Limited	Australia	70.00%	70.00%
Virtus Andrology Laboratory Singapore Pte. Ltd	Singapore	90.00%	90.00%
Virtus Fertility Centre Singapore Pte Limited	Singapore	90.00%	90.00%
Virtus Health Specialist Diagnostics Pty Limited	Australia	100.00%	100.00%
Lab Services Pty Limited	Australia	100.00%	100.00%
Lab Services Unit Trust	Australia	100.00%	100.00%
Aagaard Fertilitetsklinik Aps	Denmark	100.00%	–

Note 44. Interests in subsidiaries (continued)

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 1:

			Parent		Non-controlling interest	
Name	Principal place of business/Country of incorporation	Principal activities	Ownership interest 2017 %	Ownership interest 2016 %	Ownership interest 2017 %	Ownership interest 2016 %
Sims Clinic Limited and its controlled entities	Ireland	provision of healthcare services	70.00%	70.00%	30.00%	30.00%
Tas IVF Pty Limited	Australia	provision of healthcare services	70.00%	70.00%	30.00%	30.00%
Virtus Fertility Centre Singapore Pte Limited and its controlled entities	Singapore	provision of healthcare services	90.00%	90.00%	10.00%	10.00%

Summarised financial information

Set out below is the summarised financial information of the non-controlling interests that are material to the consolidated entity. The amounts disclosed are before inter-company eliminations.

	SIMS Clinic Limited	
	2017 $'000	2016 $'000
Summarised statement of financial position		
Current assets	5,638	4,964
Non-current assets	11,858	12,025
Total assets	17,496	16,989
Current liabilities	4,182	5,922
Non-current liabilities	1,113	596
Total liabilities	5,295	6,518
Net assets	12,201	10,471
Summarised statement of comprehensive income		
Revenue	31,480	35,715
Expenses	(26,187)	(30,134)
Profit before income tax expense	5,293	5,581
Income tax expense	(673)	(696)
Profit after income tax expense	4,620	4,885
Other comprehensive income	–	–
Total comprehensive income	4,620	4,885
Statement of cash flows		
Net cash from operating activities	3,239	5,392
Net cash used in investing activities	(307)	(729)
Net cash used in financing activities	(2,972)	(4,149)
Net increase/(decrease) in cash and cash equivalents	(40)	514
Other financial information		
Profit attributable to non-controlling interests	1,386	1,367
Dividends paid to non-controlling interests	861	1,267
Accumulated non-controlling interests at the end of reporting period	12,919	12,377

Transactions with non-controlling interests

	Consolidated	
	2017 $'000	2016 $'000
Dividends paid/payable to non-controlling interest	(861)	(1,267)

Note 45. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the consolidated entity are set out below:

		Ownership interest	
Name	Principal place of business/ Country of incorporation	2017 %	2016 %
Obstetrics & Gynaecological Imaging Australia Pty Ltd	Australia	50.00%	50.00%
City West Specialist Day Hospital Pty Ltd	Australia	50.00%	50.00%

Summarised financial information

	2017 $'000	2016 $'000
Summarised statement of financial position		
Current assets	766	646
Non-current assets	1,090	1,309
Total assets	1,856	1,955
Current liabilities	851	739
Total liabilities	851	739
Net assets	1,005	1,216
Summarised statement of comprehensive income		
Revenue	3,523	3,945
Expenses	(3,037)	(3,264)
Profit before income tax	486	681
Other comprehensive income	–	–
Total comprehensive income	486	681

Note 46. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Virtus Health Limited
IVF Finance Pty Limited
IVFA Sub-Holdings Pty Ltd
IVF Australia Pty Ltd
Melbourne IVF Holdings Pty Ltd
Queensland Fertility Group Pty. Ltd.
Virtus Health Specialist Diagnostics Pty Limited
Lab Services Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare audited financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Virtus Health Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of comprehensive income and statement of financial position of the 'Closed Group'.

Statement of comprehensive income	2017 $'000	2016 $'000
Revenue	124,923	119,455
Share of profits of associates accounted for using the equity method	483	681
Trust distributions received	16,924	20,598
Other income	3,886	4,477
Fertility specialists, consumables and associated costs	(32,589)	(31,835)
Employee benefits expense	(46,054)	(41,850)
Depreciation and amortisation expense	(6,855)	(5,923)
Occupancy expense	(6,931)	(7,065)
Advertising and marketing	(2,438)	(2,275)
Practice equipment expenses	(939)	(758)
Professional and consulting fees	(1,137)	(1,470)
Other expenses	(5,700)	(6,283)
Finance costs	(7,321)	(7,879)
Profit before income tax expense	36,252	39,873
Income tax expense	(10,880)	(11,364)
Profit after income tax expense	25,372	28,509
Other comprehensive income/(loss)		
Net change in the fair value of cash flow hedges taken to equity, net of tax	554	(756)
Other comprehensive income/(loss) for the year, net of tax	554	(756)
Total comprehensive income for the year	25,926	27,753

Equity – retained profits	2017 $'000	2016 $'000
Retained profits at the beginning of the financial year	22,462	16,335
Profit after income tax expense	25,372	28,509
Dividends paid	(22,507)	(22,382)
Retained profits at the end of the financial year	25,327	22,462

Statement of financial position	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	11,246	9,577
Trade and other receivables	25,237	24,471
Income tax refund due	327	–
Other	1,679	1,152
	38,489	35,200
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	181,090	170,376
Property, plant and equipment	15,874	15,208
Intangibles	207,426	207,748
Deferred tax	2,992	4,948
Other	76	76
	408,947	399,845
Total assets	447,436	435,045
Current liabilities		
Trade and other payables	7,492	7,267
Derivative financial instruments	527	–
Income tax	–	77
Provisions	2,429	1,916
Other financial liabilities	2,764	–
Other	4,613	3,503
	17,825	12,763
Non-current liabilities		
Borrowings	153,536	147,328
Derivative financial instruments	437	1,756
Provisions	2,810	3,086
Other financial liabilities	3,343	7,406
	160,126	159,576
Total liabilities	177,951	172,339
Net assets	269,485	262,706
Equity		
Issued capital	242,001	238,829
Reserves	2,157	1,415
Retained profits	25,327	22,462
Total equity	269,485	262,706

Note 47. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 48. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2017 $'000	2016 $'000
Profit after income tax expense for the year	30,004	34,865
Adjustments for:		
Depreciation and amortisation	12,165	11,180
Impairment of goodwill	1,870	–
Net fair value gain on other financial assets	(3,846)	(2,165)
Share-based payments	440	559
Amortisation of bank facility fees	207	208
Interest on finance lease facility	–	1
Other non-cash items	205	(940)
Net (gain)/loss in disposal of non-current assets	10	4
Interest on other financial liabilities – non-cash interest	1,202	1,338
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(1,545)	1,980
Increase in inventories	(119)	(272)
Decrease in deferred tax assets	1,762	2,202
Increase/(decrease) in trade and other payables	(3,181)	2,254
Increase/(decrease) in provision for income tax	366	(4,232)
Increase in other provisions	16	459
Increase/(decrease) in other operating liabilities	(850)	247
Net cash from operating activities	38,706	47,688

Note 49. Earnings per share

	Consolidated	
	2017 $'000	2016 $'000
Profit after income tax	30,004	34,865
Non-controlling interest	(1,901)	(1,947)
Profit after income tax attributable to the owners of Virtus Health Limited	28,103	32,918
Add: interest savings on conversion of options	89	69
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	28,192	32,987

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,304,581	79,935,938
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	567,226	939,024
*Estimated Issuable shares (refer to note 43)	165,297	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,037,104	80,874,962

	Cents	Cents
Basic earnings per share	35.00	41.18
Diluted earnings per share	34.79	40.79

* The maximum number of shares issuable for the contingent consideration is 284,591 however for the purpose of calculating the diluted earnings per share the weighted average number of shares is 165,297 which has been calculated from the date of the contingent share agreement being 30 November 2016.

Note 50. Share-based payments

Virtus Health Limited Executive Option Plan and Specialist Option Plan ('Virtus Health Limited Share Option Plan')
The Virtus Health Limited Share Option Plan was adopted by the Board on 11 June 2013. The Virtus Health Limited Share Option Plan was established to reward, retain and motivate fertility specialists and senior executives. Participation in the Virtus Health Limited Share Option Plan is at the Board's discretion and no individual has a contracted right to participate in the Virtus Health Limited Share Option Plan or to receive any guaranteed benefits. Further details are provided in the remuneration report.

Set out below are summaries of options and performance rights granted under the plans:

2017

Effective grant date	Expiry date	Exercise or base price	Balance at the start of the year	Granted	Exercised/ cancelled/ other	Expired/ forfeited/ other	Balance at the end of the year
11/06/2013	11/06/2018	$5.68	177,788	–	(177,788)	–	–
01/07/2013	27/01/2017	$5.68	263,000	–	(263,000)	–	–
01/07/2013	21/01/2024	$5.68	22,568	–	(4,800)	(8,960)	8,808
01/07/2013	21/01/2024	$6.40	96,238	–	(6,968)	(25,697)	63,573
03/10/2014	03/10/2024	$8.57	88,948	–	–	17,588	106,536
10/11/2014	10/11/2024	$0.00	126,457	–	–	(71,362)	55,095
13/05/2015	13/05/2025	$7.16	7,372	–	–	(3,686)	3,686
13/05/2015	13/05/2025	$7.53	912	–	–	–	912
13/05/2015	13/05/2025	$7.94	794	–	–	–	794
13/05/2015	13/05/2025	$7.94	343	–	–	–	343
13/05/2015	13/05/2025	$8.01	262	–	–	–	262
10/11/2015	10/11/2025	$0.00	201,111	–	–	(25,585)	175,526
21/08/2015	21/08/2025	$5.67	7,434	–	–	–	7,434
28/10/2015	28/10/2025	$5.01	16,406	–	–	–	16,406
16/12/2015	16/12/2025	$6.07	6,197	–	–	–	6,197
16/12/2015	16/12/2025	$6.17	5,509	–	–	–	5,509
16/12/2015	16/12/2025	$6.28	4,776	–	–	–	4,776
21/09/2016	21/09/2026	$8.05	–	8,616	–	–	8,616
21/09/2016	21/09/2026	$8.05	–	4,332	–	–	4,332
11/11/2016	11/11/2026	$0.00	–	99,491	–	–	99,491
21/06/2017	21/06/2027	$5.35	–	3,129	–	–	3,129
			1,026,115	115,568	(452,556)	(117,702)	571,425

2016

Effective grant date	Expiry date	Exercise or base price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
11/06/2013	11/06/2018	$5.68	412,500	–	–	(234,712)	177,788
01/07/2013	27/01/2017	$5.68	263,005	–	–	(5)	263,000
01/07/2013	21/01/2024	$0.00	45,136	–	(22,568)	–	22,568
01/07/2013	21/01/2024	$0.00	96,238	–	–	–	96,238
01/01/2014	01/01/2024	$8.69	29,073	–	(29,073)	–	–
03/10/2014	03/10/2024	$8.57	117,251	–	(28,303)	–	88,948
10/11/2014	10/11/2024	$0.00	126,457	–	–	–	126,457
13/05/2015	13/05/2025	$7.16	7,372	–	–	–	7,372
13/05/2015	13/05/2025	$7.53	912	–	–	–	912
13/05/2015	13/05/2025	$7.94	794	–	–	–	794
13/05/2015	13/05/2025	$7.96	343	–	–	–	343
13/05/2015	13/05/2025	$8.01	262	–	–	–	262
10/11/2015	10/11/2025	$0.00	–	201,111	–	–	201,111
21/08/2015	21/08/2025	$5.67	–	7,434	–	–	7,434
28/10/2015	28/10/2025	$5.01	–	16,406	–	–	16,406
16/12/2015	16/12/2025	$6.07	–	6,197	–	–	6,197
16/12/2015	16/12/2025	$6.17	–	5,509	–	–	5,509
16/12/2015	16/12/2025	$6.28	–	4,776	–	–	4,776
			1,099,343	241,433	(79,944)	(234,717)	1,026,115

The weighted average exercise price is $3.08 (2016: $3.46).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 7.9 years (2016: 5.4 years).

For the options and performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price or base price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
21/09/2016	21/09/2026	$7.86	$8.05	22.52%	4.00%	1.73%	$0.93
21/09/2016	21/09/2026	$7.86	$8.05	22.52%	4.00%	1.65%	$0.60
11/11/2016	11/11/2026	$6.48	$0.00	22.52%	4.00%	1.73%	$4.52
21/06/2017	21/06/2027	$5.42	$5.35	22.52%	4.00%	1.73%	$0.93

Grants of options and performance rights – fertility specialists
Details of the grant of options and performance rights to fertility specialists is included in Section H of the remuneration report which forms part of the Directors' Report.

Note 50. Share-based payments (continued)

Vesting Conditions
Options and performance rights will vest and become exercisable to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied. Vesting conditions may include conditions relating to continuous employment or service, the individual performance of the participant in the Plan or the company's performance.

The Board has the discretion to set the terms and conditions on which it will offer options and performance rights under the Plan, including the vesting conditions and different terms and conditions which apply to different participants in the Plan.

Upon the satisfaction of the vesting conditions and any other conditions to exercise, each option and performance right will be exercisable into a variable number of shares based on the terms of issue of the options or performance rights. The number of shares to be issued will be calculated by multiplying the applicable component of the offer value of the grant by the amount of the increase in the share price between the share price at vesting date compared to the share price at grant date all divided by the share price at vesting date.

DIRECTORS' DECLARATION

for the year ended 30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become liable, subject by virtue of the deed of cross guarantee described in note 46 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Peter Macourt
Chairman

22 August 2017
Sydney

Independent auditor's report

to the shareholders of Virtus Health Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Virtus Health Limited (the Company) and its controlled entities (together the Group), is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the statement of comprehensive income for the year ended 30 June 2017
- the statement of financial position as at 30 June 2017
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

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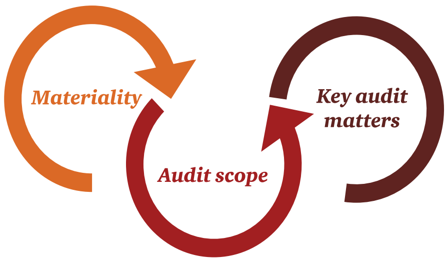
individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Virtus is an Assisted Reproductive Services provider in Australia and Europe with a growing presence in Asia. The Group finance operations are in Sydney, Australia.



Materiality

- For the purpose of our audit we used overall Group materiality of $2.1 million which represents approximately 5% of Group profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the key measure used by shareholders to assess the performance of the Group.
- We selected 5% based on our professional judgement noting that it is within the range of commonly acceptable quantitative profit related thresholds.
- When planning the audit, we considered if multiple errors may exist which, when aggregated, could exceed $2.1m. In order to reduce the risk of multiple errors which could aggregate to greater than this amount we used a lower level of materiality for the purpose of designing our audit procedures in respect of individual balances, classes of transactions and disclosures that were subject to audit.

Audit scope

- Our audit focused on areas where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group has six operating segments being New South Wales, Queensland, Victoria, Tasmania, Australian Diagnostics and International as detailed in note 3 to the financial report. Each of these operating segments includes a number of reporting units (such as clinics), which together feed into the consolidated financial report. We determined that we needed to perform an audit of the complete financial information of seven reporting units due to either their financial significance to the Group financial report or their risk characteristics. These were: Melbourne IVF, Queensland Fertility Group, Virtus Health Specialist Diagnostics, Virtus Health Ireland, IVF Finance, IVF Australia and Virtus Health.

  We, as the Group engagement team at the head office, performed all aspects of the audit except for the work on Virtus Health Ireland which was performed by a component auditor operating under our instruction. We determined the level of involvement we needed to have in the work performed by the component auditor to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial report as a whole.

- We also performed additional procedures at the Group level, including work over the consolidation of the Group's reporting units and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We communicated the key audit matters to the Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Assessment of the carrying value of goodwill *(Refer to note 2 and note 15)* The Group has goodwill of $399,707,000 which is recognised in six operating segments and is the largest item in the Group's statement of financial position. We considered this a key audit matter due to the size of the goodwill balance and because the directors' assessment of the "value in use" of the Group's operating segments involves judgements about the future results of the businesses and the discount rates to be applied to future cash flow forecasts. The carrying value of goodwill is contingent on future cash flows and there is a risk that if these cash flows do not meet the Group's expectations, the goodwill will be impaired. The carrying value reviews performed by the Group contain a number of significant judgements and estimates including fertility cycle volume and price growth, profit margins, long-term growth and discount rates. Changes in these assumptions can have a significant impact on the headroom available in the carrying value assessments.	To evaluate the Group's cash flow forecasts and the process by which they were developed we performed the following procedures amongst others: • Tested the mathematical accuracy of the underlying calculations. • Compared the year 1 value-in-use cash flow forecast to the latest Board approved budgets. • Considered the reliability of the Group's budgeting and forecasting process by comparing current year (2017) actual results with the amounts included in the prior year budget for 2017 to consider whether the budgets included assumptions that, with hindsight, had been optimistic. Whilst there was some underperformance in some operating segments, we found that actual performance was broadly consistent with budgeted performance. • Assessed the discount rate used in the goodwill valuation model by comparing the cost of capital for the Group to market data and industry research. • Compared the long-term growth rates used in the forecast to historical results and economic and industry forecasts. We found that the growth rate assumptions were consistent with historic results adjusted for the economic outlook and industry forecasts in all operating segments apart from Tasmania, where a $1.87m impairment of goodwill was recognised by the Group. • Varied the growth and discount rates used in the forecasts, analysed the impact on results, and tested reasonably possible downside scenarios. • Compared the Group's net assets of $268m as at 30 June 2017 to its market capitalisation of $432m at that date. • Evaluated the adequacy of the disclosures in note 15 in relation to the Tasmania goodwill impairment in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter

Accounting for financial liabilities relating to put options
(Refer to notes 2, 6, 23, 28 and note 36)
As part of the acquisitions of the SIMS Clinic Limited ("SIMS Clinic") and TasIVF Pty Ltd ("TasIVF"), the Group entered into put/call option arrangements with the selling shareholders of each company for the 30% of the share capital not owned by the Group.
 	
The financial liabilities arising from the put options for the SIMS Clinic and TasIVF are in two tranches of 15%, each exercisable in 2017 and 2019, and are based upon a multiple of earnings before interest, tax, depreciation and amortisation (EBITDA), discounted to present value.
 	
The first tranche of put options were re-calculated by the Group based upon the actual EBITDA results up to 30 June 2017, and as a result the Group updated the measurement of the related put option liabilities. The Group re-assessed the measurement of the put option liabilities related to the second tranche of put options exercisable in 2019, and reduced these liabilities based on forecasted EBITDA.
 	
The re-assessment of these put option liabilities resulted in a fair value gain of $3.3m being recognised in other income (note 6 to the financial report).
 	
We considered this a key audit matter due to the financial significance of the liabilities, the complexity and level of judgement involved in assessing the carrying value of the liabilities together with the reduction in the liabilities during the year.
	Our procedures included:
	
	• Reading the option deeds that accompanied both the TasIVF and SIMS Clinic acquisitions, and developing an understanding of the financial terms and conditions of both agreements.
	• To evaluate the liability valuation models ("the models") and the process by which they were developed we performed the following procedures amongst others:
	  - Compared the actual 2017 EBITDA to the EBITDA used in the Group's 2017 tranche calculation of the put option liabilities.
	  - Compared current year trading performance for SIMS Clinic and TasIVF to the forecasted performance of both businesses in the Group's original calculations.
	  - Agreed the future growth in EBITDA assumptions for 2018 in the Group's original calculations with the 2018 Board approved budgets.
	  - Tested the mathematical accuracy and consistency of the calculations.
	  - Compared the EBITDA growth assumptions for 2018 and 2019 with actual historical EBITDA growth achieved.
	  - Compared the discount rate used in the model to the Group's interest rate on its borrowings.

Accounting for acquisitions *(Refer to note 2 and note 43)* During the year, the Group acquired 100% of Aagaard Fertility Clinic (AFC) for $14.5m including an estimated contingent consideration of $3.8m (discounted). Goodwill of $13.6m was recognised as a result of the acquisition. We considered this a key audit matter because: • Acquisitions are not transactions that are routinely performed by the Group • The value of the transaction is material to the Group • Accounting for this transaction requires judgement by the Group in determining the fair value of acquired assets and liabilities - particularly in allocating the purchase consideration to the net assets and liabilities acquired and to goodwill. • The acquisition purchase price contains a contingent consideration element, which is based on estimated future earnings and trading results.	Our procedures included: • Reading the sale and purchase agreement relating to the acquisition to develop an understanding of the key terms and conditions. • Agreeing the consideration paid for the acquisition to bank statement and the sale and purchase agreement. • Assessing the valuation of the contingent consideration of $3.8m by comparing AFC's past trading performance and the Board approved budget against the forecast earnings used to assess the value of the contingent consideration. • Recalculating the Group's fair value adjustments.

Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Directors' report, the Chairman's statement, the Chief Executive's overview and the Corporate directory, (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Shareholder Information.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 19 to 37 of the Directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Virtus Health Limited, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Eddie Wilkie

Eddie Wilkie
Partner

Sydney
22 August 2017

SHAREHOLDER INFORMATION

for the year ended 30 June 2017

The shareholder information set out below was applicable as at 15 September 2017.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Size of Holding	Number of Shareholders	Ordinary Shares	% of Issued Capital
100,001 and Over	68	56,942,241	70.8
10,001 to 100,000	287	7,844,923	9.8
5,001 to 10,000	577	4,269,979	5.3
1,001 to 5,000	3,705	9,001,152	11.2
1 to 1,000	4,574	2,330,199	2.9
Total	9,211	80,388,494	100.0

Distribution of Options

The distribution of unquoted options on issue are:

Size of Holding	Number of Holders	Unlisted Options	% of Issued Capital
100,001 and Over	1	116,050	20.3
10,001 to 100,000	13	356,776	62.4
5,001 to 10,000	8	53,055	9.3
1,001 to 5,000	12	39,816	7.0
1 to 1,000	10	5,728	1.0
Total	44	571,425	100.0

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

		Number of fully paid Ordinary Shares	% of Issued Capital
1	Capital World Investors	5,223,000	6.5
2	Merlon Capital Partners	4,924,731	6.1
3	NovaPort Capital	3,721,449	4.6
4	Delta Partners	3,643,157	4.5
5	Montgomery Investment Mgt	3,486,283	4.3
6	Fisher Funds Mgt	2,315,285	2.9
7	Norges Bank Investment Mgt	2,209,635	2.7
8	Dimensional Fund Advisors	1,745,333	2.2
9	Selector Funds Mgt	1,642,443	2.0
10	JCP Investment Partners	1,438,275	1.8
11	BlackRock Investment Mgt - Index	1,426,701	1.8
12	Omega Global Investors	1,267,910	1.6
13	Vanguard Group	1,166,066	1.5
14	Realindex Investments	1,041,872	1.3
15	Vanguard Investments Australia	983,933	1.2
16	Redpoint Investment Mgt	887,099	1.1
17	Plato Investment Mgt	855,424	1.1
18	Mr Lyndon G Hale	823,694	1.0
19	Macquarie Securities	795,611	1.0
20	Myer Family Company (Melbourne)	749,711	0.9
	Total	40,347,612	50.2

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

The names of the Substantial Shareholders listed in the Company's Register as at 15 September 2017:

	Number of Ordinary Fully Paid Shares	% of Issued Capital
Capital World Investors	5,223,000	6.5
Merlon Capital Partners	4,924,731	6.1

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

9,012,067 shares are held under Escrow arrangements with variable release dates linked to the age and retirement dates of the fertility specialists.

There are no other classes of equity securities.

Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 22 August 2017 and can be found at www.virtushealth.com.au/corporategovernance

CORPORATE DIRECTORY

Directors

Peter Macourt – Chairman
Susan Channon
Dennis O'Neill (resigned on 9 November 2016)
Lyndon Hale
Peter Turner
Sonia Petering
Greg Couttas (appointed on 5 October 2016)

Company secretary

Glenn Powers

Notice of annual general meeting

The details of the annual general meeting of Virtus Health Limited are:

Wednesday, 22 November 2017
at the Hilton Hotel Sydney at 2pm
488 George Street
Sydney NSW 2000

Registered office

Level 3
176 Pacific Highway
Greenwich NSW 2065
Phone: (02) 9425 1722
Fax: (02) 9425 1633

Principal place of business

Level 3
176 Pacific Highway
Greenwich NSW 2065

Stock exchange listing

Virtus Health Limited shares are listed on the Australian Securities Exchange (ASX code: VRT)

Website

www.virtushealth.com.au

Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 22 August 2017 and can be found at http://virtushealth.com.au/about-us/corporate-governance

Share register

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Phone: 1300 554 474

Auditor

PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000

Solicitors

Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

Bankers

Australia and New Zealand Banking Group Limited
242 Pitt Street
Sydney NSW 2000

Westpac Banking Corporation
Level 3
275 Kent Street
Sydney NSW 2000

Commonwealth Bank of Australia
Ground floor, Tower 1
201 Sussex Street
Sydney NSW 2000

Siemens Financial Services Inc
170 Wood Avenue
South Iselin New Jersey 08830, USA

National Australia Bank
Level 19, NAB House
255 George Street
Sydney NSW 2000

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