



ANNUAL REPORT 2018

ABN 80 129 643 492



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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NETWORK OF CARE

FERTILITY SPECIALISTS

126



FRESH IVF CYCLES

18,496



SCIENTISTS

241



NURSE, COUNSELLOR AND
PATIENT SUPPORT

977



FERTILITY CLINICS

45



DAY HOSPITALS

7



“Introducing Ivy: an innovative Artificial Intelligence tool pioneered by Virtus scientists to increase success rates in IVF pregnancies.”

“FY18 resulted in Virtus Health delivering a consistent Australian performance, continued growth in diagnostic and international activities supported by effective cost management.”



CHAIRMAN'S STATEMENT

GROUP REVENUE INCREASED 2.2% TO

\$262.1m

NET PROFIT AFTER TAX INCREASED 9.4% TO

\$30.8m

The results for the financial year ended 30 June 2018 reflect a challenging year in our core Australian fertility operations and continued growth from our international activities reaffirming the strategic vision of Virtus Health.

FY18 resulted in Virtus Health delivering a consistent Australian performance, continued growth in diagnostic and international activities supported by effective cost management despite softening in the Australian Assisted Reproductive Services (“ARS”) market in the second half.

Group revenue increased 2.2% to \$262.1 million. Revenue growth was impacted by market volume weakness and price pressure in a competitive Australian market where Virtus Australia revenue declined by 0.5%. International revenue increased by 17.6% assisted by a favourable foreign exchange translation impact on our euro earnings, growth in Singapore, the full year contribution of Aagaard Fertility Clinic, Denmark and a three month contribution from Complete Fertility Centre, Southampton UK.

For the year ended 30 June 2018 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 26.0 cents per share fully franked; this is an increase on the prior year reflecting increased earnings.

The Virtus International presence continues to grow with targeted acquisitions in the UK and Denmark consistent with our international growth strategy. We continued to drive further improvement from our international activities with EBITDA growing 30% to \$9.2 million with Ireland continuing to deliver

solid results. In Singapore financial performance continued to improve and we achieved a full year positive EBITDA for the first time.

Virtus welcomed Complete Fertility (UK) and Trianglen (Denmark) to the group and these clinics are forecast to be earnings enhancing in FY19. Each of these acquisitions provide an important extension of our international diversification strategy.

In the Australian eastern state markets in which we operate there was an overall market volume decrease of 0.7% for Assisted Reproductive Services.

Underlying cycle volume in Virtus Australian clinics decreased 3.4% and reflected the impact of low cost fertility competitors in both the economically challenged Queensland market and the Tasmanian market where volume contracted by 7%.

Whilst the New South Wales and Victorian markets both saw volumes decline slightly in FY18, Virtus premium and low cost clinics outperformed the market and our Sydney and Melbourne metropolitan based IVFAustralia, Melbourne IVF and “The Fertility Centre” (“TFC”) branded clinics experienced an improvement in volumes and growth in market share.

Management continues to develop the range of services offered by several regionally positioned clinics with recent changes made in the NSW Hunter region and Tasmania.

The underlying demographic drivers of ARS remain favourable in all markets with the key factors stimulating volume growth being the impact of

“Virtus’ international presence continues to grow with targeted acquisitions in the UK and Denmark consistent with our international growth strategy.”

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. However, the Virtus Board also recognises that the Australian ARS market continues to evolve and we are focused on service delivery to support patients across a range of social and economic demographics, as well as meeting the full range of clinical demands essential to the sustainability of the Virtus business.

Our diagnostic revenue increased by over 3.6% in FY18, largely driven by greater internal utilisation of genetic testing and screening in reproductive medicine. The strong improvement in financial performance in a rapidly evolving diagnostic sector is an important feature of our ARS service.

The day hospitals experienced a quiet year with weakness in non-IVF revenue the major reason for our relatively flat financial performance. As our Maroubra site prepared to relocate its IVF laboratory, clinic and day hospital to a new facility at Alexandria the “wind down” impacted financial performance in the last quarter. Alexandria is one of two major relocations and facility upgrades currently in progress; we will also be relocating our Hobart facility in September and adding a small two theatre day hospital capability to further develop our Tasmanian business.

As shareholders will recall we made significant changes to our Victorian operations last year and we are pleased to report that, following a period of reorganisation we have seen significant improvements in clinical and financial performance; credit for this improvement goes to the Victorian senior management team and all the employees who have embraced the need for change.

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. One particular achievement is the development of the “Ivy” artificial intelligence software and we believe this will provide major improvements in clinical performance as we progressively adopt the technology in all Virtus laboratories.

The Board continues to work closely with management to identify international opportunities in the UK and Europe. The new financial year provides Virtus with opportunities for continued expansion, with full year contributions from Complete Fertility and Trianglen, as well as the business development opportunities that our new facilities in Alexandria and Hobart provide.

Management will also be focused on the integration of our new international clinics and the delivery of greater synergies across our six European clinics.

Changes to federal and territory legislation are an important feature of the future landscape for ARS across the world although they can be slow in eventuating. 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. In Europe changes to donor services are expected in Ireland and our European management team are continually assessing the opportunities to expand our donor services in our chosen territories.

Peter Turner, who joined the Board at our IPO in 2013 has indicated that he will not seek re-election at the AGM in November and I would like to thank Peter for his contribution and diligent service to the company over the last five years.

Finally, I would like to thank all our staff, fertility specialists and management teams who contribute daily to the success of Virtus Health. Their flexibility in a changing clinical and business environment is essential to the continued success of Virtus Health.



Peter Macourt
Chairman

“We remain relevant to the patients we treat and the markets in which we operate and expect the disciplined evolution of our three key pillars of fertility, diagnostics and day hospitals to deliver continued growth.”



CHIEF EXECUTIVE'S OVERVIEW

As the market-leading Assisted Reproductive Services (“ARS”) provider in Australia and Ireland and with a growing presence globally, we are proud to offer our patients the highest levels of clinical and scientific expertise in fertility treatments and associated technologies.

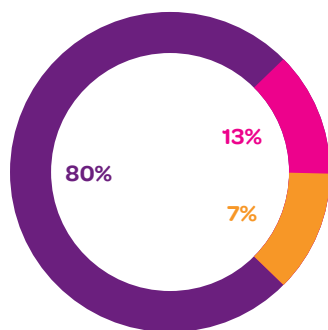
Our market leading ARS offering continues to develop through the introduction of new technologies and added services, all designed to improve outcomes for patients and reinforce Virtus as the provider of choice for those seeking to create the families they desire.

In line with our stated strategy for diversification, our international presence expanded in FY18 with two additional IVF clinics joining the Virtus group; Complete Fertility in Southampton (UK) and Triangeln in Copenhagen (Denmark). Both patient

centric fertility clinics providing a natural cultural fit with Virtus. Our focus on diversification has also led to expanded diagnostic and day hospital services. It is this strategy that has sustained us through a period of Australian ARS volume decline.

Our teams completed 18,496 fresh IVF cycles in FY18, 35,286 ARS treatments and 32,749 day hospital procedures across our network. 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.

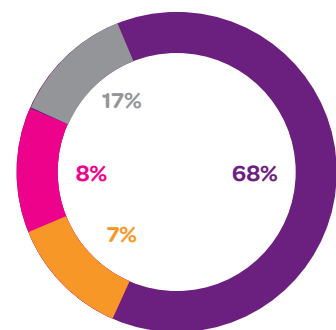
As one of the world’s most successful medical collaborations, we now have 126 fertility specialists (103 in Australia) increasing from 122 in June FY17 supported by more than 1,300 professional staff including scientists, nurses, researchers and administrators, all with the ultimate goal of providing the highest standards of clinical care and patient outcomes. This year our leading minds,



FY12

MULTIPLE SOURCES OF REVENUE

- Australian ARS
- Australian Diagnostic
- Day Hospitals
- International ARS



FY18

leading science expertise was further strengthened with the appointment of internationally renowned reproductive biologist Professor David Gardner as Virtus Health Director of Assisted Reproductive Technology, Scientific Innovation and Research to drive our organisation's level of scientific research capability for continued improvement in patient outcomes.

During FY18 we have undertaken two significant infrastructure development projects. The first an investment in a new site for our patients with the relocation of our IVFAustralia fertility clinic and City East Specialist Day Hospital from Maroubra to a new purpose-built facility in Alexandria; this site will be commissioned on 24th August 2018. The new Alexandria Specialist Day Hospital facility features four operating theatres (an increase from three operating theatres at the Maroubra site); an IVFAustralia fertility clinic, embryology and andrology laboratories including two transfer rooms and three andrology collection rooms; Virtus Diagnostics pathology collection centre; sessional consulting rooms; pharmacy; ultrasound care; and on-site café. This is by far the largest investment that Virtus has made in a single site and will deliver significantly advanced ARS and day hospital services to the Eastern, Southern, Inner West and Central Sydney communities.

Our second development is in Hobart, Tasmania where we are relocating TasIVF from our current site to a new purpose-built facility in the city centre. This site, which is due to be commissioned in early September, includes: TasIVF fertility clinic, andrology laboratory and collection rooms, an embryology laboratory including one transfer room; sessional consulting rooms; and the new Hobart Specialist Day Hospital, a two theatre multi-purpose day hospital. For the first time Virtus will provide day surgery facilities in Tasmania, an area where we have previously outsourced this activity. This investment increases the Virtus Day Hospital portfolio to seven with an additional three operating theatre suites.

We appointed a Group Procurement Manager in November 2017 to continue our focus on removing cost from the business. This activity has delivered in excess of \$1 million in annual savings to date.

Virtus Health's 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 offer women and men aspiring to have a child the best possible chance of creating the family they desire.

Virtus Health Australia – Fertility

The Australian fertility market continued to evolve with the ongoing expansion of low cost providers in the sector. Within this challenging environment, Virtus has maintained its strong and sustainable competitive position as a market leader. This has been achieved through our commitment to our diversification and vertical integration strategy as we continue to develop a service model that provides care for patients across the whole ARS value chain. Virtus offers consultation and advice, simple diagnostic pathology, early stage assisted reproductive services such as IUI and our simplified low cost IVF service model, through to the more complex IVF/ICSI and advanced sciences and technologies including high-end genetic services. Virtus is the only provider in Australia that delivers the most comprehensive and complete level of Assisted Reproductive Services for its patients within the one organisation. This strategy has sustained us through FY18 and further work throughout FY19 to consolidate this position will continue.

The Australian ARS markets in which Virtus operates declined 0.7% to June 2018. The biggest impact was felt in our Queensland and Tasmanian markets.

Virtus cycle activity in Australia declined by 3.4% impacted by two key issues, the first being the impact of low cost competitors in Queensland which resulted in a decline of the Virtus Queensland market share. However we have seen an improvement in our Queensland market share in the second half of FY18 over the first half on the back of revised pricing and clinical models. The second area of impact has been a new competitor entering the Tasmanian market for the first time leading to a reduction in market share. In addition, the Tasmanian market for FY18 was very soft, down 7% to June 2018. Advanced diagnostic services (PGD/PGS, Cytogenetics) are now available to patients in Tasmania as well as a multi service model of bulk bill, blended care model and premium services. Virtus acquired a further 15% of TasIVF in FY18.

Our two largest markets of New South Wales and Victoria continued to gain momentum with Virtus New South Wales outperforming the market for the second year in a row. Virtus New South Wales has continued to focus on ensuring services are aligned to the needs of patients in specific local communities for example our Hunter and Wollongong clinics now provide both premium and low cost fertility services. These developments together with the Alexandria development will all create a platform for improved market penetration.

AUSTRALIAN
EBITDA

\$66.8m

INTERNATIONAL
EBITDA

\$9.2m

CHIEF EXECUTIVE'S OVERVIEW

“Our two largest markets of New South Wales and Victoria continued to gain momentum with Virtus New South Wales outperforming the market for the second year in a row.”

Virtus Victoria's market share also increased. The cost out activities that have been the focus for Victoria through FY17 and FY18 have delivered significant benefits with an EBITDA margin improvement achieved in the year. Virtus Victoria has also relaunched a revised TFC model which is delivering benefits in terms of market share and volume growth.

We have continued with our strategy to have our regional domestic clinics provide a full range of fertility treatments at different price points. We remain committed to operating both our premium brand and our low cost fertility specialist driven model to provide our patients with more options and achieve our strategic ambition for diversification. We remain heavily committed to our integrated and diversified business model as it provides the platform to participate in all market segments.

Management has continued to work on delivering a more streamlined approach to drive efficiencies across the whole business including: the “One Lab” approach; customer service standardisation; procurement rationalisation; finance efficiencies through a greater use of the business intelligence tool; and reorganisation of the marketing team to a group-wide structure.

The business has also focused on some of the key risk issues of information security, business continuity planning and cyber security and work will continue on these activities through FY19.

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 focus on driving 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 our strategic expansion objectives.

Two further acquisitions were completed in FY18 as noted previously, bringing the Virtus international portfolio to six clinics in the Northern Hemisphere and one in Singapore. International revenue now sits at 17% of total revenue.

On 23 February 2018 we completed the acquisition of 90% of the ordinary share capital of Complete Fertility Limited (“CFL”) based at the Princess Anne Hospital Southampton for a cash free debt free consideration of £5.3 million (AUD \$9.6 million).

CFL performed 125 fresh IVF cycles in the year ended 31 March 2018. These services are provided from a well-appointed facility located within the Princess Anne Hospital in Southampton.

Our second acquisition in FY18 was the Trianglen Fertility Centre in Copenhagen, Denmark which was added to the European portfolio in June 2018 for a maximum consideration of Kr198 million (AUD \$42.0 million). The addition of Trianglen brings our market share in Denmark to approximately 15%. Trianglen performed 1,292 cycles resulting in egg retrieval and 366 frozen embryo transfers in FY17. Both Complete Fertility Clinic and Trianglen offer a full and comprehensive range of fertility treatments and advanced scientific technologies.

Our Irish clinics have maintained their position as the leading provider in the Irish market. Our network ensures Virtus Ireland is positioned appropriately to support the growing demands of the community. While the introduction of pre-implantation genetic screening (PGS), an increase in numbers of frozen embryo transfers (FETs) and a strong donor program positively contributed to revenue lines in Dublin, the FY18 full year position for all three Irish clinics resulted in a 3% cycle deficit over the prior year.

One Lab: the Virtus Health scientific vision



“Our goal is to provide the framework for a standard Virtus laboratory methodology across every embryology lab.”

We are proud of our position as number one in fertility and strive to uphold this title through the implementation of services that provide the best in scientific methods, research, facilities, equipment and most importantly, staff. Hence, it is our ambition to have all of our laboratories performing at the highest possible standard, and to lead the world in delivering the very best in patient outcomes through our ART scientific research program.

In 2018 we launched our “One Lab” strategy under the leadership of Professor David Gardner as Group Director of ART, Scientific Innovation and Research. Our goal is to provide the framework for a standard Virtus laboratory methodology across every embryology lab. This framework will be developed over the next five years and is designed to meet the highest international standard in embryology, enabling us to benchmark and improve upon these results.

CHIEF EXECUTIVE'S OVERVIEW

DIAGNOSTIC REVENUE INCREASED

3.6%

INTERNATIONAL REVENUE INCREASED 17.6%

\$44m

In early FY18 we expanded the European management team to include the appointment of a European Managing Director. This role has delivered a greater ability to quickly integrate and gain synergies within the acquired entities and strengthened the Virtus leadership capabilities in the Northern hemisphere. A market review has allowed the European Managing Director to set some key opportunities for growth in Ireland and the appointment of a clinic director for the Sims group, due to commence in August 2018, offers an opportunity for the business to focus on its strategic objectives for enhanced performance. Virtus acquired a further 15% of the Irish business through FY18.

The performance of our Singapore operation continued to improve through the year delivering a positive EBITDA of SG \$363,000 (AUD \$346,000) compared to a prior year EBITDA loss of SG \$120,000 (AUD \$111,000). The number of contracted doctors within our Singapore entity has increased to five in FY18 from 4 in FY17.

Our 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 staff moving across jurisdictions from Australia to Europe and vice-versa.

Diagnostics

Virtus has continued to expand its position in the Australian diagnostic market through Virtus Diagnostics. Our ongoing investment in general pathology and advanced genetics platforms has delivered positive growth in referral volume and financial performance in FY18.

Our focus over the past 3 years on growing our footprint and testing capability has set the framework to support ongoing growth and synergistic benefits for Virtus.

Following the expansion and restructure of Virtus Diagnostics in FY17, FY18 continued with a positive

performance which delivered revenue growth of 3.6% and EBITDA growth of 9.1% over the prior year.

Pathology requests have grown year on year by 4.5% incorporating over 600,000 test schedules for the financial year, an 8.5% increase year on year. Our commitment and continued focus on delivering specialist diagnostic testing in reproductive health and obstetrics whilst having the capability and expertise to deliver general pathology continues to enhance performance.

Genetic testing is fast becoming a science for the future and the capabilities already developed within Virtus Diagnostics positions the business as a significant and high-quality player in this field in Australia. Our laboratory capability in Pre-Implantation Genetic screening (10% increase in revenue on pcp) and Pre-Conception Genetics on Next Generation Sequencing (79% increase in revenue on pcp) is growing significantly, and Virtus is becoming a prominent provider in the sector. Further investment by Virtus Diagnostics in this area is planned for FY19.

Patient service and safety standards

The Virtus Board, risk committee and management teams have continued to focus on the company's risk profile and service standards with a number of key initiatives rolled out across FY18 in support of our ambition to provide the highest level of care and outcomes to our patients in the safest environment.

As leaders in fertility, it is our goal to have all of our laboratories performing at the highest possible standard, and to lead the world in delivering the very best in patient outcomes through our clinical and scientific research programs. In 2018 we launched our "One Lab" strategy under the leadership of Professor David Gardner as Group Director of ART, Scientific Innovation and Research at Virtus Health. Our goal is to provide the framework for a standard Virtus laboratory methodology across every embryology lab. This framework will be designed to meet the highest international standard in embryology and enable us to benchmark and improve upon patient outcomes.

New Fertility Clinics

UNITED KINGDOM

Complete Fertility Centre based in Southampton

DENMARK

Trianglen Fertility Clinic in Copenhagen



Trianglen Fertility Clinic, Copenhagen

In June 2018, Trianglen Fertility Clinic in Copenhagen became our second clinic in Denmark.

Led by Kåre Rygaard, Medical Director and founder, the team of seven doctors, seven scientists and 21 nursing and support specialists provide a highly regarded, full and comprehensive range of fertility treatments and advanced scientific technologies. The clinic's comprehensive patient service and leading success rates contribute to Trianglen's strong reputation in the Danish market.

Trianglen was established in 1993 and is one of the leading fertility clinics in Copenhagen, Denmark, performing 1,292 cycles resulting in egg retrieval and 366 frozen embryo transfers in FY17.

This partnership expands our network in Denmark with Trianglen and Aagaard now representing approximately 15% of the Danish fertility market.

Complete Fertility Centre, Southampton

Our entry into the English fertility market began in February 2018 with Complete Fertility Centre based in Southampton joining Virtus Health.

Established in 2011, Complete Fertility is the leading fertility clinic on the south coast of Britain holding approximately 50 per cent of the regional market share.

Complete Fertility offers a full and comprehensive range of fertility treatments and advanced scientific technologies including time lapse imaging of embryos, a highly successful egg donation program and innovative procedures including ovarian tissue cryopreservation.

Led by Professor Ying Cheong and Julia Paget, founding directors, the centre is recognised as one of the National Training centres for Assisted Reproductive Services and hosts training programs for reproductive scientists and clinicians.

Complete Fertility has established a professional patient-centric service which provides a natural cultural fit with Virtus Health.

CHIEF EXECUTIVE'S OVERVIEW

ARS TREATMENTS

35,286

DAY HOSPITAL PROCEDURES

32,749

All of our facilities maintained their accreditation status through the year with many achieving commendations through the external quality auditing process. To support both the internal audit and compliance activities within the organisation, we appointed in June FY18 a Group Risk and Quality Manager to develop and oversee the strategic risk management within the organisation. The electronic platform "Riskman" continues to be utilised by the organisation for the management and reporting of both patient and employee incidents as well as providing a platform for the identification and profiling of the organisation's risk and ensuring appropriate management of that risk.

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.

In FY17, we introduced a standard global patient satisfaction survey tool to measure our Net Promoter Score (NPS) in order to enhance service standards for all patients. This tool has continued to be the method by which we measure our performance against patient expectations on a quarterly basis. Overall our NPS in FY18 was positive with a score of +43.

Information technology

The Virtus Patient System (VPS) is now delivering clinicians and staff across all Australian fertility clinics with immediate access to patient information, whilst providing opportunities for improved communications between patients and their clinical team across multiple platforms. Work on this platform continues to enhance performance and ensure we meet the needs of our patients and key stakeholders.

The implementation of VPS enabled the launch of the Virtus Patient App in FY17 which provides patients with direct and secure access to their treatment schedule. Work has continued through FY18 to enhance the performance of the app and to ensure its relevance to patients. This is the world's first integrated app to support patients'

undergoing IVF treatment. With the inclusion of our patient forum, additional patient information and support for newer mobile platforms, the Virtus Patient App has continued to be accepted by patients undergoing IVF treatment and with further value enhancing additions to become available during FY19 we expect that this will become the future single online source of information for patients complementing the clinical team care and supporting patients during treatment cycles.

A comprehensive review of our current Information and Communication Technology ("ICT") operations was completed during the year, this review adds further confidence that our ICT strategy will ultimately deliver our vision of creating exceptional digitally-enabled experiences for Virtus Health patients, families, clinicians and staff. Towards the end of FY18, we began the process of recruiting the position of Chief Information Officer ("CIO") to support development of our ICT strategy and we are entering the final stages of this recruitment activity.

Our Laboratory Information Management System ("LIMS") has continued to be deployed across Virtus Diagnostic units, providing a standardised platform for the delivery of secure electronic results to both internal and external stakeholders, whilst providing a consolidated view of activities within Virtus Diagnostics.

The IT team have continued to integrate and standardise our recent international acquisitions, providing our expanding staff and doctor base with access to our internal communication, induction and training platforms whilst delivering improved reliability through refreshed technologies to support clinical teams in the delivery of patient care.

Research

Research has continued to remain a key focus for Virtus through FY18 with some very exciting opportunities explored to support our commitment to improving patient outcomes and ensure we remain 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

“With a greater use of technology and digital platforms we will continue to improve our patient experience and drive further efficiencies within the business.”

scientific and clinical research activities with an annual research and development investment of approximately \$2 million.

The Virtus Research Grant committee was first established in FY17 and oversees the 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.

Ivy Artificial Intelligence System

One of the most exciting projects this year has been our investment into research to improve patient outcomes by ensuring that the very best embryo is selected to transfer. Virtus Health has been working in conjunction with a software developer to produce an exciting new Artificial Intelligence (“AI”) tool known as ‘Ivy’. Ivy uses large amounts of data captured from Embryoscope time-lapse imaging and deep learning networks to teach itself how to select the embryos that will most likely result in a fetal heartbeat.

Early trials indicate that the success rates afforded by this technology will enhance our present capability, and Ivy will potentially bring significant benefits to our patients in terms of outcomes and our clinicians in assisting them select the best embryo for transfer. The Australian laboratories, Sims IVF Dublin, along with Complete Fertility in Southampton and Aagaard Klinik in Denmark have all contributed to the development of Ivy in what has been Virtus Health’s first major international collaboration. Virtus in partnership with the software developer submitted and was successful in achieving an Abstract for Oral presentation at the American Society of Reproductive Medicine 2018 Scientific Congress that will be held in Denver, Colorado, 6-10 October 2018. A multi-centre randomised controlled trial validation of this AI is ongoing.

Virtus has five staff members completing a PhD and one completing their Masters as they work alongside our scientists and clinicians on various

research programs. One of our staff members completed their PhD in FY18 and a former staff member is finishing their PhD studies in Adelaide using Virtus New South Wales data.

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. We are pleased to note that our clinics are well within the national benchmarks for safety and efficacy.

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 and ensures we are able 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 is 52 and has remained relatively stable over FY18 reflecting the recruitment of new specialists to balance the retirement of established specialists. Our medical and scientific teams have assisted in 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 our workforce grows we have seen an increasing need to provide a more coordinated approach to the delivery of our strategic plan as it pertains to people. As such we have appointed a strategic human resource advisor to support Virtus in the preparation for the future through the development and implementation of a “people plan” which will support management and staff in the delivery of high quality health care services.

INTERNATIONAL
REVENUE NOW
SITS AT

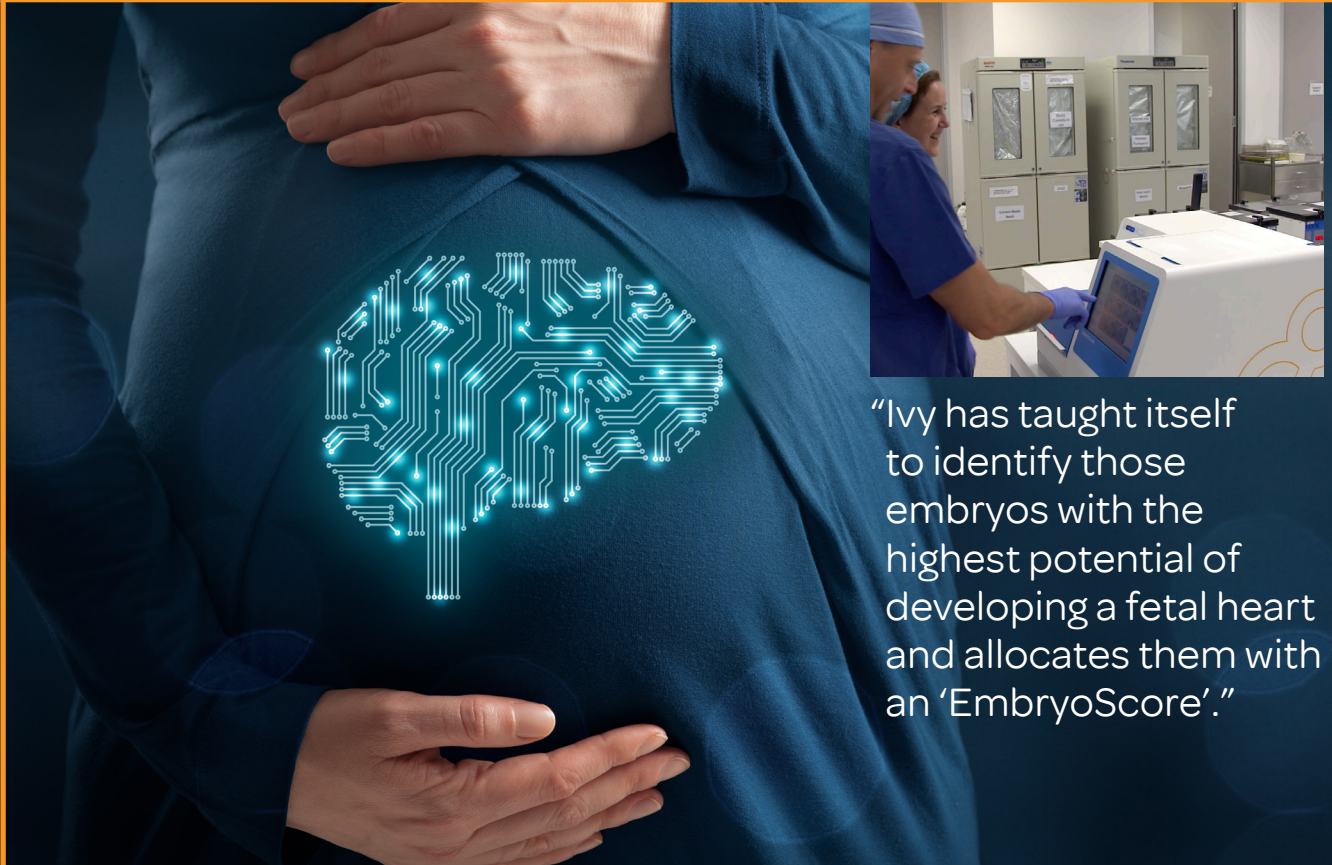
17%

OF TOTAL
REVENUE

TRIANGLEN BRINGS
OUR MARKET SHARE
IN DENMARK TO

~15%

Ivy: artificial intelligence technology in IVF



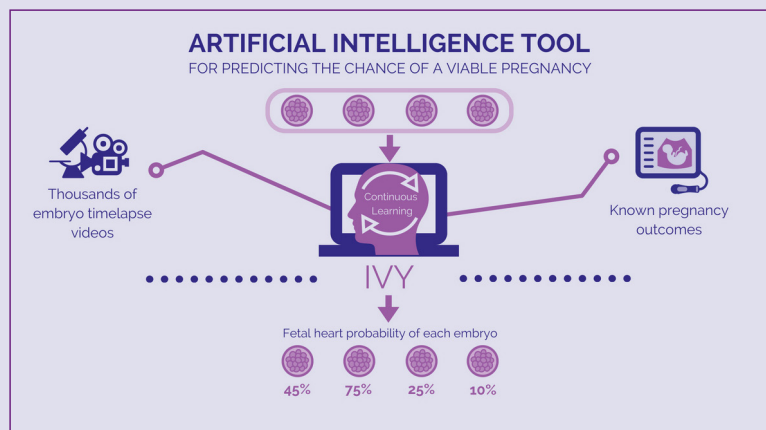
“Ivy has taught itself to identify those embryos with the highest potential of developing a fetal heart and allocates them with an ‘EmbryoScore’.”

Our scientists are pioneering an innovative technology using artificial intelligence (“AI”) to predict the likelihood of a viable pregnancy prior to transferring an embryo in a woman undergoing IVF.

Called Ivy, our artificial intelligence allows embryologists to identify the embryo with the best chance of achieving a successful pregnancy as quickly as possible.

By performing a comprehensive three-dimensional assessment of the growth of embryos through all stages of development and then relating this data to the corresponding pregnancy outcomes, Ivy has taught itself to identify those embryos with the highest potential of developing a fetal heart and allocates them with an ‘EmbryoScore’. The embryo with the highest score can then be selected and transferred, accelerating the chance of a healthy baby.

Testing of Ivy occurred from more than 8,300 embryo video outcomes in eight Virtus laboratories across four countries. Preclinical validation of the technology is being conducted. With a patent application lodged, we will further evaluate Ivy and its EmbryoScore in a multicentre randomised controlled trial across our Australian and European laboratories, enabling its rapid introduction to patient care. Aengus Tran, Chief Data Scientist at Harrison-AI and Dr Simon Cooke, Scientific Director at IVFAustralia, led the development of this technology.



“Globally Virtus Health is positioned to benefit from the ongoing increase in demand for ARS and is well placed for future growth.”

Our “people plan” will provide a solid foundation for ensuring Virtus is not only a healthcare provider of choice but also an employer of choice; where all staff are empowered to be the best they can be and provide a service that exceeds our patient’s expectations.

Through utilising the power of communication and collaboration, it is our goal to create a more positive workplace for our people. We believe that creating a strong employee and doctor experience will drive the delivery of extraordinary patient experiences. An investment in our culture begins with our collective commitment to more open, collaborative and robust communication.

Throughout FY19 we plan to develop and execute group-wide communication initiatives that will unite our network, drive internal engagement and support our people in the delivery of exceptional patient care, all of which will ultimately lead to the growth of patient advocacy and referral-based business across our international markets.

Outlook

Infertility continues to affect 1 in 6 couples of reproductive age worldwide; the social and demographic factors contributing to this global dynamic continue to drive demand for Assisted Reproductive Services.

Virtus remains focused on our patients’ experience and we will use our leading minds to drive leading science and patient outcomes. We are setting the scene to ensure that our service and patient outcomes are accelerated through the advancement of technologies and digital platforms to drive efficiencies and continue to transform the way we provide care and communicate with our patients.

As noted above our journey through FY18 to meet our goal to be a leading global provider of ARS has seen Virtus continue to invest in scientific and diagnostic systems, facilities, international expansion and research to establish the platform for further growth in FY19. Our two new day hospital facilities, our “One Lab” strategy and our investment in AI and other digital technologies and resources all support our vision to ensure continuing evolution of our services to suit 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 evolve our approach and models to ensure we remain relevant to the patients we treat and the markets in which we operate, expanding services across our network to meet all patient demographics and expect the disciplined evolution of our three key pillars of fertility, diagnostics and day hospitals to deliver continued growth.

While it has been a challenging year for the ARS sector, overall the market variability we have experienced through FY18 was foreseen and Virtus’ patient-centric approach to strategy has proactively driven our diversified model reducing dependence on any one segment of the market. Our diversified model has provided a solid platform, sustained us through a year where market growth has been flat and provided the flexibility to deal with the impact of market conditions as they arise.

Globally Virtus Health is well positioned to benefit from the ongoing increase in demand for ARS and is well placed for future growth. We have the platforms available to care for all patients in any market with any treatment preference in a way no other organisation can. Our model has sustained us in a soft Australian market through FY18 and will continue to be the key point of difference for Virtus.

Finally, we trust this report gives you an understanding of our achievements and a sense of our focus and future which we believe to be solid and with significant opportunity. I would like to thank the Board of Virtus and our National Advisory Committee who guide our strategy, the Virtus Executive and management teams who assist in executing our strategy and all of our doctors and staff around the world for their support and ongoing commitment to our patients, the organisation and the work they do to ensure our future. We take this opportunity to also thank the patients who place their care in our hands. Thank you everyone for your continued effort and commitment to our vision and values.

Leading Minds, Leading Science



Sue Channon
Group CEO

BOARD OF DIRECTORS



Peter Macourt
Chairman

BCom.; ACA; GAICD

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.

Susan Channon
Chief Executive Officer

**Registered Nurse Div1;
OR Management Certificate**

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 IVFAustralia 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



Greg Couttas
Non-Executive Director

BCom.; FCA; MAICD

Greg is a highly experienced audit partner 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 11 years, and was a member of the Board of Partners for Deloitte Australia from 2005 to 2016.

Other current directorships:
None

Former directorships (last 3 years):
None

Special responsibilities:
Chair of the Audit Committee



Lyndon Hale
Executive Director

MBBS; FRACOG; CREI

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



Peter Turner
Non-Executive Director

BSc.; MBA; GAICD

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):
Ashley Services Group Limited

Special responsibilities:
Chair of the Risk Committee and a member of the Nomination and Remuneration Committee and member of the Audit Committee.



Sonia Petering
Non-Executive Director

LLB; BCom; FAICD

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, Day-Ichi Life Australia Pty Limited and Qantm IP Limited.

Other current directorships:
Qantm IP Limited

Former directorships (last 3 years):
None

Special responsibilities:
Chair of the Nomination and Remuneration Committee and member of the Risk Committee

DIRECTORS' REPORT

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 2018.

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
Lyndon Hale
Peter Turner
Sonia Petering
Greg Couttas

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	
	2018	2017
	\$'000	\$'000
Interim ordinary dividend for the year ended 30 June 2018 of 14.0 cents (2017: 13.0 cents) per fully paid ordinary share paid in April 2018	11,255	10,450
Final ordinary dividend for the year ended 30 June 2017 of 12.0 cents (2016: 15.0 cents) per fully paid ordinary share paid in October 2017	9,646	12,057
	20,901	22,507

A final dividend of 12.00 cents per share, fully franked, will be paid on 12 October 2018 to the shareholders on the register at 14 September 2018.

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$30,753,000 (30 June 2017: \$28,103,000).

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Segment EBITDA	76,018	72,875
Share-based payment expense	(881)	(440)
Other non-trading expenses	(11,199)	(11,447)
Fair value adjustment to put liabilities and contingent consideration	1,089	3,846
EBITDA (reported excluding impairment of goodwill)	65,027	64,834
Depreciation, amortisation and impairment expense	(12,496)	(14,035)
EBIT	52,531	50,799
Interest revenue	136	127
Interest expense	(6,615)	(6,684)
Interest on other financial liabilities – non-cash interest	(981)	(1,202)
Amortisation of bank facility fee	(207)	(207)
Profit before income tax from continuing activities	44,864	42,833

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 increased by 2.2% to \$262.1m;
- Group EBITDA increased by 0.3% to \$65.0m;
- Segment EBITDA increased by 4.3% to \$76.0m;
- Australian segment EBITDA increased by 1.6% to \$66.8m;
- International segment EBITDA increased by 29.5% \$9.2m; and
- Net profit after tax ("NPAT") attributable to equity holders increased by 9.4% to \$30.8m.

NPAT for FY18 included the following non-recurring gains, non-recurring expenses and non-cash acquisition related items:

- Acquisition transaction costs of \$1,031,000 (FY17: \$773,000);
- Non-cash put interest expense of \$981,000 (FY17: \$1,202,000) related to put option liabilities to acquire non-controlling interests and contingent consideration liabilities;
- Fair value gain of \$1,089,000 (FY17: \$3,846,000) on the put option liabilities relating to Sims and contingent consideration of the Aagaard Fertilitetsklinik ApS acquisition.

DIRECTORS' REPORT continued

Operating overview

Australia segment

There was an overall annual market volume decrease in the New South Wales, ACT, Queensland, Tasmania and Victoria markets of 0.7% for Assisted Reproductive Services ("ARS"). (Note: market volume reflects fresh and cancelled cycles). Volumes decreased by 7.5% in H2FY18 after strong first half growth of 6.1% although the first half growth and second half decline was largely confined to the Queensland market.

Virtus fresh cycle activity in Australia decreased by 3.4% on a like for like basis, impacted by two main issues:

- the impact of low cost competition has contributed to market share losses in Queensland; and
- a combination of new competition and general market weakness has contributed to a volume decline in Tasmania.

Virtus market share (in New South Wales, ACT, Queensland, Tasmania and Victoria) decreased to 40.9% from 42.0% because of the increased competition in Queensland. It should be noted however that the Virtus market share improved in the second half of FY18 as the market settled in Queensland. Additionally, during FY18 Virtus volume growth in NSW and Victoria exceeded state market growth due to improved performance in NSW full service and TFC activity in NSW and Victoria.

Specialist diagnostic revenue increased by 3.6% in FY18 compared to FY17 reflecting further increases in genetic testing utilisation. Revenue growth in our PGD/PGS activity was 10.3% on pcp and this activity represents higher utilisation of this capability in our full service clinics at 17.7% of fresh cycles (FY17:13.9%). The level of general endocrinology testing also increased slightly.

In day hospitals Virtus revenue stable. Improved demand for IVF procedures was offset by a decline in Non-IVF procedure revenue by 5.3% across all day hospitals. Non-IVF revenue accounts for 51.2% of total day hospital revenue.

Overall the Australian segment EBITDA increased by 1.6% to \$66.8m as a consequence of cost reduction initiatives, strong performance from Diagnostics, New South Wales and Victoria ARS which was partially offset by the Queensland and Tasmania IVF volume weakness.

International

The company's international activities continue to expand in line with our international growth strategy achieving a segment EBITDA growth of 29.5% to \$9.2m from \$7.1m in the prior year.

Whilst Ireland delivered a steady result, EBITDA was €0.2m lower compared to prior year at €4.1m mostly resulting from a slightly weaker H1.

The Danish clinic, Aagaard, acquired during FY17 delivered EBITDA of Krone 10.5m during FY18. Our recent acquisition of Trianglen Fertility Clinic in June 2018 will further enhance our Danish presence and market share going forward (see note 43 for details).

Complete Fertility Clinic (UK), delivered EBITDA of £0.1m in the three months since acquisition.

Volumes in Singapore reflected continued improvement during FY18 and the business achieved an EBITDA of SG\$350,000 compared to a pcp EBITDA loss of SG\$144,000 in FY17.

Capital expenditure

Total expenditure on tangible and intangible assets was \$15.5m in FY18 (FY17; \$9.8m). The largest investment relates to the development of a greenfield site in Alexandria to which we will relocate and expand our existing day hospital services and IVFAustralia fertility clinic from Maroubra; this facility will be completed and operational in late August 2018.

Acquisitions

On 1 April 2018, Virtus acquired 90% of Complete Fertility Limited ("CFL"), based in Southampton England for a consideration of \$9,641,000. On 28 June 2018, Virtus also acquired Fertilitesklinikken Trianglen Aps ("Trianglen"), based in Copenhagen Denmark for an estimated consideration of \$41,996,000.

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). Despite the softening of the market in H2 of FY18, market compound average growth rate ("CAGR") for fresh cycles in the eastern state markets over the last four years has been 2.0%.

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 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 2018, total facilities drawn were \$181m in cash and \$4.7m in guarantees. Cash balances at the end of June 2018 were \$21.7m. Net debt increased by \$32.2m resulting from acquisitions during the year. The company continued to comply with the financial covenants of its facility agreement.

Other financial liabilities (\$24.1m)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited each hold a put option 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 FY18 of \$0.9m (FY17: \$1.1m). The first put options in relation to 15% of both these entities were exercised during FY18 and resulted in consolidated payments of \$10.2m.

At 30 June 2018 the carrying value of the put option liabilities was \$12.2m (shown as a non-current other financial liability). The remaining \$11.9m of the balance of other non-current financial liabilities relates to contingent consideration and the non-current portion of a vendor loan note in relation to the acquisition of Fertilitesklinikken Trianglen Aps (see note 43 for details).

Amortisation of borrowing costs

Amortisation of borrowing cost expense for FY18 was \$207,000, (FY17: \$207,000).

Taxation

The effective tax rate on operating earnings for FY18 was 28.7% (FY17: 29.9%). FY17 included a true up in respect of R&D tax concession claims from the prior year increasing the effective income tax rate.

Earnings per share

Basic earnings per share increased by 9.3% to 38.26 cents per share (FY17: 35.00 cents per share). Diluted earnings per share increased by 9.2% to 37.98 cents per share (FY17: 34.79 cents per share).

Dividend

A final dividend of 12.00 cents per share fully franked (2017:12.00 cents per share) will be paid on 12 October 2018 to shareholders on the register at 14 September 2018.

Significant changes in the state of affairs

On 1 April 2018, Virtus acquired Complete Fertility Limited ("CFL"), based in Southampton England for a consideration of \$9,641,000. On the 28 June 2018, Virtus also acquired Fertilitesklinikken Trianglen Aps ("Trianglen"), based in Copenhagen Denmark for an estimated consideration of \$41,996,000. These acquisitions add to Virtus' international growth strategy reaffirming its vision for diversification and expansion of the Virtus model in carefully selected international markets. (refer to note 43 for details).

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 2018 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.

DIRECTORS' REPORT continued

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 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 and international 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 and international 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.

(For further details refer to 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:	B Com.; FCA; MAICD
Experience and expertise:	Greg is a highly experienced audit partner 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.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit Committee
Interests in shares:	5,000 ordinary shares
Interests in options:	None

DIRECTORS' REPORT continued

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):	Ashley Services Group Limited
Special responsibilities:	Chair of the Risk Committee and a member of 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, Day-Ichi Life Australia Pty Limited and Qantm IP Limited.
Other current directorships:	Qantm IP Limited
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Nomination and Remuneration Committee and member of the Risk Committee
Interests in shares:	8,066 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 2018, and the number of meetings attended by each director were:

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

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

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 FY2018;
- G. Non-executive director remuneration; and
- H. Fertility specialist performance rights incentives.

DIRECTORS' REPORT continued

A. Executive summary

Remuneration framework update and key management personnel

There were no changes made to the remuneration framework in FY2018. 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

Sonia Petering – Non executive director

A profile of each director is provided in the Directors' Report.

Executive KMP

Sue Channon – Managing Director and Chief Executive Officer

Glenn Powers – Chief Financial Officer

Lyndon Hale – Executive Director and Medical Director, Victoria

Jade Phelan – Managing Director, Victoria,

Nadia Stankovic – Managing Director, New South Wales

Steve Zappia – Managing Director, Queensland and Virtus Health Diagnostics

Richard Banks – Managing Director, Europe (appointed August 2017)

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 2018 the KMP base salaries show an increase of 7.4% on FY2017 which reflects the inclusion of the European Managing Director; the underlying movement would have shown a decrease reflecting reductions in the vacation leave accrual for certain individuals in FY2018 compared to FY2017. None of the KMPs received an increase in fixed remuneration in FY2018.

The short term incentives ("STI") achieved in FY2018 are set out in Section D.

The long term incentives ("LTI") achieved in FY2018 are set out in Section D. The performance hurdles tested in FY2018 of the LTIs granted in November 2014 and November 2015 were not achieved and accordingly 122,263 performance rights lapsed during the financial year.

Total KMP remuneration for FY18 increased by \$812,705 (28.7%). Of the increase, \$335,512 relates to appointment of the European Managing Director, \$295,960 relates to improved STI performance and \$279,430 relates to increases in share based payments expense. After adjusting for non-cash share based payment accruals, cash remuneration payable to KMPs increased by 3.5%, primarily due to the addition of European Managing Director Richard Banks to the KMP.

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: Sonia Petering (Chairman), Peter Macourt and Peter Turner. 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. The responsibilities of the Committee are encapsulated in the Nomination and Remuneration Committee Charter which may be found on the Investor Centre page of the Virtus Health website.

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 engaged the human resource consulting firm, Mercer, to provide recommendations on the following matters for FY2019:

- Short and long term incentive arrangements for KMPs; and
- CEO and CFO remuneration benchmarking.

In FY2018 the Committee elected not to increase remuneration for KMPs and non-executive directors due to the financial performance in FY2017.

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 FY2019

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

The external advice on the STI plan recommended that the calculation of an STI bonus pool derived from EPS growth averaged over a three year period does not align to the executive performance period of one year and consideration should be given to aligning the funding calculation and the individual assessment period.

The Committee decided to replace the current STI program with an annual individual target based scheme. The payment of STIs remains linked to the achievement of positive EPS growth; this will be the gateway for the payment of incentives, hence the STI remains linked to the performance of the Company and alignment is maintained with shareholder interests.

Key features of the STI arrangements are as follows:

- the maximum potential aggregate size of the STIs for the KMPs is \$850,000. The pool size has been increased in FY2019 to include the European Managing Director and the Tasmanian Managing Director who also holds responsibilities for certain Australian business development projects; and
- a minimum of 60% of individual incentives will be payable on the achievement of individual financial KPIs and the balance of the STI will be payable on the achievement of individual KPIs established by the Nomination and Remuneration Committee.

The financial KPIs include:

- Increase in state or territory EBIT over prior year;
- Increase in NPAT over prior year (applicable to CEO and CFO); and
- Reductions in OPEX against budget expenditure.

DIRECTORS' REPORT continued

C. Executive remuneration framework

Remuneration philosophy and principles

The objective of the consolidated entity's executive remuneration 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.

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 ('KPIs') 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;
 - Net promoter score;
 - Corporate governance objectives; and
 - Other individual personal goals

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 FY2019, established by the Nomination and Remuneration Committee, is as follows:

- Applicable to Sue Channon and Glenn Powers – 40% of STI relates to the achievement of Net Profit after Tax ('NPAT') attributable to the company's shareholders, 20% of STI relates to the achievement of consolidated Australian EBIT and 40% of the STI relates to individual management objectives set by the Board.
- Applicable to Simon Barker, Jade Phelan, Steve Zappia and Nadia Stankovic – 15% of STI relates to the achievement of consolidated Australian EBIT; 45% of STI relates to the achievement of relevant State EBIT; and 40% of STI relates to the achievement of individual management objectives.
- Applicable to Richard Banks – 60% of STI relates to the achievement of consolidated European EBIT; 15% of STI relates to the achievement of European return on capital employed; and 25% of STI relates to the achievement of individual 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 10% growth, 100% of relevant STI component is payable; and
- For achievement of growth between 50% and 100%, straight line interpolation of the 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.

DIRECTORS' REPORT continued

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 prior performance period of 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 four 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
Nadia Stankovic
Steve Zappia
Anthony Walsh

The performance rights vest subject to the following performance hurdles:

- 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.

	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 200	S&P ASX 200 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	\$7.88	\$7.88		
	3 Year EPS CAGR			
% CAGR less than	7.5%		0%	
% CAGR at	7.5%		25%	
% CAGR range	7.5%-10%		25-50%	Progressive pro-rata vesting for the range

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

The annual AASB 2 'Share-Based Payments' accounting charge of this scheme is \$14,031. The TSR performance hurdle tested on 15 September 2017 (three years after the grant of performance rights) and the EPS performance hurdle, tested on 30 June 2017 were not achieved. This grant has now lapsed.

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

Nadia Stankovic

Steve Zappia

Anthony Walsh

The performance rights vest subject to the following performance hurdles:

- Relative TSR and average annual 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.

	Relative TSR	Relative TSR	Rights Vesting%	Notes
Performance Hurdle	S&P ASX 200	S&P ASX 200 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	\$5.13	\$5.13		
	3 Year average ROE			
% ROE less than	15.0%		0%	
% ROE at	15.0%		25%	
% ROE range	15.0-17.5%		25-50%	Progressive pro-rata vesting for the range

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 2018, it is expected that the TSR performance hurdle, to be tested on 15 September 2018 is unlikely to be achieved. The ROE performance hurdle, tested on 30 June 2018 was not achieved. The annual AASB 2 accounting charge of this scheme is currently \$85,248 and the maximum potential earnings dilution to existing shareholders is 0.11%.

DIRECTORS' REPORT continued

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 performance rights vest subject to the following performance hurdles:

- Relative TSR and average annual return on equity attributable to shareholders ('ROE'). 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.

	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 200	S&P ASX 200 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	\$8.05	\$8.05		
	3 Year average ROE			
% ROE less than	15.0%		0%	
% ROE at	15.0%		25%	
% ROE range	15.0-17.5%		25-50%	Progressive pro-rata vesting for the range

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. The annual AASB 2 accounting charge of this scheme is currently \$55,274 and the maximum earnings dilution to existing shareholders is 0.12%.

4. Senior executives – FY2018 grant

On 10 November 2017, performance rights were granted to the following members of the executive management team:

Sue Channon

Glenn Powers

Nadia Stankovic

Steve Zappia

Jade Phelan

The performance rights vest subject to the following performance hurdles:

- Relative TSR and average annual return on equity attributable to shareholders ('ROE'). 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.

	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 200	S&P ASX 200 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	\$5.58	\$5.58		
	3 Year average ROE			
% ROE less than	15.0%		0%	
% ROE at	15.0%		25%	
% ROE range	15.0-17.5%		25-50%	Progressive pro-rata vesting for the range

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. The annual AASB 2 accounting charge of this scheme is currently \$68,548 and the maximum earnings dilution to existing shareholders is 0.17%.

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.

DIRECTORS' REPORT continued

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:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
P Macourt	100%	100%	–	–	–	–
P Turner	100%	100%	–	–	–	–
S Petering	100%	100%	–	–	–	–
G Couttas	100%	100%	–	–	–	–
<i>Executive Directors:</i>						
S Channon	48%	48%	24%	24%	28%	28%
L Hale	100%	100%	–	–	–	–
<i>Other Key Management Personnel:</i>						
G Powers	48%	48%	24%	24%	28%	28%
J Phelan	58%	77%	18%	23%	24%	–
N Stankovic	58%	58%	18%	18%	24%	24%
S Zappia	58%	58%	18%	18%	24%	24%
R Banks	88%	–	9%	–	3%	–
A Walsh	100%	71%	–	–	–	29%
P Ilingworth	100%	100%	–	–	–	–
D Molloy	100%	100%	–	–	–	–
W Watkins	–	–	–	–	100%	–

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2018	2017	2018	2017
<i>Executive Directors:</i>				
S Channon	51%	–	49%	100%
<i>Other Key Management Personnel:</i>				
G Powers	79%	–	21%	100%
J Phelan	51%	100%	49%	–
S Zappia	23%	–	77%	100%
N Stankovic	–	–	100%	100%
R Banks	40%	–	60%	–

Accordingly the actual proportion of remuneration linked to performance and the fixed proportion in FY2018 is as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2018	2017	2018	2017	2018	2017
<i>Executive Directors:</i>						
S Channon	70%	96%	18%	–	12%	4%
L Hale	100%	100%	–	–	–	–
<i>Other Key Management Personnel:</i>						
G Powers	65%	96%	25%	–	10%	4%
J Phelan	84%	77%	13%	23%	3%	–
N Stankovic	89%	97%	–	–	11%	3%
S Zappia	85%	94%	6%	–	9%	6%
R Banks	88%	–	9%	–	3%	–
A Walsh	84%	94%	–	–	16%	6%
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 2018 are summarised below:

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Revenue	262,061	256,518	261,210	234,142	201,249
EBITDA	65,027	64,834	68,916	61,355	59,404
EBIT	52,531	50,799	57,736	51,361	51,212
Profit after income tax	32,009	30,004	34,865	30,441	30,957
NPAT attributable to Virtus shareholders	30,753	28,103	32,918	29,434	30,885

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	5.75	5.38	6.87	5.37	8.16
Total dividends paid (cents per share)	26.00	28.00	28.00	27.00	12.00
Basic earnings per share (cents per share)	38.26	35.00	41.18	36.86	38.80
Diluted earnings per share (cents per share)	37.98	34.79	40.79	36.54	38.48

Remuneration outcomes for FY2018

The following is a summary of the key KMP remuneration outcomes for FY2018:

Total KMP remuneration for FY18 increased by \$812,705, (28.7%). Of the increase, \$335,512 relates to the recruitment of the European Managing Director, \$295,960 relates to improved STI performance and \$279,430 relates to increases in share based payments.

DIRECTORS' REPORT continued

STI Outcomes for FY2018

The Board applied its pooled STI plan for all qualifying KMPs in FY2018. Participants in the STI plan receive a share of the STI pool based on the performance of the Australian and European segments respectively and their own individual territory or functional responsibility (Europe, New South Wales, Victoria, Queensland, Tasmania or Diagnostics). Key features of the STI pool arrangements as applied in FY18 are as follows:

- the potential maximum aggregate size of the STI pool for the KMPs (including the Tasmanian Managing Director who was not designated as a KMP during FY 2018) was \$771,200. The pool did not include Richard Banks in FY2018 as he joined the group during the year
- the actual size of the pool was determined with reference to the annual increase in earnings per share of Virtus Health Limited as follows:
 - 1% EPS growth on prior year will generate a pool equal to 10% of the maximum aggregate (\$77,120);
 - 10% EPS growth on prior year will generate a pool equal to 100% of the maximum aggregate (\$771,200); and
 - pool size between 1% and 10% EPS growth will be determined by straight line interpolation.

A minimum of 60% of this pool will be payable on the achievement of individual financial KPIs and the balance of this pool will be payable on the achievement of individual KPIs established by the Nomination and Remuneration Committee.

The financial KPIs include:

- Increase in NPAT over prior year (applicable to CEO and CFO); and
- Increase in territory EBIT over prior year.

In FY2018 in accordance with the previously approved STI plan, the STI pool was calculated as an average of the pools earned for the two years ending 30 June 2018. The value of the pool earned in FY2017 was nil and the value of the pool earned in FY2018 was \$715,674, hence the maximum value of the pool payable for FY2018 was \$357,837.

Based on the achievements of the consolidated entity this year the Committee determined that as a consequence of the increase in EPS of 9.28% (based on the increase in EPS of 9.28%), and considering other KPIs, executives have achieved the following percentages of their overall STI targets:

Susan Channon – 51%;

Glenn Powers – 79%;

Jade Phelan – 51%;

Steve Zappia – 23%;

Nadia Stankovic – 0%;

Richard Banks – 40%; and

Anthony Walsh – no STI as he is incentivised by way of his minority shareholder interest in the business of Sims Clinic.

LTI outcomes for FY2018

In FY2018 the following performance hurdles were tested in respect of the performance rights grant dated 10 November 2015 and 10 November 2014:

- Performance rights grant dated 10 November 2015:
 - from a potential total of 50% of the performance rights available, 0% of available rights vested in respect of average ROE over the three year performance period; accordingly 75,288 of the performance options granted on 10 November 2015 did not vest and have lapsed; and
- 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 relative TSR over the three year performance period; accordingly 46,974 of the performance options granted on 10 November 2014 did not vest and have lapsed.

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.

DIRECTORS' REPORT continued

Other Key Management Personnel

Jade Phelan, Steve Zappia, Nadia Stankovic, Richard Banks and Anthony Walsh are employed under individual executive services agreements; these agreements include provisions for:

- total compensation including a base salary, superannuation contribution and incentive arrangements;
- variable notice and termination provisions of up to six months;
- leave entitlements, as a minimum, as per the National Employment Standard (applicable to Australia based employees);
- restraint provisions; and
- confidentiality 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 FY2018

Amounts of remuneration – accruals basis

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables. The first two tables are calculated in accordance with Australian accounting standard AASB 2 on an accruals basis and therefore take account of movements in leave accruals and provisions:

2018	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Salary, leave and fees \$	Bonus \$	Non-monetary and termination \$	Super-annuation \$	Long Service Leave \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
P Macourt	133,562	–	–	12,688	–	–	146,250
P Turner	92,104	–	–	8,750	–	–	100,854
S Petering	86,986	–	–	8,264	–	–	95,250
G Couttas	86,986	–	–	8,264	–	–	95,250
<i>Executive Directors:</i>							
S Channon	475,203	132,865	–	20,049	9,329	84,495	721,941
L Hale	161,697	–	–	6,962	–	–	168,659
<i>Other Key Management Personnel:</i>							
G Powers	344,594	146,677	–	20,049	15,546	60,429	587,295
N Stankovic	250,092	–	–	24,320	(21,541)	30,909	283,780
J Phelan	252,426	44,193	–	27,583	477	8,668	333,347
S Zappia	264,126	19,896	–	26,210	3,742	30,340	344,314
R Banks	279,308	31,265	–	15,921	–	9,018	335,512
A Walsh	42,638	–	–	–	–	7,910	50,548
P Illingworth	189,428	–	–	–	–	22,023	211,451
D Molloy	119,554	–	–	11,358	–	–	130,912
W Watkins	–	–	–	–	–	41,203	41,203
	2,778,704	374,896	–	190,418	7,553	294,995	3,646,566

DIRECTORS' REPORT continued

	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total
	Salary, leave and fees	Bonus	Non-monetary	Super-annuation	Long Service Leave	Equity-settled	
2017	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
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
<i>Executive Directors:</i>							
S Channon	475,834	-	-	29,545	12,820	21,829	540,028
L Hale	179,400	-	-	8,680	-	-	188,080
<i>Other Key Management Personnel:</i>							
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	119,554	-	-	11,358	-	-	130,912
	2,575,035	47,671	-	199,237	(3,647)	15,565	2,833,861

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. Richard Banks joined the group in August 2017 so the total benefit in FY2018 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 year ended 30 June 2017.

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

The next two tables show the actual cash payments made to KMPs in the relevant financial years:

2018	Salary, leave and fees \$	Bonus \$	Super- annuation \$	Total \$
<i>Non-Executive Directors:</i>				
P Macourt	133,562	–	12,688	146,250
P Turner	92,104	–	8,750	100,854
S Petering	86,986	–	8,264	95,250
G Couttas	86,986	–	8,264	95,250
<i>Executive Directors:</i>				
S Channon	503,051	–	20,049	523,100
L Hale	161,697	–	6,962	168,659
<i>Other Key Management Personnel:</i>				
G Powers	351,251	–	20,049	371,300
N Stankovic	256,000	–	24,320	280,320
J Phelan	256,000	47,671	27,914	331,585
S Zappia	259,963	–	24,320	284,283
R Banks	279,308	–	15,921	295,229
A Walsh	42,638	–	–	42,638
P Illingworth	189,428	–	–	189,428
D Molloy	119,554	–	11,358	130,912
W Watkins	–	–	–	–
	2,818,529	47,671	188,858	3,055,058

2017	Salary, leave and fees \$	Bonus \$	Super- annuation \$	Total \$
<i>Non-Executive Directors:</i>				
P Macourt	133,562	–	12,688	146,250
D O'Neill	38,551	–	3,662	42,213
P Turner	102,968	–	9,782	112,750
S Petering	84,703	–	8,047	92,750
G Couttas	57,332	–	5,447	62,778
<i>Executive Directors:</i>				
S Channon	493,245	57,420	35,000	585,665
L Hale	179,401	–	8,680	188,081
<i>Other Key Management Personnel:</i>				
G Powers	340,447	45,975	35,000	421,423
A Othen	149,425	–	14,482	163,907
N Stankovic	252,522	34,952	27,310	314,784
J Phelan	139,052	–	13,095	152,148
S Zappia	254,973	27,128	26,637	308,738
A Walsh	40,036	–	–	40,036
P Illingworth	188,612	–	–	188,612
D Molloy	130,912	–	11,358	130,912
	2,585,742	165,475	199,831	2,951,048

DIRECTORS' REPORT continued

Additional disclosures relating to key management personnel:

Shareholding

The number of 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	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Peter Macourt	18,485	-	-	-	18,485
Susan Channon	448,633	-	-	-	448,633
Sonia Petering	5,966	-	2,100	-	8,066
Greg Couttas	3,748	-	1,252	-	5,000
Lyndon Hale	823,694	-	-	-	823,694
Peter Turner	50,000	-	-	-	50,000
Glenn Powers	114,150	-	-	-	114,150
Peter Illingworth	354,020	-	-	(30,000)	324,020
David Molloy	364,207	-	-	-	364,207
	2,182,903	-	3,352	(30,000)	2,156,255

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
<i>Options over ordinary shares</i>					
Susan Channon	116,050	56,247	-	(47,649)	124,648
Glenn Powers	82,373	39,925	-	(33,821)	88,477
Jade Phelan	-	20,095	-	-	20,095
Nadia Stankovic	41,497	20,095	-	(17,064)	44,528
Steve Zappia	41,816	20,095	-	(17,292)	44,619
Richard Banks	-	20,908	-	-	20,908
Anthony Walsh	15,304	-	-	(6,437)	8,867
Peter Illingworth	-	17,921	-	-	17,921
William Watkins	-	28,674	-	-	28,674
	297,040	223,960	-	(122,263)	398,737

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 2018.

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
10 November 2017	10 November 2020	10 November 2027	\$0.00	\$3.79

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 2018 and 30 June 2017 are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
Susan Channon	56,247	38,989	–	–
Glenn Powers	39,925	27,675	–	–
Jade Phelan	20,095	–	–	–
Nadia Stankovic	20,095	13,929	–	–
Steve Zappia	20,095	13,929	–	–
Richard Banks	20,908	–	–	–
Anthony Walsh	–	4,969	–	–
Peter Illingworth	17,921	–	–	–
William Watkins	28,674	–	–	–

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 2018 are set out below:

Name	Fair 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	213,176	–	47,649
Glenn Powers	151,316	–	33,821
Nadia Stankovic	76,160	–	17,064
Steve Zappia	76,160	–	17,292
Richard Banks	79,241	–	–
Anthony Walsh	–	–	6,437
Peter Illingworth	71,505	–	–
William Watkins	114,409	–	–

Note: Of the options lapsing 46,974 were granted on 10 November 2014 and 75,288 were granted on 10 November 2015.

DIRECTORS' REPORT continued

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 2018 were \$437,604. 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

During FY2018 the Committee in consultation with the Board and the Australian Medical Directors conducted a review of the equity incentive arrangements for the fertility specialists focusing on the following areas:

- Vesting of grants made before September 2016;
- initial grants made to new fertility specialists;
- standard performance grants; and
- high performance grants.

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 2017. All incentive schemes are administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

Grants made before 1 September 2016

Vesting is dependent on achievement of performance and share price hurdles. 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.

At 30 June 2018 the potential number of unvested performance rights subject to these arrangements is estimated to be 129,717.

Grants made after 1 September 2016

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 schemes 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;
- The number of performance rights granted to a fertility specialist is 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; and
- 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 and the number of performance rights to be fixed at grant.

Grants of rights are made twice a year 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.

Key of the grants are as follows:

- 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
- For existing fertility specialists, performance rights are awarded for incremental increases in practice cycles of 50, up to a limit of 200 cycles and 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.

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 ("HPSIS") rewards fertility specialists who consistently delivered more than 400 cycles per annum for a consecutive three year period. For FY2017 the hurdle was adjusted to 300 cycles per annum. There have been four issues of HPSIS details of which are as follows:

- the first incentive period commenced on 1 January 2014 and ended on 31 December 2016; no fertility specialists met the performance criteria and this grant has now lapsed;
- the second incentive period commenced on 1 January 2015 and ended on 31 December 2017; no fertility specialists met the share price hurdle and this grant has now lapsed;
- the third incentive period commenced on 1 July 2016 and runs for a four year period ending 30 June 2020 with the first year being the qualifying period. There is no share price hurdle applicable to this grant; and
- the fourth incentive period commenced on 1 July 2017 and runs for a four year period ending 30 June 2021 with the first year being the qualifying period. There is no share price hurdle applicable to this grant.

The key performance features of the third and fourth issues of HPSIS are as follows:

- a specialist can only participate in one HPSIS grant at any point in time; and
- award values converting into VRT ordinary shares are as follows:
 - \$80,000 of performance rights for > 299 average cycles per annum over 4 year period; or
 - \$100,000 of performance rights for > 324 average cycles per annum over 4 year period; or
 - \$120,000 of performance rights for > 349 average cycles per annum over 4 year period; or
 - \$140,000 of performance rights for > 374 average cycles per annum over 4 year period; or
 - \$160,000 of performance rights for > 399 average cycles per annum over 4 year period; or
 - \$180,000 of performance rights for > 424 average cycles etc.

In FY17, 11 fertility specialists qualified for the third issue of HPSIS. In FY18, 2 fertility specialists qualified for the fourth issue of HPSIS.

DIRECTORS' REPORT continued

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

Review of fertility specialist schemes – key outcomes.

The Nominations and Remuneration Committee in conjunction with the Board and the Medical Directors is proposing the following fertility specialist incentive structure to be applicable for FY19:

- initial right grants to new specialists will remain unchanged;
- performance right grants to specialists will be maintained in accordance with current scheme arrangements up to the achievement of 200 cycles per annum;
- the high performance scheme will be replaced by a loyalty option scheme with effect from FY19; and
- all existing grants run out in accordance with existing arrangements.

Loyalty option scheme – fertility specialists

The existing high performance incentives provide an incentive to only a small number of specialists and does not recognise the contribution made by many established specialists who provide a consistent service to patients. The Nomination and Remuneration Committee, in conjunction with the Virtus Australian Medical Directors wished to recognise the continued contribution of the top quartile of specialists on an annual basis whilst at the same time maintaining the same cost to the company. The revised loyalty option scheme also recognises that individual specialist practice activity does vary periodically and also by territory.

The key features of the revised loyalty option scheme are as follows:

- value of award is variable and dependent on individual number of personal cycles adjusted for a loading ratio to recognise a higher award for specialists making a higher contribution to the business.
- award per loaded cycle for FY19 is \$50, hence awards would be as follows:
 - 200 cycles, = $200 * 1.0 * \$50 = \$10,000$ worth of shares;
 - 250 cycles, = $250 * 1.1 * \$50 = \$13,750$ worth of shares;
 - 300 cycles, = $300 * 1.2 * \$50 = \$18,000$ worth of shares;
 - 350 cycles, = $350 * 1.3 * \$50 = \$22,750$ worth of shares;
 - 400 cycles, = $400 * 1.4 * \$50 = \$28,000$ worth of shares;
- Loading ratios per cycle:
 - >399 cycles, 1.4
 - >349 cycles, 1.3
 - >299 cycles, 1.2
 - >249 cycles, 1.1
 - >199 cycles, 1.0
- Annual Qualifying hurdle is 200 cycles;
- Annual vesting, no wait period, no escrow;
- Other considerations;
 - annual loyalty award replaces all standard performance awards for improvement above 200 cycles; and
 - awards would be payable in shares; conversion from award value would be at the Virtus share price on the 15th business day following the group's annual result announcement (normally mid-September);
 - annual pool value for FY19 is capped at \$500,000 (assessed annually by Remuneration Committee); this cost is consistent with the cost of the scheme it replaces.

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
21 January 2014*	21 January 2024	\$6.40	29,448
03 October 2014*	03 October 2024	\$8.57	71,029
13 May 2015*	13 May 2025	\$7.16	2,757
13 May 2015*	13 May 2025	\$7.53	912
13 May 2015*	13 May 2025	\$7.94	794
13 May 2015*	13 May 2025	\$7.94	343
11 November 2015*	11 November 2025	\$0.00	87,763
21 August 2015*	21 August 2025	\$5.67	7,434
28 October 2015*	28 October 2025	\$5.01	11,491
16 December 2015*	16 December 2025	\$6.17	5,509
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
24 October 2017	24 October 2027	\$0.00	171,199
24 October 2017*	24 October 2027	\$0.00	72,580
24 October 2017*	24 October 2027	\$0.00	116,128
24 October 2017*	24 October 2027	\$0.00	43,548
22 November 2017*	22 November 2027	\$0.00	229,391
22 November 2017*	22 November 2027	\$0.00	136,508
			1,102,402

* 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 1,444 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 2018 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.

DIRECTORS' REPORT continued

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

signature

Peter Macourt

Chairman

21 August 2018

Sydney

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2018, 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

A handwritten signature in black ink, appearing to read 'Mark Dow', is written over a light grey horizontal line.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
21 August 2018

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
Revenue	4	262,061	256,518
Share of profits of associates accounted for using the equity method	5	570	483
Other income	6	1,844	4,849
Expenses			
Fertility specialists, consumables and associated costs		(71,717)	(71,204)
Employee benefits expense		(89,044)	(86,594)
Depreciation and amortisation expense	7	(12,496)	(12,165)
Impairment of goodwill	7	-	(1,870)
Occupancy expense		(17,694)	(16,227)
Advertising and marketing		(4,427)	(4,343)
Practice equipment expenses		(2,213)	(2,227)
Professional and consulting fees		(2,562)	(2,518)
Other expenses		(11,655)	(13,776)
Finance costs	7	(7,803)	(8,093)
Profit before income tax expense		44,864	42,833
Income tax expense	8	(12,855)	(12,829)
Profit after income tax expense for the year		32,009	30,004
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax	31	306	554
Foreign currency translation		2,833	425
Other comprehensive income for the year, net of tax		3,139	979
Total comprehensive income for the year		35,148	30,983
Profit for the year is attributable to:			
Non-controlling interest		1,256	1,901
Owners of Virtus Health Limited	32	30,753	28,103
		32,009	30,004
Total comprehensive income for the year is attributable to:			
Non-controlling interest		1,040	1,972
Owners of Virtus Health Limited		34,108	29,011
		35,148	30,983
		Cents	Cents
Basic earnings per share	50	38.26	35.00
Diluted earnings per share	50	37.98	34.79

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	9	21,713	27,337
Trade and other receivables	10	12,491	12,341
Inventories	11	752	758
Other	12	3,035	2,434
Total current assets		37,991	42,870
Non-current assets			
Investments accounted for using the equity method	13	1,489	1,489
Property, plant and equipment	14	34,477	28,989
Intangibles	15	465,436	411,483
Deferred tax	16	5,468	4,551
Other	17	517	531
Total non-current assets		507,387	447,043
Total assets		545,378	489,913
Liabilities			
Current liabilities			
Trade and other payables	18	24,468	20,925
Derivative financial instruments	19	420	527
Income tax	20	4,337	378
Provisions	21	4,169	3,768
Other financial liabilities	22	397	14,044
Other	23	14,779	8,169
Total current liabilities		48,570	47,811
Non-current liabilities			
Borrowings	24	180,773	153,564
Derivative financial instruments	25	107	437
Deferred tax	26	866	585
Provisions	27	6,415	6,063
Other financial liabilities	28	23,757	11,755
Other payables	29	1,340	1,327
Total non-current liabilities		213,258	173,731
Total liabilities		261,828	221,542
Net assets		283,550	268,371
Equity			
Issued capital	30	242,251	242,001
Reserves	31	2,837	(11,416)
Retained profits	32	27,979	18,127
Equity attributable to the owners of Virtus Health Limited		273,067	248,712
Non-controlling interest	33	10,483	19,659
Total equity		283,550	268,371

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 2018

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
<i>Transactions with owners in their capacity as owners:</i>					
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

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2017	242,001	(11,416)	18,127	19,659	268,371
Profit after income tax expense for the year	-	-	30,753	1,256	32,009
Other comprehensive income/(loss) for the year, net of tax	-	3,355	-	(216)	3,139
Total comprehensive income for the year	-	3,355	30,753	1,040	35,148
<i>Transactions with owners in their capacity as owners:</i>					
Non-controlling interest on acquisition of subsidiary	-	-	-	1,013	1,013
Dividends payable by subsidiaries to non-controlling interests	-	-	-	(1,212)	(1,212)
Put option exercise	-	10,017	-	(10,017)	-
Settlement of partly paid shares	250	-	-	-	250
Share-based payments	-	881	-	-	881
Dividends paid (note 34)	-	-	(20,901)	-	(20,901)
Balance at 30 June 2018	242,251	2,837	27,979	10,483	283,550

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 2018

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		260,757	255,569
Payments to suppliers (inclusive of GST)		(191,637)	(202,363)
Other revenue		69,120	53,206
Interest and other finance costs paid		2,502	2,761
Income taxes paid		(6,615)	(6,560)
Net cash from operating activities	48	(10,040)	(10,701)
Cash flows from investing activities			
Payment of acquisition of non-controlling interest		(10,220)	-
Final payment for prior period's business acquisition	43	(4,152)	(826)
Payments for acquisition of subsidiaries and businesses, net of cash acquired	43	(36,402)	(9,965)
Payments for property, plant and equipment and intangibles		(15,500)	(9,849)
Payment of security deposits		-	(196)
Proceeds from disposal of property, plant and equipment		-	26
Proceeds from release of security deposits		14	-
Interest received		136	127
Associate distributions received		875	500
Net cash used in investing activities		(65,249)	(20,183)
Cash flows from financing activities			
Proceeds from partly paid shares	30	250	668
Proceeds from issue of shares	30	-	2,504
Payment of dividends		(20,901)	(22,507)
Dividend paid to non-controlling interest in subsidiaries		(2,112)	-
Repayment of borrowings		(6,000)	-
Proceeds from borrowings		33,000	6,000
Payment for finance lease facility		-	(22)
Net cash from/(used in) financing activities		4,237	(13,357)
Net increase/(decrease) in cash and cash equivalents		(6,045)	5,166
Cash and cash equivalents at the beginning of the financial year		27,337	22,215
Effects of exchange rate changes on cash and cash equivalents		421	(44)
Cash and cash equivalents at the end of the financial year	9	21,713	27,337

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 and the Corporations Act 2001. Virtus Health Limited is a for-profit entity for the purpose of preparing the financial statements. The consolidated financial statements of the Virtus Health Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

At 30 June 2018 the consolidated entity's current liabilities exceeded its current assets by \$10,579,000 (June 2017: \$4,941,000). The current liabilities include unearned income of \$14,779,000 as well as employee leave liabilities of \$10,010,000. Whilst, the leave liabilities are required to be disclosed as a current liability, a large portion of this liability is expected not to be settled within 12 months. The consolidated entity also has unused and available debt facilities of \$24,509,000 that do not expire until September 2019 and a cash balance of \$21,713,000 as at 30 June 2018.

The Directors continually monitor the group's working capital position, including forecast working capital requirements and have ensured that there are appropriate refinancing strategies and adequate committed funding facilities in place to accommodate financial obligations as and when they fall due.

The financial report therefore has been prepared on a going concern basis.

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 2018 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Income tax (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 annually 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 annually 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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.

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 entities for the annual reporting period ended 30 June 2018. 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.

AASB 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'. AASB 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 are 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.

AASB 16 Leases

In February 2016 the AASB issued AASB 16, 'Leases', which replaces the current guidance in AASB 117 'Leases'. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if AASB 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. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are in respect of short term leases and leases of low value assets. Lessor accounting remains largely unchanged.

The standard will affect primarily the accounting for the consolidated entities operating leases. As at reporting date, the consolidated entity's non-cancellable operating lease commitments are \$71,210,000, see note 40. The present value of the consolidated entity's operating lease payments as defined under the new standard will be recognised as lease liabilities on the balance sheet and included in net debt. There are a number of differences between the two standards.

The Segment EBITDA, as disclosed in note 3 will increase as the operating lease cost is charged against EBITDA under AASB 117 whilst under AASB 16 the charge will be included in depreciation and interest expense which are excluded from EBITDA (although included in overall earnings). Operating cash flows will increase under AASB 16 as the element of cash paid under leases attributable to the repayment of principal will be included in financing cash flows. The overall increase/decrease in cash and cash equivalents will however remain the same.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 16 Leases (continued)

The consolidated entity had previously conducted reviews of the impact of AASB 16 and performed some detailed work on a sample of its material leases. Significant progress has been made in the last six months where the consolidated entity has:

- Identified the population of leases for evaluation and classified its population into different types of lease arrangements. The majority of the consolidated entity's current operating lease commitments relate to property leases;
- Assessed its current policies, controls, processes and systems and identified where we can leverage our existing processes and have now implemented a contract management system for lease data and a lease software to electronically manage the lease portfolio and perform lease calculations as required by the new lease standard; and
- Reached an advanced stage of on boarding all of its leases onto the lease software and reviewing preliminary output.

The standard must be implemented retrospectively, either with a complete restatement of comparatives under the full retrospective approach or with the cumulative financial impact of application of the new standard recognised as at 1 July 2019 under a modified retrospective approach. Initial indications are that the consolidated entity will apply the full retrospective approach however, a final decision is yet to be made. It is too early to properly quantify the overall impacts on the results and financial position for the 2019 and 2020 financial years and work will continue during 2019 to assess the full impacts on the consolidated entity. The consolidated entity will not adopt the new standard before its normal application date of 1 July 2019.

AASB 16 is expected to be the most significant of the new accounting standards for the consolidated entity in terms of impact on the financial statements and on its systems and processes.

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.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, 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 and contingent consideration 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.

	Healthcare Services Australia \$'000	Healthcare Services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated – 2018				
Revenue				
Sales to external customers	215,969	44,209	–	260,178
Other revenue	1,747	–	–	1,747
Interest revenue	123	–	13	136
Total revenue	217,839	44,209	13	262,061
Segment EBITDA	66,822	9,196	–	76,018
Share based payment expense				(881)
Corporate costs				(10,104)
Foreign exchange (loss)				(64)
Transaction costs				(1,031)
Fair value adjustments to put liabilities and contingent consideration				1,089
Depreciation and amortisation expense				(12,496)
Interest revenue				136
Interest expense				(6,615)
Interest on other financial liability – non-cash interest				(981)
Amortisation of bank facility fee				(207)
Profit before income tax expense				44,864
Income tax expense				(12,855)
Profit after income tax expense				32,009
<i>Total assets includes:</i>				
Investments in associates	1,489	–	–	1,489
Acquisition of non-current assets	14,675	53,824	–	68,499

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 3. Operating segments (continued)

	Healthcare Services Australia \$'000	Healthcare Services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated – 2017				
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				
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
<i>Total assets includes:</i>				
Investments in associates	1,489	–	–	1,489
Acquisition of non-current assets	9,210	15,797	–	25,007

Note 4. Revenue

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Sales revenue</i>		
Rendering of services	260,178	254,634
<i>Other revenue</i>		
Interest	136	127
Rent	1,747	1,757
	1,883	1,884
Revenue	262,061	256,518

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Share of profits – associates	570	483

Note 6. Other income

	Consolidated	
	2018	2017
	\$'000	\$'000
Fair value gain on put liabilities	891	3,317
Fair value gain on contingent consideration	198	529
Other income	755	1,003
Other income	1,844	4,849

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 7. Expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	3,025	3,236
Furniture and fittings	409	366
Office equipment	2,439	2,450
Medical equipment	2,879	2,914
Total depreciation	8,752	8,966
<i>Amortisation</i>		
Software	2,167	1,696
Brand names	1,577	1,503
Total amortisation	3,744	3,199
Total depreciation and amortisation	12,496	12,165
<i>Impairment</i>		
Impairment of goodwill	-	1,870
<i>Finance costs</i>		
Interest and finance charges paid/payable	6,615	6,684
Interest on other financial liability – non-cash interest	981	1,202
Amortisation of bank facility fees	207	207
Finance costs expensed	7,803	8,093
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	13,677	12,422
<i>Superannuation expense</i>		
Defined contribution superannuation expense	5,885	5,836
<i>Research costs</i>		
Research costs	2,000	2,918
<i>Share-based payments expense</i>		
Share-based payments expense – fertility specialists	625	416
Share-based payments expense – employee benefits	256	24
Total share-based payments expense	881	440

Note 8. Income tax expense

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	13,933	10,795
Deferred tax – origination and reversal of temporary differences	(1,072)	1,556
Adjustment recognised for prior periods	(6)	478
Aggregate income tax expense	12,855	12,829
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 16)	(1,048)	1,649
Decrease in deferred tax liabilities (note 26)	(24)	(93)
Deferred tax – origination and reversal of temporary differences	(1,072)	1,556
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	44,864	42,833
Tax at the statutory tax rate of 30%	13,459	12,850
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	–	561
Share-based payments	256	132
Research and development	–	(173)
Fair value gain on Put Liabilities and Contingent Consideration	(327)	(1,154)
Acquisition transaction costs	295	179
Tax losses (recognised)/not recognised	(311)	282
Other	444	466
	13,816	13,143
Difference in overseas tax rates	(955)	(792)
Adjustment recognised for prior periods	(6)	478
Income tax expense	12,855	12,829

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Amounts charged directly to equity</i>		
Deferred tax assets (note 16)	131	238
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	1,106	3,778
Potential tax benefit at 17%	188	642

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 9. Current assets – cash and cash equivalents

	Consolidated	
	2018 \$'000	2017 \$'000
Cash at bank and on hand	21,713	27,337

Note 10. Current assets – trade and other receivables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade receivables	11,994	12,260
Less: Provision for impairment of receivables	(1,470)	(1,944)
	10,524	10,316
Other receivables	1,967	2,025
	12,491	12,341

Impairment of receivables

The consolidated entity has recognised an expense of \$746,000 (2017: \$424,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

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

	Consolidated	
	2018 \$'000	2017 \$'000
3 to 6 months overdue	295	847
Over 6 months overdue	1,175	1,097
	1,470	1,944

The nominal value of the impaired receivables is \$1,765,000 (2017: \$2,792,000).

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

	Consolidated	
	2018 \$'000	2017 \$'000
Opening balance	1,944	1,816
Additional provisions recognised	803	779
Additions through business combinations	-	28
Receivables written off during the year as uncollectable	(1,220)	(324)
Unused amounts reversed	(57)	(355)
Closing balance	1,470	1,944

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$1,909,000 as at 30 June 2018 (\$2,021,000 as at 30 June 2017).

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	
	2018	2017
	\$'000	\$'000
1 to 3 months overdue	1,909	2,021

No collateral is held in relation to the above receivables.

Note 11. Current assets – inventories

	Consolidated	
	2018	2017
	\$'000	\$'000
Stock on hand – at cost	752	758

Note 12. Current assets – other

	Consolidated	
	2018	2017
	\$'000	\$'000
Prepayments	3,035	2,434

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Investment in associates	1,489	1,489

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Leasehold improvements – at cost	48,220	39,281
Less: Accumulated depreciation	(28,932)	(25,811)
	19,288	13,470
Plant and equipment under lease – at cost	1,990	1,990
Less: Accumulated depreciation	(1,990)	(1,990)
	–	–
Furniture and fittings – at cost	3,510	3,143
Less: Accumulated depreciation	(2,006)	(1,607)
	1,504	1,536
Office equipment – at cost	17,581	15,977
Less: Accumulated depreciation	(12,137)	(10,212)
	5,444	5,765
Medical equipment – at cost	30,695	26,964
Less: Accumulated depreciation	(22,454)	(18,746)
	8,241	8,218
	34,477	28,989

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 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
Additions	8,534	–	350	2,086	2,329	13,299
Additions through business combinations (note 43)	254	–	–	–	486	740
Exchange differences	55	–	26	32	88	201
Depreciation expense	(3,025)	–	(409)	(2,439)	(2,879)	(8,752)
Balance at 30 June 2018	19,288	–	1,503	5,444	8,242	34,477

Note 15. Non-current assets – intangibles

	Consolidated	
	2018	2017
	\$'000	\$'000
Goodwill – at cost	453,437	401,577
Less: Impairment	–	(1,870)
	453,437	399,707
Software – at cost	22,053	19,824
Less: Accumulated amortisation	(16,553)	(14,387)
	5,500	5,437
Brand names – at cost	17,504	15,775
Less: Accumulated amortisation	(11,005)	(9,436)
	6,499	6,339
	465,436	411,483

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	Software	Brand names	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 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
Additions	–	2,201	–	2,201
Additions through business combinations (note 43)	50,748	–	1,511	52,259
Exchange differences	2,982	29	226	3,237
Amortisation expense	–	(2,167)	(1,577)	(3,744)
Balance at 30 June 2018	453,437	5,500	6,499	465,436

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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

Impairment tests for goodwill

Goodwill is allocated to the group's cash generating units ("CGUs") identified according to operating segment:

	Consolidated	
	2018 \$'000	2017 \$'000
New South Wales	111,807	111,807
Victoria	122,294	122,294
Queensland	66,626	66,626
Tasmania	20,461	20,461
Australian Diagnostics	26,719	26,719
International	105,530	51,800
	453,437	399,707

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% (2017: 2.5%)

Victoria – 2.5% (2017: 2.5%)

Queensland – 2.5% (2017: 2.5%)

Tasmania – 1.0% (2017: 1.0%)

International – 2.5% (2017: 2.5%)

Australian Diagnostics – 2.0% (2017: 2.0%)

Pre-tax discount rate

New South Wales – 12.0% (2017: 12.0%)

Victoria – 12.0% (2017: 12.0%)

Queensland – 12.0% (2017: 12.0%)

Tasmania – 14.0% (2017: 14.1%)

International – 10.3% (2017: 9.8%)

Australian Diagnostics – 12.0% (2017: 12.0%)

Management believes that reasonable changes in key assumptions on which the recoverable amount of the cash generating units is based will not cause the cash-generating unit's carrying amounts to exceed their recoverable amount. The recoverable amounts of the Tasmanian and Queensland cash-generating units are however sensitive to the annual projected growth rates and the discount rates used and as disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Queensland and Tasmania are price sensitive markets and have been impacted by new entrants and low cost providers. Management believes that a review of pricing performed during the year and efforts to contain costs will help the businesses achieve their revenue and growth targets for FY2019 and beyond.

Should these judgements and estimates not occur the goodwill carrying amount may become impaired. The key sensitivities for the Tasmanian and Queensland cash generating units are as follows:

Tasmania:

- If forecast EBITDA that drives the terminal value decreases by more than 11.8% for the Tasmania division, goodwill would need to be impaired, with all other assumptions remaining constant
- If the discount rate increases more than 1% for the Tasmania division, goodwill would need to be impaired, with all other assumptions remaining constant

Queensland:

- If forecast EBITDA that drives the terminal value decreases by more than 5.5% for the Queensland division, goodwill would need to be impaired, with all other assumptions remaining constant
- If the discount rate increases more than 1% for the Queensland division, goodwill would need to be impaired, with all other assumptions remaining constant

Note 16. Non-current assets – deferred tax

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Deferred tax assets comprise temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	287	339
Property, plant and equipment	(169)	(474)
Employee benefits	3,198	3,277
Provision for lease make good	1,168	1,058
Accrued expenses	383	318
Tax losses	370	–
Intangible assets	(347)	(605)
Other	420	349
	5,310	4,262
Amounts recognised in equity:		
Other	158	289
Deferred tax assets	5,468	4,551
Amount expected to be recovered within 12 months	2,951	2,456
Amount expected to be recovered after more than 12 months	2,517	2,095
	5,468	4,551
<i>Movements:</i>		
Opening balance	4,551	6,438
Credited/(charged) to profit or loss (note 8)	1,048	(1,649)
Charged to equity (note 8)	(131)	(238)
Closing balance	5,468	4,551

Note 17. Non-current assets – other

	Consolidated	
	2018	2017
	\$'000	\$'000
Security deposits	517	531

Note 18. Current liabilities – trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	10,341	8,880
Other payables	14,127	12,045
	24,468	20,925

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 19. Current liabilities – derivative financial instruments

	Consolidated	
	2018	2017
	\$'000	\$'000
Interest rate swap contracts – cash flow hedges	420	527

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

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

Note 20. Current liabilities – income tax

	Consolidated	
	2018	2017
	\$'000	\$'000
Provision for income tax	4,337	378

Note 21. Current liabilities – provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits – long service leave	4,169	3,768

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	
	2018	2017
	\$'000	\$'000
Long service leave obligation expected to be settled after 12 months	3,752	3,391

Note 22. Current liabilities – other financial liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Other financial liability	–	14,044
Loan note	397	–
	397	14,044

The other financial liability represented 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. These liabilities were settled during the current year.

Loan note reflects the current portion of a loan owing to the vendors of Fertilitetsklinikken Trianglen Aps (Refer to note 42 for details).

Note 23. Current liabilities – other

	Consolidated	
	2018 \$'000	2017 \$'000
Unearned income	14,779	8,169

Note 24. Non-current liabilities – borrowings

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans (net of borrowing costs)	180,773	153,564

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	
	2018 \$'000	2017 \$'000
Bank loans (net of borrowing costs)	180,773	153,564

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

	Consolidated	
	2018 \$'000	2017 \$'000
Cash and cash equivalents	10,856	16,838
Receivables	7,726	8,511
Inventories	529	585
Other current assets	2,098	1,990
Investments	81,465	40,780
Plant and equipment	28,732	23,676
Intangible assets (excluding goodwill)	5,451	6,264
Deferred tax assets	4,711	4,286
Other financial assets	56	58
	141,624	102,988

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 24. Non-current liabilities – borrowings (continued)

Financing arrangements

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

	Consolidated	
	2018	2017
	\$'000	\$'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)	181,000	154,000
Working capital facilities	4,718	5,148
	185,718	159,148
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	19,000	46,000
Working capital facilities	5,282	4,852
	24,282	50,852

The consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2018 and 30 June 2017.

Working capital facilities utilised consist of \$4,718,000 (2017: \$5,148,000) of bank guarantees.

Total Credit facilities expire in September 2019.

Note 25. Non-current liabilities – derivative financial instruments

	Consolidated	
	2018	2017
	\$'000	\$'000
Interest rate swap contracts – cash flow hedges	107	437

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

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

Note 26. Non-current liabilities – deferred tax

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	29	66
Impairment of receivables	–	(57)
Employee benefits	–	(11)
Provision for lease make good	(34)	(56)
Intangible assets	855	644
Other	16	(1)
Deferred tax liability	866	585
Amount expected to be settled within 12 months	468	463
Amount expected to be settled after more than 12 months	398	122
	866	585
<i>Movements:</i>		
Opening balance	585	423
Credited to profit or loss (note 8)	(24)	(93)
Additions through business combinations (note 43)	305	255
Closing balance	866	585

Note 27. Non-current liabilities – provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits – long service leave	1,454	1,780
Lease make good	4,961	4,283
	6,415	6,063

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:

	Lease make good \$'000
Consolidated – 2018	
Carrying amount at the start of the year	4,283
Additional provisions recognised	328
Additions through business combinations	252
Exchange differences	45
Unwinding of discount	53
Carrying amount at the end of the year	4,961

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 28. Non-current liabilities – Other financial liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Other financial liabilities	20,975	11,755
Loan note	2,782	–
	23,757	11,755

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 and also the fair value of the contingent consideration arising from the acquisition of Fertilitesklinikken Trianglen Aps.

Loan note reflects the non-current portion of a loan owing to the vendors of Fertilitesklinikken Trianglen Aps (Refer to note 42 for details).

Note 29. Non-current liabilities – other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Other payables	1,340	1,327

Note 30. Equity – issued capital

	Consolidated			
	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares – fully paid	80,389,938	80,388,494	242,251	242,001

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	30 June 2017	80,388,494		242,001
Balance	30 June 2017	80,388,494		242,001
Settlement of partly paid shares	11 October 2017	–	\$0.00	115
Settlement of partly paid shares	17 April 2018	–	\$0.00	135
Share issued– exercise of options	28 March 2018	1,444	\$0.00	–
Balance	30 June 2018	80,389,938		242,251

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 \$2.51 per share at 30 June 2018.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 31. Equity – reserves

	Consolidated	
	2018 \$'000	2017 \$'000
Foreign currency translation reserve	3,549	501
Cash flow hedges reserve	(372)	(678)
Share-based payments reserve	13,468	12,586
Put option business combination reserve	(13,808)	(23,825)
	2,837	(11,416)

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. The reduction is for the exercise of the first put option in relation to both these entities.

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 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)
Revaluation – net	–	306	–	–	306
Foreign currency translation	3,048	–	–	–	3,048
Option expense	–	–	882	–	882
Put option exercise	–	–	–	10,017	10,017
Balance at 30 June 2018	3,549	(372)	13,468	(13,808)	2,837

Note 32. Equity – retained profits

	Consolidated	
	2018 \$'000	2017 \$'000
Retained profits at the beginning of the financial year	18,127	12,531
Profit after income tax expense for the year	30,753	28,103
Dividends paid (note 34)	(20,901)	(22,507)
Retained profits at the end of the financial year	27,979	18,127

Note 33. Equity – non-controlling interest

	Consolidated	
	2018 \$'000	2017 \$'000
Issued capital	1,842	1,842
Reserves	5,423	14,642
Retained profits	3,218	3,175
	10,483	19,659

Note 34. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Interim ordinary dividend for the year ended 30 June 2018 of 14.0 cents (2017: 13.0 cents) per fully paid ordinary share paid in April 2018	11,255	10,450
Final ordinary dividend for the year ended 30 June 2017 of 12.0 cents (2016: 15.0 cents) per fully paid ordinary share paid in October 2017	9,646	12,057
	20,901	22,507

A final dividend of 12.00 cents per share, fully franked, will be paid on 12 October 2018 to the shareholders on the register at 14 September 2018.

Franking credits

	Consolidated	
	2018 \$'000	2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	20,534	16,880

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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:

	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank loans	3.85%	181,000	3.67%	154,000
Interest rate swaps (notional principal amount)	–	(50,000)	–	(50,000)
Net exposure to cash flow interest rate risk		131,000		104,000

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

	Basis points increase			Basis points decrease		
	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
Consolidated – 2018						
Bank loans	100	(917)	(917)	(100)	917	917

	Basis points increase			Basis points decrease		
	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
Consolidated – 2017						
Bank loans	100	(728)	(728)	(100)	728	728

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	
	2018 \$'000	2017 \$'000
Bank loans (excluding capitalised borrowing costs)	19,227	46,436
Working capital facilities	5,282	4,852
	24,509	51,288

Credit facilities expire in September 2019.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 35. Financial risk management (continued)

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.

	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
Consolidated – 2018						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	10,341	-	-	-	10,341
Other payables	-	14,127	-	-	-	14,127
<i>Interest-bearing – variable</i>						
Bank loans	4.28%	7,393	182,848	-	-	190,241
Other financial liabilities	3.85%	-	-	20,516	-	20,516
Loan note	4.00%	461	898	2,106	-	3,465
Total non-derivatives		32,322	183,746	22,622	-	238,690
Derivatives						
Derivative financial instruments	-	420	107	-	-	527
Total derivatives		420	107	-	-	527

	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
Consolidated – 2017						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	8,880	-	-	-	8,880
Other payables	-	12,045	-	-	-	12,045
<i>Interest-bearing – variable</i>						
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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated – 2018				
<i>Liabilities</i>				
Derivative financial liabilities	–	527	–	527
Other financial liabilities	–	–	20,975	20,975
Total liabilities	–	527	20,975	21,502
Consolidated – 2017				
<i>Liabilities</i>				
Derivative financial liabilities	–	964	–	964
Other financial liabilities	–	–	25,799	25,799
Total liabilities	–	964	25,799	26,763

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 36. Fair value measurement (continued)

Fair value hierarchy (continued)

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 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
Additions	8,817	-	8,817
Foreign exchange impact	223	669	892
Amounts paid during the period	(4,152)	-	(4,152)
Amounts paid in exercise of put option	-	(10,220)	(10,220)
Interest on unwinding	105	823	928
Fair value adjustment	(198)	(891)	(1,089)
Balance at 30 June 2018	8,817	12,158	20,975

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 \$132,789/(\$129,937)
	EBITDA	a 1% change would increase/decrease the fair value by \$108,841/(\$108,026)

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	
	2018 \$	2017 \$
Short-term employee benefits	3,153,600	2,622,706
Post-employment benefits	190,418	199,237
Long-term benefits	7,553	(3,647)
Share-based payments	294,995	15,565
	3,646,566	2,833,861

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	
	2018	2017
	\$	\$
<i>Audit services – PricewaterhouseCoopers</i>		
Audit or review of the financial statements	467,300	498,613
<i>Other services – PricewaterhouseCoopers</i>		
Due diligence	208,500	112,945
Tax compliance services	7,500	7,650
Non-statutory audits and reviews relating to acquisitions	–	1,000
	216,000	121,595
	683,300	620,208
<i>Audit services – network firms</i>		
Audit or review of the financial statements	119,692	121,760
<i>Other services – network firms</i>		
Tax services	68,792	49,704
Other	20,782	–
	89,574	49,704
	209,266	171,464

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 will not materially affect the financial position of the entity and it is expected that the claims will be covered by the consolidated entity's insurance policies.

Guarantees

Drawdowns of \$4,718,000 (2017: \$5,148,000) 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 1 year (2017: 2 years).

Note 40. Commitments

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Lease commitments – operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	12,748	10,704
One to five years	32,330	30,821
More than five years	26,132	21,197
	71,210	62,722

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 \$286,874 (2017: \$419,277).

Capital Commitments

The consolidated entity had \$4,707,000 (FY17: \$nil) in capital commitments for property, plant and equipment as at 30 June 2018.

Note 41. Related party transactions

Parent entity

Virtus Health Limited is the parent entity and ultimate controlling party.

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	
	2018	2017
	\$	\$
Other revenue:		
Rental income ⁽ⁱ⁾	285,004	274,783
Other transactions:		
Provider fees ⁽ⁱⁱ⁾	3,062,921	3,305,382

(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	
	2018	2017
	\$	\$
Current receivables:		
Trade receivables from associates	675,245	975,757
Other receivables	11,062	14,959
Current payables:		
Other payables for provider fees	377,048	320,024
Other payables for dividends	–	900,000

Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 42. Parent entity information

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

Statement of comprehensive income

	Parent	
	2018	2017
	\$'000	\$'000
Profit after income tax	26,669	26,309
Total comprehensive income	26,669	26,309

Statement of financial position

	Parent	
	2018	2017
	\$'000	\$'000
Total current assets	41,642	34,627
Total assets	293,750	282,100
Total current liabilities	6,992	2,101
Total liabilities	8,341	2,853
Net assets	285,409	279,247
Equity		
Issued capital	242,251	242,001
Share-based payments reserve	7,485	7,340
Retained profits	35,673	29,906
Total equity	285,409	279,247

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 2018 and 30 June 2017 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 2018 and 30 June 2017.

Capital commitments – property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

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

Fertilitesklinikken Trianglen Aps

On the 28 June 2018, Virtus Health Europe Limited acquired 100% of the ordinary share capital in Fertilitesklinikken Trianglen Aps (Trianglen), based in Copenhagen Denmark for an estimated consideration of \$41,996,000. The values identified in relation to the acquisition of the entity are provisional as at 30 June 2018.

	Fair value \$'000
Cash and cash equivalents	2,838
Trade receivables	280
Property, plant and equipment	595
Brand names	366
Trade payables	(168)
Other payables	(232)
Deferred tax liability	(87)
Employee benefits	(503)
Other provisions	(540)
Other liabilities	(2,177)
Net assets acquired	372
Goodwill	41,624
Acquisition-date fair value of the total consideration transferred	41,996
Representing:	
Cash paid	30,000
Contingent consideration	8,817
Loan note	3,179
	41,996
Acquisition costs expensed to profit or loss	177
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	41,996
Less: cash and cash equivalents acquired	(2,838)
Less: contingent consideration	(8,817)
Less: loan note	(3,179)
Net cash used	27,162

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

Contingent consideration

In the event Trianglen achieves the forecast normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') for the Financial year ending 30 June 2020, then additional consideration of \$8,817,000 will be payable. Virtus Health Europe Limited has the discretion to settle the total additional consideration payable in cash or a combination of ordinary shares of Virtus Health and cash during September 2020. The fair value of the consideration of \$8,817,000 was estimated with reference to the expected EBITDA of Trianglen from management forecasts.

Loan note

Reflects a loan from the vendor to Virtus Health Europe Limited of \$3,179,000 with a coupon of 4% and repayable over four years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 43. Business combinations (continued)

Complete Fertility Limited

On 1 April 2018, Virtus Health Europe Limited acquired 90% of the ordinary share capital in Complete Fertility Limited (CFL), based in Southampton England. The consideration transferred amounted to \$9,641,000. The values identified in relation to the acquisition of the entity are provisional as at 30 June 2018.

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	401
Trade receivables	449
Plant and equipment	144
Brand name	1,145
Trade payables	(90)
Other payables	(17)
Deferred tax liability	(218)
Other provisions	(7)
Other liabilities	(277)
Net assets acquired	1,530
Goodwill	9,124
Acquisition-date fair value of the total consideration transferred	10,654
Representing:	
Cash paid or payable to vendor	9,641
Non-controlling interest	1,013
	10,654
Acquisition costs expensed to profit or loss	849
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	10,654
Less: cash and cash equivalents acquired	(401)
Less: Non-controlling interest	(1,013)
Net cash used	9,240

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

Aagaard Fertilitetsklinik ApS (Aagaard) acquired in the prior financial year

Aagaard did not achieve its full earn-out targets and hence only \$4,152,000 of the contingent consideration of \$4,350,000 was paid during 2018. The balance of \$198,000 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	
		2018 %	2017 %
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	85.00%	70.00%
Xentra Pharm Limited	Ireland	85.00%	70.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	85.00%	70.00%
TAS IVF Pty Limited	Australia	85.00%	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%	100.00%
Complete Fertility Limited	United Kingdom	90.00%	–
Fertilitesklinikken Trianglen Aps	Denmark	100.00%	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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:

Name	Principal place of business/Country of incorporation	Principal activities	Parent		Non-controlling interest	
			Ownership interest 2018 %	Ownership interest 2017 %	Ownership interest 2018 %	Ownership interest 2017 %
Sims Clinic Limited and its controlled entities	Ireland	provision of healthcare services	85.00%	70.00%	15.00%	30.00%
Tas IVF Pty Limited	Australia	provision of healthcare services	85.00%	70.00%	15.00%	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%
Complete Fertility Limited	United Kingdom	provision of healthcare services	90.00%	–	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	
	2018 \$'000	2017 \$'000
<i>Summarised statement of financial position</i>		
Current assets	5,365	5,638
Non-current assets	12,245	11,858
Total assets	17,610	17,496
Current liabilities	4,978	4,182
Non-current liabilities	1,161	1,113
Total liabilities	6,139	5,295
Net assets	11,471	12,201
<i>Summarised statement of comprehensive income</i>		
Revenue	34,991	31,480
Expenses	(29,580)	(26,187)
Profit before income tax expense	5,411	5,293
Income tax expense	(680)	(673)
Profit after income tax expense	4,731	4,620
Other comprehensive income	–	–
Total comprehensive income	4,731	4,620
<i>Statement of cash flows</i>		
Net cash from operating activities	6,498	3,239
Net cash used in investing activities	(293)	(307)
Net cash used in financing activities	(6,345)	(2,972)
Net decrease in cash and cash equivalents	(140)	(40)
<i>Other financial information</i>		
Profit attributable to non-controlling interests	899	1,386
Dividends paid to non-controlling interests	1,212	861
Accumulated non-controlling interests at the end of reporting period	6,207	12,919

Transactions with non-controlling interests

	Consolidated	
	2018 \$'000	2017 \$'000
Dividends paid/payable to non-controlling interest	(1,212)	(861)

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:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2018 %	2017 %
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

	2018 \$'000	2017 \$'000
<i>Summarised statement of financial position</i>		
Current assets	724	766
Non-current assets	906	1,090
Total assets	1,630	1,856
Current liabilities	527	851
Non-current liabilities	20	-
Total liabilities	547	851
Net assets	1,083	1,005
<i>Summarised statement of comprehensive income</i>		
Revenue	3,562	3,523
Expenses	(2,992)	(3,037)
Profit before income tax	570	486
Other comprehensive income	-	-
Total comprehensive income	570	486

The above reflects 50% of the total assets, liabilities and comprehensive income of the associate entities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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'.

	2018 \$'000	2017 \$'000
Statement of comprehensive income		
Revenue	125,439	124,923
Share of profits of associates accounted for using the equity method	570	483
Trust distributions received	22,835	16,924
Other income	2,151	3,886
Fertility specialists, consumables and associated costs	(32,149)	(32,589)
Employee benefits expense	(48,263)	(46,054)
Depreciation and amortisation expense	(7,312)	(6,855)
Occupancy expense	(7,895)	(6,931)
Advertising and marketing	(3,437)	(2,438)
Practice equipment expenses	(942)	(939)
Professional and consulting fees	(949)	(1,137)
Other expenses	(6,240)	(5,700)
Finance costs	(7,218)	(7,321)
Profit before income tax expense	36,590	36,252
Income tax expense	(11,508)	(10,880)
Profit after income tax expense	25,082	25,372
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	306	554
Other comprehensive income for the year, net of tax	306	554
Total comprehensive income for the year	25,388	25,926
	2018 \$'000	2017 \$'000
Equity – retained profits		
Retained profits at the beginning of the financial year	25,327	22,462
Profit after income tax expense	25,082	25,372
Dividends paid	(20,901)	(22,507)
Retained profits at the end of the financial year	29,508	25,327

Statement of financial position	2018 \$'000	2017 \$'000
Current assets		
Cash and cash equivalents	6,189	11,246
Trade and other receivables	18,840	25,237
Income tax refund due	–	327
Other	1,782	1,679
	26,811	38,489
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	221,776	181,090
Property, plant and equipment	22,002	15,874
Intangibles	206,615	207,426
Deferred tax	3,530	2,992
Other	77	76
	455,489	408,947
Total assets	482,300	447,436
Current liabilities		
Trade and other payables	8,776	7,492
Derivative financial instruments	420	527
Income tax	3,058	–
Provisions	2,661	2,429
Other financial liabilities	–	2,764
Other	5,005	4,613
	19,920	17,825
Non-current liabilities		
Borrowings	180,743	153,536
Derivative financial instruments	107	437
Provisions	2,941	2,810
Other financial liabilities	3,695	3,343
	187,486	160,126
Total liabilities	207,406	177,951
Net assets	274,894	269,485
Equity		
Issued capital	242,251	242,001
Reserves	3,135	2,157
Retained profits	29,508	25,327
Total equity	274,894	269,485

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 47. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 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	
	2018	2017
	\$'000	\$'000
Profit after income tax expense for the year	32,009	30,004
Adjustments for:		
Depreciation and amortisation	12,496	12,165
Impairment of goodwill	–	1,870
Share-based payments	881	440
Amortisation of bank facility fees	207	207
Net fair value gain on other financial liabilities	(1,089)	(3,846)
Other non-cash items	(1,029)	205
Net (gain)/loss in disposal of non-current assets	–	10
Interest on other financial liabilities – non-cash interest	981	1,202
Change in operating assets and liabilities:		
Increase in trade and other receivables	(592)	(1,545)
Decrease/(increase) in inventories	6	(119)
Decrease/(increase) in deferred tax assets	(941)	1,762
Increase/(decrease) in trade and other payables	5,043	(3,181)
Increase in provision for income tax	3,756	366
Increase/(decrease) in other provisions	(428)	16
Increase/(decrease) in other operating liabilities	3,667	(850)
Net cash from operating activities	54,967	38,706

Note 49. Changes in liabilities arising from financing activities

Consolidated	Cash/Bank overdraft \$'000	Borrowings \$'000	Total \$'000
Balance at 1 July 2016	22,215	(147,537)	(125,322)
Net cash from financing activities	5,166	-	5,166
Repayment of borrowings	-	5,000	5,000
Proceeds from borrowings	-	(11,000)	(11,000)
Exchange differences	(44)	-	(44)
Balance at 30 June 2017	27,337	(153,537)	(126,200)
Net cash used in financing activities	(6,045)	-	(6,045)
Repayment of borrowings	-	6,000	6,000
Proceeds from borrowings	-	(33,000)	(33,000)
Exchange differences	421	-	421
Balance at 30 June 2018	21,713	(180,537)	(158,824)

Note 50. Earnings per share

	Consolidated	
	2018 \$'000	2017 \$'000
Profit after income tax	32,009	30,004
Non-controlling interest	(1,256)	(1,901)
Profit after income tax attributable to the owners of Virtus Health Limited	30,753	28,103
Add: interest savings on conversion of options	97	89
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	30,850	28,192
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,388,866	80,304,581
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	828,823	567,226
Estimated Issuable shares	-	165,297
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,217,689	81,037,104
	Cents	Cents
Basic earnings per share	38.26	35.00
Diluted earnings per share	37.98	34.79

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 51. 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:

2018

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
01/07/2013	21/01/2024	\$5.68	8,808	-	-	(8,808)	-
01/07/2013	21/01/2024	\$6.40	63,573	-	-	(34,125)	29,448
03/10/2014	03/10/2024	\$8.57	106,536	-	-	(35,507)	71,029
10/11/2014	10/11/2024	\$0.00	55,095	-	-	(55,095)	-
13/05/2015	13/05/2025	\$7.16	3,686	-	-	(929)	2,757
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	175,526	-	-	(87,763)	87,763
21/08/2015	21/08/2025	\$5.67	7,434	-	-	-	7,434
28/10/2015	28/10/2025	\$5.01	16,406	-	(1,444)	(3,471)	11,491
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
24/10/2017	24/10/2027	\$0.00	-	171,199	-	-	171,199
24/10/2017	24/10/2027	\$0.00	-	72,580	-	-	72,580
24/10/2017	24/10/2027	\$0.00	-	116,128	-	-	116,128
24/10/2017	24/10/2027	\$0.00	-	43,548	-	-	43,548
22/11/2017	22/11/2027	\$0.00	-	229,391	-	-	229,391
22/11/2017	22/11/2027	\$0.00	-	136,508	-	-	136,508
			571,425	769,354	(1,444)	(236,933)	1,102,402

2017

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	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

The weighted average exercise price is \$0.99 (2017: \$3.08).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 8.7 years (2017: 7.9 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
24/10/2017	24/10/2027	\$5.52	\$0.00	27.00%	4.33%	2.10%	\$3.79
24/10/2017	24/10/2027	\$5.52	\$0.00	27.00%	4.33%	2.10%	\$3.92
24/10/2017	24/10/2027	\$5.52	\$0.00	27.00%	4.33%	2.10%	\$3.92
24/10/2017	24/10/2027	\$5.52	\$0.00	27.00%	4.33%	2.10%	\$3.92
22/11/2017	22/11/2027	\$5.28	\$0.00	27.00%	4.33%	2.10%	\$3.99
22/11/2017	22/11/2027	\$5.28	\$0.00	27.00%	4.33%	2.10%	\$3.99

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 51. Share-based payments (continued)

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.

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.

DIRECTORS' DECLARATION

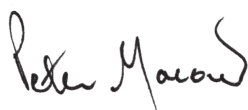
In the directors' opinion:

- 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 2018 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

21 August 2018
Sydney

INDEPENDENT AUDITOR'S REPORT

to the members of Virtus Health Limited



Independent auditor's report

to the members 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 2018 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 consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 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.



Materiality

- For the purpose of our audit we applied an overall Group materiality of \$2.2 million which represents approximately 5% of the Group's 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 members 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.

Audit scope

- Our audit focused on:
 - subjective judgements made by the Group; and
 - significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises businesses in New South Wales, Queensland, Victoria, Tasmania, Denmark, United Kingdom, Ireland and Singapore, with the most financially significant operations being those in Australia and Ireland. Accordingly we structured our audit as follows:
 - The Group audit was led by our team from the Australian PwC firm ("Group audit team"). The Group audit team conducted an audit of the special purpose financial information of selected Australian businesses used to prepare the consolidated financial statements.
 - The Component auditor in Ireland, under instructions from the Group audit team, performed an audit of the special purpose financial information for Virtus Health Ireland used to prepare the consolidated financial statements.
 - The Group audit team decided on their level of involvement needed in the work performed by the component auditor, to be satisfied that sufficient appropriate evidence had been obtained for the purpose of our opinion. Review of the work undertaken by the component team and regular dialogue between the

INDEPENDENT AUDITOR'S REPORT

to the members of Virtus Health Limited



teams up to the reporting date supplemented the specific direct written instruction provided by PwC Australia and augmented the reporting provided by the component auditor.

- The Group audit team undertook the remaining audit procedures, including over significant financial statement items controlled at the Group level, the Group consolidation and the audit of the financial report and remuneration report.
- The combination of all these procedures provided us with sufficient and appropriate audit evidence to express an opinion on the Group's financial report as a whole.

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. 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. We communicated the key audit matters to the Audit Committee.

Key audit matter

How our audit addressed the key audit matter

Estimated recoverable amount of goodwill assets (Refer to notes 2 and 15)

Goodwill of \$453 million is recognised on the consolidated statement of financial position.

Under Australian Accounting Standards, the Group is required to test the goodwill annually for impairment, irrespective of whether there are indicators of impairment. This assessment is inherently complex and judgemental. It requires judgement by the Group in forecasting the operational cash flows of its cash generating units, and determining discount rates and terminal value growth rates to be used in the discounted cash flow models used to assess impairment (the models).

The recoverable amount of goodwill was a key audit matter given the:

- financial significance of the intangible assets to the consolidated statement of financial position; and
- judgement applied by the Group in completing the impairment assessment.

We focused our efforts on developing an understanding and testing the overall calculation and methodology of the Group's impairment assessment, including identification of the cash generating units of the Group for the purposes of impairment testing, and the attribution of net assets, revenues and costs to those units.

In obtaining sufficient audit evidence, our procedures included, amongst others:

- assessing the cash flow forecasts included in the models with reference to actual historical earnings;
- testing the mathematical calculations within the models;
- assessing the terminal value growth rates and discount rates applied in the models by comparing to external information sources;
- performing sensitivity analyses over the key assumptions used in the models; and
- assessing the related financial statement disclosures for consistency with Australian Accounting Standards requirements.



Key audit matter

Accounting for financial liabilities relating to put options (Refer to notes 2, 6, 28 and 36)

Financial liabilities of \$12.2m in respect of the put option arrangements exercisable in 2019 relating to the acquisitions of the SIMS Clinic Limited and TasIVF Pty Ltd are recognised on the consolidated statement of financial position.

The financial liabilities are based upon a multiple of earnings before interest, tax, depreciation and amortisation.

The Group's re-assessment of the fair value of the put options reduced the associated liabilities by \$0.9 million and resulted in a fair value gain of \$0.9 million being recognised in other income.

The accounting for these financial liabilities was assessed as a key audit matter given:

- the financial significance of the liability to the statement of financial position; and
- the judgement applied by the Group in assessing the assumptions deriving the liabilities.

How our audit addressed the key audit matter

Our procedures included evaluating the analysis conducted by the Group for judgements made in respect of the ultimate amounts expected to be paid in respect of the put option arrangements.

In obtaining sufficient audit evidence, our procedures included, amongst others:

- reading the agreed underlying terms of the option arrangements and checking that the basis and composition of the liabilities recognised was consistent with the accounting principles applied to derive the liabilities;
- assessing the liability valuation models and the process by which they were developed;
- compared current year trading performance to the forecasted performance of the businesses;
- tested the mathematical accuracy of the calculations;
- agreed amounts settled in the period to bank statements; and
- assessing the appropriateness of the Group's disclosure in the financial report in light of the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report, the Chairman's Statement, the Chief Executive's Overview, the Corporate Governance Statement and the Corporate directory. We expect the remaining 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Virtus Health Limited



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/ari.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 23 to 44 of the Directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Virtus Health Limited, for the year ended 30 June 2018 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.

A large, stylized cursive signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A cursive signature of 'Mark Dow' in black ink.

Mark Dow
Partner

Sydney
21 August 2018

SHAREHOLDER INFORMATION

for the year ended 30 June 2018

The shareholder information set out below was applicable as at 14 September 2018.

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	70	55,996,278	69.7
10,001 to 100,000	306	7,939,792	9.9
5,001 to 10,000	680	5,078,918	6.3
1,001 to 5,000	3,698	9,126,271	11.3
1 to 1,000	4,388	2,248,679	2.8
Total	9,142	80,389,938	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	2	276,570	25.1
10,001 to 100,000	32	758,851	68.8
5,001 to 10,000	4	27,353	2.5
1,001 to 5,000	12	35,278	3.2
1 to 1,000	7	4,350	0.4
Total	57	1,102,402	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	Merlon Capital Partners	4,681,339	5.8
2	Dimensional Fund Advisors	3,577,415	4.5
3	Montgomery Investment Mgt	3,314,612	4.1
4	NovaPort Capital	3,182,612	4.0
5	Auscap Asset Mgt	2,635,000	3.3
6	BlackRock Investment Mgt - Index	2,051,404	2.6
7	Vinva Investment Mgt	2,007,143	2.5
8	Norges Bank Investment Mgt	1,903,935	2.4
9	Selector Funds Mgt	1,562,219	1.9
10	Acadian Asset Mgt (Australia)	1,546,753	1.9
11	Realindex Investments	1,410,744	1.8
12	Vanguard Group	1,332,867	1.7
13	Vanguard Investments Australia	1,201,102	1.5
14	JPMorgan Securities Australia	1,042,807	1.3
15	Allan Gray Investment Mgt	893,616	1.1
16	Mr Lyndon G Hale	823,694	1.0
17	Omega Global Investors	802,151	1.0
18	Segall Bryant Hamill Investment Counsel	696,919	0.9
19	Mr Francis Quinn	684,663	0.9
20	Arrowstreet Capital	650,557	0.8
	Total	36,001,552	44.8

SHAREHOLDER INFORMATION

for the year ended 30 June 2018

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 14 September 2018:

	Number of Ordinary Fully Paid Shares	% of Issued Capital
Merlon Capital Partners	4,681,339	5.8

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.

8,359,571 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 21 August 2018 and can be found at www.virtushealth.com.au/corporategovernance

GLOSSARY OF TERMS

Term	Meaning
AH (Assisted Hatching)	The procedure in which the outer layer of the embryo (called the zona) is thinned by a laser to help the embryo implant more easily.
Andrology	Andrology is a sub-specialty in urology that is devoted to problems concerning the male reproductive system, male urology and male infertility.
Assisted Reproductive Services / Assisted Reproductive Technology (ART)	A collective term for fertility treatments. Treatments that involve the application of laboratory or clinical techniques to gametes and/or embryos for the purpose of reproduction. Common treatments include IVF Cycles, frozen embryo transfers, cryostorage of frozen embryos and intra-uterine insemination.
Blastocyst	The term for an embryo five days after fertilisation which has now developed a special shape with different parts identifiable and a fluid-filled cavity.
Cytogenetics	Cytogenetics is a branch of genetics that focuses on the microscopic analysis of chromosomes in individual cells.
Donor insemination	The use of sperm from a male donor in order to achieve a pregnancy.
Egg collection	The stage of an IVF treatment cycle where the woman's eggs are collected under vaginal ultrasound.
Embryo	Once the egg has joined with the sperm it is called an embryo.
Embryo Transfer (ET)	The stage of an IVF treatment cycle where the embryo is transferred back to the woman's uterus via a fine catheter.
EMSN	The Australian Government's Extended Medicare Safety Net.
Endocrinology	Endocrinology is a branch of biology and medicine dealing with the endocrine system, its diseases, and hormones, including hormones that relate to the reproductive system.
hCG	The hormone that is produced by the embryo and is measured in a pregnancy test. Injections of hCG can be used to trigger maturation of the egg followed by ovulation. Injections of hCG may also be used to maintain hormone levels in the second half (luteal phase) of the cycle.
ICSI (Intracytoplasmic Sperm Injection)	The fertility technique where a single sperm is selected and directly injected into an egg. High Magnification ICSI uses extremely high magnification to help sperm selection for specific patients.
Implantation	The embedding of the embryo in the lining of the uterus 6-7 days after fertilisation.
Intra-uterine Insemination (IUI)	Treatment that involves inserting the partner's concentrated semen through the neck of the womb into the uterus itself close to the time of ovulation.
IVF (In Vitro Fertilisation)	The procedure, by which an egg and sperm are joined together outside the body, in a specialised laboratory. The fertilised egg (embryo) is allowed to grow in a protected environment for some days before being placed back (transferred) into the uterus.
MBS	The Commonwealth Government's Medicare Benefits Schedule.
Medicare Levy Surcharge	Levy on payers of Australian tax who do not have private health insurance with hospital cover and who earn above a certain income.

GLOSSARY OF TERMS

Term	Meaning
National Association of Testing Authorities (NATA)	Authority responsible for accreditation of laboratories, inspection bodies, calibration services, producers of certified reference materials and proficiency testing scheme providers throughout Australia.
NIPT	Non-Invasive Prenatal Testing (NIPT), available for women who are at least 9 weeks pregnant, analyses the baby's DNA within the mother's blood sample for certain chromosome conditions that could affect the baby's health.
Oocyte	The fully mature egg produced from the ovary each month.
OPU	Oocyte Pick Up
Ovarian Hyperstimulation Syndrome (OHSS)	A condition where women over-respond to the fertility drugs and can develop severe fluid retention and abdominal swelling.
Pre-implantation Genetic Diagnosis (PGD/PGT)	Testing the genetic makeup of the embryo before it is transferred back into the woman.
Pre-implantation Genetic Screening (PGS)	Screening all 24 chromosomes in a developing embryo prior to implantation in an IVF cycle.

CORPORATE DIRECTORY

Directors

Peter Macourt – Chairman
Susan Channon
Lyndon Hale
Peter Turner
Sonia Petering
Greg Couttas

Company secretary

Glenn Powers

Notice of annual general meeting

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

Wednesday, 21 November 2018
at the Hilton Hotel Sydney at 2pm
488 George Street
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

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
NSW 2000

Solicitors

Minter Ellison
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Bankers

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,
United States of America

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

HSBC Bank
Level 36, Tower 1,
International Towers
100 Barangaroo Avenue,
Sydney NSW 2000

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

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 21 August 2018 and can be found at <http://virtushealth.com.au/about-us/corporate-governance>

