ANNUAL REPORT 2019

ABN 80 129 643 492

virtus HEALTH

CONTENTS

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.

127
FERTILITY SPECIALISTS

20,300
FRESH IVF CYCLES

242
SCIENTISTS

1,046
NURSE, COUNSELLOR AND PATIENT SUPPORT

43
FERTILITY CLINICS

7
DAY HOSPITALS

General information

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

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 August 2019. The directors have the power to amend and reissue the financial statements.

> Management is focused on maximizing return from operational changes being implemented in Australia, business development in our European clinics and the delivery of greater synergies across our six European sites.

CHAIRMAN'S STATEMENT

The results for the financial year ended 30 June 2019 reflect a challenging year in several individual operations.

Group revenue increased 6.1% to $280.1 million. Revenue growth was flat in Australia, impacted by price pressure in a competitive Australian market and a decline in our genetic screening revenue following a change in internal clinical practice. The performance of our Alexandria and Hobart operations were both disrupted in the first half by their relocations to new facilities.

International revenue increased by 25.2% supported by a first year contribution from our new Danish clinic, Trianglen and continued growth in Singapore. However, the performance of Aagaard Fertility Clinic, Denmark and Complete Fertility Centre, UK were below expectations, with Aagaard suffering a decline in revenue as doctor resource issues took longer than expected to resolve. These issues have been addressed by management and we will have a stronger complement of specialists by November 2019.

For the year ended 30 June 2019, the Directors announce a final dividend of 12.0 cents per share fully franked and this results in a full year dividend payout of 24.0 cents per share fully franked; this is a decrease of two cents per year on the prior year reflecting reduced earnings.

Management is focused on maximizing return from operational changes being implemented in Australia, business development in our European clinics and the delivery of greater synergies across our six European sites. The Board continues to work closely with management to identify international development opportunities.

Cycle volume in Virtus Australian clinics increased 1.5% over pcp against comparable market growth of 4.9%. Growth in demand for lower priced services continues to increase and Virtus Health lower priced services through our TFC branded clinics increased by over 25% over the pcp. Growth in premium service activities declined by 2.6% but overall we maintained our aggregate EBITDA in our fertility operations in New South Wales, Victoria and Queensland.

The Board recognise that the Australian ARS market continues to evolve and we have maintained our focus 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.

An exciting illustration of our commitment to improving patient outcomes is the development of the Artificial Intelligence software, "Ivy". In April 2019, we were pleased to announce the collaboration and further development of this activity with our technology partners, Vitrolife based in Sweden, the manufacturer of EmbryoScope time-lapse incubators and Harrison.AI, an Australian technology company specialising in AI in healthcare.

The relocations in Alexandria and Hobart, which provide long-term capacity and capability improvements to Virtus, affected our profits in FY2019 although management is focused on business development in each location in the new financial year.

Changes to federal and territory legislation are an important feature of the future landscape for ARS across the world. In Australia the Federal Health department published its review of the Medicare Benefits Schedule; to date there have been no announcements regarding the ARS sector.

In Europe, changes to donor services, identified last year, are still expected in Ireland and our European management team continue to assess the opportunities to expand our donor services in our chosen territories.

At Board level, we welcomed Shane Solomon as an independent non-executive Director in October 2018. Shane adds to the depth of healthcare operating experience on our Board. I also wish to announce that, after six years as Chairman, I will be stepping down from the Board at the Annual General Meeting in November. I would like to thank Board members for their diligence and support during my time as Chairman. An independent recruitment firm conducted a process with the remaining independent Directors who unanimously nominated Sonia Petering as Chair elect commencing from 20 November 2019.

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 our continued success.

Peter Macourt

PETER MACOURT
Chairman

> The Australian ARS market continues to evolve and we have maintained our focus on service delivery to support patients across a range of social and economic demographics.

> Virtus' diversified and vertically integrated platform and our recent investment in infrastructure reaffirms our strong position to capture volume in our ARS markets and associated services of day hospitals and diagnostics in FY20 and beyond.

CHIEF EXECUTIVE'S OVERVIEW

We see a future where everyone in the community has access to the opportunity to create a family. Our ambition is to be the most valued and leading provider of ARS based on extraordinary patient care and clinical and scientific leadership.

Results

Performance throughout FY19 is indicative of changing market conditions and Virtus Health's significant investment across our three pillars of fertility, diagnostics and day hospitals to ensure we remain the market-leading Assisted Reproductive Services (ARS) provider in Australia and continue to increase our presence globally.

Identifying opportunities to enable future growth, in FY19 we set the foundation for evolving patient services, improving productivity and, ultimately, advancing revenue through the implementation of a number of strategic activities and infrastructure projects. Whilst these investments had an impact on overall financial performance in FY19, we are confident the groundwork laid will facilitate business development opportunities and growth through our competitive service offerings in FY20.

Virtus Health teams completed 20,300 fresh IVF cycles in FY19, 37,864 treatments, 32,827 day hospital procedures and more than 200,000 diagnostic referrals.

Growth initiatives

Throughout FY19 we implemented key strategic initiatives to support future growth across international and domestic ARS markets as well as specialised diagnostics and day hospitals in Australia.

We continue to focus on providing a range of services across the ARS value chain from consultation to diagnostics, low cost and full service fertility treatment through to high-end genetics and we are the only ARS organisation in Australia that is delivering this comprehensive fertility care for patients.

We also continue to evolve our clinical approach and service 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 market segments. While our targeted response to low cost competition in Australia resulted in overall volume growth, margins were impacted.

Revenue diversification through international expansion continues with the full year contribution from Trianglen in Denmark and Complete Fertility in Southampton, UK taking overall revenue contribution from international activities to 21%.

Our two biggest infrastructure projects were commissioned in FY19. Alexandria Specialist Day Hospital commenced operation after the relocation of IVF Australia's eastern suburbs facilities were completed in August 2018 and whilst the impact on EBITDA from the relocation costs and a slowdown in non-IVF activities is evident in FY19, we expect to see the results of our business development activities, including the recruitment of additional surgeons, deliver revenue growth in FY20.

Our second development, Hobart Specialist Day Hospital, commenced operation in late 2018 and achieved full accreditation in February 2019. This purpose-built facility was developed to better cater to the needs of patients and has cemented our competitive position in Tasmania.

In FY19 Virtus Diagnostics undertook the relocation of its main pathology lab to new premises in the medical precinct of Revesby, introducing a full suite of state-of-the-art diagnostic equipment and an expanded testing capacity.

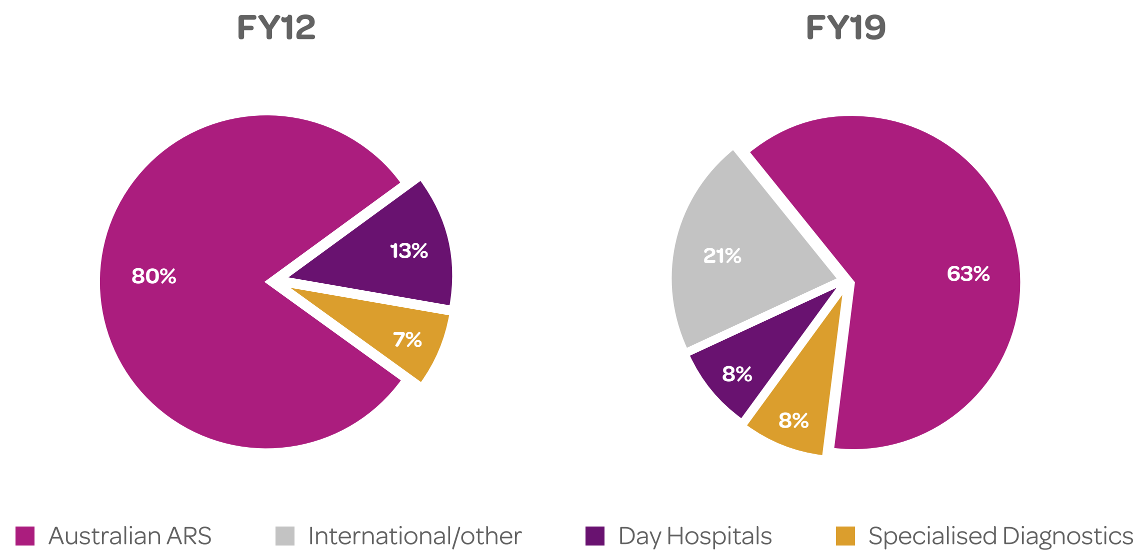
Virtus' diversified and vertically integrated platform and our recent investment in infrastructure reaffirms our strong position to capture volume in our ARS markets and associated services of day hospitals and diagnostics in FY20 and beyond.

Leading minds

The Virtus network has remained stable in FY19 with 127 fertility specialists (103 in Australia) supported by over 1300 professional staff including scientists, nurses, researchers and administrators all with the ultimate goal of providing the highest standards of clinical care and patient outcomes.

The average age of our fertility specialists is 52 and has remained relatively stable over FY19. 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.

Multiple Sources of Revenue



Leading science

The Virtus-developed "Ivy" Artificial Intelligence (AI) system continued to build momentum in FY19 gaining international medical and scientific community interest with publication in Human Reproduction, the prestigious ARS international journal. In April 2019, Virtus entered into transfer and collaboration agreements for the "Ivy" software with Swedish company, Vitrolife, the manufacturer of EmbryoScope time-lapse incubators and Harrison.AI, an Australian technology company specialising in AI in healthcare.

"Ivy" analyses the growth of embryos continuously over a five-day period and uses millions of data points from time-lapse imaging to predict the likelihood of an individual IVF embryo leading to a viable pregnancy.

The AI technology supports elective single embryo transfer and is anticipated to shorten the time to pregnancy by ranking the most viable embryos for selection and transfer. The collaboration agreements build on existing scientific and commercial relationships and will focus on further innovation in the field of assisted reproductive services.

The "One Lab" strategy under the leadership of Professor David Gardner has continued to develop, setting new benchmarks, pursuing process improvements and driving efficiency and consistency across our laboratories.

Research continues to remain a key focus for Virtus and we aim to enhance our scientific and clinical research activities with an annual R&D investment of approximately $2.2 million. Throughout FY19 support continued for a number of specific research projects and PhD Scholarships within Virtus.

Leading care

We remain focused on service delivery of the highest standard across our fertility, day hospital and diagnostics businesses and are committed to supporting our doctors and specialist teams in their delivery of patient care.

In FY18 we appointed an HR advisor to develop the Virtus "people plan" with the aim of ensuring both our management teams and frontline staff have the opportunity to develop their careers within Virtus Health. Throughout FY19, we began implementation of the "people plan" which will continue into FY20 ensuring Virtus is an employer of choice within the ARS sector, renowned for professional staff creating exceptional patient experiences.

With the aim of ensuring a positive risk culture across the organisation, Virtus management teams continue to utilise our electronic platform RiskMan to enable greater awareness of the risks within our workplaces, analyse incidents and encourage open conversations to continually improve the safety and efficacy of all of our programs of care.

Our patient satisfaction survey which measures our Net Promoter Score (NPS) has delivered promising results in FY19 with our overall NPS score lifting to 52, up from 42.8 in FY18.

> "Our focus on the evolution of our service models combined with our significant investment in science and technologies ensures we remain relevant to the markets in which we operate and can deliver the highest quality of care across the full range of reproductive and fertility issues."

Looking forward

Infertility affects 1 in 6 couples of reproductive age world-wide and demand for Assisted Reproductive Services continues to increase.

Virtus Health has a focused strategy to deliver earnings growth in the face of a restructuring market. The key aspects of our strategy are;

In Australia we will;

- Defend and build services and growth in our Premium business;
- Grow our low price services;
- Grow non IVF day hospital revenue; and
- Grow diagnostic revenue.

In our International markets we will;

- Target organic revenue growth in our current international markets; and
- Consider acquisition in selected international territories.

Margin enhancement will be targeted in all current locations. Our "One Lab" project and ICT projects are key components of our strategy driving improved patient satisfaction through process improvement and efficiency.

Our focus on the evolution of our service models combined with our significant investment in science and technologies ensures we remain relevant to the markets in which we operate and can deliver the highest quality of care across the full range of reproductive and fertility issues.

As the leading ARS organisation in Australia and Ireland with a growing presence in Europe we are well-positioned to continue to attract the very best clinical and scientific teams to meet the growing needs of the patients we treat.

We expect our focus on harmonisation and process improvement across our three key pillars of fertility, diagnostics and day hospitals to support our future growth, create additional capacity and ensure patients across the world have access to the best treatment and facilities to support their fertility journey.

I extend my gratitude to the Virtus Board, the Executive team and all of our doctors and staff around the world for their support and ongoing commitment to the organisation and, importantly, the needs of our patients. Thank you for your continued effort and contribution to the Virtus culture of excellence.

SUE CHANNON
Group CEO

PIONEERING
ARTIFICIAL INTELLIGENCE IN IVF

"The Virtus-developed "Ivy" Artificial Intelligence system has gained significant ground at an international level with a team of leading minds driving the powerful technology forward."

Dr Aengus Tran of Harrison.AI, Dr Simon Cooke, Scientific Director of IVFAustralia, A/Prof Peter Illingworth, Medical Director of IVFAustralia and Professor David Gardner, Group Director of ART at Virtus Health led the continued development of Ivy in FY19.

With the ability to more accurately and objectively predict the best embryo to select for transfer based on the presence of a fetal heart, early findings of Ivy were published in *Human Reproduction* in May 2019; the world's leading peer-reviewed journal in reproductive medicine.

Gaining approval from the Therapeutic Goods Administration (TGA), the framework of a Randomized Controlled Trial (RCT) has been approved to further investigate whether embryo selection using Ivy can lead to a higher clinical pregnancy rate after transfer of the first embryo compared to when selection is performed by an embryologist using the standard published criteria.

Virtus Health, together with Harrison.AI, also announced a partnership in FY19 with Swedish company Vitrolife, the world's leader in time-lapse incubation systems, to further refine the pioneering system.

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 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

GREG COUTTAS

Non-Executive Director

BCom.; FCA; MAICD

Greg spent 40 years with Deloitte including 28 years as partner. In his years at Deloitte he worked in audit across various sectors, specialising in ASX100 clients. Greg's expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence.

Additionally, Greg held a number of management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008, chairing the Audit and Risk Committee for eleven years, and was a member of the Board of Partners for Deloitte Australia from 2005 to 2016. Greg is also a director of Sydney Water Corporation, Hireup Pty Limited and a member of the Governance Board of The Salvation Army Australia Territory.

Other current directorships:
None

Former directorships (last 3 years):
None

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

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

SONIA PETERING

Non-Executive Director

LLB; BComm; FAICD

Sonia has more than 15 years experience in non executive director and chair roles with listed and unlisted companies and government authorities across financial services, payments, insurance, professional services and healthcare. Sonia is an experienced commercial lawyer who commenced her legal practice in 2001. She holds a current Victorian legal practicing certificate. Sonia previously served as a non executive director on the boards of Transport Accident Commission of Victoria and Rural Finance Corporation of Victoria and as Chair of the Board of Rural Finance Corporation from 2009 - 2016. Sonia is also a non executive director of TAL Dai - ichi Australia Ltd, Qantm IP (ASX:QIP) and Cuscal Ltd.

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.

SHANE SOLOMON

Non-Executive Director

BSW, MA (Public policy), Adjunct Professor UTS Business School

Shane is a highly experienced healthcare professional having worked in numerous Executive and Board roles across the public and private health sector over the past 34 years. Shane brings extensive health policy and a strong understanding of operational and clinical governance gained from his roles in the Victorian public health system including the role of Undersecretary for Health, and Chief Executive of the Hong Kong Hospital Authority. Returning to Australia in 2010, Shane became a Partner at KPMG Australia, leading the National Health practice and in 2013, he became founder and Managing Director of Telstra's eHealth business, Telstra Health. Shane was appointed in 2011 by the Commonwealth Government to be Chairman of the Independent Hospital Pricing Authority. He maintains this role and is on the Board of Silver Chain, one of the largest community based health care service providers in Australia. Shane also chairs the SA Health EMR Project Board.

Other current directorships:
None

Former directorships (last 3 years):
None

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

BUILDING THE FUTURE
OF VIRTUS DIAGNOSTICS

“In FY19 the Virtus Diagnostics team launched key strategic initiatives to underpin the growth of the business.”

The relocation of the Virtus Diagnostics pathology lab from Hurstville to Revesby was completed in April 2019 and delivered facilities, equipment and capacity to achieve the goal of expanding operations both in general pathology services and complex genetic testing.

To support the growth of the genetics division, a key appointment for the Diagnostics team in FY19 was the introduction of Professor David Coman to the role of Clinical Supervisor, Genetics. The world of genetics is rapidly evolving and, as a highly respected leader in this field of medical science, Professor Coman’s expertise will be invaluable to Virtus staff and clinicians.

Additional pathology specialists were also appointed in FY19 in response to new supervisory requirements of the National Pathology Accreditation Advisory Council (NPAAC) regulations.

Setting the framework of the future, the Virtus Diagnostics team is well positioned to grow both its operations and service offering to patients in FY20.

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 2019.

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 (resigned on 21 November 2018)
Sonia Petering
Greg Couttas
Shane Solomon (appointed on 24 September 2018)

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 2019 $'000	Consolidated 2018 $'000
Interim ordinary dividend for the year ended 30 June 2019 of 12.0 cents (2018: 14.0 cents) per fully paid ordinary share paid in April 2019	9,647	11,255
Final ordinary dividend for the year ended 30 June 2018 of 12.0 cents (2017: 12.0 cents) per fully paid ordinary share paid in October 2018	9,647	9,646
	19,294	20,901

A final dividend of 12.00 cents per share, fully franked, will be paid on 25 October 2019 to the shareholders on the register at

4 October 2019.

Recognition and measurement

Dividends are recognised when declared during the financial year.

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $28,426,000 (30 June 2018: $30,753,000).

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

	Consolidated 2019 $'000	Consolidated 2018 $'000
Segment EBITDA	71,146	76,018
Transfer of Intellectual Property (IP)	4,110	-
Share-based payment expense	(1,161)	(881)
Other non-trading expenses	(13,045)	(11,199)
Fair value adjustment to put liabilities and contingent consideration	8,261	1,089
Impairment of goodwill	(5,800)	-
EBITDA (reported)	63,511	65,027
Depreciation and amortisation	(13,628)	(12,496)
EBIT	49,883	52,531
Interest	(7,682)	(6,479)
Interest on other financial liabilities - non-cash interest	(1,464)	(981)
Amortisation of bank facility fee	(563)	(207)
Profit before income tax from continuing activities	40,174	44,864

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 6.1% to $280.1m;
- Group EBITDA decreased by 2.3% to $63.5m (Group EBITDA for FY19 includes $4.1m profit on sale of Virtus' IP in relation to its Artificial Intelligence software "Ivy");
- Segment EBITDA decreased by 6.4% to $71.1m;
- Australian segment EBITDA decreased by 8.6% to $61.1m;
- International segment EBITDA increased by 9.3% to $10.1m;
- Net profit after tax ("NPAT") attributable to equity holders decreased by 7.6% to $28.4m; and
- Successful refinancing of existing debt facilities (refer to note 15 for details).

Operating overview

Australia

Australian fresh cycle activity grew by 4.9% in the markets in which Virtus participates. Volume growth summary by state is as follows:

- NSW up by 2.6%, Virtus down by 1.6%;
- VIC up by 8.4%, Virtus up by 5.9%;
- QLD up by 5.0%, Virtus up by 0.4%; and
- TAS down by 2.7%, Virtus up by 8.2%

Virtus fresh cycle activity in Australia in FY19 grew by 1.5%. Key aspects of the volume movement compared to pcp were as follows:

- Premium service volumes reduced by 2.6%; and
- TFC volumes increased by 25.6% the bulk of which arose in VIC through targeted initiatives to drive volume growth.

Overall, EBITDA in the Australian segment decreased by 8.6% to $61.1m from pcp with three main factors contributing to this:

Revenue Mix Change – ($2.2m)

- $1.7m related to TasIVF arising from a change in revenue mix from premium to more low cost and bulk bill cycles. Whilst this was part of a targeted effort to recover market share from competitors, it significantly affected revenue per cycle;
- $0.5m related to premium volume softness in key states of NSW and VIC which was partially offset by an increase in premium volumes in QLD and strong growth in TFC activity.

Diagnostics – ($2.3m)

- $1.3m related to decreases in genetic testing utilisation driven by a change in clinical practice and softer cycle revenue as a result of lower IVF activity in the key states of NSW and VIC; and
- $1.0m due to increase in supervision costs as a result of new regulatory requirements and the appointment of an additional pathologist.

Relocation Projects - ($1.5m)

- $0.9m impact on EBITDA from the relocation costs and disruption to non-IVF activities related to the move to new facilities in Alexandria (NSW). There were delays in the commissioning of the facility which subsequently affected business development opportunities and recruitment of additional surgeons; and
- $0.4m related to Hobart (Tasmania) as a result of delayed accreditation, additional labour costs and delays in commencement of non-IVF procedures;
- Balance of $0.2m related to softness in the remaining Day Hospitals in NSW due to lower IVF activity.

International

Volumes in Ireland decreased slightly by 1.3% from pcp but revenue was up by $1.4m due to an increase in frozen cycles. EBITDA however reduced by $0.5m primarily related to bad debt write offs and restructuring expenses.

Volumes in Singapore increased by 2.7% and EBITDA increased by $0.2m over pcp.

The Danish clinics delivered mixed results contributing to a net increase of $1.2m to EBITDA. Trianglen, acquired in June 2018 exceeded expectations and produced a strong EBITDA result. This was however partially offset by Aagaard which suffered short term clinical resource issues and this resulted in volume reductions of 23.2% compared to the prior year.

In the UK, Complete Fertility achieved a positive EBITDA although below expectations. We completed a planned refurbishment of clinic facilities, which took longer than expected and caused some disruption to operations in the first quarter. Additionally donor cycle activity was lower than anticipated due to a shortage of donor gametes.

Overall, EBITDA in the International segment increased by 9.3% to $10.1m.

Operating expenses (OPEX)

Group OPEX increase was approximately $15.2m, including $5.5m related to additional OPEX from acquisitions. The net increase of $9.7m after adjusting for acquisitions comprised the following major movements.

- Employment costs (adjusted for acquisition related increase of $4.2m) increased by $5.8m against pcp and included:
- $0.5m increase in remuneration/recruitment costs associated with the appointment of a Group Chief Information Officer and a strategic HR role
- $1.2m relating to cessation of capitalization of IT personnel costs on completion of the Australian patient management software rollout. These resources now support the ongoing maintenance and improvement of our technology platform. This activity is also focused on business process improvement across all activities;
- $1.0m relates to hiring of an additional pathologist and supervisors in our Diagnostics business to satisfy new compliance requirements
- $0.6m in termination costs across the group; and
- Balance relates to wage inflation and EBA increases across the group.
- Occupancy expenses (adjusted for acquisition related increase of $0.4m) were also up $1.9m and included increased rental costs of the two major facility upgrades at Alexandria and Hobart of $1.5m. Approximately $0.3m of the overall increase is non-recurring as the previous sites are now vacated

Debt and interest expense

The increase in interest expense over the prior period relates to the additional drawdown of $30m on 30 June 2018 for the acquisition of Fertilitesklinikk Trianglen Aps ("Trianglen") based in Copenhagen, Denmark.

At 30 June 2019, total facilities drawn were $175m in borrowings and $5.0m in guarantees. Unused and available facilities amounted to $82.4m. Following a refinancing of our debt facility during the H1 FY19, $92m of the credit facility expires in September 2021, whilst the remaining $170m expires in September 2023. Cash balances at 30 June 2019 were $18.8m.

The company continued to comply with the financial covenants of its facility agreement. A voluntary debt repayment of $7.5m was made in June 2019.

Other financial liabilities ($17.2m)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold put options established at the time of acquisition. 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 FY19 of $1.1m (FY18: $0.9m). The consolidated entity has reviewed the underlying liabilities and (recognising the actual EBITDA expectations for each of these businesses) has reduced the aggregate fair value of the financial liabilities by $4.5m to $8.6m.

This liability has also been classified as a current liability at 30 June 2019 as both put options are expected to be exercised within the next 12 months.

The remaining $8.6m of the balance of other financial liabilities relates to contingent consideration ($5.7m) and a vendor loan note ($2.9m) in relation to the acquisition of Trianglen. Based on the most recent forecast trading outlook, the consolidated entity reduced the estimated liability for the contingent consideration by $3.8m to $5.7m at 30 June 2019. (See Note 18 and 19 for details).

Impairment of Goodwill

Virtus undertakes impairment testing on the carrying value of goodwill on an annual basis, or more frequently if there is a trigger of impairment. Virtus reviewed the assumptions relating to the valuation of the goodwill relating to the acquisition of TasIVF to reflect changes in the competitive landscape and recent delays in business development in relation to its newly commissioned Day Hospital facilities. Based on the review, a goodwill impairment charge of $5,800,000 has been recognised for TasIVF. Further details and sensitivities are provided in Note 11 of the financial report.

Amortisation of borrowing costs

Amortisation of borrowing cost expense for FY19 was $563,000, (FY18: $207,000). The increase reflects the write off of residual borrowing costs on the previous borrowing facility that was refinanced in September 2018 (refer to note 16 for details of refinance).

Taxation

The effective tax rate on operating earnings for FY19 was 27.8% (FY18: 28.8%).

Earnings per share

Basic earnings per share decreased by 7.6% to 35.37 cents per share (FY18: 38.26 cents per share). Diluted earnings per share decreased by 7.9% to 34.97 cents per share (FY18: 37.98 cents per share).

Dividend

A final dividend of 12.00 cents per share fully franked (2018:12.00 cents per share) will be paid on 25 October 2019 to shareholders on the register at 4 October 2019.

Outlook

The Board recognises that although general economic conditions have been less than favourable in certain markets, in the last twelve months growth opportunities exist for all Virtus business activities. Relocation and restructure activities in Sydney, Tasmania and the UK have disrupted the financial performance of the business in FY19 and management are focused on business development activities to improve shareholder returns in FY20.

Significant changes in the state of affairs

There were no 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 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

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

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

Business sustainability risks

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

Change in Commonwealth Government funding/increasing patient out of pocket expenses

Australian 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'). A review of the MBS has been undertaken by the Federal Health department and, to date, no changes to the MBS have been proposed.

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.

DIRECTORS' REPORT (continued)

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/investor-centre/corporate-governance).

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:	132,183 options over ordinary shares

Name:	**Greg Couttas**
Title:	Non-Executive Director
Qualifications	B Com.; FCA; MAICD
Experience and expertise:	Greg spent 40 years with Deloitte including 28 years as partner. In his years at Deloitte he worked in audit across various sectors, specialising in ASX100 clients. Greg's expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Additionally, Greg held a number of management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008, chairing the Audit and Risk Committee for eleven years, and was a member of the Board of Partners for Deloitte Australia from 2005 to 2016. Greg is also a director of Sydney Water Corporation, Hireup Pty Limited and a member of the Governance Board of The Salvation Army Australia Territory.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit Committee and a member of the Risk and the Nomination and Remuneration Committees
Interests in shares:	5,000 ordinary shares
Interests in options:	None

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

Name:	**Sonia Petering**
Title:	Non-Executive Director
Qualifications	LLB; BComm; FAICD
Experience and expertise:	Sonia has more than 15 years experience in non executive director and chair roles with listed and unlisted companies and government authorities across financial services, payments, insurance, professional services and healthcare. Sonia is an experienced commercial lawyer who commenced her legal practice in 2001. She holds a current Victorian legal practicing certificate. Sonia previously served as a non executive director on the boards of Transport Accident Commission of Victoria and Rural Finance Corporation of Victoria and as Chair of the Board of Rural Finance Corporation from 2009 - 2016. Sonia is also a non executive director of TAL Dai - ichi Australia Ltd, Qantm IP (ASX:QIP) and Cuscal Ltd
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

Name:	**Shane Solomon**
Title:	Non-Executive Director
Qualifications	BSW, MA (Public policy), Adjunct Professor UTS Business School
Experience and expertise:	Shane is a highly experienced healthcare professional having worked in numerous Executive and Board roles across the public and private health sector over the past 34 years. Shane brings extensive health policy and a strong understanding of operational and clinical governance gained from his roles in the Victorian public health system including the role of Undersecretary for Health, and Chief Executive of the Hong Kong Hospital Authority. Returning to Australia in 2010, Shane became a Partner at KPMG Australia, leading the National Health practice and in 2013, he became founder and Managing Director of Telstra's eHealth business, Telstra Health. Shane was appointed in 2011 by the Commonwealth Government to be Chairman of the Independent Hospital Pricing Authority. He maintains this role and is on the Board of Silver Chain, one of the largest community based health care service providers in Australia. Shane also chairs the SA Health EMR Project Board.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Risk Committee and a member of the Audit Committee
Interests in shares:	None
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 2019, 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	4	4
Susan Channon	9	9	4	4
Greg Couttas	9	9	3	3
Lyndon Hale	8	9	-	-
Peter Turner	4	4	3	3
Sonia Petering	9	9	4	4
Shane Solomon	7	7	-	-

	Audit Committee		Risk Committee	
	Attended	Held	Attended	Held
Peter Macourt - Chairman	4	4	-	-
Susan Channon	4	4	3	3
Greg Couttas	4	4	3	3
Lyndon Hale	-	-	3	3
Peter Turner	2	2	-	-
Sonia Petering	-	-	3	3
Shane Solomon	3	3	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 2019 remuneration report prepared in accordance with the requirements of the Corporations Act 2001.

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.

A. Executive summary

Key Changes in FY19

There were no significant changes made to the remuneration framework in FY2019, however the LTI performance hurdles were reviewed and updated to average Return on Equity and relative Total Shareholder Return ('TSR') against the constituents of the ASX 300 index.

Virtus Health Group's remuneration framework enables the organisation to attract and retain high calibre, talented Executives, management and specialists while ensuring that pay outcomes are aligned to building long term shareholder value.

The Board has determined that the Key Management Personnel ('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 (resigned 21 November 2018)

Greg Couttas – Non-executive director

Sonia Petering – Non-executive director

Shane Solomon – Non-executive director (appointed 27 September 2018)

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 (notice of resignation received August 2019)

Steve Zappia – Managing Director, Queensland and Virtus Health Diagnostics

Dean Cleary – Chief Information Officer (appointed 17 October 2018)

Richard Banks – Managing Director, Europe

Anthony Walsh – Executive Chairman, Ireland

Peter Illingworth – Medical Director, New South Wales

David Molloy – Medical Director, Queensland

William Watkins – Medical Director, Tasmania

Total KMP remuneration for FY19 decreased from FY2018 by $142,881 (4.0%).

The short term incentives ('STI') and long term incentives ('LTI') achieved in FY2019 are set out in further detail below. There are no STI accruals for FY2019 as the EPS hurdle of 5% growth was not met.

The performance hurdles tested in FY2019 of the LTIs granted in November 2015 and November 2016 were not achieved and accordingly 125,034 performance rights lapsed during the financial year.

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 all independent non-executive Directors: Sonia Petering (Chairman), Peter Macourt and Greg Couttas. 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 set out 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 seeks external advice from independent consultants on the appropriateness of the remuneration practices and arrangements including remuneration levels, independent benchmarking data and incentive structures. The Committee and Board consider this input with several other factors when making decisions regarding remuneration.

During FY19, the Committee engaged Mercer to review the long term incentive plan for KMPs. The review also considered the appropriateness of the relative TSR measure and peer group parameters. The Committee concluded that:

- It would retain the measure of 50% of the LTI grant to be linked to Return on Equity; and
- It would retain relative TSR as a performance measure, but only measured against the constituents of one single comparator group, the ASX300, as this index appears to have the closest correlation to Virtus Health share price volatility. Accordingly, 50% of the performance grant will be linked to the relative TSR of Virtus Health compared to the performance of the ASX300 index.

C. Executive remuneration framework

Remuneration philosophy and principles

The objective of the executive remuneration framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The Board continually monitors the effectiveness of the remuneration framework in terms of alignment with shareholder interests and market practice.

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 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 the plan's 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 for Australian employees comprises base salary, superannuation and other benefits such as annual leave and long service leave in accordance with the regulations in the Australian state in which they are employed. 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.

Short term incentive plan – STI

The STI plan is an annual individual target based scheme aligned to the targets of individual executives respective business units. STI payments are granted to executives based on achievement of specific annual targets and key performance indicators ('KPIs'). 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 plan provides for cash settlement where successful performance against KPIs is 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 STI plan includes an EPS growth target of 5% over prior year that acts as a financial gateway for the payment of STIs, hence the STI remains linked to the performance of the Company and alignment is maintained with shareholder interests.

Key features of the STI arrangements for FY19 were as follows:

- the maximum potential aggregate payment of STIs for the KMPs in total was $850,000; and
- assuming the financial gateway is satisfied, 60% of the maximum opportunity is linked to the achievement of individual financial outcomes and 40% of the maximum opportunity is linked to other individual measures established by the Nomination and Remuneration Committee;

The STI KPIs for FY2019, which are set by the Nomination and Remuneration Committee and the CEO, included:

- 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:
  - o Risk management;
  - o Patient experience and improvement in net promoter score;
  - o Corporate governance objectives; and
  - o Other individual personal goals.

The STI KPI structure for FY2020, established by the Nomination and Remuneration Committee, assuming the financial gateway is satisfied is as follows:

- Applicable to Sue Channon and Glenn Powers – 40% of the maximum STI opportunity is linked to the achievement of target Net Profit after Tax ('NPAT') attributable to the company's shareholders, 20% of the maximum STI opportunity is linked to the achievement of target consolidated Australian EBIT and 40% of the maximum STI opportunity relates to achievement of individual management objectives set by the Board;
- Applicable to Jade Phelan and Steve Zappia – 20% of the maximum STI opportunity is linked to the achievement of target consolidated Australian EBIT; 45% of the maximum STI opportunity is linked to the achievement of relevant target State EBIT; and 35% of the maximum STI opportunity is linked to the achievement of individual management objectives;
- Applicable to Richard Banks - 60% of the maximum STI opportunity is linked to the achievement of target consolidated European EBIT and 40% of the maximum STI opportunity is linked to the achievement of individual management objectives; and
- Applicable to Dean Cleary - 40% of the maximum STI opportunity is linked to the achievement of target Net Profit after Tax ('NPAT') attributable to the company's shareholders and 60% of the maximum STI opportunity is linked to the achievement of individual management objectives.

EBIT and NPAT targets include individual interpolation schedules for national and territory percentage growth over prior year 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 5% and 10%, straight line interpolation of the relevant STI component is payable.

The Nomination and Remuneration Committee has the discretion to apply variations to these targets after consideration of local market conditions.

Long term incentive plan – LTI

The company has adopted a performance rights plan ('LTI Plan') to balance the following key factors in its design:

- Participant's experience, reward, motivation and retention in response to challenging but achievable LTI measures;
- 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;
- Shareholder expectations and alignment of executive reward outcomes to shareholder experience; and
- Appropriate cost to the business considering the affordability and quantum of awards for Participants.

The Virtus plan objectives are aligned to market practice and the LTI Plan provides participants 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 on those rights until the rights have vested and converted into shares.

Generally, vesting conditions attached 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 LTI Plan and the number of options or performance rights offered to each individual participant is determined by the Board. The Board maintains full discretion in administering the grant and vesting of LTI awards. Virtus provides for malus under Board discretion or approval to lapse/vest awards. Currently there are four executive performance grants in operation as follows:

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

FY2016 STI Grant	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

The TSR performance hurdles, tested on 15 September 2018 were not achieved and the ROE performance hurdle, tested on 30 June 2018 was not achieved.

2. 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 same performance hurdles as the FY2016 grant, and the TSR base share price is $8.05.

As at 30 June 2019, it is expected that the TSR performance hurdles, to be tested on 15 September 2019 will not be met. The ROE performance hurdle, tested on 30 June 2019 was not met. The annual AASB 2 accounting charge of this scheme is currently $33,540 and the maximum earnings dilution to existing shareholders is 0.06%.

3. 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
Richard Banks

The performance rights vest subject to the same performance hurdles as the FY2016 grant, and the TSR base share price is $5.58. The annual AASB 2 accounting charge of this scheme is currently $58,641 and the maximum earnings dilution to existing shareholders is 0.22%.

4. Senior executives - FY2019 grant

On 21 November 2018, performance rights were granted to the following members of the executive management team:

Sue Channon
Glenn Powers
Nadia Stankovic
Steve Zappia
Jade Phelan
Richard Banks

The Nomination and Remuneration Committee changed the performance hurdles for the FY2019 grant as follows:

- Recognising the change in the S&P Index classification for the company, the TSR performance hurdles were amended to ASX300 and ASX 300 Healthcare Index; and
- The ROE hurdle had been set at a higher level in previous years and given the changing nature of the Company's Australian market, the Nomination and Remuneration Committee reset the hurdle to a more realistic level. It should be noted that the minimum average annual ROE remains above the level achieved in the previous two years and the Nomination and Remuneration Committee believes this maintains the aspirational aspect of the new hurdle.

FY2019 STI Grant	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 300	S&P ASX 300 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	$5.70	$5.70		
	3 Year average ROE			
% ROE less than	12.0%		0%	
% ROE at	12.0%		25%	
% ROE range	12.0-14.0%		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 $88,117 and the maximum earnings dilution to existing shareholders is 0.22%

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. Non-executive Directors receive only fixed remuneration. STI payments are dependent on a defined earnings per share target being met. Assuming that all performance conditions are met, the proportion of remuneration linked to performance and the fixed proportion is as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Executive Directors:						
S Channon	48%	48%	24%	24%	28%	28%
L Hale	100%	100%	-	-	-	-
Other Key Management Personnel:						
G Powers	48%	48%	24%	24%	28%	28%
J Phelan	58%	58%	18%	18%	24%	24%
N Stankovic	58%	58%	18%	18%	24%	24%
S Zappia	58%	58%	18%	18%	24%	24%
D Cleary	78%	-	22%	-	-	-
R Banks	52%	88%	13%	9%	35%	3%
A Walsh	100%	100%	-	-	-	-
P Illingworth	100%	100%	-	-	-	-
D Molloy	100%	100%	-	-	-	-
W Watkins	-	-	-	-	-	-

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

	Cash bonus paid/payable		Cash bonus forfeited	
Name	**2019**	**2018**	**2019**	**2018**
Executive Directors:				
S Channon	-	51%	100%	49%
Other Key Management Personnel:				
G Powers	-	79%	100%	21%
J Phelan	-	51%	100%	49%
S Zappia	-	23%	100%	77%
N Stankovic	-	-	100%	100%
D Cleary	-	-	100%	-
R Banks	-	40%	100%	60%

Accordingly the actual proportion of remuneration linked to performance and the fixed proportion in FY2019 is as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Executive Directors:						
S Channon	86%	70%	-	18%	14%	12%
L Hale	100%	100%	-	-	-	-
Other Key Management Personnel:						
G Powers	85%	65%	-	25%	15%	10%
J Phelan	93%	84%	-	13%	7%	3%
N Stankovic	100%	89%	-	-	-	11%
S Zappia	100%	85%	-	6%	-	9%
D Cleary	100%	-	-	-	-	-
R Banks	93%	88%	-	9%	7%	3%
A Walsh	91%	84%	-	-	9%	16%
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 2019 are summarised below:

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Revenue	280,069	263,916	256,518	261,210	234,142
EBITDA	63,511	65,027	64,834	68,916	61,355
EBIT	49,883	52,531	50,799	57,736	51,361
Profit after income tax	28,990	32,009	30,004	34,865	30,441
NPAT attributable to Virtus shareholders	28,426	30,753	28,103	32,918	29,434

	2019	2018	2017	2016	2015
Share price at financial year end ($)	4.50	5.75	5.38	6.87	5.37
Total dividends paid (cents per share)	24.00	26.00	28.00	28.00	27.00
Basic earnings per share (cents per share)	35.37	38.26	35.00	41.18	36.86
Diluted earnings per share (cents per share)	34.97	37.98	34.79	40.79	36.54
EPS Growth on prior year	(7.6%)	9.3%	(15.0%)	11.7%	(5.0%)

Remuneration outcomes for FY2019

Total KMP remuneration for FY2019 decreased by $142,881 (4.0%). Included in the net decrease, $374,896 relates to reduced STI performance accruals.

STI Outcomes for FY2019

Participants in the STI plan receive a payment 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) subject to the group achieving 5% growth in EPS on prior year.

Based on the financial results of the consolidated entity the Committee determined that as a consequence of the decrease in EPS, no STIs are payable to any KMP for FY19.

LTI outcomes for FY2019

In FY2019 the following performance hurdles were tested in respect of the performance rights grant dated 11 November 2016 and 10 November 2015:

- Performance rights grant dated 11 November 2016:
  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 49,746 of the performance rights granted on 10 November 2016 did not vest and have lapsed. As at 30 June 2019, it is expected that the remaining 50% of the performance rights which are to be tested against the TSR performance hurdles on 15 September 2019 will not vest; and

- 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 relative TSR over the three year performance period; accordingly 75,288 of the performance rights granted on 10 November 2015 did not vest and have lapsed. The other 50% of these performance rights were tested by reference to the average ROE over the three year performance period to 30 June 2018, did not vest and accordingly lapsed in the prior year.

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's contract is similar to that of Sue Channon except the company may terminate by giving 6 months' notice in writing or by making a payment in lieu of notice.

Other Key Management Personnel

Jade Phelan, Steve Zappia, Nadia Stankovic, Dean Cleary, 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 Australian 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 FY2019

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.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2019	**Salary, leave and fees $**	**STI $**	**Non-monetary and termination $**	**Super-annuation $**	**Long Service Leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
P Macourt	135,803	-	-	12,901	-	-	148,704
P Turner	42,743	-	-	4,061	-	-	46,804
S Petering	91,001	-	-	8,645	-	-	99,646
G Couttas	91,477	-	-	8,690	-	-	100,167
S Solomon	65,525	-	-	6,225	-	-	71,750
Executive Directors:							
S Channon	504,348	-	-	20,531	10,815	89,584	625,278
L Hale	163,171	-	-	7,103	-	-	170,274
Other Key Management Personnel:							
G Powers	344,870	-	-	20,531	6,895	63,587	435,883
N Stankovic	256,690	-	-	24,649	5,326	(70,626)	216,039
J Phelan	258,454	-	-	16,333	1,660	19,918	296,365
S Zappia	258,943	-	-	22,759	5,412	31,997	319,111
D Cleary	207,337	-	-	15,399	172	-	222,908
R Banks	279,361	-	-	18,477	-	20,769	318,607
A Walsh	44,230	-	-	-	-	4,359	48,589
P Illingworth	189,422	-	-	-	-	-	189,422
D Molloy	119,554	-	-	11,358	-	-	130,912
W Watkins	-	-	-	-	-	-	-
	3,052,929	-	-	197,662	30,280	159,588	3,440,459

2018	Short-term benefits: Salary, leave and fees $	Short-term benefits: STI $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long Service Leave $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
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
Executive Directors:							
S Channon	475,203	132,865	-	20,049	9,329	84,495	721,941
L Hale	161,697	-	-	6,962	-	-	168,659
Other Key Management Personnel:							
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	-	-	-	-	-	189,428
D Molloy	119,554	-	-	11,358	-	-	130,912
W Watkins	-	-	-	-	-	-	-
	2,778,704	374,896	-	190,418	7,553	231,769	3,583,340

Shane Solomon joined the Board in September 2018 so the total benefit in FY2019 does not represent a full year of fees. Similarly, Peter Turner retired from the Board in November 2018 hence the total benefit in FY2019 does not represent a full year of fees.

Richard Banks joined the group in August 2017 so the total benefit in FY2018 does not represent a full year salary.

The value of share-based payments and the 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 performance rights which lapsed during the year.

Share-based payments expense in respect of performance rights granted to the Medical Directors is not included in these tables because these performance rights were granted to the medical directors for the provision of fertility services (refer Section H) and do not constitute remuneration paid in respect of their roles as KMP.

STI 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:

2019	Salary, leave and fees $	STI $	Super-annuation $	Total $
Non-Executive Directors:				
P Macourt	135,803	-	12,901	148,704
P Turner	42,743	-	4,061	46,804
S Petering	91,001	-	8,645	99,646
G Couttas	91,477	-	8,690	100,167
S Solomon	65,525	-	6,225	71,750
Executive Directors:				
S Channon	511,022	132,865	20,531	664,418
L Hale	156,940	-	5,327	162,267
Other Key Management Personnel:				
G Powers	355,491	146,677	20,531	522,699
N Stankovic	259,466	-	24,649	284,115
J Phelan	259,466	44,193	20,531	324,190
S Zappia	263,843	19,896	24,649	308,388
D Cleary	205,385	-	15,399	220,784
R Banks	293,174	32,581	18,477	344,232
A Walsh	44,230	-	-	44,230
P Illingworth	189,422	-	-	189,422
D Molloy	119,554	-	11,358	130,912
W Watkins	-	-	-	-
	3,084,542	376,212	201,974	3,662,728

2018	Salary, leave and fees $	STI $	Super-annuation $	Total $
Non-Executive Directors:				
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
Executive Directors:				
S Channon	503,051	-	20,049	523,100
L Hale	161,697	-	6,962	168,659
Other Key Management Personnel:				
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

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	8,066	-	-	-	8,066
Greg Couttas	5,000	-	-	-	5,000
Lyndon Hale	823,694	-	-	-	823,694
Shane Solomon	-	-	-	-	-
Peter Turner	50,000	-	-	-	50,000
Glenn Powers	114,150	-	-	-	114,150
Peter Illingworth	324,020	-	-	(51,980)	272,040
David Molloy	400,628	-	-	-	400,628
	2,192,676	-	-	(51,980)	2,140,696

Option holding

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

	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Susan Channon	124,648	56,441	-	(48,906)	132,183
Glenn Powers	88,477	40,061	-	(34,715)	93,823
Jade Phelan	20,095	20,086	-	-	40,181
Nadia Stankovic	44,528	20,086	-	(17,469)	47,145
Steve Zappia	44,619	20,086	-	(17,559)	47,146
Richard Banks	20,908	20,980	-	-	41,888
Anthony Walsh	8,867	-	-	(6,383)	2,484
Peter Illingworth	17,921	-	-	-	17,921
William Watkins	32,258	-	-	-	32,258
	402,321	177,740	-	(125,032)	455,029

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 2019.

Options or performance rights

The terms and conditions of each grant over ordinary shares affecting remuneration of Executive 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 right at grant date
10 November 2015	10 November 2018	10 November 2025	$0.00	$4.41
11 November 2016	11 November 2019	11 November 2026	$0.00	$4.52
22 November 2017	22 November 2020	22 November 2027	$0.00	$3.79
21 November 2018	21 November 2021	21 November 2028	$0.00	$2.77

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.

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 2019 and 30 June 2018 are set out below:

Name	Number of rights granted during the year 2019	Number of rights granted during the year 2018	Number of rights vested during the year 2019	Number of rights vested during the year 2018
Susan Channon	56,441	56,247	-	-
Glenn Powers	40,061	39,925	-	-
Jade Phelan	20,086	20,095	-	-
Nadia Stankovic	20,086	20,095	-	-
Steve Zappia	20,086	20,095	-	-
Richard Banks	20,980	20,908	-	-
Anthony Walsh	-	-	-	-
Peter Illingworth	-	17,921	-	-
William Watkins	-	32,258	-	-

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 2019 are set out below:

Name	Fair value of rights granted during the year $	Net market value of rights exercised during the year $	Number of rights lapsed during the year
Susan Channon	156,059	-	48,907
Glenn Powers	110,769	-	34,715
Nadia Stankovic	55,538	-	17,469
Steve Zappia	55,538	-	17,560
Richard Banks	58,010	-	-
Jade Phelan	55,538	-	-
Anthony Walsh	-	-	6,383
Peter Illingworth	-	-	-
William Watkins	-	-	-

Note: Of the options lapsing 75,288 were granted on 10 November 2015 and 49,746 were granted on 11 November 2016.

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 remuneration is 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 the determination of his remuneration. Non-executive directors do not receive share options or other incentives.

In FY2019 the Committee elected to increase remuneration for non-executive directors .The Chairman of the Committee is 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.

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 non-executive directors for the financial year ended 30 June 2019 were $467,071. The maximum authorised amount payable including superannuation to all non-executive directors in total for their services approved by the shareholders is currently $600,000 per annum.

Non-executive director fees comprise a base director fee of $81,864 (including superannuation) 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 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

The fertility specialist incentive schemes applicable for FY19 and FY20 are as follows:

- initial and performance rights granted to specialists before 1 September 2016;
- initial and performance rights granted to specialists after 1 September 2016;
- high performance rights granted to specialists up to 1 July 2018; and
- a loyalty share scheme;

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 30 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. Details of each type of scheme are set out below:

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 grant offer value by the amount of the increase in the share price between the share price at vesting compared to the share price at grant date all divided by the share price at vesting.

At 30 June 2019 the potential number of unvested initial and performance rights subject to these grants is estimated to be 68,510.

Grants made after 1 September 2016

Grants of rights are made twice a year as follows:

- Grants in March each year to new fertility specialists contracting in the six month period ending 31 December and grants in September each year to new fertility specialists contracting in the 6 month period ending 30 June. These performance rights 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 twelve month period during the two years post commencement of the contractual relationship with the consolidated entity;
- Grants in September each year of performance rights to existing fertility specialists in relation to achievement of incremental increases in practice cycles in the 12 month period ending 30 June. These 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; and
- In all cases 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 is fixed at grant date.

At 30 June 2019 the potential number of unvested performance rights subject to these grants is estimated to be 654,606.

High performance rights – 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 deliver more than 299 cycles per annum. There are two issues of HPSIS tranches outstanding, details of which are as follows:

- HPSIS Issue three 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
- HPSIS Issue four 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 outstanding 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 Virtus Health Limited 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 per annum over a 4 year period.

In FY17, 11 fertility specialists qualified for HPSIS Issue three. In FY18, 2 fertility specialists qualified for HPSIS Issue four.

At 30 June 2019 the potential number of unvested performance rights subject to these grants is estimated to be 275,307.

Vesting conditions of High Performance Rights

High 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. Participants are not required to pay cash to be granted performance rights under the Plan. No further grants are planned under this structure.

Loyalty share scheme – fertility specialists

The Loyalty Share Scheme ('LSS') is designed to recognise the sustained contribution of the top quartile of specialists on an annual basis and replaced the High Performance Share Incentive Scheme in FY19. The key features of the LSS are as follows:

- value of award is variable and dependent on individual number of personal cycles delivered adjusted by a loading factor to recognise a higher award for specialists making a higher contribution to the business.
- award per loaded cycle for FY19 and FY20 is $50, hence awards are as follows:
    - o 200 cycles, = 200 *1.0 * $50 = $10,000 worth of shares;
    - o 250 cycles, = 250 *1.1 * $50 = $13,750 worth of shares;
    - o 300 cycles, = 300 *1.2 * $50 = $18,000 worth of shares;
    - o 350 cycles, = 350 *1.3 * $50 = $22,750 worth of shares;
    - o 400 cycles, = 400 *1.4 * $50 = $28,000 worth of shares;
- Loading factors per cycle:
    - o >399 cycles, 1.4
    - o >349 cycles, 1.3
    - o >299 cycles, 1.2
    - o >249 cycles, 1.1
    - o >199 cycles, 1.0
- Annual Qualifying hurdle is 200 cycles;
- Annual vesting, no waiting period, no escrow arrangements;
- Other considerations;
    - o annual loyalty award replaces all standard performance awards for improvement above 200 cycles;
    - o awards are payable in shares; conversion from award value is at the Virtus share price on the 15th business day following the group's annual result announcement (normally mid-September); and
    - o annual pool value for FY19 is capped at $500,000 (assessed annually by the Nomination and Remuneration Committee); this cost is consistent with the annual cost of the HPSIS.

This concludes the remuneration report which has been audited.

DIRECTORS' REPORT (continued)

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
03 October 2014*	03 October 2024	$8.57	45,415
13 May 2015*	13 May 2025	$7.16	1,536
13 May 2015*	13 May 2025	$7.53	617
13 May 2015*	13 May 2025	$7.94	712
13 May 2015*	13 May 2025	$7.94	329
21 August 2015*	21 August 2025	$5.67	7,434
28 October 2015*	28 October 2025	$5.01	8,231
16 December 2015*	16 December 2025	$6.17	4,236
21 September 2016*	21 September 2026	$8.05	8,616
21 September 2016*	21 September 2026	$8.05	3,969
11 November 2016	11 November 2026	$0.00	49,745
21 June 2017*	21 June 2027	$5.35	3,129
24 October 2017*	24 October 2027	$0.00	177,365
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	243,728
22 November 2017*	22 November 2027	$0.00	136,508
10 October 2018*	10 October 2028	$0.00	241,581
10 October 2018*	10 October 2028	$0.00	31,579
10 October 2018*	10 October 2028	$0.00	14,336
10 October 2018*	10 October 2028	$0.00	14,211
21 November 2018*	21 November 2028	$0.00	177,740
			1,403,273

* 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 nil 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 2019 up to and including the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

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

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

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

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

Officers of the company who are former partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors

Peter Macourt
Chairman

20 August 2019
Sydney

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2019, 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 other than as noted below.

A partner in the lead audit engagement office held an immaterial investment in Virtus Health Limited. The investment was immediately disposed of when the matter was identified. The partner did not provide any services to the entity and the audit team were not aware of the investment. On this basis I do not believe this matter has impacted the objectivity of PricewaterhouseCoopers in relation to the audit.

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

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
20 August 2019

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue	4	280,069	263,916
Share of profits of associates accounted for using the equity method		510	570
Other income	4	8,890	1,844
Expenses			
Fertility specialists, consumables and associated costs		(76,170)	(71,717)
Employee benefits expense		(98,972)	(89,044)
Depreciation and amortisation expense	5	(13,628)	(12,496)
Impairment of goodwill	5	(5,800)	-
Occupancy expense		(19,936)	(17,694)
Advertising and marketing		(4,259)	(4,427)
Practice equipment expenses		(2,601)	(2,213)
Professional and consulting fees		(3,653)	(2,562)
Other expenses		(14,456)	(13,510)
Finance costs	5	(9,820)	(7,803)
Profit before income tax expense		40,174	44,864
Income tax expense	6	(11,184)	(12,855)
Profit after income tax expense for the year		28,990	32,009
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax	22	(1,383)	306
Foreign currency translation		2,561	2,833
Other comprehensive income for the year, net of tax		1,178	3,139
Total comprehensive income for the year		30,168	35,148
Profit for the year is attributable to:			
Non-controlling interest		564	1,256
Owners of Virtus Health Limited	23	28,426	30,753
		28,990	32,009
Total comprehensive income for the year is attributable to:			
Non-controlling interest		456	1,040
Owners of Virtus Health Limited		29,712	34,108
		30,168	35,148
		Cents	**Cents**
Basic earnings per share	3	35.37	38.26
Diluted earnings per share	3	34.97	37.98

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	8	18,831	21,713
Trade and other receivables	9	14,842	12,491
Inventories		1,256	752
Prepayments		2,876	3,035
Total current assets		37,805	37,991
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment	12	38,036	34,477
Intangibles	11	459,576	465,436
Deferred tax	6	7,143	5,468
Other	37	287	517
Total non-current assets		506,531	507,387
Total assets		544,336	545,378
Liabilities			
Current liabilities			
Trade and other payables	10	24,856	24,468
Derivative financial instruments	16	764	420
Income tax	6	1,121	4,337
Provisions	13	4,642	4,169
Other financial liabilities	18	9,397	397
Unearned income		16,306	14,779
Total current liabilities		57,086	48,570
Non-current liabilities			
Borrowings	15	173,678	180,773
Derivative financial instruments	17	1,738	107
Deferred tax	6	1,065	866
Provisions	14	6,722	6,415
Other financial liabilities	19	7,750	23,757
Other payables		1,684	1,340
Total non-current liabilities		192,637	213,258
Total liabilities		249,723	261,828
Net assets		294,613	283,550
Equity			
Issued capital	20	241,890	242,251
Reserves	22	5,159	2,837
Retained profits	23	37,111	27,979
Equity attributable to the owners of Virtus Health Limited		284,160	273,067
Non-controlling interest	24	10,453	10,483
Total equity		294,613	283,550

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 2019

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
Transactions with owners in their capacity as owners:					
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 21)	-	-	(20,901)	-	(20,901)
Balance at 30 June 2018	242,251	2,837	27,979	10,483	283,550

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	242,251	2,837	27,979	10,483	283,550
Profit after income tax expense for the year	-	-	28,426	564	28,990
Other comprehensive income/(loss) for the year, net of tax	-	1,286	-	(108)	1,178
Total comprehensive income for the year	-	1,286	28,426	456	30,168
Transactions with owners in their capacity as owners:					
Dividends payable by subsidiaries to non-controlling interests	-	-	-	(486)	(486)
Issue of shares pursuant to share based payment schemes (note 20)	125	(125)	-	-	-
Share based payment expense	-	1,161	-	-	1,161
Settlement of partly paid shares	225	-	-	-	225
Purchase of treasury shares (note 20)	(711)	-	-	-	(711)
Dividends paid (note 21)	-	-	(19,294)	-	(19,294)
Balance at 30 June 2019	241,890	5,159	37,111	10,453	294,613

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 2019

	Note	Consolidated 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		273,095	260,757
Payments to suppliers (inclusive of GST)		(217,696)	(191,637)
		55,399	69,120
Other revenue		6,481	2,502
Interest and other finance costs paid		(7,793)	(6,615)
Income taxes paid		(15,797)	(10,040)
Net cash from operating activities	33	38,290	54,967
Cash flows from investing activities			
Payment of acquisition of non-controlling interest		-	(10,220)
Final payment for prior period's business acquisition		-	(4,152)
Payments for acquisition of subsidiaries and businesses, net of cash acquired		-	(36,402)
Payments for property, plant and equipment and intangibles		(14,553)	(15,500)
Proceeds from release of security deposits		243	14
Interest received		111	136
Associate distributions received		665	875
Net cash used in investing activities		(13,534)	(65,249)
Cash flows from financing activities			
Proceeds from partly paid shares	20	225	250
Payment of dividends		(19,294)	(20,901)
Dividend paid to non-controlling interest in subsidiaries		(486)	(2,112)
Repayment of borrowings		(7,500)	(6,000)
Proceeds from borrowings		1,500	33,000
Payment of finance facility fees in relation to refinancing		(1,628)	-
Purchase of treasury shares	20	(711)	-
Net cash from/(used in) financing activities		(27,894)	4,237
Net decrease in cash and cash equivalents		(3,138)	(6,045)
Cash and cash equivalents at the beginning of the financial year		21,713	27,337
Effects of exchange rate changes on cash and cash equivalents		256	421
Cash and cash equivalents at the end of the financial year	8	18,831	21,713

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

TABLE OF CONTENTS

Note 1. Notes to the financial report

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 Heath 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 2019 the consolidated entity's current liabilities exceeded its current assets by $19,281,000 (June 2018: $10,579,000). The current liabilities include unearned income of $16,306,000 as well as employee leave liabilities of $10,591,000. 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 $82,402,000 which has a combination of a 3 year and 5 year maturity period to September 2021 and September 2023.

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.

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 29.

Principles of consolidation

In preparing these financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of equity accounted investments is included in the consolidated financial statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

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.

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.

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 or revised accounting standards

As outlined below, the consolidated entity has adopted all amendments to Australian Accounting Standards which became applicable for the consolidated entity from 1 July 2018.

AASB 15 Revenue from Contracts with Customers ('AASB15')

The consolidated entity as adopted AASB 15 from 1 July 2018 which resulted in changes in accounting policies. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, that is, the 'notion of control' replaces the existing 'notion of risks and rewards'. Refer to note 4.

AASB 9 Financial Instruments ('AASB9')

The consolidated entity has adopted all of the phases of the new financial instruments standard, including; classification and measurement of financial assets and liabilities, impairment including expected credit losses and hedge accounting, which resulted in changes to accounting policies.

The adoption of both of the above standards has not materially impacted the financial report of the consolidated entity.

New standards not yet applicable

Other than AASB 16 Leases, standards not yet applicable are not expected to have a material impact on the consolidated entity. Refer to note 35 for further disclosure on the impact of AASB 16 Leases.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. These are based on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The judgements and estimates that have the most significant effect on the amounts recognised in the financial statements are detailed in the notes below:

Judgement/Estimation	Note
Business combinations	7
Goodwill and other indefinite life intangible assets	11
Share-based payments	30

Notes to the financial reports

The notes are organised into the following sections.

Financial performance overview: provides a breakdown of individual line items in the statement of financial performance, and other information that is considered most relevant to users of the annual report.

Balance sheet items: provides a breakdown of individual line items in the statement of financial position that are considered most relevant to users of the annual report.

Capital structure and risk management: provides information about the capital management practices of the consolidated entity and shareholder returns for the year. This section also discusses the consolidated entity's exposure to various financial risks, explains how these affect the consolidated entity's financial position and performance and what the consolidated entity does to manage these risk.

Group structure: explains aspects of the Virtus group structure and the impact of this structure on the financial position and performance of the consolidated entity.

Other:

- provide information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements; and
- provide information about items that are not recognised in the financial statements but could potentially have a significant impact on the consolidated entity's financial position and performance.

Note 2. Operating segments

Identification of reportable operating segments

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

Segment revenue

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

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

Segment EBITDA

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

Consolidated - 2019	Healthcare Services Australia $'000	Healthcare Services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	216,429	57,676	-	274,105
Other revenue	5,853	-	-	5,853
Interest revenue	108	-	3	111
Total revenue	222,390	57,676	3	280,069
Segment EBITDA	61,091	10,055	-	71,146
Transfer of IP				4,110
Share based payment expense				(1,161)
Corporate costs				(12,693)
Transaction costs				(196)
Fair value adjustments to put liabilities and contingent consideration				8,261
Depreciation and amortisation expense				(13,628)
Impairment of goodwill				(5,800)
Net interest				(9,709)
Foreign exchange				(156)
Profit before income tax expense				40,174
Income tax expense				(11,184)
Profit after income tax expense				28,990
Total assets includes:				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	12,580	1,973	-	14,553

Australian segment revenue includes $4,110,000 for the transfer of Virtus' IP in relation to its Artificial Intelligence software "Ivy".

Corporate cost increase of $2,525,000 over pcp reflects key investments to support the ongoing development of the business and comprised mostly of the employment related costs for a CIO, strategic HR and IT noted earlier in the operating and financial review under employment costs.

Consolidated - 2018	Healthcare Services Australia $'000	Healthcare Services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	215,969	46,064	-	262,033
Other revenue	1,747	-	-	1,747
Interest revenue	123	-	13	136
Total revenue	217,839	46,064	3	263,916
Segment EBITDA	66,822	9,196	-	76,018
Share based payment expense				(881)
Corporate costs				(10,168)
Transaction costs				(1,031)
Fair value adjustments to put liabilities and contingent consideration				1,089
Depreciation and amortisation expense				(12,496)
Net interest				(7,667)
Profit before income tax expense				44,864
Income tax expense				(12,855)
Profit after income tax expense				32,009
Total assets includes:				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	14,675	53,824	-	68,499

Accounting policy for 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.

Note 3. Earnings per share

	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit after income tax	28,990	32,009
Non-controlling interest	(564)	(1,256)
Profit after income tax attributable to the owners of Virtus Health Limited	28,426	30,753
Add: interest savings on conversion of options	118	97
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	28,544	30,850

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,373,944	80,388,866
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,248,839	828,823
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,622,783	81,217,689

	Cents	Cents
Basic earnings per share	35.37	38.26
Diluted earnings per share	34.97	37.98

Recognition and measurement

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.

Note 4. Revenue

	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue from contracts with customers		
Rendering of services	274,105	262,033
Other revenue		
Rent	1,743	1,747
Transfer of IP	4,110	-
Interest	111	136
	5,964	1,883
Revenue	280,069	263,916

	Consolidated 2019 $'000	Consolidated 2018 $'000
Other income		
Fair value gain on put liabilities	4,484	891
Fair value gain on contingent consideration	3,778	198
Other income	628	755
Other income	8,890	1,844

Recognition and measurement
From 1 July 2018, Virtus adopted AASB 15 Revenue from Contracts with Customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, that is, the 'notion of control' replaces the existing 'notion of risks and rewards'. The impact of this change in accounting standard is not material to Virtus as the 'notion of control' is closely aligned to the 'notion of risks and rewards' for Virtus revenue streams.

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.

Unearned revenue: fees for fertility treatment cycles paid in advance are recognised as unearned revenue (recognised in balance sheet) until the service has been provided whereupon the fees are recognised as revenue.

Transfer of IP: the transfer of IP was recognised at a point in time as the customer is able to direct the use of and obtain substantially all of the benefits from the IP at the time that control of the IP was transferred to the customer.

Note 5. Expenses

	Consolidated	
	2019 $'000	2018 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	3,492	3,025
Furniture and fittings	486	409
Office equipment	2,588	2,439
Medical equipment	3,406	2,879
Total depreciation	9,972	8,752
Amortisation		
Software	2,174	2,167
Brand names	1,482	1,577
Total amortisation	3,656	3,744
Total depreciation and amortisation	13,628	12,496
Impairment		
Impairment of goodwill	5,800	-
Finance costs		
Interest and finance charges paid/payable	7,793	6,615
Interest on other financial liability - non-cash interest	1,464	981
Amortisation of bank facility fees	563	207
Finance costs expensed	9,820	7,803
Rental expense relating to operating leases		
Minimum lease payments	15,589	13,677
Superannuation expense		
Defined contribution superannuation expense	6,606	5,885
Research costs		
Research costs	2,200	2,000
Share-based payments expense		
Share-based payments expense - fertility specialists	1,009	625
Share-based payments expense - employee benefits	152	256
Total share-based payments expense	1,161	881

Note 6. Income tax

	Consolidated	
	2019 $'000	2018 $'000
Income tax expense		
Current tax	12,580	13,933
Deferred tax - origination and reversal of temporary differences	(1,234)	(1,072)
Adjustment recognised for prior periods	(162)	(6)
Aggregate income tax expense	11,184	12,855
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(1,082)	(1,048)
Decrease in deferred tax liabilities	(152)	(24)
Deferred tax - origination and reversal of temporary differences	(1,234)	(1,072)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	40,174	44,864
Tax at the statutory tax rate of 30%	12,052	13,459
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	1,740	-
Fair value gain on Put Liabilities and Contingent Consideration	(2,421)	(327)
Tax losses utilised/(recognised)	-	(311)
Other	861	995
	12,232	13,816
Difference in overseas tax rates	(886)	(955)
Adjustment recognised for prior periods	(162)	(6)
Income tax expense	11,184	12,855

	Consolidated	
	2019 $'000	2018 $'000
Amounts charged/(credited) directly to equity		
Deferred tax assets	(593)	131
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	1,397	1,106
Potential tax benefit at 17%	237	188

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

Note 6. Income tax (continued)

	Consolidated 2019 $'000	Consolidated 2018 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	3,337	3,198
Tax losses	283	370
Intangible assets	(165)	(347)
Other	2,937	2,089
	6,392	5,310
Amounts recognised in equity:		
Other	751	158
Deferred tax asset	7,143	5,468
Amount expected to be recovered within 12 months	3,154	2,951
Amount expected to be recovered after more than 12 months	3,989	2,517
	7,143	5,468
Movements:		
Opening balance	5,468	4,551
Credited to profit or loss	1,082	1,048
Credited/(charged) to equity	593	(131)
Closing balance	7,143	5,468

	Consolidated 2019 $'000	Consolidated 2018 $'000
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Intangible assets	1,079	855
Other	(14)	11
Deferred tax liability	1,065	866
Amount expected to be settled within 12 months	151	468
Amount expected to be settled after more than 12 months	914	398
	1,065	866
Movements:		
Opening balance	866	585
Credited to profit or loss	(152)	(24)
Additions through business combinations	351	305
Closing balance	1,065	866

	Consolidated 2019 $'000	Consolidated 2018 $'000
Provision for income tax		
Provision for income tax	1,121	4,337

Recognition and measurement

Income tax is payable on profits after allowing for expenses assessable and deductions exempt under tax laws.

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.

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.

Note 7. 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 details of which were disclosed in the 2018 Financial report.

During the year ended 30 June 2019, the following adjustments were made to the provisional purchase price allocation and purchase price:

	Fair value $'000
Brands	1,820
Other asset/liabilities	78
Working capital adjustment to purchase price	133
Total Fair Value and working capital adjustments	2,031

These adjustments resulted in an equivalent decrease in Goodwill of $2,031,000

Based on the most recent forecast trading outlook for Trianglen, the consolidated entity reduced the estimated contingent consideration in June 2018 by $3,800,000, and took this amount to profit and loss. This adjustment has no impact on the underlying carrying value of the related assets.

Recognition and measurement

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.

Critical accounting estimates - provisional and fair value assessments

As discussed above, 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, refer to note 26 for details.

Note 8. Current assets - cash and cash equivalents

	Consolidated 2019 $'000	Consolidated 2018 $'000
Cash at bank and on hand	18,831	21,713

Recognition and measurement

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.

Note 9. Current assets - trade and other receivables

	Consolidated 2019 $'000	Consolidated 2018 $'000
Trade receivables	12,552	11,994
Less: Allowance for expected credit losses	(1,859)	(1,470)
	10,693	10,524
Other receivables	4,149	1,967
	14,842	12,491

Allowance for expected credit losses

The consolidated entity has recognised an expense of $546,000 (2018: $746,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2019.

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

	Consolidated 2019 $'000	Consolidated 2018 $'000
3 to 6 months overdue	300	295
Over 6 months overdue	1,559	1,175
	1,859	1,470

The nominal value of the impaired receivables is $2,159,621 (2018: $1,765,000).

Movements in the allowance for expected credit losses are as follows:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Opening balance	1,470	1,944
Additional provisions recognised	800	803
Receivables written off during the year as uncollectable	(157)	(1,220)
Unused amounts reversed	(254)	(57)
Closing balance	1,859	1,470

Recognition and measurement

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

Note 9. Current assets - trade and other receivables (continued)

Virtus has adopted AASB 9 Financial instruments, which requires an expected credit loss ('ECL') model as opposed to an incurred credit loss model under AASB 139 Financial instruments: recognition and Measurement . The ECL model requires Virtus to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. AASB 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. Accordingly, Virtus allowance for doubtful debts calculation applies the expected loss model and takes into consideration the likely level of bad debts (based on historical experience) as well as any known 'at risk' receivables. Bad debts are written off against the allowance account and any other changes in the allowance account is recognised in the statement of financial performance. Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 10. Current liabilities - trade and other payables

	Consolidated	
	2019 $'000	2018 $'000
Trade payables	8,395	10,341
Other payables	16,461	14,127
	24,856	24,468

Refer to note 25 for further information on financial risk management.

Recognition and measurement

Trade and other payables are recognised when Virtus becomes obliged to make future payments resulting from purchase of goods and services. Payables are stated at their amortised cost.

Note 11. Non-current assets - intangibles

	Consolidated	
	2019 $'000	2018 $'000
Goodwill - at cost	448,198	453,437
Software - at cost	23,100	22,053
Less: Accumulated amortisation	(18,728)	(16,553)
	4,372	5,500
Brand names - at cost	19,493	17,504
Less: Accumulated amortisation	(12,487)	(11,005)
	7,006	6,499
	459,576	465,436

Reconciliations

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

Consolidated	Goodwill $'000	Software $'000	Brand names $'000	Total $'000
Balance at 1 July 2017	399,707	5,437	6,339	411,483
Additions	-	2,201	-	2,201
Additions through business combinations	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
Additions	-	1,108	-	1,108
Disposals	-	(83)	-	(83)
Exchange differences	2,592	21	169	2,782
Impairment	(5,800)	-	-	(5,800)
Transfers	(2,031)	-	1,820	(211)
Amortisation expense	-	(2,174)	(1,482)	(3,656)
Balance at 30 June 2019	448,198	4,372	7,006	459,576

Recognition and measurement

Intangible assets

Intangible assets including brand names 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.

Goodwill

Goodwill arise on the acquisition of a business and represents the excess of the cost of acquisition over the fair value of the identified assets and liabilities acquired. Goodwill is not amortised, but tested annually and whenever there is an indicator of impairment. 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 over a defined useful life of 10-15 years and subsequently carried net of accumulated amortisation.

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.

Note 11. Non-current assets - intangibles (continued)

Critical accounting estimates- impairment tests of goodwill

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

	Consolidated	
	2019 $'000	2018 $'000
New South Wales	111,807	111,807
Victoria	122,294	122,294
Queensland	66,626	66,626
Tasmania	14,661	20,461
Australian Diagnostics	26,719	26,719
International	106,091	105,530
	448,198	453,437

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 the board covering a one year period. Cash flows beyond the one year period use management estimates covering a period not exceeding four years to determine income, expenses, capital expenditure and cash flows for each CGU. In determining these forecasts senior management developed a view on the future revenue growth, and the mix of the consolidated entities service offerings as well as margin per customer and the capital and operational expenditure requirements. These determinations were based on past experience and expectations of the future. Cash flows beyond the five year forecast period are extrapolated using estimated long-term growth rates ("terminal growth rate"). The terminal growth rates used do not exceed the long term average growth rates for the business.

Each of the above factors is subject to significant judgement about future economic conditions and the ongoing structure of the assisted reproductive services industry. Management have applied their best estimates to each of the variables and cannot warrant their outcome.

	Terminal Growth Rate		Pre-tax discount rate	
	2019	2018	2019	2018
New South Wales	2.5%	2.5%	10.6%	12.0%
Victoria	2.5%	2.5%	10.6%	12.0%
Queensland	2.5%	2.5%	10.6%	12.0%
Tasmania	1.0%	1.0%	10.6%	14.0%
International	2.5%	2.5%	9.3%	10.3%
Australia Diagnostics	2.0%	2.0%	10.6%	12.0%

Tasmania:

The consolidated entity as part of its budgeting process reviewed the assumptions relating to the Tasmanian business to reflect changes in the competitive landscape and recent delays in business development in relation to its newly commissioned Day Hospital facilities. Based on its review, a goodwill impairment charge of $5,800,000 has been recognised for Tasmania.

The reduction in the pre-tax discount rate to 10.6% reflects the current discount rate calculations and also takes into account the risk adjustment to assumptions in relation to the expected cash inflows resulting from management's review discussed above. If there are any further negative changes in the key assumptions on which the recoverable amount of goodwill is based for Tasmania, this would result in a further impairment charge for the Tasmanian CGUs goodwill.

	Adjustment	Change in Impairment (Increase)/ Decrease $'000
Adjusting revenue growth in the budget and future years:		
Downwards	5.00%	(4,400)
Upwards	5.00%	4,400
Adjusting discount rate:		
Upwards	1.00%	(2,165)
Downwards	1.00%	2,883

Each of the sensitivities above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in other assumptions. Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of such changes.

Queensland:

Queensland remains a price sensitive market and remains sensitive to annual projected growth rates and discount rates used disclosed above. Management believes that a review of pricing and its efforts to manage costs during the new financial year will help the business achieve its revenue and growth targets for FY2020 and beyond. Should this judgement of future EBITDA estimates not occur, the goodwill carrying amount may become impaired. The key sensitivities for the Queensland cash-generating unit are as follows:

- If forecast EBITDA that drives the terminal value decreases by more than 14% for the Queensland division, goodwill would need to be impaired, with all other assumptions remaining constant; or
- If the discount rate increases more than 1% for the Queensland division, goodwill would need to be impaired, with all other assumptions remaining constant.

Reasonable changes in key assumptions on which the recoverable amount of the other cash generating units is based will not cause the cash generating unit's carrying amounts to exceed their recoverable amount.

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2019 $'000	2018 $'000
Leasehold improvements - at cost	51,941	48,220
Less: Accumulated depreciation	(30,310)	(28,932)
	21,631	19,288
Furniture and fittings - at cost	3,926	3,510
Less: Accumulated depreciation	(2,505)	(2,006)
	1,421	1,504
Office equipment - at cost	19,865	17,581
Less: Accumulated depreciation	(14,751)	(12,137)
	5,114	5,444
Medical equipment - at cost	35,660	30,695
Less: Accumulated depreciation	(25,790)	(22,454)
	9,870	8,241
	38,036	34,477

Note 12. Non-current assets - property, plant and equipment (continued)

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	Furniture and fittings $'000	Office equipment $'000	Medical equipment $'000	Total $'000
Balance at 1 July 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	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
Additions	5,833	394	2,237	4,981	13,445
Disposals	(51)	-	-	(1)	(52)
Exchange differences	53	11	21	53	138
Depreciation expense	(3,492)	(486)	(2,588)	(3,406)	(9,972)
Balance at 30 June 2019	21,631	1,422	5,114	9,869	38,036

Recognition and measurement

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.

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

Note 13. Current liabilities - provisions

	Consolidated 2019 $'000	Consolidated 2018 $'000
Employee benefits - long service leave	4,642	4,169

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 2019 $'000	Consolidated 2018 $'000
Long service leave obligation expected to be settled after 12 months	4,178	3,752

Accounting policy for 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. The liabilities for wages and salaries (including non-monetary benefits and annual leave) is included in Note 10 Current liabilities - trade and other payables.

Defined contribution superannuation expense

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

Note 14. Non-current liabilities - provisions

	Consolidated 2019 $'000	Consolidated 2018 $'000
Employee benefits - long service leave	1,424	1,454
Lease make good	5,298	4,961
	6,722	6,415

Lease make good

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

Movements in provisions

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

Consolidated - 2019	Lease make good $'000
Carrying amount at the start of the year	4,961
Additional provisions recognised	147
Disposal provision recognised	(127)
Exchange differences	35
Unwinding of discount	282
Carrying amount at the end of the year	5,298

Accounting policy for 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.

Accounting policy for 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.

Note 15. Non-current liabilities - borrowings

	Consolidated	
	2019 $'000	2018 $'000
Bank loans (net of borrowing costs)	173,678	180,773

Refer to note 25 for further information on financial risk management.

Assets pledged as security

The bank loans above 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	
	2019 $'000	2018 $'000
Cash and cash equivalents	7,992	10,856
Receivables	7,313	7,726
Inventories	790	529
Other current assets	2,245	2,098
Investments	81,465	81,465
Plant and equipment	29,761	28,732
Intangible assets (excluding goodwill)	3,804	5,451
Deferred tax assets	6,456	4,711
Other financial assets	64	56
	139,890	141,624

Financing arrangements

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

	Consolidated	
	2019 $'000	2018 $'000
Total facilities		
Bank loans (excluding capitalised borrowing costs)	252,403	200,000
Working capital facilities	10,000	10,000
	262,403	210,000
Used at the reporting date		
Bank loans (excluding capitalised borrowing costs)	175,000	181,000
Working capital facilities	5,001	4,718
	180,001	185,718
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	77,403	19,000
Working capital facilities	4,999	5,282
	82,402	24,282

Borrowings-Financial Arrangements

The consolidated entity completed refinancing its existing debt facilities maturing in September 2019, with a combination of 3-year and 5-year debt financing on 28 September 2018.

Following the early refinancing, the consolidated entity has total commitments of $262,403,000 through its syndicated debt facilities. At 30 June 2019, total facilities drawn were $175,000,000 in borrowings and $5,001,000 (FY18: $4,718,000) in guarantees. Unused and available facilities amounted to $82,402,000. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2019. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 3 years (30 June 2018: 1 year).

$92,403,000 of the facility expires in September 2021, while the remaining $170,000,000 expires in September 2023.

Recognition and measurement

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 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.

Note 16. Current liabilities - derivative financial instruments

	Consolidated	
	2019 $'000	2018 $'000
Interest rate swap contracts - cash flow hedges	764	420

Refer to note 25 for further information on financial risk management.
Refer to note 26 for further information on fair value measurement.

Recognition and measurement

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.

Note 17. Non-current liabilities - derivative financial instruments

	Consolidated 2019 $'000	Consolidated 2018 $'000
Interest rate swap contracts - cash flow hedges	1,738	107

Refer to note 25 for further information on financial risk management.
Refer to note 26 for further information on fair value measurement.

Note 18. Current liabilities - other financial liabilities

	Consolidated 2019 $'000	Consolidated 2018 $'000
Other financial liability	8,582	-
Loan note	815	397
	9,397	397

The other financial liability represents the fair value of the put options held by the non-controlling interests in Sims Clinic Limited and TasIVF Pty Limited.

Loan note reflects the current portion of a loan owing to the vendors of Trianglen.

Note 19. Non-current liabilities - other financial liabilities

	Consolidated 2019 $'000	Consolidated 2018 $'000
Other financial liabilities	5,656	20,975
Loan note	2,094	2,782
	7,750	23,757

Refer to note 26 for other information on financial instruments.

The other financial liabilities represents the fair value of the contingent consideration arising from the acquisition of Trianglen. In the prior year it also included the fair value of the put options held by the non-controlling interests in Sims Clinic Limited and TasIVF Pty Limited, now classified as current liabilities.

Loan note reflects the non-current portion of a loan owing to the vendors of Trianglen.

Note 20. Equity - issued capital

	Consolidated 2019 Shares	Consolidated 2018 Shares	Consolidated 2019 $'000	Consolidated 2018 $'000
Ordinary shares - fully paid	80,389,938	80,389,938	242,476	242,251
Treasury Shares	(146,768)	-	(586)	-
	80,243,170	80,389,938	241,890	242,251

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 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
Settlement of partly paid shares	12 October 2018	-	$0.00	115
Settlement of partly paid shares	18 April 2019	-	$0.00	110
Balance	30 June 2019	80,389,938		242,476

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 $2.39 per share at 30 June 2019.

Treasury Shares

Treasury shares are shares in Virtus Health Limited that are held by the Virtus Health Limited Employee Share Trust ('VHLEST') for the purpose of providing shares under selected Group equity plans.

	Number of shares	$
On market acquisitions during the period	177,394	711,029
Distribution of shares during the period to employees	(30,626)	(124,901)
Balance at 30 June 2019	146,768	586,128

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.

Recognition and measurement

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.

When the company reacquires its equity instruments (treasury shares) their cost is deducted from equity. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the cost of acquisition and the consideration when reissued is recognised in the Share based payments reserve.

Note 21. Equity - dividends

Dividend type	Cents per share	Franking	$'000	Date paid
2017 Final	12.0	100%	9,646	13/10/2017
2018 Interim	14.0	100%	11,255	17/04/2018
2018 Final	12.0	100%	9,647	12/10/2018
2019 Interim	12.0	100%	9,647	18/04/2019

A final dividend of 12.00 cents per share, fully franked, will be paid on 25 October 2019 to the shareholders on the register at 4 October 2019.

Recognition and measurement
Dividends are recognised when declared during the financial year.

	Consolidated 2019 $'000	Consolidated 2018 $'000
Franking account balance	24,008	20,534

Recognition and measurement
The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of income tax liabilities after the end of the year.

Note 22. Equity - reserves

	Consolidated 2019 $'000	Consolidated 2018 $'000
Foreign currency translation reserve	6,218	3,549
Cash flow hedges reserve	(1,755)	(372)
Share-based payments reserve	14,504	13,468
Put option business combination reserve	(13,808)	(13,808)
	5,159	2,837

Nature and purpose of reserves
- Foreign currency translation reserve: this 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 hedge reserve: the reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that are 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 TasIVF 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 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
Revaluation - net	-	(1,383)	-	-	(1,383)
Foreign currency translation	2,669	-	-	-	2,669
Option expense	-	-	1,161	-	1,161
Issue of shares pursuant to share based payment schemes	-	-	(125)	-	(125)
Balance at 30 June 2019	6,218	(1,755)	14,504	(13,808)	5,159

Note 23. Equity - retained profits

	Consolidated 2019 $'000	Consolidated 2018 $'000
Retained profits at the beginning of the financial year	27,979	18,127
Profit after income tax expense for the year	28,426	30,753
Dividends paid (note 21)	(19,294)	(20,901)
Retained profits at the end of the financial year	37,111	27,979

Note 24. Equity - non-controlling interest

	Consolidated 2019 $'000	Consolidated 2018 $'000
Issued capital	1,842	1,842
Reserves	5,315	5,423
Retained profits	3,296	3,218
	10,453	10,483

Note 25. Financial risk management

Financial risk management objectives

The group has exposure to the following risks in the course of its activities:

- Market risk;
- Credit risk; and
- Liquidity risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk and the management of capital. Further quantified disclosures are included throughout this financial report.

The consolidated entity's financial 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. Derivative financial instruments such as forward foreign exchange contracts are used to hedge certain risk exposures.

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, GBP, 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:

	2019		2018	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loans	3.46%	175,000	3.85%	181,000
Interest rate swaps (notional principal amount)	-	(110,000)	-	(50,000)
Net exposure to cash flow interest rate risk		65,000		131,000

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

	Basis points increase			Basis points decrease		
Consolidated - 2019	**Basis points change**	**Profit after tax $'000**	**Equity $'000**	**Basis points change**	**Profit after tax $'000**	**Equity $'000**
Bank loans	100	(455)	(455)	100	455	455

	Basis points increase			Basis points decrease		
Consolidated - 2018	**Basis points change**	**Profit after tax $'000**	**Equity $'000**	**Basis points change**	**Profit after tax $'000**	**Equity $'000**
Bank loans	100	(917)	(917)	100	917	917

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 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.

The consolidated entity has adopted an expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

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.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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	
	2019 $'000	**2018 $'000**
Bank loans (excluding capitalised borrowing costs)	78,725	19,227
Working capital facilities	4,999	5,282
	83,724	24,509

The consolidated entity has borrowing facilities totalling $262,403,000. $92,403,000 of the facility expires in September 2021,whilst the remaining $170,000,000 expires in September 2023

Note 25. 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.

Consolidated - 2019	Weighted average interest rate %	1 year or less $'000	Between 1 and less than 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	8,395	-	-	-	8,395
Other payables	-	16,461	-	-	-	16,461
Interest-bearing - variable						
Bank loans	3.46%	6,060	6,060	185,353	-	197,473
Other financial liabilities	3.46%	8,582	5,983	-	-	14,565
Loan note	4.00%	921	888	1,271	-	3,080
Total non-derivatives		40,419	12,931	186,624	-	239,974
Derivatives						
Derivative financial instruments	-	764	534	1,204	-	2,502
Total derivatives		764	534	1,204	-	2,502

Consolidated - 2018	Weighted average interest rate %	1 year or less $'000	Between 1 and less than 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	10,341	-	-	-	10,341
Other payables	-	14,127	-	-	-	14,127
Interest-bearing - variable						
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

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 26. 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; and

Level 3: Unobservable inputs for the asset or liability.

Consolidated - 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	2,502	-	2,502
Other financial liabilities	-	-	14,238	14,238
Total liabilities	-	2,502	14,238	16,740

Consolidated - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	527	-	527
Other financial liabilities	-	-	20,975	20,975
Total liabilities	-	527	20,975	21,502

There were no transfers between levels during the financial year.

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

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

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. Other financial liabilities have been valued using a forecast earnings model, discounted using specific borrowing rates.

Level 3 assets and liabilities

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

Consolidated	Contingent Consideration $'000	Put Option $'000	Total $'000
Balance at 1 July 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
Interest on unwinding	363	689	1,052
Foreign exchange impact	254	219	473
Fair value adjustment	(3,778)	(4,484)	(8,262)
Balance at 30 June 2019	5,656	8,582	14,238

Note 26. Fair value measurement (continued)

Recognition and 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.

Note 27. 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 2019 %	Ownership interest 2018 %
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%	85.00%
Xentra Pharm Limited	Ireland	85.00%	85.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	85.00%	85.00%
TasIVF Pty Limited	Australia	85.00%	85.00%
Virtus Andrology Laboratory Singapore Pte. Ltd	Singapore	70.00%	90.00%
Virtus Fertility Centre Singapore Pte Limited	Singapore	70.00%	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%	90.00%
Fertilitesklinikken Trianglen Aps	Denmark	100.00%	100.00%
Virtus Innovation Pty Ltd	Australia	100.00%	-

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

			Parent		Non-controlling interest	
Name	Principal place of business /Country of incorporation	Principal activities	Ownership interest 2019 %	Ownership interest 2018 %	Ownership interest 2019 %	Ownership interest 2018 %
Sims Clinic Limited and its controlled entities	Ireland	provision of healthcare services	85.00%	85.00%	15.00%	15.00%
TasIVF Pty Limited	Australia	provision of healthcare services	85.00%	85.00%	15.00%	15.00%
Virtus Fertility Centre Singapore Pte Limited and its controlled entities	Singapore	provision of healthcare services	70.00%	90.00%	30.00%	10.00%
Complete Fertility Limited	United Kingdom	provision of healthcare services	90.00%	90.00%	10.00%	10.00%

Summarised financial information

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

	SIMS Clinic Limited 2019 $'000	SIMS Clinic Limited 2018 $'000
Summarised statement of financial position		
Current assets	6,783	5,365
Non-current assets	12,504	12,245
Total assets	19,287	17,610
Current liabilities	5,198	4,978
Non-current liabilities	1,169	1,161
Total liabilities	6,367	6,139
Net assets	12,920	11,471
Summarised statement of comprehensive income		
Revenue	34,893	34,991
Expenses	(30,099)	(29,580)
Profit before income tax expense	4,794	5,411
Income tax expense	(675)	(680)
Profit after income tax expense	4,119	4,731
Other comprehensive income	-	-
Total comprehensive income	4,119	4,731
Statement of cash flows		
Net cash from operating activities	5,307	6,498
Net cash used in investing activities	(689)	(293)
Net cash used in financing activities	(3,240)	(6,345)
Net increase/(decrease) in cash and cash equivalents	1,378	(140)
Other financial information		
Profit attributable to non-controlling interests	631	899
Dividends paid to non-controlling interests	486	1,212
Accumulated non-controlling interests at the end of reporting period	7,124	6,207

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 June 2019

Note 27. Interests in subsidiaries (continued)

Transactions with non-controlling interests

	Consolidated 2019 $'000	2018 $'000
Dividends paid/payable to non-controlling interest	(486)	(1,212)

Note 28. Deed of cross guarantee

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

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

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

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

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

Statement of comprehensive income	2019 $'000	2018 $'000
Revenue	126,083	125,439
Share of profits of associates accounted for using the equity method	510	570
Trust distributions received	22,561	22,835
Other income	5,678	2,151
Fertility specialists, consumables and associated costs	(32,424)	(32,149)
Employee benefits expense	(50,303)	(48,263)
Depreciation and amortisation expense	(7,418)	(7,312)
Occupancy expense	(8,930)	(7,895)
Advertising and marketing	(3,270)	(3,437)
Practice equipment expenses	(1,133)	(942)
Professional and consulting fees	(1,422)	(949)
Other expenses	(6,541)	(6,240)
Finance costs	(8,763)	(7,218)
Impairment charge	(5,800)	-
Profit before income tax expense	28,828	36,590
Income tax expense	(10,624)	(11,508)
Profit after income tax expense	18,204	25,082
Other comprehensive income/(loss)		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(1,383)	306
Other comprehensive income/(loss) for the year, net of tax	(1,383)	306
Total comprehensive income for the year	16,821	25,388

Equity - retained profits	2019 $'000	2018 $'000
Retained profits at the beginning of the financial year	29,508	25,327
Profit after income tax expense	18,204	25,082
Dividends paid	(19,294)	(20,901)
Retained profits at the end of the financial year	28,418	29,508

Statement of financial position	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	4,387	6,189
Trade and other receivables	17,809	18,840
Prepayments	1,977	1,782
	24,173	26,811
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	215,315	221,776
Property, plant and equipment	18,993	22,002
Intangibles	204,961	206,615
Deferred tax	5,275	3,530
Other	217	77
	446,250	455,489
Total assets	470,423	482,300
Current liabilities		
Trade and other payables	6,224	8,776
Derivative financial instruments	765	420
Income tax	2,008	3,058
Provisions	2,866	2,661
Unearned income	5,582	5,005
	17,445	19,920
Non-current liabilities		
Borrowings	173,803	180,743
Derivative financial instruments	1,738	107
Provisions	3,282	2,941
Other financial liabilities	1,451	3,695
	180,274	187,486
Total liabilities	197,719	207,406
Net assets	272,704	274,894
Equity		
Issued capital	241,890	242,251
Reserves	2,396	3,135
Retained profits	28,418	29,508
Total equity	272,704	274,894

Note 29. Parent entity information

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

Statement of comprehensive income

	Parent 2019 $'000	Parent 2018 $'000
Profit after income tax	30,283	26,669
Total comprehensive income	30,283	26,669

Statement of financial position

	Parent 2019 $'000	Parent 2018 $'000
Total current assets	41,557	41,642
Total assets	299,712	293,750
Total current liabilities	3,574	6,992
Total liabilities	3,647	8,341
Net assets	296,065	285,409
Equity		
Issued capital	241,890	242,251
Share-based payments reserve	7,513	7,485
Retained profits	46,662	35,673
Total equity	296,065	285,409

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 2019 and 30 June 2018 apart from being a party to the deed of cross guarantee as detailed in note 28.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Note 30. 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:

2019

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	$6.40	29,448	-	-	(29,448)	-
03/10/2014	03/10/2024	$8.57	71,029	-	-	(25,614)	45,415
13/05/2015	13/05/2025	$7.16	2,757	-	-	(1,221)	1,536
13/05/2015	13/05/2025	$7.53	912	-	-	(295)	617
13/05/2015	13/05/2025	$7.94	794	-	-	(82)	712
13/05/2015	13/05/2025	$7.94	343	-	-	(14)	329
10/11/2015	10/11/2025	$0.00	87,763	-	-	(87,763)	-
21/08/2015	21/08/2025	$5.67	7,434	-	-	-	7,434
28/10/2015	28/10/2025	$5.01	11,491	-	-	(3,260)	8,231
16/12/2015	16/12/2025	$6.17	5,509	-	-	(1,273)	4,236
21/09/2016	21/09/2026	$8.05	8,616	-	-	-	8,616
21/09/2016	21/09/2026	$8.05	4,332	-	-	(363)	3,969
11/11/2016	11/11/2026	$0.00	99,491	-	-	(49,746)	49,745
21/06/2017	21/06/2027	$5.35	3,129	-	-	-	3,129
24/10/2017	24/10/2027	$0.00	171,199	-	6,166	-	177,365
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	-	14,337	-	243,728
22/11/2017	22/11/2027	$0.00	136,508	-	-	-	136,508
10/10/2018	10/10/2028	$0.00	-	241,581	-	-	241,581
10/10/2018	10/10/2028	$0.00	-	31,579	-	-	31,579
10/10/2018	10/10/2028	$0.00	-	14,336	-	-	14,336
10/10/2018	10/10/2028	$0.00	-	14,211	-	-	14,211
21/11/2018	21/11/2028	$0.00	-	177,740	-	-	177,740
			1,102,402	479,447	20,503	(199,079)	1,403,273

The weighted average exercise price is $0.48 (2018: $0.99).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 8.5 years (2018: 8.7 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
10/10/2018	10/10/2028	$5.47	$0.00	30.00%	4.59%	2.16%	$4.42
10/10/2018	10/10/2028	$5.47	$0.00	30.00%	4.59%	2.16%	$4.42
10/10/2018	10/10/2028	$5.47	$0.00	30.00%	4.59%	2.16%	$4.42
10/10/2018	10/10/2028	$5.47	$0.00	30.00%	4.59%	2.16%	$4.42
21/11/2018	21/11/2028	$4.91	$0.00	30.00%	4.59%	2.13%	$2.77

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.

Note 30. Share-based payments (continued)

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.

Recognition and measurement

Equity settlement: the fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period (with a corresponding increase to the share-based payments reserve), based on the estimate of shares that will eventually vest.

Critical accounting estimate - valuation of share based payments

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 a hybrid option-pricing model provided by Hoadley, taking into account the terms and conditions upon which the instruments were granted.

Note 31. 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 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 32 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2019 $'000	**2018 $'000**
Other revenue:		
Rental income (i)	278,726	285,004
Other transactions:		
Provider fees (ii)	2,892,025	3,062,921
Share based payments (iii)	137,862	63,226

(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 2018: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins).

(iii) The following key management personnel received performance rights for the provision of IVF services delivered to patients: Lyndon Hale, Peter Illingworth, David Molloy and William Walkins (30 June 2018: Peter Illingworth 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	
	2019 $'000	**2018 $'000**
Current receivables:		
Trade receivables from associates	517,025	675,245
Other receivables	17,821	11,062
Current payables:		
Other payables for provider fees	358,808	377,048

Terms and conditions

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

Note 32. 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	
	2019 $'000	**2018 $'000**
Short-term employee benefits	3,052,929	3,153,600
Post-employment benefits	197,662	190,418
Long-term benefits	30,280	7,553
Share-based payments	159,588	231,769
	3,440,459	3,583,340

Note 33. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2019 $'000	**2018 $'000**
Profit after income tax expense for the year	28,990	32,009
Adjustments for:		
Depreciation and amortisation	13,628	12,496
Impairment of intangibles	5,800	-
Write off of non-current assets	135	-
Share-based payments	1,161	881
Amortisation of bank facility fees	563	207
Net fair value gain on other financial liabilities	(8,261)	(1,089)
Other non-cash items	(30)	(1,029)
Interest on other financial liabilities - non-cash interest	1,464	981
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,963)	(592)
Decrease/(increase) in inventories	(504)	6
Increase in deferred tax assets	(1,476)	(941)
Increase in trade and other payables	380	5,043
Increase/(decrease) in provision for income tax	(3,137)	3,756
Increase/(decrease) in other provisions	780	(428)
Increase in other operating liabilities	1,760	3,667
Net cash from operating activities	38,290	54,967

Note 34. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 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 35. Commitments

	Consolidated	
	2019 $'000	2018 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	13,160	12,748
One to five years	39,150	32,330
More than five years	33,332	26,132
	85,642	71,210

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 may be 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 $154,470 (2018: $286,874)

Recognition and measurement

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.

Impact of new standards not yet applicable:

AASB 16 Leases

In February 2016 the AASB issued AASB 16, 'Leases', which replaces the current guidance in AASB 117 'Leases'. 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 $85,642,000, see note 35. The present value of the consolidated entities operating lease payments as defined under the new standard will be recognised as lease liabilities on the balance sheet and included in net debt.

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 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.

The consolidated entity has implemented a lease contract management system solution to electronically manage its lease portfolio and perform lease calculations as required by the new lease standard. The standard will be first applicable for the year commencing 1 July 2019 and the group is currently in the final stages of determining the impact on the consolidated financial statements.

To date the most significant impact identified is in respect of the right to use (ROU) asset and lease liability for property leases. Under either of the alternative approaches to transition allowed under the accounting standard, the impact at the date of transition will be an estimated increase in new ROU assets in the range of $70-90m and lease liabilities in the range of $90-110m.

Capital Commitments

The consolidated entity had $Nil (FY18:$4,707,000) in capital commitments for property, plant and equipment as at 30 June 2019.

Note 36. 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 to $175,000 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 $5,001,000 (2018:$4,718,000) 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 3 years (2018:1 year).

Note 37. Non-current assets - other

	Consolidated	
	2019 $'000	2018 $'000
Security deposits	287	517

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	
	2019 $'000	2018 $'000
Audit services - PricewaterhouseCoopers		
Audit or review of the financial statements	480,000	467,300
Other services - PricewaterhouseCoopers		
Due diligence	20,000	208,500
Tax compliance services	-	7,500
	20,000	216,000
	500,000	683,300
Audit services - network firms		
Audit or review of the financial statements	141,513	119,692
Other services - network firms		
Tax services	52,584	68,792
Other	103,991	20,782
	156,575	89,574
	298,088	209,266

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

Note 39. Other accounting policies

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.

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.

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 2019 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 28 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

20 August 2019
Sydney

INDEPENDENT AUDITORS REPORT

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 2019 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the statement of financial position as at 30 June 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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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 used overall Group materiality of $2.0 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 benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, 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 Europe. 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 instruction from the Group audit team, performed an audit of the special purpose financial information for specified entities within that country, used to prepare the consolidated financial statements.
  - The component auditor in Denmark, under instructions from the Group audit team, performed a review of the special purpose financial information for a specified entity within that country, 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 auditors, to be satisfied that sufficient appropriate evidence had been obtained for the purpose of our opinion. Review of the work undertaken by the component teams and regular dialogue between the teams up to the reporting date supplemented the specific direct written instruction provided by PwC Australia and augmented the reporting provided by the component auditors.
  - 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.

pwc

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 and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Estimated recoverable amount of goodwill assets *(Refer to note 11)* Goodwill of $448 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 current year assessment performed by the Group: - identified an impairment of $5.8 million against the goodwill recognised in the Tasmanian cash generating unit (CGU); and - did not identify the need for an impairment in any of the other CGUs. The recoverable amount of goodwill was a key audit matter given the: - financial significance of the intangible asset to the statement of financial position and the impairment recognised in the statement of comprehensive income; and - judgement applied by the Group in completing and concluding upon 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 (CGUs) of the Group for the purposes of impairment testing, and the attribution of net assets, revenues and costs to those CGUs. 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 by comparing to external information sources; - assessing if the discount rate assumptions were reasonable by comparing them to market data and comparable companies, with the assistance of our valuation specialists; - performing sensitivity analyses over the key assumptions used in the models; - considering the allocation and presentation of the impairment charge recognised; and - assessing the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

pwc

Accounting for financial liabilities relating to put options *(Refer to note 4, 18 and 25)* Financial liabilities of $8.6 million in respect of the put option arrangements exercisable in the year ended 30 June 2020 relating to the acquisitions of the SIMS Clinic Limited and TasIVF Pty Ltd are recognised on the 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 $4.5 million and resulted in a fair value gain of $4.5 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.	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; 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 2019, 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.

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 and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read the other information not yet received, 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 have 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 23 to 37 of the directors' report for the year ended 30 June 2019. In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
20 August 2019

SHAREHOLDER INFORMATION

30 June 2019

The shareholder information set out below was applicable as at 13 September 2019.

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	61	56,495,716	70.3
10,001 to 100,000	337	8,606,689	10.7
5,001 to 10,000	658	4,914,245	6.1
1,001 to 5,000	3,420	8,569,187	10.7
1 to 1,000	3,536	1,804,101	2.2
Total	8,012	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	301,900	21.5
10,001 to 100,000	38	1,051,111	74.9
5,001 to 10,000	2	16,810	1.2
1,001 to 5,000	13	30,078	2.1
1 to 1,000	6	3,374	0.3
Total	61	1,403,273	100.0

SHAREHOLDER INFORMATION (continued)

30 June 2019

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
Allan Gray Investment Mgt	7,917,195	9.8
Dimensional Fund Advisors	4,264,414	5.3
Vinva Investment Mgt	3,616,800	4.5
Merlon Capital Partners	3,380,966	4.2
Auscap Asset Mgt	2,930,000	3.6
Renaissance Smaller Companies	2,874,702	3.6
Norges Bank Investment Mgt	2,185,844	2.7
BlackRock Investment Mgt - Index	2,124,059	2.6
NovaPort Capital	2,104,857	2.6
Realindex Investments	2,038,192	2.5
Vanguard Group	1,582,023	2.0
Vanguard Investments Australia	1,392,078	1.7
Mr Lyndon G Hale	823,694	1.0
Morgan Stanley	758,216	0.9
Mr Francis Quinn	684,663	0.9
JPMorgan Securities	638,883	0.8
Acadian Asset Mgt (Australia)	629,188	0.8
Mr Jim Tsaltas & Ms Chryssa Anagno	583,424	0.7
Mr Andew KS Kan & Ms Cynthia ST C	542,837	0.7
BlackRock Investment Mgt (Australia)	526,003	0.7
Total	41,598,038	51.7

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 13 September 2019:

	Number of Ordinary Fully Paid Shares	% of Issued Capital
Allan Gray Investment Mgt	7,917,195	9.8
Dimensional Fund Advisors	4,264,414	5.3

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.

7,980,990 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 20 August 2019 and can be found at www.virtushealth.com.au/investor-centre/corporate-governance

CORPORATE DIRECTORY

Directors

Peter Macourt - Chairman
Susan Channon
Lyndon Hale
Peter Turner (resigned on 21 November 2018)
Sonia Petering
Greg Couttas
Shane Solomon (appointed on 24 September 2018)

Company secretary

Glenn Powers

Notice of annual general meeting

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

Wednesday, 20 November 2019
at the Hilton Hotel Sydney at 2pm
488 George Street
Sydney NSW 2000

Registered office

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

Principal place of business

Level 3
176 Pacific Highway
Greenwich NSW 2065

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 UK Bank Plc
Sixth Floor,
71 Queen Street,
London, EC4V 4AY

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 20 August 2019 and can be found at www.virtushealth.com.au/investor-centre/corporate-governance

virtushealth