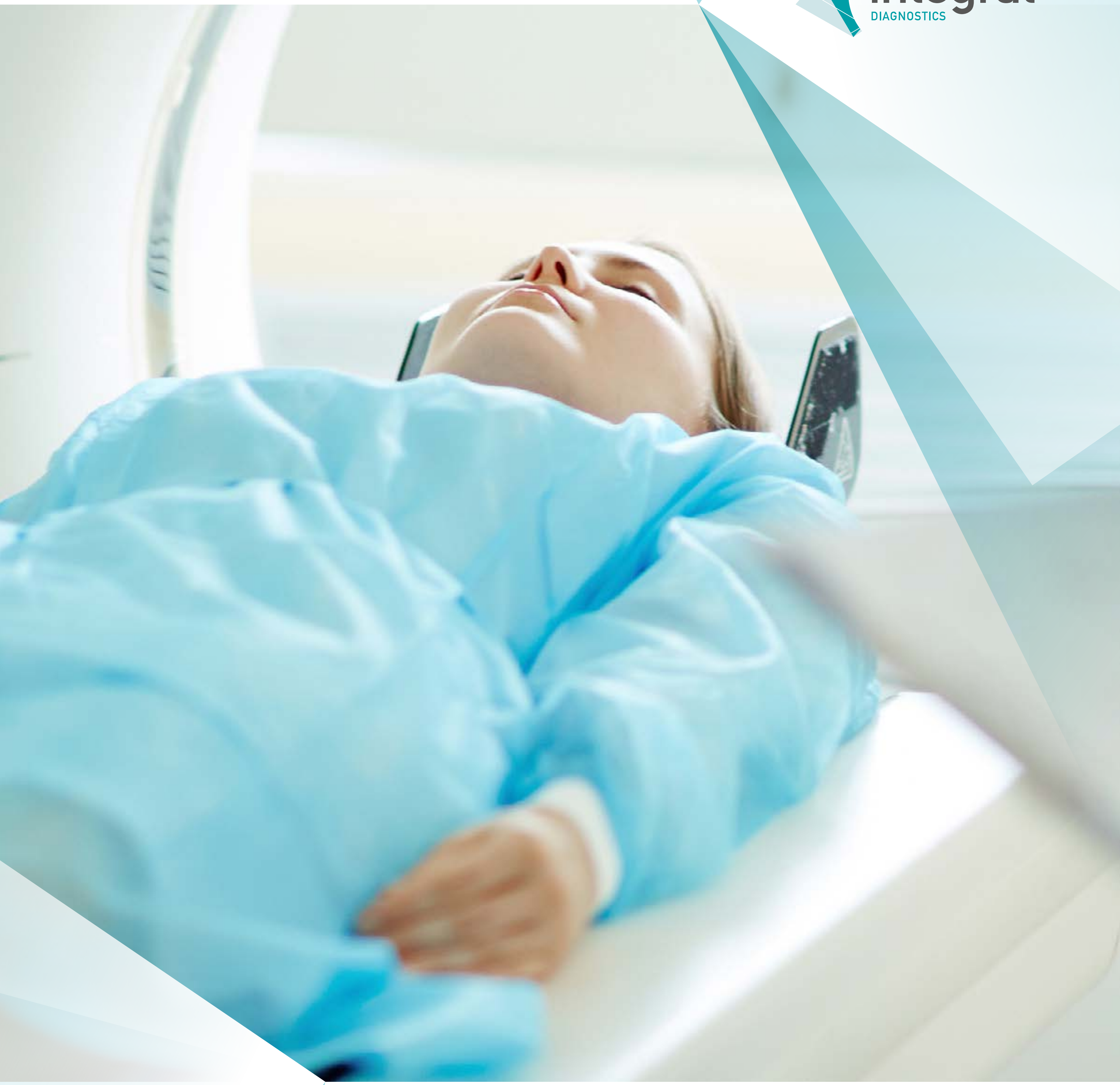
Annual Report 2018

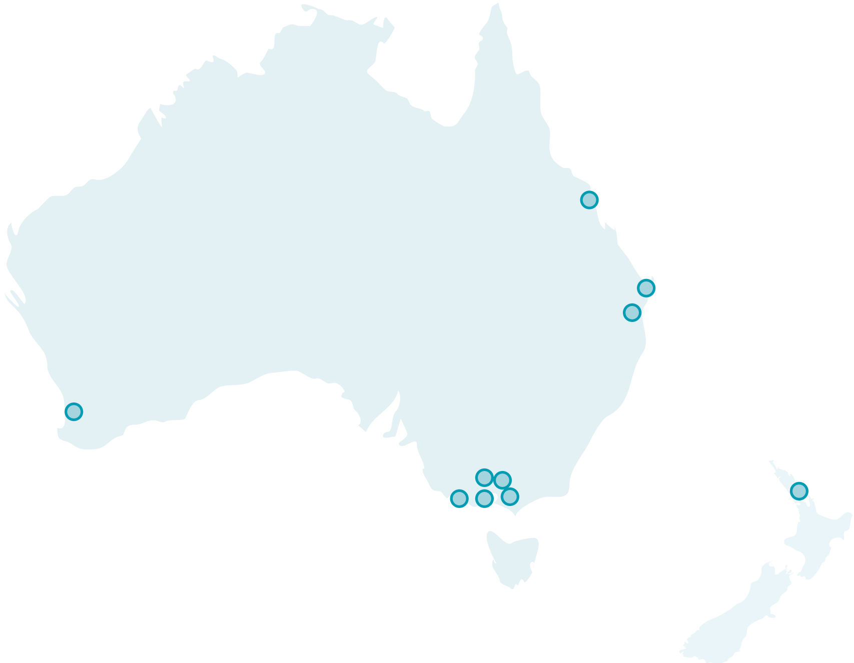


Contents

About us

We pride ourselves in the quality care and service that we deliver, in the trust that our referrers have in us, and in being the preferred provider to our patients. We always put our patients first, and in so doing we also put our shareholders first.

Our locations

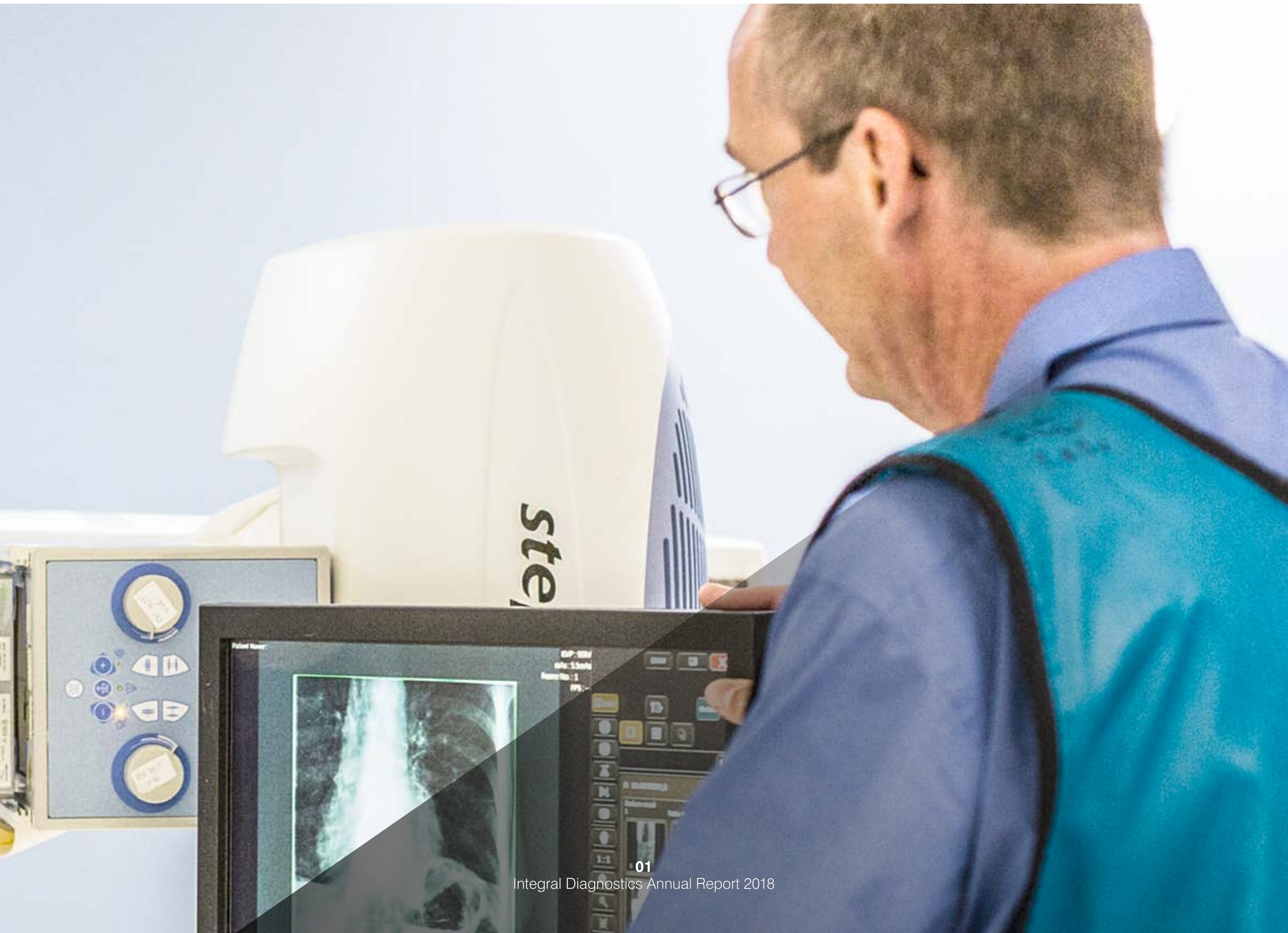


Victoria
// Ballarat (5 sites)
// Geelong (10 sites)
// Melbourne metropolitan (1 site)
// Outer western areas of Melbourne (9 sites)
// Warrnambool (2 sites)

Queensland
// Gold Coast (11 sites)
// Mackay (1 site)
// Toowoomba (1 site)

Western Australia
// South west Western Australia (9 sites)

New Zealand
// Auckland (4 sites)



Chairman's report

The strong financial performance of 20.5% organic operating NPAT growth, was driven by solid underlying services growth and the realisation of significant cost efficiencies delivering a 1.5% uplift to an industry leading margin of 20.1%.

Dear Shareholders,

On behalf of the Board, I present the 2018 Annual Report for Integral Diagnostics Limited.

Integral Diagnostics (IDX) delivered 20.5% organic operating NPAT growth in line with guidance, and basic operational EPS growth of 20.7%. The performance of the Company over the 12 months ended 30 June 2018 (FY18) was a material improvement in operating margin and key financial metrics.

This result was achieved despite the significant distraction of an unsolicited and hostile takeover bid in FY18, clearly proven not to be in the best interests of IDX shareholders. I commend the Board and management's diligence and unwavering focus on value for our shareholders throughout this time.

FY18 results delivered through strategy execution

FY18 has seen IDX's new management team in place, working collaboratively with our market leading radiologists, executing on our attractive prospects and clearly defined growth strategy, underpinned by a diversified, medically led business model.

The strong financial performance of 20.5% organic operating NPAT growth, was driven by solid underlying services growth and the realisation of significant cost efficiencies delivering a 1.5% uplift to an industry leading margin of 20.1%.

Operating revenue was up 5.9% to $188.1 million, with organic growth being delivered across all business units by leveraging off our highly developed hub and spoke model. Whilst a strong result, revenue growth was impacted by impaired access in Q1 and the Commonwealth Games on the Gold Coast in April 2018.

Underlying examination volume growth was 6.7%. This was above Medicare data of 5.7% in the States in which we operate, with significant volume growth coming from reporting contracts and non-Medicare related imaging showing the strength of our materially more diversified model than typical industry participants. IDX also provides a greater level of higher value modalities than the industry in general.

Importantly through disciplined cost management executed and continuing to be underway, IDX only incurred expenditure growth of $6.6 million, resulting in an underlying NPAT performance of $18.2 million, which was $3.1 million above FY17. Free cash flow was up 27.9% to $30.7m.

At 30 June 2018 IDX had net debt of $44.9 million and comfortable gearing at 1.2X Net Debt to EBITDA.

On the 2nd of July 2018, IDX completed the acquisition of specialist radiology businesses Specialist Radiology Group, Trinity MRI and Cavendish Radiology in Auckland, New Zealand as well as the acquisition of Geelong Medical Imaging (GMI) in Australia. These acquisitions represent a strong strategic, clinical and cultural fit with our doctor led model and we look forward to their successful integration.

Reflecting the company's strong financial performance and outlook, and despite the costs incurred in the takeover response, your Board was pleased to announce a fully franked final FY18 dividend of 4.0 cents per share, taking the full year FY18 dividend to 8.0 cents per share fully franked, in line with a payout ratio of 65-75% of net profit after tax and amortisation.

Transformational change under fresh leadership

The successful execution of IDX's strategy has been led by our new leadership team in place. Dr Ian Kadish commenced as CEO and Managing Director from 22 May 2017 and Anne Lockwood was appointed as Chief Financial Officer (CFO) on 1 December 2017, after previously being IDX's Financial Controller and Interim CFO from 1 September 2017.

In February 2018, our CEO restructured the management team, strengthened the role of our General Managers and the position of Chief Operating Officer was made redundant.

Raelene Murphy joined the Board as a non-executive Director on the 1st October 2017 and is also the Chair of the Audit and Risk Committee. Raelene has extensive experience as Chair of Audit and Risk Committees for ASX listed companies and has already been a valuable addition to our skilled and diverse board.

Future prospects for further growth are positive

The regulatory environment is generally positive across Australia and New Zealand whilst technological advances continue to expand the range of clinical indications for diagnostic imaging solutions. This has improved diagnosis and treatment, and assisted in avoiding unnecessary invasive procedures and reduced unnecessary hospital admissions.

The introduction of a MBS rebate for MRI Prostate is an example of the critical benefits of diagnostic imaging to patients, referrers and total health care costs in modern medicine. Prostate cancer is the most common cancer in males with 17,729 new cases of prostate cancer diagnosed in 2018 in Australia.

Prostate MRI has been proven to improve the accuracy of prostate cancer diagnosis by enhancing detection of significant cancer requiring treatment whilst also reducing treatment of insignificant cancer. The use of MRI following an elevated PSA can help clinicians decide if a biopsy is necessary. A British study published in the Lancet Medical Journal found that using MRI could prevent one in four men from having an unnecessary biopsy. Biopsies are more costly than a MRI and come with discomfort and risk of complications.

Given our MRI licences and high end clinical expertise, this change will be highly beneficial to Integral Diagnostics. The MBS benefits will be partially offset by the new restriction on GP referred knee MRIs.

A select number of MBS diagnostic imaging items are proposed to have indexation re-instated from 2020. We continue to support the campaign to improve patient affordability of all diagnostic imaging services by re-instating indexation from 2020 across all MBS diagnostic imaging items. Diagnostic imaging has now operated for 20 years without MBS indexation.

Looking forward, Integral Diagnostics has a solid growth platform to capitalise on the favourable healthcare industry dynamics particularly evident in diagnostic imaging – improving technology, a continuation in the trend towards prevention and early diagnosis and a shift to more complex modalities. Integral Diagnostics will continue to pursue appropriate acquisition opportunities that are in strategic alignment with our doctor led model, fit our culture and high end clinical focus, and are earnings accretive to deliver sustainable value to shareholders.

IDX is shaping as a true leader in comprehensive, specialised and regional diagnostic imaging.

The support of our shareholders has been greatly valued by the Board and we thank you. Special thanks to the exceptional radiologists, imaging and support staff of Integral Diagnostics who work together to contribute daily to patient diagnosis critical to accurate health care evaluation and treatment.

We are essentially a people and technology company. It is our exceptionally talented people partnered with high end clinical technology that ensures patients are at the heart of everything we do and get the very best of health care. This is what differentiates us.

Yours sincerely,

Helen Kurincic
Chairman

Managing Director and Chief Executive Officer's Report

Building on our history of successfully acquiring and integrating strategically compelling, fast-growing diagnostic imaging businesses, we will continue to pursue attractive acquisitions that fit our criteria, add scale and scope, build our quality, service and reputation, and are earnings accretive.

Dear Fellow Shareholders,

I am proud to have led Integral Diagnostics during this exciting phase of the Company's development, as we expand our service offering to growing patient populations in Australia and New Zealand.

Over the past year, we have performed over a million diagnostic imaging tests, have served more than 500,000 patients, and have consulted and reported for more than 20,000 doctors and other health professionals. In the process we have grown our volumes by almost 7%, and have organically grown our operating earnings by more than 20%.

Over the period we have seen our share price increase by around 90% as investors have come to recognise the value that we offer in the fast growing healthcare imaging market. We have executed material acquisitions that increased our earnings base by a third, and have expanded the scale and scope of our service offering with the completion of important greenfields and brownfields in Victoria and Queensland.

On July 2nd, we acquired a comprehensive diagnostic imaging business in Victoria, and we expanded into New Zealand with the acquisition of leading clinics in fast growing patient populations in Auckland and its surrounding suburbs.

At Integral Diagnostics, we pride ourselves in the quality care and service that we deliver, in the trust that our referrers have in us, and in being the preferred provider to our patients. We always put our patients first, and in so doing we also put our shareholders first.

We passionately believe that good medicine is good business.

Operational Focus delivering results

Integral Diagnostics is ideally positioned as a focussed, comprehensive diagnostic imaging company that is substantially owned by its radiologists, is passionate about quality care and clinical leadership, and is a market leader in each geography that we service. Our concentrated presence and comprehensive service offering in growing markets position us well for profitable expansion and development.

FY18 was a busy year operationally. We successfully executed several important initiatives that underpin the continued growth of our business and earnings, while delivering "best-in-class" clinical services and the industry's highest reported margins.

The executed initiatives ensure that we continue to provide the highest quality care, while also improving our market-leading margins. The improvements in productivity and resource utilisation over the period position the group well to support the increased volume of diagnostic imaging services expected as referrers, and increasingly patients themselves, become more aware of the quality, cost and life-saving benefits that diagnostic imaging provides.

In FY18, we delivered the following major milestones:

- Installed new call centres in Queensland and Western Australia, considerably improving patient triage, service and access for patients and referrers
- Upgraded clinical systems improving medical imaging, efficiency and referrer engagement
- Opened the Spine Centre of Excellence on the Gold Coast
- Installed a new wide bore MRI in Mackay
- Undertook a major refurbishment and expanded services at the 300 bed St John of God Private Hospital in Geelong
- Installed and commissioned a new PET facility in Geelong, the first private PET service in the city, our second PET service in Victoria, and the fourth PET service in the Integral group.
- Acquired Geelong Medical Imaging in Victoria, including two radiology clinics specialising in musculoskeletal services (completed on July 2nd, 2018)
- Expanded into New Zealand with the acquisition of Specialist Radiology Group, Trinity MRI and Cavendish Radiology, that comprise leading specialist radiology clinics in Auckland (completed on July 2nd, 2018)

Well positioned to continue our growth trajectory

Our priorities for the year ahead build on our achievements in FY18 and enhance our growth platform into FY19 and beyond.

We remain focused on further margin improvement through disciplined cost management and technology improvements, and driving further growth organically and through value accretive acquisitions.

Growth will be achieved organically by leveraging the infrastructure and resources already in place, through investment in key strategic relationships with private hospital groups and referrers, and through developing our specialised diagnostic centres of excellence.

Our disciplined capital expenditure programme will see us continue to invest in, and implement, leading edge technology solutions that will improve the efficiency of our operations and further enhance the quality care and service provided to Integral Diagnostic's patients and referrers.

Building on our history of successfully acquiring and integrating strategically compelling, fast-growing diagnostic imaging businesses, we will continue to pursue attractive acquisitions that fit our criteria, add scale and scope, build our quality, service and reputation, and are earnings accretive at appropriate multiples.

Industry conditions in Australia and New Zealand are more favourable for medical imaging as major payers increasingly recognize the benefits that these critical diagnostic services offer to patients, referrers, insurers, employers and to society as a whole. Quality medical imaging help referrers to reach a diagnosis faster, allow patients to avoid more invasive and more expensive surgical procedures, and enable patients to return to work sooner. Medicare Australia recently recognized some of these benefits in adding Prostate MRI to the Medicare Benefits Schedule.

Integral Diagnostics is privileged to work with some of the world's finest radiologists, specialists, clinical and support teams. Integral is committed to working with our radiologists, and with the Royal Australia and New Zealand College of Radiology (RANZCR), to ensure that ANZ continues to educate, train, attract and retain some of the finest radiologists in the world. To that end, Integral Diagnostics is proud to have sponsored the College's 2017 Graduation Ceremony for new RANZCR-trained radiologists, and has committed to sponsor it again this year.

I would like to take this opportunity to thank our referrers, doctors and staff for their ongoing support and commitment. Without them, we wouldn't be a leading diagnostic imaging provider in Australia and now also in New Zealand.

We look forward to continuing our growth trajectory – to delivering quality care to our patients, outstanding service and valuable insights to our referrers, a preferred place to work for our doctors and staff, and growing returns for our shareholders.

Sincerely,
Ian

Dr Ian Kadish
Managing Director and
Chief Executive Officer

Directors' Report continued

For year ended 30 June 2018

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Integral Diagnostics Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2018.

The information referred to below forms part of, and is to be read in conjunction with, this Directors' Report:

- the Operating and Financial Review (OFR) on pages 25 to 32; and
- the Remuneration Report on pages 14 to 23.

Directors

The following persons were Directors of Integral Diagnostics Limited during the whole of the financial year and up to the date of this Report, unless otherwise stated:

Helen Kurincic (Independent Non-Executive Chairman)	
Dr Ian Kadish (Managing Director and Chief Executive Officer)	
Dr Chien Ping Ho (Executive Director)	
Dr Sally Sojan (Executive Director)	
John Atkin (Independent Non-Executive Director)	
Rupert Harrington (Independent Non-Executive Director)	
Raelene Murphy (Independent Non-Executive Director)	Appointed 1st October 2017

Principal activities

During the financial year, the principal activity of the Group was the provision of diagnostic imaging services.

Business strategies, prospects and likely developments

The OFR on pages 25 to 32 of the Annual Report sets out information on the business strategies, prospects and likely development for the future financial years.

Review and results of operations

A review of the operations of the Group during the financial year, the results of those operations and the financial position of the Group is contained in the OFR on pages 25 to 32.

Dividends paid in the year ended 30 June 2018

Dividends paid/payable during the financial year were as follows:

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Final Dividend paid to shareholders of the company.	5,802	5,802
Interim Dividend paid to shareholders of the company.	5,802	4,351

Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 2nd July 2018, the Group acquired the assets and liabilities of the Specialist Radiology Group, Trinity MRI and Cavendish Radiology in Auckland New Zealand (referred to as the New Zealand transaction).

The three businesses combined:

- Comprise the leading specialist radiology clinics in Auckland.
- Employ and contract several of the nation's leading specialists in musculoskeletal radiology and neuroradiology.
- Have a projected EBITDA contribution of NZ$13 million to NZ$14 million (A$12 million to A$13 million[1]) for FY19.
- A high growth business with strong margins.
- Provides a premier platform for Integral Diagnostics to enter and grow in New Zealand.

The key terms of the acquisition included:

- A purchase consideration of NZ$105 million (A$99.03 million) on a cash and debt free basis, comprising NZ$80 million (A$75.3 million) in cash and NZ$25 million (A$23.25 million) in IDX equity.
- 80% of the equity will be held in escrow for up to five years.
- A five year staged earn-out for vendor radiologists based on earnings outperformance.

This strategic acquisition includes four clinics, employing 14 radiologists working in both the public and private sectors. The clinics are market leaders in providing complex modalities including MRI, CT and SPECT CT (nuclear medicine), which are high margin services positioned to experience significant future growth. The clinics are fitted with state of the art equipment.

Also on 2nd July 2018, the Group acquired the assets and liabilities of Geelong Medical Imaging (GMI), which comprises two radiology clinics in Geelong, Victoria. These clinics comprise a number of modalities, including X-Ray, ultrasound, CT, MRI and nuclear medicine.

The key terms of the acquisition include:

- A purchase consideration of $3.15 million on a cash and debt free basis.
- $1.05 million in IDX equity (subject to voluntary escrow).
- $1.40 million of deferred cash.

See Note 38 to the financial statements for full detail of these transactions.

Subsequent to year-end, a fully franked dividend of 4 cents per share was declared and will be paid on 2 October 2018.

Other than as disclosed in the financial statements, the Directors are not aware of any other matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Environmental regulations

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. During the financial year the Group was not convicted of any breach of environmental regulations.

1. Based on forecast average weighted exchange rate of $NZ1 to $AUD0.93.

Directors' Report continued

For year ended 30 June 2018

Information Directors

Helen Kurincic
Independent Non-Executive Chairman
MBA, FAICD, Grad Dip Wom Stud,
PBC Crit Care, Cert Nsg

Ms Helen Kurincic was appointed as an independent Non-Executive Director and Chairman of the Company in December 2014, preceding listing on the ASX on 21 October 2015 and is the Chairman of the Nomination Committee and a member of the People and Remuneration Committee and the Audit, Risk and Compliance Committee.

Helen has deep Executive and Board-level experience across the healthcare industry. She is currently a Non-Executive Director of HBF Health Limited, Estia Health Limited (ASX: EHE) and Sirtex Medical Limited (ASX: SRX), and is a senior advisor in the healthcare sector. Previously, Helen was the Chief Operating Officer and Director of Genesis Care from its earliest inception, creating and developing the first and largest radiation oncology and cardiology business across Australia. Prior to that Helen held various executive and non-executive healthcare sector roles including Non-Executive Director of DCA Group Ltd (diagnostic imaging services in Australia and the United Kingdom), Non-Executive Director of AMP Capital Investors Domain Principal Group, CEO of Benetas and Non-Executive Director of Melbourne Health and Orygen Research Centre.

Helen has also been actively involved in healthcare government policy reform including appointments by health ministers as Chair of the Professional Programs and Services Committee for the Fourth Community Pharmacy Agreement and Member of the Minister's Implementation Taskforce and Minister's Reference Group for the Long Term Reform of Aged Care.

Former directorships (in the last three years)	None
Special responsibilities	Member of the Audit, Risk and Compliance Committee and People and Remuneration Committee, Chair of the Nomination Committee
Interests in shares	420,870 ordinary shares (indirectly)

Dr Ian Kadish
Managing Director and Chief Executive Officer
MBBCh, MBA

Dr Ian Kadish was appointed Managing Director and Chief Executive Officer of Integral Diagnostics on 22 May 2017. Ian began his career as a medical doctor in Johannesburg, South Africa.

He subsequently completed an MBA at the Wharton Business School at the University of Pennsylvania (Dean's List, May 1990) and followed this with several roles overseas including CSC Healthcare, McKinsey and Company, and Netcare, a major hospital group in South Africa and the United Kingdom where Ian was an Executive Director from 1997 to 2006. Ian was instrumental in growing the group from five hospitals with a revenue of $60 million, to 119 hospitals and revenue of $3 billion.

Since migrating to Australia in 2006, Ian's roles have included CEO and MD of Healthcare Australia, CEO and MD of Pulse Health Group (ASX-listed hospital group) and CEO of Laverty Pathology.

Former directorships (in the last three years)	None
Special responsibilities	None
Interests in shares	66,202 ordinary shares, 362,585 rights

Dr Chien Ping Ho is a fellow of the Royal Australian and New Zealand College of Radiologists and an accredited MRI supervising radiologist.

Upon completion of his radiology training at The Royal Melbourne Hospital, Dr Ho undertook advanced training at three London hospitals: Chelsea and Westminster Hospital, The Royal National Orthopaedic Hospital and University College Hospital.

During this time he completed an MRI/musculoskeletal fellowship and also spent time as a staff specialist. Dr Ho commenced with Lake Imaging in 2004 and is currently a consultant radiologist for Integral Diagnostics in Victoria Dr Ho has considerable experience across all radiology modalities with a special interest in musculoskeletal imaging, body MRI (including prostate) and Cardiac CT.

Dr Chien Ping Ho
Executive Director
MBBS, FRANZCR, GAICD

Former directorships (in the last three years)	None
Special responsibilities	Chair of the National Clinical Leadership Committee
Interests in shares	2,343,630 ordinary shares (indirectly)

Dr Sally Sojan graduated from the University of Queensland with a medical degree.

Dr Sojan completed her radiology fellowship at the Princess Alexandra Hospital in Brisbane. Dr Sojan then completed her nuclear medicine and PET qualifications at The Royal Brisbane Hospital and The Royal Adelaide Hospital followed by an MRI fellowship at The Mater Private Hospital in Brisbane.

Dr Sojan commenced working at South Coast Radiology where she established the first PET service on the Gold Coast. Her specialty interests include nuclear medicine and PET and musculoskeletal MRI. Dr Sojan was previously the Chair of the South Coast Radiology Board Meetings and has been a board member of Integral Diagnostics for four years.

Dr Sally Sojan
Executive Director
MBBS, FRANZCR, FAANMS,GAICD

Former directorships (in the last three years)	None
Special responsibilities	Member of the National Clinical Leadership Committee
Interests in shares	1,046,491 ordinary shares (indirectly)

John Atkin
Independent Non-Executive Director
BA, LLB, FAICD

John Atkin is a Non-Executive Director of IPH Limited (ASX: IPH). John is currently the Nomination and Remuneration Committee Chair of IPH Limited and is a member of its Audit and Risk Committees.

John is also an independent director of the Commonwealth Bank Group Superfund. John was a non executive director of Aurizon Limited (ASX: AZJ) from 2010 to 2016 and Chair of GPT Metro (ASX:GMF) for 2014 to 2016.

John was Chief Executive Officer and Managing Director of The Trust Company Limited from 2009 to 2013 prior to its successful merger with Perpetual Limited. Prior to joining the Trust Company, John was the managing partner and Chief Executive Officer of leading Australasian law firm Blake Dawson (now Ashurst). Before this, John was a senior mergers and acquisitions partner of Mallesons Stephen Jacques (Now King & Wood Mallesons). John is Chairman of the Australian Outward Bound Foundation, a Director of Outward Bound International Inc, Chair of Hunters Hill Environment Action Group Inc and a member of the board of the State Library of New South Wales Foundation.

Former directorships (in the last three years)	Aurizon Holdings Limited, GPT Metro Office
Special responsibilities	Chair of the People and Remuneration Committee and a member of the Audit, Risk and Compliance Committee and the Nomination Committee
Interests in shares	132,945 ordinary shares (indirectly)

Rupert Harrington
Independent Non-Executive Director
BTech, MSc, CDipAF

Rupert Harrington joined the Integral Board on 1 October 2015 as an experienced director with a wealth of experience in business strategy and M&A.

Mr Harrington's early career was in operational management in United Kingdom and Australia. His career from 1987 was in private equity where he has an excellent track record of delivering results for investors in sectors including health, technology, services, and manufacturing. This included Advent's healthcare investments in Primary Health Care and Genesis Care.

Mr Harrington is currently Chairman of Clover Corporation (ASX: CLV) and Non-Executive Director of Pro-Packaging (ASX: PPG). At the end of 2017 he resigned as Non-Executive Director of Bradken Limited following its successful acquisition by Hitachi.

Former directorships (in the last three years)	Bradken Limited
Special responsibilities	Member of the Audit, Risk and Compliance Committee, the People and Remuneration Committee and the Nomination Committee
Interests in shares	177,356 ordinary shares (directly) and 128,534 ordinary shares (indirectly)

Raelene Murphy
(Appointed 1 October 2017)
Independent Non-Executive Director
BBus, FCA, GAICD

Ms Raelene Murphy was appointed as an independent Non-Executive Director of the Company on 1 October 2017, and is the Chairman of the Audit, Risk & Compliance Committee.

Raelene has over 30 years' experience in strategic, financial and operational leadership in both industry and professional advisory after beginning her career in audit. She was formerly a Partner in a national accounting firm, Managing Director of Korda Mentha and CEO of Delta Group. In her professional advisory career she specialised in operational and financial restructuring with a particular emphasis on merger and acquisition integration across a range of significant public and private companies.

Raelene is a Fellow of Chartered Accountants Australia and New Zealand and has extensive experience as Chair of Audit and Risk Committees for ASX Listed companies.

She is currently a Non-Executive Director of ASX listed Altium Limited (ASX: ALU), Service Stream Limited (ASX: SSM), Bega Limited (ASX: BGA) and Clean Seas Seafood Limited (ASX: CSS).

Former directorships (in the last three years)	Tassal Group Limited and EVZ Limited
Special responsibilities	Chair of the Audit, Risk and Compliance Committee.
Interests in shares	12,835 ordinary shares (indirectly)

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

Directors' Report continued
For year ended 30 June 2018

Company Secretary
Kathryn Davies (BBus, CPA, GAICD) was appointed Company Secretary on 8 August 2017. Kathryn is an experienced executive and company secretary with extensive commercial and corporate governance experience across international capital markets. Her experience includes healthcare, mining, oil and gas, industrial and technology groups. She has significant experience in negotiating and delivering on multi jurisdiction transactions and large scale, long term contracts as well as international stakeholder management.

Sonia Joksimovic (BBus, AFIN, FGIA, GAICD) was Company Secretary until her resignation on 7 August 2017. Sonia is an experienced chartered secretary with over nine years' experience across listed small market capitalisation, unlisted and private companies, specialising in governance, compliance and other corporate matters.

Meetings of Directors

	Board		Audit, Risk and Compliance Committee		People and Remuneration Committee		Nomination Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Helen Kurincic	26	26	4	4	6	6	3	3
Dr Ian Kadish	26	26	–	–	–	–	–	–
Dr Chien Ping Ho[1]	25	23	–	–	–	–	–	–
Dr Sally Sojan	25	25	–	–	–	–	–	–
John Atkin	26	26	4	4	6	6	3	3
Rupert Harrington	26	26	4	4	6	6	3	3
Raelene Murphy	22	21	3	3	–	–	–	–

Held: represents the number of meetings held during the time the Director held office and was eligible to attend. A number of additional Board meetings were convened during the period of the takeover bid resulting in a higher than usual number of Board meetings held annually.

1. Dr Chien Ping Ho was on sabbatical and undertaking professional development overseas, he was unable to attend two meetings during this time.

Indemnity and insurance of officers
The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, Executives and the Company Secretary of the Company, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the officer as an officer of the Company or of a related body corporate.

In accordance with the Company's Constitution, the Company has entered into a deed of indemnity, insurance and access with each of the Company's Directors. Under the deeds of indemnity, insurance and access, the Company must maintain a Directors' and officers' insurance policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate until seven years after a Director ceases to hold office as a Director or a related body corporate (or the date any relevant proceedings commenced during the seven-year period have been finally resolved). No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

During the financial year, the Company has paid a premium in respect of a contract insuring officers of the Company and its subsidiaries against all liabilities that they may incur as an officer of the Company, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or the policy can be disclosed.

Indemnity and insurance of the 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 the non-audit services provided during the financial year by the auditor are outlined in Note 28 to the financial statements.

The non-audit services provided were largely for work performed pertaining to compliance tax services, takeover response and due diligence on transactions.

The Directors are satisfied that the provision of non-audit services provided 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 28 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 audit partners of PricewaterhouseCoopers.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

Auditor

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

Rounding of amounts

The Company is a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this Report and in the financial statements have been rounded off, except where otherwise stated, in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

This Report is made in accordance with a resolution of Directors. On behalf of the Directors.

Helen Kurincic
Chairman

Dr Ian Kadish
Managing Director and Chief Executive Officer

22 August 2018
Melbourne

Remuneration Report

For year ended 30 June 2018

The Remuneration Report, which has been audited, outlines the Director and Executive remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key Management Personnel (KMP) of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors. The table below lists the KMP for the year ended 30 June 2018 (FY18). All KMP held their position for the duration of FY18, unless otherwise noted.

Name	Position
Non-Executive Directors	
Helen Kurincic	Independent, Non-Executive Chairman
John Atkin	Independent, Non-Executive Director
Rupert Harrington	Independent, Non-Executive Director
Raelene Murphy	Independent, Non-Executive Director
Executive Directors	
Dr Ian Kadish	Managing Director and Chief Executive Officer
Dr Chien Ping Ho	Executive Director
Dr Sally Sojan	Executive Director
Executives	
Anne Lockwood	Chief Financial Officer (commenced as interim CFO on 1 September 2017 and appointed permanent CFO from 1 December 2017)
Gregory Hughes	Chief Operating Officer (position made redundant and ceased to be KMP on 9 February 2018)
Craig Bremner	Chief Financial Officer (ceased on 31 August 2017)

For the remainder of the Report, the term ‘Executive’ refers to all Executive KMP except for Dr Chien Ping Ho and Dr Sally Sojan who are both full time radiologists with the group.

The Remuneration Report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Other transactions with KMP and their related parties

D. Service agreements

E. Minimum Shareholding Policy

F. Additional disclosures relating to KMP

A. Principles used to determine the nature and amount of remuneration

The objectives of the Group’s Executive reward framework is to align Executive reward with the achievement of strategic objectives, the creation of value for shareholders and ensures the reward for performance is competitive and appropriate for the results delivered. The Board of Directors (‘the Board’) works to ensure that Executive reward satisfies the following key criteria:

- competitiveness and reasonableness;
- acceptability and alignment to shareholders;
- performance linkage/alignment of Executive compensation; and
- transparency.

The Company’s remuneration policy for Non-Executive Directors aims to ensure that the Company can attract and retain suitably qualified and experienced Non-Executive Directors.

People and Remuneration Committee

The People and Remuneration Committee (PRC) is governed by the PRC Charter and is responsible for reviewing and recommending to the Board compensation arrangements for the Non-Executive Directors, Executive Directors, other KMP and Senior Management including:

(a) contract terms, annual remuneration and participation in any short and long-term incentive plans.

(b) major changes and developments in the Company's remuneration, superannuation, recruitment, retention and termination policies and procedures.

(c) remuneration strategy, performance targets and bonus payments for the CEO and the Executives that report to the CEO.

(d) remuneration arrangements for the Chairman and the Non-Executive Directors of the Board, including fees, travel and other benefits.

The PRC also reviews and makes recommendations to the Board in regards to 'people' by monitoring and reviewing the Senior Management performance assessment process, reviewing major changes and developments in the personnel practices and industrial relations strategies of the Group, senior leadership succession planning, and overseeing the effectiveness of the Diversity Policy.

The following Non-Executive Directors, all of whom are regarded as independent, were members of the PRC for the entire financial year:

John Atkin – Chairman	Independent, Non-Executive Director
Helen Kurincic	Independent, Non-Executive Director
Rupert Harrington	Independent, Non-Executive Director

Executives do not participate in any remuneration matters under the PRC Charter. The PRC meets quarterly or as often as necessary in order to fulfil its role.

Use of remuneration consultants

The Board ensures that any recommendations made by consultants in relation to remuneration arrangements of KMP must be made directly to the Board without any influence from management. The arrangements in place ensure any advice is independent of management and includes management not being able to attend Board or Committee meetings where recommendations relating to their remuneration are discussed.

During FY18, the Company did not receive any 'remuneration recommendations' as defined under the *Corporations Act 2001* (Cth).

Comparative market benchmarking of Senior Executive remuneration was undertaken by the Chair of the PRC and discussed with the Chair of the Board together with the Non-Executive Directors of the PRC.

Non-Executive Directors' remuneration arrangements

Under the Constitution, the Board decides the remuneration to which each Director is entitled for his or her service as a Director. However, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting. This amount has been fixed at $1,000,000.

The annual base Non-Executive Director fees currently agreed to be paid by the Company are $200,000 to the Chairman and $100,000 to each of the other Non-Executive Directors.

The following additional annual fees are payable to Committee members for their service to their respective Committees, except the Chairman of the Board:

- $20,000 will be paid to the Chair of the Audit, Risk and Compliance Committee and $10,000 will be paid to each member of that Committee; and
- $12,000 will be paid to the Chair of the People and Remuneration Committee and $6,000 will be paid to each member of that Committee.

All Non-Executive Directors' fees include superannuation. No additional fees are paid to the Nomination Committee Chair or members.

The PRC reviewed Directors' fees during the year and determined that there would be no increase for the 2018 financial year. There will also be no Director fee increase for the 2019 financial year.

Executive Directors' remuneration arrangements

Dr Chien Ping Ho and Dr Sally Sojan are deemed to be Executive Directors as they are employed as radiologists by the Group. The key terms of their employment contracts are consistent with all radiologist shareholders and include a fixed salary at market rate plus allowances where appropriate and in line with market.

An Executive Director Board fee of up to $50,000 is paid to each of Dr Chien Ping Ho and Dr Sally Sojan.

Further details are provided on pages 21 and 22.

Executive remuneration arrangements

The Executive remuneration and reward framework for the 2018 financial year has three components:

- fixed remuneration (including base salary and superannuation) and non-monetary benefits;
- short-term performance incentives; and
- long-term performance incentives.

The combination of these comprises the Executives' total remuneration.

An Executive's remuneration arrangement is reviewed annually by the PRC, based on individual and business performance, the overall performance of the Group and comparable market data. At risk remuneration consists of the short-term (STI) and long-term (LTI) incentive programs which have been designed to align Executive remuneration with the creation of shareholder value through achievement of strategic and financial objectives.

Remuneration mix

During the reporting period, the remuneration mix for each Executive is shown below:

Executives	Fixed Remuneration (%)	STI (%)	LTI (%)[1]
Dr Ian Kadish	72%	14%	14%
Anne Lockwood[2]	80%	17%	3%
Gregory Hughes[3]	80%	20%	–
Craig Bremner[4]	80%	20%	–

1. LTI calculated with reference to proportional allocation of annual expense of the maximum LTI opportunity from grant date.
2. Appointed KMP on 1 September 2017 as Interim CFO, formal CFO appointment approved 1 December 2017.
3. Position made redundant and ceased to be KMP on 9 February 2018.
4. Ceased to be KMP on 31 August 2017, ineligible to participate in the FY18 STI plan.

The percentage of remuneration that is 'at risk' LTI assumes all applicable performance conditions are achieved in full. Details of Executive remuneration is set out below.

Fixed Remuneration

Delivery mechanism	• 100% cash payment including base salary and employer superannuation contributions
Considerations	• Role scope and complexity • The Executive's skills and experience • Industry benchmarking
Strategic objective	• To attract and retain high quality Executives to deliver Company objectives • Reward capability and experience
Governance	• Fixed remuneration is reviewed annually by the PRC with regard to market rates and individual performance • There are no guaranteed increases to fixed remuneration in employment contracts

Short Term Incentive (STI)

Delivery mechanism	• 100% cash payment
Performance period	• The FY18 STI targets were set at the commencement of FY18 and assessed by the PRC after the end of the financial year, based on the Company's audited annual results and individual performance against non-financial targets.
Performance hurdles and measures	**NPAT Growth Hurdle** • A gateway is in place for all Executives which means a minimum NPAT target must be achieved before any STI will be paid. **Financial Performance Target** • 50% of STI will be available based on achievement of year-on-year NPAT growth. • NPAT growth was selected because it is better aligned to the creation of shareholder returns. **Strategic Priority Targets** • 50% of STI will be available on achievement of non-financial strategic objectives and priorities being safety and quality, business development, technology and organizational capability transformation, which are all essential areas to positive outcomes for the Company and its stakeholders. The PRC reviews each Executive's performance against these metrics to ensure Executives consider non-financial objectives when making strategic decisions.
STI opportunity	Maximum STI opportunities are outlined below: **Executive** — **Maximum opportunity** Dr Ian Kadish — $100,000 Anne Lockwood — $70,000 Craig Bremner — $83,000 Gregory Hughes — $83,000
Strategic objective	• The Financial Performance Target and Strategic Priority Targets were chosen because they are align with the short-term objectives of the business whilst consistent with the long term strategy of the Company.
Governance	• Performance measures and objectives are clearly defined and measurable • Targets are recommended by the PRC and approved by the Board • Any incentive payment is not an entitlement and provided at the complete discretion of the Board
FY18 outcome	• The operating NPAT result of $18.2m achieved the gateway hurdle requirement, therefore triggering the STI payment. Refer to pages 21 and 22 for further details on the STI payments.

Long Term Incentive (LTI)

Strategic objective	• The LTI Plan is designed to encourage Executives to focus on the key performance drivers which underpin sustainable growth in shareholder value. It is also designed to align the interests of Executives with the interests of shareholders by providing an opportunity for Executives to receive an equity interest in the Company.
Participation by Executives	• The CEO and CFO participated in the FY18 LTI Plan.
FY18 LTI award	• The FY18 LTI award was delivered in the form of zero exercise priced options (**Performance Rights**). • The number of Performance Rights granted to participants was determined by use of a face value methodology. A participant's FY18 LTI award was divided by the volume weighted average price of the Company's shares traded on the ASX over the 30 trading days up to 30 June 2017. • Each Performance Right entitles the holder to one ordinary share in the Company (or an equivalent cash payment in lieu of an allocation of shares) subject to the satisfaction of an earnings per share performance condition. • Performance Rights are granted by the Company at no cost to the participant and no payment is required to be made on vesting and exercise of the Performance Rights. • Performance Rights will automatically be exercised on vesting. • Performance Rights do not carry any voting or dividend entitlements prior to vesting and exercise.
Performance Period	The FY18 LTI Performance Rights will be tested based on performance over a 4 year period commencing on 1 July 2017 and ending on 30 June 2021.
Performance condition and measures	• The FY18 Performance Rights will vest subject to the satisfaction of an earnings per share (EPS) performance condition. • The EPS performance condition will be measured by reference to the compound annual growth rate (CAGR) of the Company's EPS over the Performance Period. • EPS measures the earnings generated by the Company attributable to each share on issue on a fully diluted basis. • The EPS performance condition was selected because of its correlation with long-term shareholder return and its lower susceptibility to short-term share price volatility. • Calculation of EPS, the CAGR of the EPS and achievement against the performance condition will be determined by the Board in its absolute discretion, having regard to any matters that it considers relevant (including any adjustments for unusual or non-recurring items that the Board consider appropriate). The percentage of Performance Rights that will be eligible for vesting (if any) will be determined as follows:

Company's EPS CAGR over the Performance Period	% of FY18 Performance Rights that Vest
Less than 5% p.a.	Nil
Equal to 5% p.a.	20%
Between 5% and 15% p.a.	Straight line pro rata Vesting between 20% and 100%
Equal to, or above, 15% p.a.	100%

Assessment of performance condition	• EPS growth rate is to be calculated with reference to underlying earnings (operating[1]). • The method of assessing the EPS performance condition has been chosen as the Board believes it is the most appropriate way to assess the true financial performance of the Company and determine remuneration outcomes.

Testing of performance condition	• Testing of the Performance Rights is expected to occur in FY22, shortly after the end of the Performance Period. • Any Performance Rights that vest will be automatically exercised, and participants are not required to pay an exercise price. Any remaining Performance Rights that do not vest will lapse. • If none of the FY18 Performance Rights vest following testing after the end of the Performance Period due to some extreme event or circumstance, the Board may decide to re-test the performance condition at the end of a further one year period ending on 1 July 30 June 2022. Any FY18 Performance Rights that do not vest after the re-test will lapse immediately.
Additional restrictions	• Participants in the LTI Plan must elect to place an additional dealing restriction, by way of a holding lock, on any shares they may receive on vesting and exercise of the Performance Rights. • The minimum additional restriction period applies until 1 July 2022 and the maximum additional restrictions period applies until 1 July 2029 (or 1 July 2030 where the Performance Rights vest following re-testing).
Treatment of cessation[2]	• Where a participant ceases employment for cause or due to resignation (other than due to death, permanent disability or serious illness) all unvested Performance Rights will lapse, unless the Board determines otherwise. • In all other circumstances, a pro rata portion of Performance Rights (based on the portion of the Performance Period that has elapsed) will remain on foot and be subject to the original performance condition (including that the Performance Rights will be eligible for re-testing), as though the participant had not ceased employment, unless the Board determines otherwise.
Change of control	• Where there is takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change in control of the Company, the Board has the discretion to accelerate vesting of some or all of the Performance Rights (but not less than a pro rata portion (calculated based on the portion of the Performance Period that has elapsed and tested based on performance against the performance condition to that date)). Where only some of the Performance Rights are vested on a change of control, the remainder of the Performance Rights will immediately lapse. • If an actual change of control occurs before the Board exercises its discretion, a pro rata portion of the Performance Rights (equal to the portion of the relevant Performance Period that has elapsed up to the change of control) will be tested based on performance against the performance condition to that date. The Board retains a discretion to determine whether the remaining unvested Performance Rights will vest or lapse.
Forfeiture and clawback	• The Board has broad "clawback" powers to determine that any Performance Rights granted under the LTI Plan may lapse, shares allocated on vesting and exercise be forfeited, or cash payments or dividends be repaid in certain circumstances (e.g. in the case of fraud or gross misconduct). This protects the Company against the payment of benefits where participants have acted inappropriately.
Governance	• The performance condition and objectives are clearly defined and measurable • Any grant is not an entitlement and provided at the complete discretion of the Board

1. Operating defined as NPAT before one-off costs.

2. For FY18, the Board has determined that in the event of the CEO or CFO ceasing employment as a good leaver their full FY18 Performance Rights would stay on foot.

Company performance

The Company aims to align its Executive remuneration to its strategic and business objectives and the creation of shareholder value. The table below shows measures of the Group's financial performance over the last three years. The Company listed on the ASX in October 2015. As a result, it is not possible to address the statutory requirement that the Company provides a five-year discussion of the link between performance and reward in this Remuneration Report as the Company has not been listed for a sufficient time.

The link between the Company's performance and STI and LTI outcomes is considered in the sections below.

Key Measures of the Group	FY2018	FY2017	FY2016
Operating EBITDA[1] as a % of revenue	20.1%	18.8%	21%
Operating NPAT[2] as a % of Revenue	9.6%	8.3%	9.9%
EPS (cents per share)	10.40cps	10.67cps	8.2cps
Return on Operating Assets (based on operating NPAT)	14.29%	11.6%	13.4%
Closing share price[3]	3.02	1.66	1.45
Dividends paid per share	8.0cps	7.0cps	4.0cps
Declared dividend payout ratio on operating NPATA	65.0%	65.6%	–

1. Operating EBITDA defined as EBITDA before one-off costs.
2. Operating NPAT defined as NPAT before one off costs.
3. The opening share price on 21 October 2015 was $1.91.

Company performance and FY18 STI outcome

The operating NPAT result of $18.2m achieved the hurdle requirement, therefore satisfying the gateway condition for the STI payments. In respect of FY18, 100% of current Executive STIs will be paid reflecting their contribution to the performance of the Group and their contribution to the takeover response. STI payments will be made on 15 September 2018.

The table below shows the STI payment to each Executive for the current financial year:

		FY2018	
Executives	STI Foregone %	STI Paid %	STI Payment $[5]
Dr Ian Kadish[1]	–	100%	100,000
Anne Lockwood[2]	–	100%	70,000
Gregory Hughes[3]	58%	42%	35,285
Craig Bremner[4]	NA	NA	NA

1. Appointed effective 22 May 2017.
2. Appointed KMP on 1 September 2017 as Interim CFO, formal CFO appointment approved 1 December 2017.
3. Position made redundant and ceased to be KMP on 9 February 2018.
4. Ceased to be a KMP on 31 August 2017, ineligible to participate in the FY18 STI plan.
5. The minimum STI value possible is zero.

B. Details of remuneration

LTI Performance Rights granted in FY18

The table below shows the LTI details for each Executive for the financial year ended 30 June 2018:

Executives	Grant date	# of Performance Rights granted[1]	Fair value on grant date	Aggregate fair vale[1]	Vesting and exercise date[2]	Performance Rights expiry date
Dr Ian Kadish	22/11/2017	362,585	$1.54	$558,381	30/06/2021	30/6/22
Anne Lockwood	27/04/2018	100,154	$1.94	$194,299	30/06/2021	30/6/22

1. The FY18 performance rights granted were made with reference to the 30 day VWAP of the Company's shares traded up to, and including 30 June 2017, calculated fair value was made on grant date.
2. The FY18 LTI Performance Rights are zero exercise price options and the Performance Rights are automatically exercised on vesting.

Movements in Performance Rights held by Executives

The following table sets out the movement during FY18 of Performance Rights held by each Executive and their related parties. None of the Performance Rights vested or lapsed during the reporting period and none of the Performance Rights are presently capable of being exercised.

Executives	Balance 1 July 2017	Granted Number	Granted Value ($)[1]	Vested Number & Value	Lapsed Number & Value	Balance 30 June 2018	Maximum value to be recognised in future years[2]
Dr Ian Kadish	nil	362,585	558,381	–	–	362,585	464,610
Anne Lockwood	nil	100,154	194,299	–	–	100,154	183,411

1. The value of FY18 LTI Performance Rights granted in the year is the fair value of the Performance Rights calculated at the grant date using the Black Scholes Pricing Model.
2. No grants will vest if the performance conditions are not satisfied, hence, the minimum value of grants yet to vest is nil. The maximum value of grants yet to vest has been estimated based on the fair value per grant at the maximum achievement of the vesting scale less amounts already recognised as an expense.

Amounts of remuneration

Details of the remuneration received by the Group's KMP for FY18 and the prior financial year are set out in the following tables.

	Short Term Benefits		Post-employment Benefits	Long term benefits	Value in Share based plans		
FY2018	Cash salary and fees $	Cash incentive $	Superannuation $	Long service leave $	Performance rights granted $	Total remuneration $	Proportion of total remuneration related to performance %
Non-Executive Directors							
Helen Kurincic	182,648	n/a	17,352	–	n/a	200,000	0
John Atkin	111,416	n/a	10,584	–	n/a	122,000	0
Rupert Harrington[1]	108,220	n/a	10,280	–	n/a	118,500	0
Raelene Murphy[2]	90,000	n/a	–	–	n/a	90,000	0
Executive Directors							
Dr Ian Kadish[3]	488,805	100,000	20,890	7,397	93,771	710,863	27.26%
Dr Chien Ping Ho[4]	511,218	n/a	19,153	5,487	n/a	535,858	0
Dr Sally Sojan[4]	788,697	n/a	25,000	10,253	n/a	823,950	0
	2,281,004	**100,000**	**103,259**	**23,137**	**93,771**	**2,601,171**	**7.45%**
Other Key Management Personnel							
Anne Lockwood[5]	254,291	70,000	14,458	10,574	10,887	360,210	22.46%
Craig Bremner[6]	107,841	–	5,964	–	n/a	113,805	0
Gregory Hughes[7]	304,334	35,285	25,000	–	n/a	364,619	9.68%
	666,466	**105,285**	**45,422**	**10,574**	**10,887**	**838,634**	**13.85%**

1. Chair of ARCC from April to September 2017.
2. Appointed 1 October 2017 and Chair of ARCC from October 2017.
3. Remuneration includes non-recurring relocation allowance of $20k.
4. Remuneration is as a radiologist of IDX and includes Executive Director fees.
5. Appointed 1 September 2017 as Interim CFO, permanent appointment from 1 December 2017.
6. Ceased on 31 August 2017.
7. Position made redundant and ceased to be KMP on 9 February 2018.

Remuneration Report continued

For year ended 30 June 2018

With reference to FY17 company performance, no STIs were paid.

FY2017	Short Term Benefits: Cash salary and fees $	Short Term Benefits: Cash incentive $	Post-employment Benefits: Superannuation $	Long term benefits: Long service leave $	Total remuneration $	Proportion of total remuneration related to performance %
Non-Executive Directors						
Helen Kurincic	182,648	–	17,352	–	200,000	0
John Atkin	111,416	–	10,584	–	122,000	0
Rupert Harrington[1]	82,160	–	7,340	–	89,500	0
Garry Hounsell[2]	86,301	–	8,199	–	94,500	0
Executive Directors						
Dr Ian Kadish[3]	44,268	–	4,205	1,205	49,678	0
Dr Chien Ping Ho[4]	617,607	–	20,823	9,198	647,328	0
Dr Sally Sojan[4]	702,572	–	25,000	8,644	736,216	0
John Livingston[5]	444,801	–	20,193	–	464,994	0
	2,271,473	–	113,696	19,047	2,404,216	
Other Key Management Personnel						
Craig Bremner[6]	301,717	–	19,616	5,029	326,362	0
Gregory Hughes	301,717	–	19,616	5,029	326,362	0
	603,434	–	39,232	10,058	652,724	0

1. Eligible for Directors' fees from 1 October 2016 and Chair of ARCC from April 2017.
2. Ceased on 31 March 2017.
3. Appointed effective 22 May 2017.
4. Remuneration is as a radiologist of IDX and includes Executive Director fees.
5. Ceased as an Executive Director on 21 May 2017, and ceased employment on 31 July 2017.
6. Ceased on 31 August 2017.

C. Other transactions with KMP and their related parties

Related party transactions

Payment for goods and services	Consolidated 30 June 2018 $
Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Dr Chien Ping Ho, Gregory Hughes and Craig Bremner are related	368,506
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Dr Chien Ping Ho is related	210,820

All transactions with KMP are made on commercial arm's-length terms and conditions and in the ordinary course of business. The Board has an established Related Party Transaction Policy, that is overseen by the Audit, Risk and Compliance Committee, to ensure that related party transactions are managed and disclosed in accordance with the Corporations Act, ASX Listing Rule 10.1 and accounting requirements and in accordance with good governance practices, to ensure that a financial benefit is not given to related parties without approval by the Board, and where required, shareholders.

The related party transactions set out above were historical arrangements in place when the business was privately held. It is the Board's policy that independent reviews will be undertaken on any renewals and these reviews will be overseen by the Audit, Risk and Compliance Committee.

Loans

No KMP has entered into a loan made, guaranteed or secured, directly or indirectly, with or by the Company or any of its subsidiaries during the reporting period.

D. Service agreements

Remuneration arrangements for Executive KMP are formalised in employment agreements. Key conditions for Executive KMP are outlined below:

Name	Agreement commenced	Agreement expire	Notice of termination by group	Employee notice
Dr Ian Kadish	22 May 2017	No fixed end date	Six months, or 12 months if change of control event.	Six months
Dr Chien Ping Ho	1 August 2014	No fixed end date	Six months	Six months
Dr Sally Sojan	1 August 2014	No fixed end date	Six months	Six months post minimum employment period of five years
Anne Lockwood	1 December 2017	No fixed end date	Six months	Six months

E. Minimum Shareholding Policy

From 1 July 2018, the Board has introduced a Minimum Shareholding Policy that requires Non-Executive Directors, Executive Directors and other KMP to build and maintain a minimum shareholding by the later of the fifth anniversary of the policy or the fifth anniversary of their appointment in that role.

KMP are required to meet a minimum shareholding equivalent as per the prescribed percentage of their total base remuneration as outlined below:

Managing Director and CEO: 100%
CFO: 50%

Non-Executive Directors and Executive Directors are required to establish and maintain a minimum shareholding of shares equal to 100% of their annual director fees.

F. Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of the KMP of the Group, including their personal related parties, is set out below:

Ordinary shares	Balance at 1 July 2017	Additions	Disposals/other	Number of shares held upon ceasing to be KMP	Balance at the end of the year
Helen Kurincic	420,870	–	–	–	420,870
Dr Chien Ping Ho	2,445,481	–	101,851	–	2,343,630
Dr Sally Sojan	1,026,491	20,000	–	–	1,046,491
Dr Ian Kadish	–	66,202	–	–	66,202
John Atkin	132,945	–	–	–	132,945
Rupert Harrington	255,890	50,000	–	–	305,890
Raelene Murphy	–	23,946	11,111	–	12,835
Anne Lockwood[1]	–	–	–	–	–
Craig Bremner[2]	–	–	–	2,467,230	2,467,230
Gregory Hughes[3]	–	–	–	2,467,230	2,467,230
	4,281,677	166,322	112,962	4,934,460	9,263,323

1. Commenced as interim CFO on 1 September 2017 and appointed permanent CFO from 1 December 2017.
2. Ceased on 31 August 2017.
3. Position made redundant and ceased to be KMP on 9 February 2018.

The Remuneration Report has been audited.

Auditor's Independence Declaration

For year ended 30 June 2018

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Integral Diagnostics Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Integral Diagnostics Limited and the entities it controlled during the period.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
22 August 2018

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Operating and Financial Review

For year ended 30 June 2018

The purpose of this Operating and Financial Review is to provide shareholders with additional information regarding the Company's operations, financial position, business strategies and prospects. The review complements the Financial Report on pages 33 to 70 and the ASX announcement and full year results presentation dated 23 August 2018.

Integral Diagnostics Limited (ASX: IDX) is an Australian healthcare services company whose main activity is providing diagnostic imaging services to general practitioners, medical specialists and allied health professionals (referrers) and their patients.

IDX has a diversified revenue mix and focuses on providing a full range of diagnostic imaging modalities. Our footprint in full service hospitals leads to higher complexity and greater use of MRI and PET machines and interventional procedures throughout our business which leads to less reliance on bulk billed services. Post the acquisitions on the 2nd July 2018 in New Zealand and Victoria, IDX operates in four key markets.

Geographic Market	Victoria	Queensland	Western Australia	New Zealand	Total IDX
Operating Brands	Lake Imaging Geelong Medical Imaging South West MRI Western District Radiology	South Coast Radiology Darling Downs Radiology Mackay Radiology	Global Diagnostics	Specialist Radiology Group Trinity MRI	
Core markets	Ballarat, Geelong, Warrnambool and outer western areas of Melbourne	Gold Coast, Toowoomba and Mackay	South West Western Australia	Auckland	
Sites (including hospital sites)	27	13	9	4	53
Hospital sites	7	2	4	–	13
MRI machines	7	7	2	3	19
MRI licences	4 full 0 partial	3 full 3 partial	2 full 0 partial	na	9 full 3 partial
Employed Radiologists[1]	27	31	8	14	80
Employees	351	348	155	74	928

Diagnostic imaging involves a set of techniques that non-invasively produces images of the human body for clinical analysis and medical intervention. Images can be produced using a variety of modalities, including:

- radiography (X-ray);
- ultrasound;
- computed tomography (CT);
- magnetic resonance imaging (MRI); and
- nuclear medicine (which includes positron emission tomography (PET)).

The images produced by diagnostic imaging are a critical tool for referrers in diagnosing and deciding on the most effective and efficient form of treatment for patients. In this way, appropriate use of diagnostics imaging can significantly enhance medical outcomes for patients while at the same time reduce the overall cost of health care.

1. Relates to employed radiologists only. In addition IDX has a number of contractor radiologists (~39 currently).

Year in Review

Financial performance

A summary income statement providing details of one off transactions and reconciling to the statutory income statement is outlined in the following table:

Summary income statement ($million)	Actual 2018	Actual 2017
Operating revenue	188.1	177.7
Other revenue	1.3	2.0
Total revenue	189.4	179.7
EBITDA prior to one off transactions	38.1	33.5
EBIT prior to one off transactions	28.5	23.7
NPAT prior to one off transactions	18.2	15.1
One off transactions net of tax		
Transaction costs	(1.4)	–
Impairment of asset and restructuring provision	–	(0.8)
Fair Value gain on acquisition of SWMRI Joint venture	–	1.2
Statutory NPAT prior to takeover response costs	16.8	15.5
Takeover response costs	(1.7)	–
Statutory NPAT	15.1	15.5
Amortisation NPATA	15.4	15.9
Operating EBITDA as a % of Revenue	20.1%	18.6%
Operating NPAT as a % of Revenue	9.7%	8.4%
Operating Basic EPS (earnings per share)	12.55	10.41
Statutory Basic EPS (earnings per share)	10.40	10.67
Return on operating assets (Operating NPAT)	14.29%	11.6%
Declared dividend payout ratio on operating NPATA	65.0%	65.6%

The Operating performance of IDX was a material improvement on FY17. The strong financial performance was driven by solid organic revenue growth and the realisation of significant cost efficiencies resulting in IDX delivering an industry leading operating margin of 20.1%.

The lower statutory performance was due to the $3.1million in takeover response ($1.7m) and transaction costs ($1.4m). Before takeover response costs Statutory NPAT improved by 8.4%. IDX has only allocated costs directly related to external advisors and transaction related travel costs. The one off costs do not include any internal costs that would have otherwise been incurred in operations or business improvement.

Financial overview

- Achieved an overall examination volume increase of 6.7%, and operating revenue growth of $10.4 million (5.9 %) to $188.1million. The solid Operating growth was driven by new management executing on initiatives improving patient access from Q2 and leveraging off IDX's strong hub and spoke model to drive organic growth.
- Patient examination volume growth for the Company across Medicare funded, patient funded, and reporting contract examinations was up 6.7% in FY18 (with one less working day). This level of volume growth is above the Medicare data growth rate of 5.7% in the States in which IDX operates. IDX had particularly strong growth in volumes from reporting contracts and non-Medicare related imaging.
- Despite the strong revenue growth the Company was impacted by the impaired access in Q1 and the Commonwealth Games on the Gold Coast in April 2018.
- Significant cost efficiencies were realised during FY18 delivering an industry leading operating margin of 20.1%
  - Labour costs declined as a percentage of revenue reflecting management's approach to flexing labour to demand. Labour costs in FY18 also includes approximately $1.3million of incentives not included in FY17.
  - Consumable costs declined 2% or $0.2m from prior year despite volumes being up by 6.7%.

- – Except for equipment, all other operating cost centres declined as a percentage of revenue – reduced costs were driven by the vendor audit and cost efficiency reviews and did not impact service levels in any way. Equipment costs are a focus in FY19 and management is currently undertaking a review of all service costs and adopting a national procurement approach for equipment.
- – Depreciation costs were minimised due to managements and radiologists focus on 'smart spending' which reduced capital outlay and resulting depreciation.
- – Finance costs were reduced by a successful refinancing of debt facilities and disciplined use of surplus cash to fund asset purchases instead of higher cost asset financing.
- – Effective tax rate increased due to impact of non-deductible transaction costs.

Operating performance overview

- Successful defence of unsolicited, hostile takeover bid, clearly proven not to be in the best interests of IDX shareholders;
- Completion of high margin/high growth New Zealand acquisitions with high end clinical specialties and completion of a bolt on acquisition in Victoria (July 2nd, 2018);
- Installation of new call centres in QLD and WA, considerably improving access for patients and referrers from Q2;
- Upgraded clinical systems for improved medical imaging, efficiency and referrer engagement;
- Replaced MRI in Mackay with higher end wide bore MRI to better service the community;
- Opened the Spine Centre of Excellence on the Gold Coast;
- Commenced review of radiologist recruitment, retention, incentives and escrow arrangements; and
- Major refurbishment and addition of the first and only private PET facility in Geelong at St John of God Private Hospital.

Capital expenditure

Total expenditure on tangible assets was $14.0 million (FY17: $13.4 million) of which $8.8 million related to replacement, and $5.2 million related to growth opportunities. The growth capital expenditure included the Spine Centre of Excellence on the Gold Coast, the major refurbishment and new PET facility at the St John of God Hospital in Geelong, new site development at Miami Beach (opening in FY19) and investment in IT infrastructure and software to align the group's network, deliver synergies and improve the patient and referrer experience.

The development of the specialist Prostate site in partnership with the Australian Prostate Cancer Research Centre has been delayed and will occur in FY19.

Acquisitions

On 2 July 2018, the Group completed the acquisition of Specialist Radiology Group, Trinity MRI and Cavendish Radiology in Auckland, New Zealand.

The three businesses combined:

- Comprise the leading specialist radiology clinics in Auckland;
- Employ and contract several of the nation's leading specialists in musculoskeletal radiology and neuroradiology;
- Have a projected EBITDA contribution of NZ$13m to NZ$14m (A$12m to A$13m[1]) for FY19;
- A high growth business with strong margins; and
- Provides a premier platform for Integral Diagnostics to enter and grow in New Zealand.

This strategic acquisition includes four clinics, employing 14 radiologists who work in both the public and private sector. The clinics are market leaders in providing complex modalities including MRI, CT and SPECT (nuclear medicine), which are high margin services positioned to experience significant future growth. The clinics are fitted with a state of the art and modern modality fleet.

1. Based on average exchange rate of NZD$1 AUD$0.93.

IDX also completed the acquisition of Geelong Medical Imaging (GMI) on 2 July 2018, which comprises two radiology clinics in Geelong, Victoria. The clinics provide a number of modalities, including X-Ray, ultrasound, CT, MRI and nuclear medicine. The vendor radiologist is dual-trained in radiology and nuclear medicine. The FY19 EBITDA contribution of the GMI business is projected to be $1m.

Taxation

The effective tax rate on operating earnings is 31.79% (FY17: 27.35%) as a result of non-deductible transaction costs.

Cash flows

Increase in free cash flows by 27.9% to $30.7 million (FY17: $24.0 million).

Capital Management

The decline in net debt by 7.8% to $44.9 million (30 June 2017: $48.7 million) was largely due to strong cash flows.

Net Debt/EBITDA ratio of 1.2X at 30 June allowing IDX to comfortably execute acquisitions on 2nd July 2018. Post acquisition the Net Debt/EBITDA ratio is approximately 2.2X.

The Company renewed and extended debt facilities for a further three years in December 2017 and has maintained the average cost of debt at less than 3.8%.

The Company is currently undertaking a review of required financing and the optimal capital structure to fund an ongoing acquisition strategy.

Earnings per share

On a statutory basis, Basic Earnings per Share declined by 2.5% to 10.40 cents per share (FY17: 10.67 cents per share). Pre takeover defence costs Statutory Basic Earnings per Share for FY18 was up at 11.57 cents per share. Diluted Earnings per Share in FY18 taking into account the FY18 performance rights issue was 10.38 cents per share (FY17: 10.67 cents per share).

On an Operating NPAT performance, Basic Earnings per Share increased 20.7% to 12.55 cents per share (FY17 10.41 cents per share).

Dividend

Dividend payments of 8.00 cents per share ($11.6 million) fully franked will be paid for FY18. This represents 65.0% of Operating NPATA. The dividend is in line with the IDX dividend policy. A dividend of 4.00 cents per share fully franked will be paid on 4 October 2018 to shareholders on the register at 3 September 2018.

Company outlook

The long-term industry fundamentals in Australia and New Zealand are strong and continue to underpin attractive on-going growth opportunities. Australia and New Zealand have growing and ageing populations requiring greater healthcare support. At the same time, community expectations for higher quality healthcare and diagnosis continue to rise, while new imaging technologies improve efficiency and aid diagnosis and early recognition of diseases.

Increasing the use of diagnostic imaging as an early detector of disease leads to better preventative care via less invasive treatments which will ultimately lower overall healthcare costs.

The Company's focus in FY19 will be to:

- Leverage off our diversified revenue streams and developed hub and spoke model to drive organic growth and further efficiency gains;
- Focus on selection and implementation of leading edge technology solutions to improve the patient and referrer experience whilst protecting privacy that are best in class in the industry;
- Develop a prostate imaging centre of excellence in partnership with the Australian Prostate Cancer Research Centre in North Melbourne. The centre will also include state of the art cardiac imaging;
- Conclude review of radiologist recruitment, retention, incentives and escrow arrangements;
- Successfully integrate the New Zealand and Geelong Medical Imaging acquisitions which will be EPS accretive; and
- Execute on further value accretive, strategic acquisitions that are a good cultural and clinical fit and are strategically aligned.

IDX remains committed to getting on with the business of executing on our attractive prospects and growth strategy supported by a medically led and diversified business model.

Regulatory outlook

The regulatory environment is generally positive across Australia and New Zealand.

In Australia IDX expects to benefit from the introduction of an MBS rebate on MRI of the prostate from the 1st of July 2018. This will be partially offset by the restriction of GP's referring knee MRI's for patients > 50 years old from the 1st November 2018. New Breast Tomosynthesis items will also be made available from 1 November 2018 for a temporary period while a permanent listing is considered. IDX's high end clinical focus on specialising in prostate and breast imaging in Australia will benefit from these new item codes.

Importantly the Federal Government has committed to reintroducing MBS rebate indexation for a limited number of diagnostic imaging services from July 2020.

The regulatory outlook in New Zealand is stable with new pricing on contracts with the Accident Compensation Corporation (ACC) and Southern Cross Health Care (SCH) being recently finalised and confirmed.

Operating and Financial Review continued

For year ended 30 June 2018

Balance Sheet

A summary of the balance sheet as at 30 June 2018 and in comparison to the prior year is outlined in the following table.

Balance sheet	30 June 2018 Actual $'M	30 June 2017 Actual $'M
Cash and cash equivalents	20.8	24.2
Trade and other receivables	5.6	5.1
Other current assets	3.9	3.9
Total current assets	30.3	33.2
Property, plant and equipment	54.1	50.5
Intangible assets	103.6	104.0
Deferred tax asset	2.8	2.7
Total non-current assets	160.5	157.2
Total assets	190.8	190.4
Trade and other payables	12.1	8.3
Current tax liabilities	0.3	(0.03)
Borrowings	12.8	11.5
Provisions	10.6	10.6
Other current liabilities	–	0.06
Total current liabilities	35.9	30.5
Borrowings	52.5	61.4
Provisions	8.9	8.1
Other non-current liabilities	0.1	–
Total non-current liabilities	61.5	69.5
Total liabilities	97.4	100.0
Net assets	93.4	90.4

- Working capital of ($5.6) million is driven by an increase in current debt due to a number of balloon payments due on finance leases, increase in trade payables due to timing and decline in cash holdings from settlement of takeover response and transaction costs.
- Property, plant and equipment increased by $3.6 million due to $14m of purchases offset by depreciation charges.
- Provisions (excluding tax) have increased $0.8 million. This increase is due to increased employees (employee provisions) and sites (straight line lease accounting and make good provisions)
- Net debt declined by $3.8 million to $44.9 million, resulting in a leverage level of net debt / EBITDA of 1.2x.
- The Company renewed its debt facilities in December 2017 for three years and continues to comply with the financial covenants of its facility agreement.
- An additional $75million of debt was utilised to fund settlement of the acquisitions on the 2nd of July – leverage is approx. 2.2x post acquisitions.

Cash flow

A summary of the cash flows as at 30 June 2018 are presented below.

Summary of cash flow ($ million)	Actual 2018	Actual 2017
Free cash flow	30.7	20.4
Growth capital expenditure	(5.2)	(2.3)
Net cash flow before financing and taxation	25.5	18.1
Tax paid	(7.0)	(7.4)
Interest and other costs paid on borrowings	(2.5)	(2.6)
Net change in borrowings	(7.5)	2.7
Deferred consideration	(0.01)	0.03
Dividends paid	(11.6)	(10.2)
Offer transaction costs in equity	(0.3)	–
NET CASH FLOWS	(3.4)	0.6

- Free cash flows of $30.7million are $6.7 million or 27.9% higher than FY17.
- Growth capital expenditure was $5.2 million for the year largely for the Spine Centre of Excellence in Southport and the major redevelopment and new PET facility at the St John of God Hospital in Geelong. Growth Capex was lower than expected due to the development of the Prostate Centre of Excellence being delayed until FY19.
- Dividends of $11.6 million (8 cents per share fully franked) were paid in FY18.

Business risks

The risk management framework in place at IDX identifies the risk profile and sets out for each key risk how management assess, manage, monitor, measure and report the risk. IDX's core risks are described below and these risks are continuously assessed and reported on monthly. This is not a comprehensive list of all of the risks involved that may impact IDX's financial and operating result in future periods:

Strategic

- Mergers and acquisitions. It is the Company's strategy to drive growth organically and through mergers and acquisitions. This strategy may place significant demands on management, resources, internal controls and systems resulting in the failure to realise anticipated benefits or effectively integrate acquisitions.
- Contemporary technology and innovation. The failure to adapt or respond to contemporary disruptive innovations and technologies will see an increase in competition and a decline in referrals.

Financial

- Regulatory change to revenue stream. Changes to government policies and regulations may have a material adverse impact on the financial and operational performance of the Company.
- Financial – Contracts and service agreements. Contracts and service agreements may be breached, terminated or not renewed resulting in loss of capacity and revenue.

Compliance

- Regulatory compliance. Not meeting industry or regulatory compliance requirements will lead to the loss of licenses and accreditation and the inability to provide services or offer rebates which will reduce the demand for services.
- Privacy and confidentiality. The Company relies on secure processing, transmission and storage of confidential, proprietary and other information in its IT infrastructure. The loss or misuse of personal information, or inadequate and insecure data protection and privacy protocols may result in a breach of a patient or referrer privacy and confidentiality.

Operations and ICT

- Cyber security and data loss. Data integrity and IT infrastructure security and monitoring is paramount to mitigate data loss, cyber-attacks, exposure and breaches.
- Disaster recovery and crisis management. Inadequate processes and resources to manage crisis or unexpected events that threaten to harm the Company and its stakeholders.

Quality and Safety

- Clinical risk management. Inadequate and substandard professional clinical service provision places patients at risk of harm.
- Unsafe work practices. The inability to maintain safe work practices and systems for staff, patients and their carers.

Professional Staff

- Recruitment and retention of professional staff. The inability to attract, recruit, and retain quality skilled; Radiologists, technical professionals, management and staff will impact the ability to provide quality services to patients and referrers.

Risk management

The Company's risk management framework is overseen by the Audit Risk and Compliance Committee and is actively managed by the Senior Management Group. The framework is consistent with ISO 31000:2018 Risk Management – Guidelines and is subject to regular review. The framework is used to enable a consistent and rigorous approach to identifying, analysing and evaluating risks.

Fundamental to the Company's robust risk management framework has been the development and understanding of risk appetite across the business. Risk appetite is defined as the amount of risk on a broad level that the Board has been prepared to take to meet its Company goals. The Board's risk appetite is aligned to the risk culture of the company; vision and values; strategic plan and goals; service commitment and patient and referrer demographic; and the financial and budget environment in which the Company is operating.

A key component of the Company's risk management is clinical governance which is managed through Integral Diagnostic's National Clinical Leadership Committee (NCLC) and State Clinical Leadership Committees (State CLCs), under the National and State Clinical Leadership Committees Charter.

The Charter provides a framework for the National CLC and State CLCs to work together to develop and implement policies and work practices to enable clinical best practice. The responsibilities of the NCLC include reviewing any recommendations arising from any adverse incidents from the State CLCs and to share learnings to prevent recurrence.

The NCLC and Board have also endorsed the Company's new Clinical Governance and Quality Framework which is the overarching framework directing the delivery of safe and high quality diagnostic imaging services across the Group whilst maximising outcomes for patients and referrers through quality of care, continuous improvement, risk mitigation and fostering an environment of excellence in care.

The Clinical Governance and Quality Framework is supported through the elements of: governance and leadership; systems and structures; roles and responsibilities; culture and transparency; and performance review and reporting. The principles of the framework meet the requirements of ISO 9001:2015 Quality Management Systems – Requirements and ISO 31000:2018 Risk Management – Guidelines.

Post the acquisition of the New Zealand entities the NCLC was re-named Integral Clinical Leadership Committee (ICLC) and will incorporate a New Zealand based Clinical Leadership Committee.

The Company's Audit Risk and Compliance Committee Charter is also available in the Corporate Governance section of its website.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Revenue			
Revenue	5	189,399	179,732
Fair value gain on acquisition of SWMRI joint venture	5	–	1,200
Interest income		330	370
Total revenue and other income		189,729	181,302
Expenses			
Consumables		(8,649)	(8,850)
Employee benefits expense	6	(109,513)	(105,577)
Depreciation and amortisation expense	6	(9,610)	(9,831)
Transaction and takeover defence costs	6	(3,902)	–
Equipment related expenses		(7,691)	(6,993)
Occupancy expenses		(13,120)	(12,615)
Other expenses		(12,354)	(12,178)
Impairment of asset and restructuring provision	6	–	(1,108)
Finance costs	6	(2,783)	(2,841)
Total expenses		(167,622)	(159,993)
Operating profit		22,107	21,309
Profit before income tax expense		22,107	21,309
Income tax expense	7	(7,028)	(5,829)
Profit for the year from continuing operations		15,079	15,480
Profit is attributable to:			
Owners of Integral Diagnostics Limited		15,079	15,480
		15,079	15,480
Earnings per share attributable to the owners of Integral Diagnostics Limited		Cents	Cents
Basic earnings per share	37	10.40	10.67
Diluted earnings per share	37	10.38	10.67

Consolidated Statement of other comprehensive income		
Items that may be reclassified to profit & loss:		
Net (loss)/gain on cash flow hedges	(85)	–
Total comprehensive income	14,994	15,480
Total comprehensive income is attributable to:		
Owners of Integral Diagnostics Limited	14,994	15,480

The above Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	8	20,844	24,210
Trade and other receivables	9	5,622	5,149
Other assets	10	3,516	3,514
Inventory	11	346	393
Total current assets		30,328	33,266
Non-current assets			
Property, plant and equipment	12	54,084	50,523
Intangibles	13	103,542	103,921
Deferred tax asset	14	2,838	2,675
Total non-current assets		160,464	157,119
Total assets		190,792	190,385
Liabilities			
Current liabilities			
Trade and other payables	15	12,112	8,340
Borrowings	16	12,820	11,495
Income tax payable		318	(34)
Provisions	17	10,644	10,650
Derivative financial instruments	18	–	59
Total current liabilities		35,894	30,510
Non-current liabilities			
Borrowings	19	52,503	61,397
Derivative financial instruments	20	122	–
Provisions	21	8,851	8,126
Total non-current liabilities		61,476	69,523
Total liabilities		97,370	100,033
Net assets		93,422	90,352
Equity			
Contributed capital	22	83,425	83,866
Reserves	23	(11,827)	(11,862)
Retained profits	24	21,824	18,348
Total equity		93,422	90,352

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	82,760	(11,862)	13,022	83,920
Profit/(loss) after income tax expense	–	–	15,480	15,480
Other comprehensive income, net of tax	–	–	–	–
Total comprehensive income	82,760	(11,862)	28,502	99,400
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 22, 33)	1,275	–	–	1,275
Unwinding of DTA in equity	(169)	–	–	(169)
Dividend paid (Note 25)	–	–	(10,154)	(10,154)
Balance at 30 June 2017	83,866	(11,862)	18,348	90,352

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	83,866	(11,862)	18,348	90,352
Profit after income tax expense	–	–	15,079	15,079
Movement in FV of derivative financial instrument	–	(85)	–	(85)
Total comprehensive income	83,866	(11,947)	33,427	105,346
Transactions with owners in their capacity as owners:				
Unwinding of DTA in equity	(162)	–	–	(162)
Transaction costs recognised in equity (Note 22)	(279)	–	–	(279)
Performance rights issue	–	120	–	120
Dividends paid (Note 25)	–	–	(11,603)	(11,603)
Balance at 30 June 2018	83,425	(11,827)	21,824	93,422

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers		189,703	179,604
Payments to suppliers and employees		(149,807)	(146,314)
Transaction and takeover response costs		(3,902)	(180)
Interest and other finance costs paid		(2,842)	(2,960)
Interest received		330	–
Income taxes paid		(6,965)	(7,420)
Net cash from operating activities	36	26,517	22,730
Cash flows from investing activities			
Payments for purchase of subsidiary, net of cash acquired	33	–	(3,529)
Payments for property, plant and equipment		(11,578)	(11,650)
Proceeds from disposal of property, plant and equipment		1,144	100
Interest received		–	370
Net cash used in investing activities		(10,434)	(14,709)
Cash flows from financing activities			
Proceeds from borrowings	36	4,641	10,887
Repayment of borrowings	36	(12,209)	(8,134)
Dividends paid to Company shareholders		(11,603)	(10,154)
Transaction and takeover response costs	22	(278)	–
Settlement of deferred consideration		–	(30)
Net cash (used in)/from financing activities		(19,449)	(7,431)
Net increase/(decrease) in cash and cash equivalents		(3,366)	590
Cash and cash equivalents at the beginning of the financial year		24,210	23,620
Cash and cash equivalents at the end of the financial year	8	20,844	24,210

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1. General information

The Financial Report covers Integral Diagnostics Limited as a Group consisting of Integral Diagnostics Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Integral Diagnostics Limited's functional and presentation currency and are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

Level 8/14-20 Blackwood Street
North Melbourne VIC 3051

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 22nd August 2018. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below.

New, revised or amending accounting standards and interpretations adopted

The Group has adopted all of the new, revised or amending accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new, revised or amending accounting standards or interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Integral Diagnostics Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended.

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

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

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

Current and non-current classification

Assets and liabilities are presented in the Consolidated 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 a 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 expected to be settled in a 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.

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 Group 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.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful lives 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.

Rounding of amounts

The Company is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off'. Amounts in this Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group is set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the Consolidated Statement of Financial Position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low- value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in the finance costs). For classification within the Consolidated Statement of Cash Flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019. On adoption the asset and liabilities will be grossed up by the value of leased assets, which we are unable to quantify until adoption as it is dependent on the number of leased properties held at that date, from adoption operating lease costs will be allocated to amortisation and interest charges which will be below the EBITDA line.

The group continues to analyse the impact of the new standard by assessing the terms of leases in light of the requirements of AASB16. Further lease reviews as required and the computation of the likely lease liability and right of use asset to be recognised on transition will be completed throughout FY2019. This will be followed by consideration of the broader business impacts. The group is still in the process of assessing the appropriate adoption date of AASB16. At this time, the cumulative catch up transition method will be adopted.

Notes to the Financial Statements continued

AASB 15 Revenue from contracts with customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018.

Management have undertaken a review of all revenue streams across the business and applied the requirements of the five step model across each revenue stream to identify the impact of the new revenue standard from application date. Management has assessed the effects of applying the new standard on the Group's financial statements and has identified that it will not have a material impact on the Group.

AASB 9 Financial Instruments

AASB9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 July 2018 but is available for early adoption. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 193 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting. Based on the Group's assessment the current hedge relationships would qualify as continuing hedges upon the adoption of AASB 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Management has assessed the effects of applying the new standard on the Group's financial statements and has identified that it is unlikely to have a material impact on the Group.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Note 3. Critical accounting judgements, estimates and assumptions

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

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event.

The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 13.

The recoverable amounts of cash-generating units have been determined based on value-in-use (VIU) calculations. These calculations require the use of assumptions, including anticipated sales growth, long-term growth rate and the post-tax discount rate.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assessed impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use (VIU) calculations, in conjunction with the goodwill impairment testing which incorporates a number of key estimates and assumptions.

Note 4. Operating segments

Identification of reportable operating segments

The Group comprised the single business segment of the operation of diagnostics imaging facilities.

Major customers

During the year ended 30 June 2018, there was no external revenue greater than 10% to any one customer (2017: nil).

Operating segment information

As the Group operates in a single business and geographic segment, these financial statements represent the required financial information of that segment.

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) which includes the KMP of the Company. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Revenue

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Sales revenue		
Services revenue	188,002	177,710
Other revenue		
Other revenue	1,397	2,022
Fair value gain on acquisition of SWMRI joint venture	–	1,200
Revenue	189,399	180,932

Accounting policy for revenue recognition

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

Rendering of services

Rendering of services revenue is recognised when the service is rendered for the provision of medical imaging services. The point of sale is deemed to be at the time the image is taken.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established. Other revenue largely includes compensation payments received under equipment and leasehold contracts as well as labour cost charges to hospitals and Government (trainees and paid parental leave).

Note 6. Expenses

	Consolidated 30 June 2018 $'000	Consolidated 30 June 2017 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	1,096	1,087
Plant and equipment	6,292	6,242
Motor vehicles	28	107
Office furniture and equipment	1,815	1,751
Total depreciation	9,231	9,187
Amortisation		
Customer contracts	379	644
Total depreciation and amortisation	9,610	9,831
Transaction costs and takeover response costs		
Professional fees and other costs	1,468	–
Takeover defence costs	2,434	–
Total transaction costs	3,902	–
Finance costs		
Interest and finance charges paid/payable	2,627	2,653
Funding/establishment costs	156	188
Finance costs expensed	2,783	2,841
Net loss/(gain) on disposal		
Net loss/(gain) on disposal of property, plant and equipment	(424)	477
Employee benefits expense		
Employee benefits	89,552	88,211
Superannuation contributions	6,160	6,032
Labour supply	13,801	11,334
Total employee benefits expense	109,513	105,577
Impairment of asset and restructuring provision		
Impairment of asset	–	810
Restructuring provision (see note 17)	–	298
Total impairment of asset and restructuring provision expense	–	1,108

The impaired asset relates to building works conducted on leased land at Pt Headland in relation to the Mobile MRI. As at 30 June 2017 there were indicators of impairment in regards to the building works based on the level of volumes and revenue the MRI operations were able to achieve. Impairment testing was undertaken in accordance with the requirements of AASB 136 *"Impairment of assets"* and it was determined that the carrying value of the asset could not be supported through a value-in-use or fair value less costs to sell methodology in accordance with Australian Accounting Standards and as such the Group has determined that the infrastructure asset supporting the Mobile MRI was impaired as at 30 June 2017.

Minimum lease payments recognised as operating lease expense were $9.671 million (2017: $8.683 million). Costs of inventories recognised as expense were $8.649 million (2017: $8.850 million).

Accounting policy for finance costs

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

Note 7. Income tax expense

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Income tax expense		
Current tax	7,078	6,170
Deferred tax – origination and reversal of temporary differences	(164)	(208)
Adjustment recognised for prior periods	114	(133)
Aggregate income tax expense	7,028	5,829
Deferred tax included in income tax expense comprises:		
Decrease/(Increase) in deferred tax assets (Note 14)	(164)	(208)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	22,107	21,309
Tax at the statutory rate of 30%	6,632	6,393
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment costs	23	21
Transaction and takeover defence costs	241	–
Fair Value gain/loss	37	(360)
Fixed Asset Variance	114	76
Transactions costs deducted in equity	(133)	(168)
	6,914	5,962
Adjustment recognised for prior periods	114	(133)
Income tax expense	7,028	5,829

Accounting policy for income tax

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

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Cash on hand	15	14
Cash at bank	20,829	24,196
	20,844	24,210

Accounting policy for cash and cash equivalents

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

Note 9. Current assets – trade and other receivables

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Trade receivables	5,570	4,975
Less: Provision for impairment of receivables	(90)	(137)
	5,480	4,838
Other receivables	142	311
	5,622	5,149

Impairment of receivables

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

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Opening balance	137	63
Additional provisions recognised	7	127
Receivables written off during the year as uncollectable	(54)	(53)
Closing balance	90	137

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $913,000 as at 30 June 2018 ($986,000 as at 30 June 2017).

The Group did not consider there was a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

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

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Past due 31 to 60 days	328	367
Past due 61 to 90 days	135	210
Past due more than 91 days	450	409
	913	986

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 to 60 days. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate fair value.

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

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

Note 10. Current assets – other

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Accrued revenue	1,296	1,248
Prepayments	2,154	2,200
Security deposits	55	56
Other current assets	11	10
	3,516	3,514

Note 11. Inventory

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Film, contrast, drugs and needles	346	393
	346	393

Accounting policy for inventory

Inventory is valued at the lower of cost and net realisable value. Inventory has been recognised based on categories of high-value items used in the production of medical images that the Company holds in large volumes including film, contrast, drugs and needles. Costs of inventories recognised as an expense was $8,649,000 (2017: $8,850,000).

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

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Work in progress – at cost	5,266	449
	5,266	449
Leasehold improvements – at cost	16,190	15,303
Less: Accumulated depreciation	(5,877)	(4,793)
	10,313	10,510
Plant and equipment – at cost	62,014	57,612
Less: Accumulated depreciation	(28,281)	(22,945)
	33,733	34,667
Motor vehicles – at cost	466	466
Less: Accumulated depreciation	(400)	(372)
	66	94
Office furniture and equipment – at cost	11,028	9,310
Less: Accumulated depreciation	(6,322)	(4,507)
	4,706	4,803
	54,084	50,523

Reconciliations

(a) Reconciliations of the written down values of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

Consolidated	Work in progress $'000	Leasehold improvements $'000	Plant and equipment $'000	Motor Vehicles $'000	Office furniture and equipment $'000	Total $'000
Balance at 1 July 2016	–	10,244	32,221	138	4,026	46,629
Additions	449	2,163	9,188	63	2,618	14,481
Disposals	–	(810)	(500)	–	(90)	(1,400)
Depreciation expense	–	(1,087)	(6,242)	(107)	(1,751)	(9,187)
Balance at 30 June 2017	449	10,510	34,667	94	4,803	50,523
Additions	13,512	–	–	–	–	13,512
Transfers	(8,695)	899	6,078	–	1,718	–
Disposals/write offs	–	–	(720)	–	–	(720)
Depreciation expense	–	(1,096)	(6,292)	(28)	(1,815)	(9,231)
Balance at 30 June 2018	5,266	10,313	33,733	66	4,706	54,084

(b) Property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease at the beginning and end of the current and previous financial year are set out below:

	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Office furniture and equipment $'000	Total $'000
Net book value at 30 June 2017	4,562	29,941	102	568	35,173
Net book value at 30 June 2018	3,823	20,814	5	721	25,363

Property, plant and equipment secured under finance leases

Refer to Note 19 for further information on property, plant and equipment secured under finance leases.

Accounting policy for property, plant and equipment

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 (excluding land) over their expected useful lives as follows:

Leasehold improvements	5 – 20 years
Plant and equipment	4 – 15 years
Motor vehicles	5 – 8 years
Office furniture and equipment	3 – 15 years

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Costs which are necessarily incurred whilst commissioning new asset, in the period before they are capable of operating in the manner intended by management, are capitalised as Work in Progress. Upon completion of the asset and all associated costs being recognised, the Work in Progress is transferred to the correct property, plant and equipment classification at which point it is accounted for in accordance with AASB 116.

Notes to the Financial Statements continued

Note 13. Non-current assets – intangibles

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Goodwill – at cost	96,387	96,387
Brand names – at cost	7,155	7,155
Customer contracts – at cost	2,456	2,456
Less: Accumulated amortisation	(2,456)	(2,077)
	–	379
	103,542	103,921

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	Brand names[1] $'000	Customer contracts $'000	Total $'000
Balances at 1 July 2016	91,851	7,000	1,021	99,872
Additions through business combinations (Note 33)	4,536	155	–	4,691
Amortisation expense	–	–	(642)	(642)
Balance at 30 June 2017	96,387	7,155	379	103,921
Amortisation expense	–	–	(379)	(379)
Balance at 30 June 2018	96,387	7,155	–	103,542

1. Brand names of $7.0 million are included within the SCR CGU and $0.155 million included within the Lake Imaging CGU.

Impairment test for goodwill and intangibles

Goodwill and brand names are tested for impairment annually (as at 30 June) and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value in use calculations.

An assessment of identifiable cash-generating units and a review of allocations of goodwill to identified cash-generating units is conducted annually. Management have concluded that given the current structure and operations of the Group and given the synergies being delivered and the opportunities available to the Group since initial acquisition, goodwill continues to form one cash-generating unit for impairment testing purposes, which is in line with the operating segment identified in Note 4.

Key assumptions for value-in-use calculations

The recoverable amount is determined based on value-in-use calculations which require the use of assumptions.

The calculations use cash flow projections based on financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the average growth rates for the industry in which the Group operates.

The following table sets out the key assumptions for impairment testing:

	%
2018 – Long-term growth rate	**3.0**
2018 – Pre-tax discount rate	**15.4**
2017 – Long-term growth rate	3.0
2017 – Pre-tax discount rate	15.4

Within the value-in-use calculation for the five-year forecast period revenues have been forecast to grow between 4.2% – 8.3% (2017: 3.0% – 6.5%) and 3% (2017: 3%) into perpetuity. The forecast cash flows also includes ongoing investment in property, plant and equipment to maintain the existing base and in 2019 to invest in further technology and expansion.

The pre-tax discount rate would need to increase by more than 15.6% or the growth rate decline by more than 1.8% in the five year forecast period and into perpetuity for there to be any impairment of the goodwill balances.

Accounting policy for intangible assets

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

Goodwill

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

Brand names

Significant costs associated with brand names are not amortised but are tested for impairment annually on the same basis and within the same VIU calculation as outlined above and are carried at cost.

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between one and four years. The contracts consist of Global Diagnostics (Australia), a 100% owned subsidiary of the Company, providing radiology reporting services to the Western Australia Country Health Service in the Pilbara, Wheatbelt and Goldfield regions.

Note 14. Non-current assets – deferred tax

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits and other provisions	5,108	4,325
Provisions for lease make good	721	621
Transaction costs in equity	284	–
Provision for restructuring	–	89
Operating lease borrowings	–	36
Transaction costs	1,406	1,813
Impaired asset	–	243
Property, plant and equipment	(2,594)	(2,355)
Brand names (change in accounting policy)	(2,147)	(2,147)
Tax losses available	54	54
Intangible assets	–	(114)
Operating lease	6	110
Net deferred tax asset	2,838	2,675
Amount expected to be recovered within 12 months	2,446	2,457
Amount expected to be recovered after more than 12 months	5,265	4,834
Amount expected to be settled within 12 months	(393)	(355)
Amount expected to be settled after more than 12 months	(4,480)	(4,261)
	2,838	2,675
Movements:		
Opening balance	2,675	2,657
Credited to profit or loss (Note 7)	164	208
Credited to equity	(133)	(168)
Fixed Asset Variance	114	(76)
Adjustments recognised for prior periods	18	–
Additions through business combinations (Note 33)	–	54
Closing balance	2,838	2,675

Accounting policy for deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred 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.

Integral Diagnostics Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax-consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax-consolidated group continue to account for their own current and deferred tax amounts. The tax-consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax-consolidated group. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax-consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax-consolidated group. The tax-consolidated group has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the head entity to meet its payment obligations.

Note 15. Current liabilities – trade and other payables

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Trade payables	4,417	3,316
Other payables and accruals	7,695	5,024
	12,112	8,340

Refer to Note 26 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are recognised at their fair value. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short-term nature of these payables, their carrying amount is assumed to approximate fair value.

Note 16. Current liabilities – borrowings

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Borrowings	–	18
Lease liability	12,820	11,477
	12,820	11,495

Refer to Note 19 for further information on assets pledged as security and financing arrangements.

Refer to Note 26 for further information on financial instruments.

Note 17. Current liabilities – provisions

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Annual leave	5,757	5,494
Long service leave	4,702	4,645
Employee benefits	185	213
Restructuring Provision	–	298
	10,644	10,650

Notes to the Financial Statements continued

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

The leave obligations cover the Group's liability for long service leave, annual leave and rostered days off. The current provision of this liability includes all accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

Accounting policy for restructuring provisions

Restructuring provisions are recognised only when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees effected, a detailed estimate of associated costs, and an appropriate timeline, and the business has been notified of the plans main features.

The restructuring provision of $0.298 million relates to the recommission costs of the Pt Headland site where the Mobile MRI was located. Given the poor performance of the Mobile MRI in Pt Headland it has been determined that the Mobile MRI will be re-located to a site where it will be fully utilised. Costs included within the restructuring provision include lease and electricity contract break costs and repatriation of the site on which the impaired infrastructure asset is located.

Note 18. Current liabilities – Derivative financial instrument

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Derivative financial instrument	–	59

Refer to Note 2 for further information on derivative financial instruments.

Note 19. Non-current liabilities – borrowings

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Borrowings	43,750	43,750
Lease liability	8,753	17,647
	52,503	61,397

Refer to Note 26 for further information on financial instruments.

Total secured liabilities

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

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Borrowings	43,750	43,768
Lease liability	21,573	29,124
	65,323	72,892

Refinancing of existing bank debt facilities

On 7 December 2017 the Group agreed terms to refinance its existing bank debt facility with a new three year $100 million cash advance facility, plus a $31 million asset finance facility.

Current cash reserves, ongoing operating cash flows and the extended facility provides the Group with certainty in relation to its funding for the next three years to allow the Group to

- maintain cash reserves for working capital and debt servicing;
- fund forecast maintenance and growth capital expenditure;
- fund bolt on acquisitions as well as 1-2 mid-size acquisitions; and
- meet the obligations under the dividend policy of 65%-75% of net profit after tax.

Key terms of the new debt facility are as follows:

- cash advance facility limit of up to $80 million, plus an accordion of $20 million. This increases the facility from the previous $65 million;
- asset finance facility of $31 million was reduced by $8 million in June 2018 as asset finance facilities by alternative lenders were entered into;
- margin pricing on the cash advance facility has increased by only 10 basis points reflecting the risk of the larger facility, average cost of debt will remain at less than 3.8% (based on one month BBSW of 1.98% 6 July 2018);
- financial indebtedness under lease finance facilities extended to $30 million (prior year $15 million) allowing substantial asset finance facilities to be taken out with alternative lenders;
- the facility will be subject to the following financial covenants:
  - Net Debt to EBITDA Ratio not greater than 3.50:1;
  - Fixed Charge Cover Ratio not less than 2.00:1; and
  - interest rate risk hedging on a minimum 25% of the amount drawn under the cash advance facility.

In accordance with Australian Accounting Standards, Loan Establishment fees have been capitalised and will be amortised over the life of the debt facilities.

Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the Consolidated Statement of Financial Position, revert to the lessor in the event of default.

Financial arrangements

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

	Consolidated 30 June 2018 $'000	Consolidated 30 June 2017 $'000
Total facilities		
Equipment finance facility	38,096	15,900
Cash advance facility (1)	10,500	10,500
Cash advance facility (2)	69,500	50,250
Multi-option facility	–	15,000
Standby letter of credit or guarantee facility	2,000	2,000
Commercial cards facility	300	600
Electronic payaway facility	3,075	3,075
	123,471	97,325
Used at the reporting date		
Equipment finance facility	21,574	15,900
Cash advance facility (1)	10,500	10,500
Cash advance facility (2)	33,250	33,250
Multi-option facility	–	10,167
Standby letter of credit or guarantee facility	1,469	1,406
Commercial cards facility	79	30
Electronic payaway facility	–	3,075
	66,872	74,328
Unused at the reporting date		
Equipment finance facility	16,522	–
Cash advance facility (1)	–	–
Cash advance facility (2)	36,250	17,000
Multi-option facility	–	4,833
Standby letter of credit or guarantee facility	531	594
Commercial cards facility	221	570
Electronic payaway facility	3,075	–
	56,599	22,997

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Under the current lending arrangement the cash advance facilities expire in December 2020.

Note 20. Non-current liabilities – Derivative financial instrument

	Consolidated 30 June 2018 $'000	Consolidated 30 June 2017 $'000
Derivative financial instrument	122	–

Refer to Note 2 for further information on derivative financial instruments.

Note 21. Non-current liabilities – provisions

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Long service leave	2,114	1,704
Deferred rent liability	2,387	2,172
Lease make good	4,350	4,250
	8,851	8,126

Deferred rent liability

Deferred rent liabilities relate to property leases where rent increases prescribed in leases are based on fixed percentage increases, and/or where leases include a rent-free period or other lease incentives. The liability represents the difference between actual rental costs incurred per terms of leases, and calculated expense if the total estimated rental expense over the period of the lease was expensed evenly over the expected term of the lease. The liability reflects that as of the date of this Report, the calculated expense (if the total estimated rental expense was expensed evenly over the expected term of the lease) is greater than actual costs incurred to date. The total liability is expected to fluctuate over time reflecting the cumulative calculations of individual leases. For individual leases, any liability will unwind over the period of the lease.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms. Property lease agreements include various obligations at the end of the respective lease terms, such as removal of tenant installations and making good any damage caused by installation or removal, removing signage, and other general maintenance obligations (e.g. painting, cleaning). These costs have been estimated for each location, based on specific terms of individual leases, size of the individual sites, and historical experience of costs incurred when vacating a site.

Movements in provisions

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

	Deferred rent liability $'000	Lease make good $'000
Consolidated – 2018		
Carrying amount at the start of the year	2,172	4,250
Additional provisions	430	130
Amounts used	(215)	(30)
Carrying amount at the end of the year	2,387	4,350

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 22. Equity – contributed capital

	Consolidated		Consolidated	
	30 June 2018 Shares	30 June 2017 Shares	30 June 2018 $'000	30 June 2017 $'000
Ordinary shares – fully paid	145,044,157	145,044,157	83,425	83,866

Movement in ordinary share capital

Details	Date	Number of shares	Issue Price	$'000
Balance	1 July 2016	144,136,101		82,760
Shares issued as part of Acquisition (Note 33)	1 July 2016	908,056	$1.40	1,275
Reversal of DTA on transaction costs of equity				(169)
Balance	30 June 2017	145,044,157		83,866
Reversal of DTA on transaction costs of equity				(162)
Transaction costs on acquisitions in equity				(279)
Balance	30 June 2018	145,044,157		83,425

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.

Share buy-back

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

Capital risk management

The Group's objectives when managing capital is 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 Consolidated 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, adjustments may be made to the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Group is currently undergoing a review of its capital structure and future requirements to continue to grow the business and execute on acquisition opportunities whilst maintaining an optimal mix of debt and equity against forecast EBITDA.

The Group is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Accounting policy for contributed capital

Ordinary shares are classified as equity.

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

Note 23. Equity – reserves

	Consolidated 30 June 2018 $'000	Consolidated 30 June 2017 $'000
Share-based payments reserve	120	–
Capital reorganisation reserve	(3,849)	(3,849)
Transactions with non-controlling interest	(8,013)	(8,013)
Cash flow hedge reserve	(85)	–
	(11,827)	(11,862)

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 as part of their compensation for services.

Capital reorganisation reserve

The reserve is used to account for historical capital reorganisation of the Lake Group whereby the assets and liabilities of the acquired party are recorded at their previous book values and no goodwill is recognised. Any difference between the cost of the transaction and the carrying amount of the assets and liabilities are recorded directly in this reserve.

Transactions with non-controlling interest

Transactions with non-controlling interest reserve is used to record the differences arising as a result of transactions with non-controlling interests that do not result in a loss of control.

Cash flow hedge reserve

The reserve is used to recognise the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income (expenses).

Movements in reserves

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

Consolidated	Cash flow hedge reserve $'000	Share-based payment reserve $'000	Capital reorganisation reserve $'000	Transaction with non-controlling interest $'000	Total $'000
Balance at 30 June 2017	–	–	(3,849)	(8,013)	(11,862)
Recognition of share-based payments	–	120	–	–	120
Net movement in FV of derivative financial instrument	(85)	–	–	–	(85)
Balance at 30 June 2018	(85)	120	(3,849)	(8,013)	(11,827)

Note 24. Equity – retained profits

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Retained profits at the beginning of the financial year	18,348	13,022
Profit after income tax expense for the year	15,079	15,480
Dividend paid (Note 25)	(11,603)	(10,154)
Retained profits at the end of the financial year	21,824	18,348

Note 25. Equity – dividends

Dividends

Full franked Dividends paid during the financial year were as follows:

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Dividend paid 4 cents per share on 4 October 2016	–	5,803
Dividend paid 3 cents per share on 30 March 2017	–	4,351
Dividend paid 4 cents per share on 4 October 2017	5,801	–
Dividend paid 4 cents per share on 5 March 2018	5,802	–
	11,603	10,154

Franking credits

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	19,972	17,838

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

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

Accounting policy for dividends

Dividends are recognised when declared during the financial year and payment is no longer at the discretion of the Company.

Note 26. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk .

Risk management is carried out by senior financial executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

Market risk

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The policy is to maintain approximately 25% of borrowings at fixed rates using interest rate swaps to achieve this when necessary.

As at the reporting date, the Group had the following interest bearing financial assets and liabilities:

Consolidated	2018 Weighted average interest rate %	2018 Balance $'000	2017 Weighted average interest rate %	2017 Balance $'000
Cash at bank and on deposit	1.5	20,844	1.5	24,210
Borrowings	3.4	(43,750)	3.8	(43,750)
Finance leases	5	(21,573)	4.0	(29,124)
Interest rate swaps (notional principal amount)	2.46	(122)	3.1	(59)
Net exposure to cash flow interest rate risk		(44,601)		(48,723)

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

If interest rates were to increase/decrease by 100 (2017: 100) basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	Basis points increase effect on			Basis points decrease effect on		
	Basis points change	Profit before tax	Effect on equity post tax	Basis points change	Profit before tax	Effect on equity post tax
Consolidated – 2018						
Impact	100	449	314	100	(449)	(314)
Consolidated – 2017						
Impact	100	485	339	100	(485)	(339)

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks. Credit risk for trade receivables is managed by completing credit checks for new customers. Outstanding receivables are regularly monitored for payments in accordance with credit terms. 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 Consolidated Statement of Financial Position and notes to the financial statements. The Group does not hold any collateral.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

The credit risk for derivative financial instruments arises from the potential failure of the counter-party to meet its obligations. The credit risk exposure of forward contracts is the net fair value of these contracts.

Liquidity risk

Vigilant liquidity risk management requires the Group 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 Group 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.

Fair value risk

The only item held at fair value in the financial statements is an interest rate derivative which is considered immaterial and as such no further disclosure in relation to fair value has been made.

Subject to the continuance of satisfactory credit ratings and compliance with banking covenants, the bank loan facilities may be drawn at any time and have a maturity of two years and five months (2017: two years and three months). The bank loan facilities are interest-only repayments.

Remaining contractual maturities

The following tables detail the Group'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 – 2018	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,417	–	–	–	4,417
Other payables	–	7,695	–	–	–	7,695
Interest-bearing – variable						
Borrowings	3.4	1,492	1,492	44,400	–	47,384
Lease liability	5	13,235	6,871	2,379	–	22,485
Total non-derivatives		26,839	8,363	46,779	–	81,981
Derivatives						
Interest rate swaps net settled	2.46	(122)	–	–	–	(122)
Total derivatives		(122)	–	–	–	(122)

Consolidated – 2017	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	3,316	–	–	–	3,316
Other payables	–	5,024	–	–	–	5,024
Interest-bearing – variable						
Borrowings	3.8	1,667	44,185	–	–	45,852
Lease liability	4.0	12,017	12,099	6,479	–	30,595
Total non-derivatives		22,024	56,284	6,479		84,787
Derivatives						
Interest rate swaps net settled	3.1	59	–	–	–	59
Total derivatives		59	–	–	–	59

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

Note 27. Key management personnel disclosures

Compensation

The aggregate compensation paid to Directors and other members of the key management personnel of the Group is set out below:

	Consolidated	
	30 June 2018 $	30 June 2017 $
Short-term employee benefits	3,335,147	3,056,941
Long-term employee benefits	104,658	–
	3,439,805	3,056,941

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	Consolidated	
	30 June 2018 $	30 June 2017 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	206,925	214,925
Other services – PricewaterhouseCoopers		
Tax services – acquisitions and takeover defence	52,000	–
Agreed procedures in relation to takeover defence	27,800	–
Advice re employee shares	5,000	–
Tax compliance services	26,000	31,562
	317,725	246,487
Other services – Network firms of PwC Australia		
Due diligence and transaction costs	185,804	–

Note 29. Contingent liabilities

The Group has given bank guarantees as at 30 June 2018 of $1.5 million (2017: $1.4 million) to various landlords.

Note 30. Commitments

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Lease commitments – operating		
Within one year	7,856	7,874
One to five years	11,247	14,896
More than five years	2,443	2,811
	21,546	25,581
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	13,235	12,017
One to five years	9,249	18,578
Total commitment	22,484	30,595
Less: Future finance charges	(911)	(1,471)
Net commitment recognised as liabilities	21,573	29,124
Representing:		
Lease liability – current (Note 16)	12,820	11,477
Lease liability – non-current (Note 19)	8,753	17,647
	21,573	29,124

Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

As at 30 June 2018, there were outstanding capital commitments for plant and equipment of $1.2 million (2017: $3.6 million).

Note 31. Related party transactions

Parent entity

Integral Diagnostics Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 34.

Key management personnel

Disclosures relating to key management personnel are set out in Note 27 and the Remuneration Report on pages 14 to 23.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	30 June 2018 $	30 June 2017 $
Payment for goods and services:		
Cleaning fees paid to GJJ Hughes of which Gregory Hughes is related to (this arrangement was terminated effective January 2017).	–	12,500
Other Transactions:		
Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Chien Ping Ho and Gregory Hughes and Craig Bremner are related to.	368,506	391,934
Payment for rental of buildings to Perhaps Holdings Pty Ltd of which Chien Ping Ho is related to (this arrangement was terminated effective January 2017).	–	44,120
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Chien Ping Ho and Gregory Hughes are related to.	210,820	225,307

Receivable from and payable to related parties

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

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Current receivables:		
Trade receivables from related parties	–	54

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

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

Note 32. Parent entity information

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

Statement of Profit or Loss and Other Comprehensive Income

	Parent	
	30 June 2018 $'000	30 June 2017 $'000
Profit after income tax	6,575	6,700
Total comprehensive income	6,575	6,700

Notes to the Financial Statements continued

Statement of Financial Position

	Parent	
	30 June 2018 $'000	30 June 2017 $'000
Total current assets	30,256	23,759
Total assets	143,893	142,779
Total current liabilities	1,567	222
Total liabilities	45,043	43,844
Equity		
Contributed capital	83,462	83,866
Cash flow hedging reserve	(122)	–
Share-based payments reserve	120	–
Retained profits	15,390	15,069
Total equity	98,850	98,935

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity is party to the deed of cross guarantee, as disclosed in Note 35.

Contingent liabilities

Except as disclosed in Note 30, there are no other contingent liabilities of the parent entity as at 30 June 2018 and 30 June 2017.

Capital commitments – property, plant and equipment

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

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:

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

Note 33. Business combinations

Disclosure required under Australian Accounting Standards, in relation to the post balance date business combination, has been detailed in Note 38 on page 69.

On 1st July 2016, the Group acquired the assets and liabilities of the Western District Radiology business and the remaining 50% interest in South West MRI Pty Ltd (collectively known as the WDR/SWMRI acquisition) for the total consideration transferred of $4.954 million inclusive of GST. This acquisition complements the Group's strengths and further strengthens the Group's position in the South West region of Victoria and will be integrated into the Group so as the maximum synergies can be obtained.

The business of South West MRI Pty Ltd was valued at $2.400 million immediately prior to acquisition, the value of the 50% interest held previously immediately prior to acquisition was $0.002 million resulting in the recognition of a $1.200 million gain as a result of re-measuring to fair value the equity interest held in South West MRI Pty Ltd. This amount was recognised in other income in the statement of profit and loss as at 1 July 2016 and in goodwill. The share of plant and equipment $0.453 million and debt assumed $0.389 million will result in net assets of $0.065m being booked which will reduce goodwill by $0.065 million.

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Plant and equipment	1,968
Brand name	155
Other assets	106
Employee benefits	(229)
Lease make good provision	(100)
Debt assumed	(767)
GST on acquisition	485
Net assets acquired	1,618
Fair value gain on acquisition of SWMRI Pty Ltd joint venture	(1,200)
Goodwill	4,536
Acquisition-date fair value of the total consideration transferred	4,954
Representing:	
Cash paid or payable to vendor(including GST)	3,529
Contingent consideration	150
Integral Diagnostics Limited shares issued to vendor	1,275
	4,954
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,954
Less: 908,056 shares issued by Company (at fair value of $1.4041 per share) as part of consideration	(1,275)
Less: Contingent consideration	(150)
Net cash used	3,529

Total goodwill to be booked on the transaction $3.401 million relating to the acquisition, $1.200 million relating to the fair value uplift on existing interest less $0.065m on recognition of 50% of net assets in SWMRI, totaling goodwill of $4.536 million. The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SWMRI/WDR with those of the Group. The goodwill is not deductible for income tax purposes.

Contingent consideration payable is a maximum amount of $0.150 million and is dependent on a range of performance hurdles over a two year period, with payments required six monthly. On acquisition it was considered that all performance hurdles would be met and the contingent consideration would be payable. As at 30 June 2017 $0.050 million of the deferred consideration has been paid, $0.030 million in cash and $0.020 million offset against the amount owing by the vendor on settlement of the completion statement. On the 3rd August 2017 a further $0.025 million was paid.

From the date of acquisition, which was the beginning of the period, SWMRI/WDR has contributed $4.755 million of revenue and $2.405 million (prior to any corporate overhead allocations) to the net profit before tax from the continuing operations of the Group.

Transaction costs of $180,000 were expensed in the statement of profit and loss for the year ended 30 June 2016 and were part of the operating cash flows in the statement of cash flows for the half year ended 31 December 2016.

Accounting policy for business combinations

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

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

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

Where the business combination is achieved in stages, the Group measures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between and 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 and 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) twelve months from the date of the acquisition or (ii) when the acquirer received all the information possible to determine fair value.

Business combinations under common control use the principals of corporate reorganisation. The difference between the acquisition-date historical book value of assets acquired, liabilities assumed and any non-controlling interest in the acquired and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as a capital reorganisation in reserves, and not as goodwill.

Note 34. 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 2:

Name of entity	Principal place of business/ country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
Lake Imaging Pty Ltd	Australia	100.00	100.00
Radploy Pty Ltd	Australia	100.00	100.00
Radploy 2 Pty Ltd	Australia	100.00	100.00
Radploy 3 Pty Ltd	Australia	100.00	100.00
Radploy 4 Pty Ltd	Australia	100.00	100.00
Global Diagnostics (Australia) Pty Ltd	Australia	100.00	100.00
SCR Corporate Pty Ltd	Australia	100.00	100.00
RAD Corporate Pty Ltd	Australia	100.00	100.00

Note 35. 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:

- Integral Diagnostics Limited (formerly known as Lake Imaging Holdings Pty Ltd)
- Lake Imaging Pty Ltd
- Radploy Pty Ltd
- Radploy 2 Pty Ltd
- Radploy 3 Pty Ltd
- Radploy 4 Pty Ltd
- Global Diagnostics (Australia) Pty Ltd
- SCR Corporate Pty Ltd
- RAD Corporate Pty Ltd

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare financial statements and a Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission (ASIC).

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Integral Diagnostics Limited, they also represent the 'extended closed group'.

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position are the same as the Group and therefore have not been separately disclose.

Notes to the Financial Statements continued

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	30 June 2018 $'000	30 June 2017 $'000
Profit after income tax expense for the year	15,079	15,480
Adjustments for:		
Depreciation and amortisation	9,610	9,830
Loan establishment costs amortisation	149	188
Net (gain)/loss on disposal of property, plant and equipment	(423)	477
Impairment of asset	–	810
Share-based payments	120	–
Tax included in equity	(126)	–
FV gain on acquisition of SWMRI Pty Ltd	–	(1,200)
Financial liability fair value movement through profit and loss	(59)	(306)
Interest income	(330)	(370)
Bad debts	65	–
Property, plant, and equipment in payables	(1,821)	–
Change in operating assets and liabilities:		
Increase in trade and other receivables	(473)	(108)
Increase in deferred tax assets	(163)	(208)
Increase in other operating assets and inventory	47	(622)
Increase/(decrease) in trade and other payables	3,771	(1,302)
Increase/(decrease) in provision for income tax	352	1,448
Increase /(decrease) in other provisions	719	(1,387)
Net cash from operating activities	26,517	22,730

Reconciliation of Liabilities arising from Financing Activities

Consolidated – 2018	Finance Leases due within 1 year $'000	Finance Leases due after 1 year $'000	Borrowings due within 1 year $'000	Borrowings due after 1 year $'000	Total $'000
Balance as at 30/06/2017	11,477	17,647	18	43,750	72,892
Net cash flows	1,343	(8,894)	(18)	–	(7,568)
Balance as at 30/06/2018	12,820	8,753	–	43,750	65,324

Note 37. Earnings per share

	30 June 2018 $'000	30 June 2017 $'000
Profit after income tax Non-controlling interest	15,079	15,480
	–	–
Profit after income tax attributable to the owners of Integral Diagnostics Limited	15,079	15,480

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	145,044,157	145,044,157
Adjustments for calculation of diluted earnings per share:		
Weighted average number of performance rights over ordinary shares	262,139	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	145,306,296	145,044,157

	Cents	Cents
Basic earnings per share	10.40	10.67
Diluted earnings per share	10.38	10.67

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Integral Diagnostics Limited, excluding any costs of servicing equity other than ordinary shares, by 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 38. Events after the reporting period

(a) On 2nd July 2018, the Group acquired the assets and liabilities of the Specialist Radiology Group, Trinity MRI and Cavendish Radiology in Auckland New Zealand (referred to as the New Zealand transaction).

The three businesses combined:

- comprise the leading specialist radiology clinics in Auckland;
- employ and contract several of the nation's leading specialists in musculoskeletal radiology and neuroradiology;
- have a projected EBITDA contribution of NZ$13 million to NZ$14 million (A$12 million to A$13 million[1]) for FY19;
- a high growth business with strong margins; and
- provides a premier platform for Integral Diagnostics to enter and grow in New Zealand.

The key terms of the acquisition include:

- a purchase consideration of NZ$105 million (A$99.03 million) on a cash and debt free basis, comprising NZ$80 million (A$75.3 million) in cash and Z$25 million (A$23.73 million) in IDX equity;
- 80% of the equity will be held in escrow for up to five years; and
- a five year staged earn-out for vendor radiologists based on earnings outperformance.

This strategic acquisition includes four clinics, employing 14 radiologists working in both the public and private sectors. The clinics are market leaders in providing complex modalities including MRI, CT and SPECT CT (nuclear medicine), which are high margin services positioned to experience significant future growth. The clinics are fitted with state of the art equipment.

The purchase price accounting has not yet been finalised as at the date of this report, the initial values identified in relation to the acquisition are as follows.

	Recognise on Acquisition $'000
Plant and equipment	6,623
Intellectual Property (brand names)	10,788
Customer contracts	3,906
Deferred tax assets	56
Working capital assets	1,255
Working capital liabilities	(909)
Net assets acquired	21,719
Goodwill	77,317
Acquisition-date fair value of total consideration transferred	99,036

1. Based on forecast average weighted exchange rate of $NZ1 to $AUD0.93.

	Recognise on Acquisition $'000
Representing:	
Cash paid or payable to vendor	75,303
Integral Diagnostics Limited shares issued to vendor	23,733
Net cash acquired with subsidiary	1,000
Cash paid	(75,303)
Net cash flow on acquisition	(74,303)

(b) Also on 2nd July 2018, the Group acquired the assets and liabilities of Geelong Medical Imaging (GMI), which comprises two radiology clinics in Geelong, Victoria. These clinics comprise a number of modalities, including X-Ray, ultrasound, CT, MRI and nuclear medicine.

The key terms of the acquisition include:

- a purchase consideration of $3.15 million on a cash and debt free basis;
- $1.05 million in IDX equity (subject to voluntary escrow); and
- $1.40 million of deferred cash.

The acquisition complements the Group's strengths and further strengthens the Group's position in South West Victoria and will be integrated into Lake Imaging.

The purchase price accounting has not yet been finalised as at the date of this report, the initial values identified in relation to the acquisition are as follows.

	Recognise on Acquisition $'000
Plant and equipment	626
Brand name	170
Employee benefits	(77)
Inventory	16
Deferred tax asset	23
Prepayments	39
Net assets acquired	797
Goodwill	4,803
Acquisition-date fair value of total consideration transferred	5,600
Representing:	
Cash paid or payable to vendor	3,150
Deferred consideration	500
Contingent consideration	900
Integral Diagnostics Limited shares issued to vendor	1,050
Net cash acquired with subsidiary	–
Cash paid	(3,150)
Net cash flow on acquisition	(3,150)

Subsequent to year end a dividend of 4.0 cents per share was declared and will be paid on 2 October 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject to virtue of the deed of cross guarantee described in Note 35 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

Helen Kurincic
Chairman

Dr Ian Kadish
Managing Director and Chief Executive Officer

22 August 2018
Melbourne

Independent Audit Report

Independent auditor's report

To the members of Integral Diagnostics Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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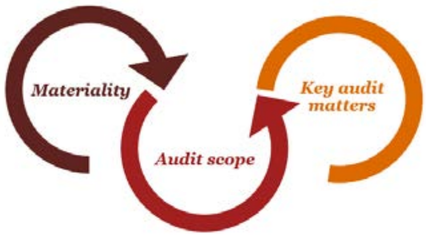
Our audit approach

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

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



Materiality	***Audit scope***
• For the purpose of our audit we used overall Group materiality of $1,288,000, which represents approximately 5% of the Group's adjusted 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 adjusted profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted group profit before tax for transaction costs as they are an unusual or infrequently occurring item impacting profit and loss. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group operates in 3 geographical locations within Australia- Victoria, Queensland and Western Australia. • We, as the Group engagement team, performed our audit procedures at the Group's shared service office in Geelong, Victoria.

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*
Valuation of Goodwill ***Refer to note 13 $96.4m*** The Group's goodwill is recognised in one Cash Generating Unit ("CGU"). A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group has a goodwill balance of $96.4 million at 30 June 2018 which represents approximately 50% of the total assets of the Group. For the year ended 30 June 2018, the Group performed an impairment assessment over the Group's goodwill. The impairment assessment relied on the calculation of value-in-use for the Group. This calculation was based on estimated future cash flows discounted to net present value using the Company's weighted average cost of capital (WACC). We considered the carrying value of goodwill to be a key audit matter as the balance is significant to the statement of financial position and there is significant judgement involved in estimating future cash flows, particularly with respect to determining appropriate: • Discount rates • Five-year cash flow projections (Cash flow forecasts) • Earnings growth rates applied beyond the initial five-year period (Terminal growth rates)	We assessed whether the division of the Group into CGU's was consistent with our knowledge of the Group's operations and internal Group reporting. To evaluate the Groups cash flow forecasts and the process by which they were developed, we performed the following procedures, amongst others: • Assessed the discount rate and long term growth rates applied in the model by comparing these rates to historical results, market expectations of investment return and projected economic growth and interest rates. • Considered the historical accuracy of the Group's cash flow forecasts by comparing the forecasts used in the prior year cash flow forecast valuation model ("the model") to the actual performance of the Group in the current year. • Compared the 12 month cash flow forecast used in the model with the Board approved budget, and considered whether the key assumptions used in the model (in particular the discount rate and growth rates) were subject to oversight from the directors. • Reperformed the underlying calculations used in the model. • Performed a sensitivity analysis by varying the growth rates, discount rate and sales growth rates within a reasonably possible range. We found that changes to these key assumptions did not cause the carrying value of the CGU to exceed its recoverable amount.

Key audit matter	How our audit addressed the key audit matter
Borrowings ***Refer to note 16 & 19 $65.3m*** At 30 June 2018, The Group had a borrowing liability (current and non-current) of $65.3 million representing 67% of total liabilities. The Group refinanced the banking facilities during the year, replacing the old facility with a new facility with the same lender. The terms and conditions of the borrowings are detailed in note 19 of the financial report. The borrowing agreements contain financial covenants that the Group must comply with. We considered this a key audit matter given the significance of the refinancing arrangement, the financial size of the borrowings balance and the importance of the funding mechanism/capital structure for the continued growth of the Group.	• We obtained confirmations directly from the Group's banks for all borrowings to test the amounts recorded in the financial statements. • We read the most up-to-date agreements between the Group and its financiers to develop an understanding of the terms associated with the facilities and the amount of facility available for drawdown. • Where debt is regarded as non-current, we tested the Group's assessment that they had the unconditional right to defer payment such that there were no repayments required within 12 months from the balance date. • We assessed the accounting treatment of the capitalised borrowing costs arising from new arrangements and borrowing costs related to terminated facilities.
Transaction costs relating to the Unsolicited takeover bid ***Refer to note 6 $2.4m*** During the year the Group was subject to an unsolicited takeover bid by Capitol Health Limited. The Group incurred significant costs relating to this takeover bid. We considered the accounting treatment of the transaction costs related to this bid to be a key audit matter because these costs are significant and are a key contributor to the Group's financial performance.	As part of our procedures relating to the takeover bid transaction costs, we: • Agreed a sample of transaction costs recorded by the Group to the relevant underlying invoices. • Traced a sample of payments made by the Group in respect of transaction costs to the relevant invoice to assess whether they were recorded as liabilities in the correct financial period. • Inspected a sample of underlying contracts related to transaction costs to consider weather expenses recognised were consistent with costs agreed. • Considered the adequacy of the Group's accounting policies and disclosures in respect of the transaction costs in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, including the Chairman's report, Managing Director and Chief Executive Officer's report, Operating and Financial Review, the Directors Report, Shareholder Information, our locations, About us and the Corporate Directory, but does not include the financial report and our auditor's report thereon.

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

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

If, based on the work we have performed, 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.

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 14 to 23 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Integral Diagnostics Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
22 August 2018

Shareholder Information

Integral Diagnostics Limited

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report follows. This information is current as at 10 August 2018.

(a) Top 20 shareholders – ordinary shares

Rank	Name	Number of fully paid ordinary shares	% of issued capital
1	J P Morgan Nominees Australia Limited	26,070,397	16.78
2	HSBC Custody Nominees (Australia) Limited	25,077,560	16.14
3	Citicorp Nominees Pty Limited	11,376,941	7.32
4	National Nominees Limited	9,011,805	5.80
5	BNP Paribas Noms Pty Ltd	6,588,014	4.24
6	Peter J Ansley + St Leger M Reeves + Stephen Eichsteadt + Thomas Q St Leger Reeves	4,638,357	2.98
7	Visionary Imaging Pty Ltd	2,889,180	1.86
8	Mittal Holdings Pty Ltd	2,778,410	1.79
9	Anacacia Pty Ltd + Wattle Fund A/C	2,553,379	1.64
10	G J Hughes Pty Ltd	2,467,230	1.59
10	Lethean Holdings Pty Ltd	2,467,230	1.59
10	Lockwood Ridge Pty Ltd	2,467,230	1.59
10	Wyndham Salter Pty Ltd	2,467,230	1.59
14	Mr Vincent Michael O'Sullivan	2,448,000	1.58
15	CS Fourth Nominees Pty Limited	2,407,730	1.55
16	NW3 Pty Ltd	2,343,630	1.51
17	New Imaging Pty Ltd	2,330,150	1.50
18	Jasmat Pty Ltd	2,193,090	1.41
19	UBS Nominees Pty Ltd	1,799,766	1.16
20	Meakin Professional Investments Pty Ltd	1,754,472	1.13
20	Willowbay Rise Pty Ltd	1,754,472	1.13
Totals: Top 20 holders of ordinary fully paid shares (total)		117,884,273	75.86

(b) Register of substantial shareholdings

Shareholder	Number of fully paid ordinary shares	% of issued capital
Integral Diagnostics Limited[1]	39,628,923	25.5%
Investors Mutual Ltd	13,620,000	9.32%
IOOF Holdings Limited	12,049,838	8.308%
Adam Smith Asset Management	9,949,431	6.86%
Viburnum Funds Pty Ltd	7,266,066	5.01%

1. Restriction on disposal of shares under voluntary escrow arrangements disclosed in Integral Diagnostics Limited's replacement Prospectus dated 9 October 2015, the announcements to ASX on 27 October 2015, 1 July 2016, 16 February 2018 and 2 July 2018 (and as set out in the IPO Restriction Deed, WDR Restriction Deed, NZ1 Restriction Deed, NZ Boyer Restriction Deed, NZ Gee Restriction Deed and GMI Restriction Deed) gives Integral Diagnostics a relevant interest in its own shares under section 608(1)(c) of the Corporations Act. Integral Diagnostics has no right to acquire these shares or to control the voting rights attached to these shares.

(c) Distribution of shareholders – ordinary shares

Range	Total holders	Shares	% Issued capital
1 to 1,000	221	88,171	.06
1,001 to 5,000	345	954,102	.61
5,001 to 10,000	133	1,007,261	.65
10,001 to 100,000	168	4,686,359	3.02
100,001 to 500,000	82	148,656,874	95.67
Rounding			-0.01
Total	949	155,392,767	100.00

(d) Less than marketable parcels of ordinary shares

There are 80 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than $500 per parcel of shares).

(e) Distribution of unquoted securities – performance rights

Range	Performance rights of ordinary shares	%	Number of holders of performance rights	%
1 to 1,000	–	–	–	–
1,001 to 5,000	–	–	–	–
5,001 to 10,000	–	–	–	–
10,001 to 100,000	139,068	23.11	3	60.00
100,001 and over1	462,739	76.89	2	40.00
Total	601,807	100.00	5	100.00

1. Dr Ian Kadish holds greater than 20% of the performance rights; 362,585.

(f) Voting rights

In accordance with the Company's Constitution, each member present at a meeting, whether in person, by proxy, by power of attorney or by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands and one vote for each fully paid ordinary share on a poll.

Holders of performance rights do not have voting rights.

(g) On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.

(h) Securities subject to voluntary escrow

	Number of securities				
Date of expected release from escrow[1]	Subject to service conditions being met[2]	Subject to non-compete	Unconditional	Subject to a long term non-compete minimum value[3]	Subject to permanent retirement
23-Aug-18	–	–	3,477,545	–	–
30-Aug-18	–	731,030		–	–
04-Dec-18	244,470	–		236,321	–
22-Dec-18	–	776,720		–	–
01-Jan-19	122,232	–		118,156	–
11-Jan-19	244,470	–		236,321	–
28-Jan-19	–	53,810		–	–
23-Feb-19	–	776,720		–	–
30-Apr-19	244,470	–		236,321	–
02-Jul-19	18,834	–		–	–
08-Jul-19	822,408	–		794,994	–
31-Jul-19	–	776,720		–	–
Aug-19[4]	–	–	50,448	–	–
31-Aug-19	–	731,030	–	–	–
22-Dec-19	–	776,720	–	–	–
06-Jan-20	822,408	–	–	794,994	–
23-Feb-20	–	776,720	–	–	–
29-Mar-20	–	–	–	–	106,830
22-Jun-20	244,470	–	–	236,321	–
02-Jul-20	–	–	18,834	–	–
31-Jul-20	–	776,720	–	–	–
30-Aug-20	–	731,030	–	–	–
07-Apr-21	822,408	–	–	794,994	–
18-Apr-21	288,918	–	–	279,287	–
02-Jul-21	–	–	207,176	–	–
03-Jul-21	–	–	2,659,182	–	–
08-Jul-21	244,470	–	–	236,321	–
25-Aug-21	822,408	–	–	794,994	–
10-Sep-21	288,912	–	–	279,280	–
02-Mar-22	288,918	–	–	269,657	–
12-Mar-22	144,456	–	–	139,640	–
02-Jul-22	–	–	43,946	–	–
03-Jul-22	–	–	2,659,178	–	–
18-Feb-23	288,918	–	–	275,759	–
30-Mar-23	822,408	–	–	794,994	–
02-Jul-23	–	–	43,946	–	–
03-Jul-23	–	–	2,659,183	–	–
03-Nov-23	288,918	–	–	277,071	–
18-Nov-23	288,918	–	–	279,287	–
05-Jan-24	84,174	–	–	70,145	–
05-Feb-24	213,588	–	–	206,468	–
02-Jul-24	–	–	43,946	–	–
21-Sep-24	577,836	–	–	481,530	–
01-Oct-24	822,408	–	–	767,582	–
Aug-25[4]	873,918	–	–	1,282,947	–
Undated	–	–	–	–	942,767
	9,925,338	6,907,220	11,863,384	9,883,384	1,049,597
Total shares on issue subject to voluntary escrow					**39,628,923**

1. Shares are released from escrow on or around this date.
2. Conditions include a minimum of seven years service. If this condition is not met, shares are to be released in conjunction with the release of FY25 annual results.
3. Minimum values are $1,000,000 or $500,000 and are calculated in accordance with the relevant Restriction Deed.
4. Actual date dependent on ASX annual results release.

Corporate Directory

Directors

Helen Kurincic – Independent Non-Executive Chairman

Dr Ian Kadish – Managing Director and Chief Executive Officer

Dr Chien Ping Ho – Executive Director

Dr Sally Sojan – Executive Director

John Atkin – Independent Non-Executive Director

Rupert Harrington – Independent Non-Executive Director

Raelene Murphy – Independent Non-Executive Director

Company secretary

Ms Kathryn Davies

Registered office

Level 8/14 -20 Blackwood Street
North Melbourne VIC 3051
T + 61 3 5339 0704

Share register

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
T 1300 787 272

Auditor

PricewaterhouseCoopers
Level 19, 2 Riverside Quay
Melbourne Victoria 3006

Solicitors

Herbert Smith Freehills
Level 42, 101 Collins Street
Melbourne Victoria 3000

Bankers

Australia and New Zealand Banking Group Limited
927 Sturt Street
Ballarat Victoria 3350

Stock exchange listing

Integral Diagnostics Limited shares are listed on
the Australian Securities Exchange (ASX code: IDX)

Website

integraldiagnostics.com.au

Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 22 August 2018 and can be found at:

www.integraldiagnostics.com.au/page/for-investors/corporate-governance

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