Virtus Health Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2018 ('H1 FY2019'). Key highlights from the results are:

				$'000
Revenues from ordinary activities	up	5.1%	to	140,690
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	6.8%	to	32,441
Earnings Before Interest and Tax (EBIT)	down	9.8%	to	25,846
Profit from ordinary activities after tax	down	13.8%	to	14,923
Profit for the half-year attributable to the owners of Virtus Health Limited	down	11.7%	to	14,635

Dividends

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2018 paid in October 2018	12.000	12.000

An interim dividend of 12.00 cents per share fully franked will be paid on 18 April 2019 for shareholders on the register at 29 March 2019.

Comments
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $14,635,000 (31 December 2017: $16,580,000).

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

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Segment EBITDA	38,936	40,616
Share-based payment expense	(613)	(627)
Other non-trading expenses	(6,640)	(5,171)
Fair value adjustment to put liabilities	758	-
EBITDA (reported)	32,441	34,818
Depreciation and amortisation expenses	(6,595)	(6,167)
EBIT	25,846	28,651
Interest revenue	61	62
Interest expense	(3,896)	(3,330)
Interest on other financial liability - non-cash interest	(703)	(505)
Amortisation of bank facility fees	(353)	(104)
Profit before income tax from continuing activities	20,955	24,774

Key features of the results are:
- Revenue increased by 5.1% to $140.7m;
- EBITDA decreased by 6.8% to $32.4m;
- Australian segment EBITDA decreased by 7.3% to $33.4m;
- International segment EBITDA increased by 20.7% to $5.5m;
- Segment EBITDA decreased by 4.1% to $38.9m; and
- Profit before income tax expense decreased by 15.4% to $20.9m.

Profit before tax includes acquisition transaction costs of $176,000, non-cash interest expense of $703,000 and a fair value gain of $758,000 on the put option liabilities relating to Sims Clinic.

Operating overview

Australia
Virtus fresh cycle activity in Australia in this half year increased by 2.0%. Key aspects of the volume movements compared to pcp were as follows:

- Premium service volumes reduced by 0.8% with growth in lower margin Queensland volume offset by declines in New South Wales; and
- TFC volumes increased by 17.1%, the result of a targeted campaign to improve market share in the low price IVF sector

It should be noted that Australian market data for 31 December 2018 is yet to be published.

Overall, EBITDA in the Australian segment declined by approximately $2.6m and there were three main factors contributing to this decline:

- As we responded to low cost competition there was a change in revenue mix favouring TFC. This together with lower margin premium service cycles in Queensland accounted for a decline of approximately $0.9m;
- Specialist diagnostic revenue decreased by 0.9% in H1 FY2019 compared to H1 FY2018 reflecting decreases in genetic testing utilisation driven by a change in clinical practice (new technologies for non-invasive PGT are being explored) which was partially offset by increased general pathology revenue. The profitability of the diagnostic activity was also negatively impacted by increased supervision costs resulting from new regulatory requirements. The combination of these factors contributed to the decrease in EBITDA of approximately $0.6m in the half year; and
- In day hospitals, Virtus revenue increased by 0.4%, a consequence of improved demand for IVF procedures. Non-IVF procedure revenue, accounting for 48.5% of total day hospital revenue, decreased by 4.5% across all day hospitals. EBITDA was heavily impacted by the costs of relocation and disruption to non-IVF activities related to the move to new facilities in Alexandria (NSW) and Hobart (Tasmania). These changes which represent significant investments that have been made for future growth reduced EBITDA by approximately $0.9m in the half year.

International
International segment EBITDA increased by 20.7%.

Ireland experienced a slightly weaker first half with volumes in line with H1 FY2018; EBITDA in local currency decreased by 10.4% primarily related to reductions in drug and diagnostic revenue and increases in bad debt provisions.

Volumes in Singapore decreased by 12.9% compared to H1 FY2018 and EBITDA in local currency decreased by 34.4% over the same pcp.

The Danish clinics delivered mixed results. Trianglen, acquired in June 2018 exceeded expectations and produced a strong EBITDA result, whereas Aagaard suffered short term clinical resource issues and this resulted in volume reductions compared to prior year.

In the UK, Complete Fertility achieved a positive EBITDA although the quantum was below expectations. This was largely due to planned refurbishment of clinic facilities which took longer than expected and caused some disruption to operations in the first quarter.

Operating expenses
Group OPEX increase was approximately $8.0m and this comprised the following major movements:

- Additional OPEX from acquired businesses of $3.1m;
- A significant factor in the OPEX increase was the increase in corporate costs of $1.5m and these included:
  - Increase in remuneration costs associated with the appointment of a Group Chief Information Officer and a strategic HR role. These appointments are key investments to support the development of the business over the next few years;
  - Recruitment costs relating to the appointment of the Group Chief Information Officer and a replacement Non Executive Virtus Health Director; and
  - Cessation of capitalization of IT software costs on completion of Australian patient management software rollout
- Employment costs (adjusted for acquisitions) were up $2.7m. Approximately $1m related to corporate costs (see above) with the balance relating to standard wage inflation and agreed EBA increases across the group;
- Facility costs (adjusted for acquisitions) were also up $1.2m and included increased occupancy costs as a result of the investment made in the two major facility upgrades at Alexandria and Hobart of $600,000. Approximately $300,000 of the overall increase is non-recurring as the previous sites are now vacated.

Operating cash flows
Net cash from operating activities reduced by $15.6m because of negative working capital movements ($9.8m) which were mostly related to timing differences in the trade payables, lower EBITDA (as noted above), higher income tax ($2.7m) and interest payments ($0.7m). The higher income tax payments are timing related whilst the higher interest payments reflect the additional borrowings of $30m in relation to the acquisition of Trianglen on 30 June 2018.

Capital Expenditure
Total expenditure on tangible and intangible assets was $9.0m in H1 FY2019 (H1 FY2018; $5.6m). The largest investments related to the development of Alexandria Specialist Day Hospital in NSW and Hobart Specialist Day Hospital in Tasmania both of which became operational in Q2 of HY 2019. Total expenditure over the last two financial years in relation to both facilities was $13.1m. We also invested approximately $2.3m in new time lapse incubator technology which has enabled the development in conjunction with a third party technology firm, Harrison AI of “IVY”our artificial intelligence software for embryo selection for accelerated pregnancy.

Debt and interest expense
At 31 December 2018, total facilities drawn were $182.5m in borrowings and $5.5m in guarantees. Unused and available facilities amounted to $73.0m. Following a refinancing of our debt facility during the half, $170m of the credit facility expires in September 2021, whilst the remaining $91m expires in September 2023. Cash balances at the end of December 2018 were $19m.

The company continued to comply with the financial covenants of its facility agreement. The increase in interest expense over the prior period relates to the additional drawdown of $30m on 30 June 2018 for the acquisition of Fertilitesklinikk Trianglen Aps ("Trianglen") based in Copenhagen, Denmark.

Other financial liabilities ($24.0m)
The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold put options established at the time of acquisition. In accordance with accounting standards the group is required to recognise liabilities for the estimated consideration to acquire the non-controlling interests. The liabilities have been discounted at the date of acquisition and the corresponding entry is included in the business combinations reserve. The unwinding of the inherent discounting within the liabilities has resulted in a non-cash interest expense in H1 FY2019 of $335,000 (H1 FY2018: $450,000). At 31 December 2018 the carrying value of the put option liabilities was $12.7m and has been classified as current as both put options are expected to be exercised within the next 12 months.

The remaining $12.1m of the balance of other financial liabilities relates to contingent consideration and a vendor loan note in relation to the acquisition of Trianglen.

Amortisation of borrowing costs
Amortisation of borrowing cost expense for H1 FY2019 was $353,000 (H1 FY2018: $104,000). The increase reflects the write-off of residual borrowing costs on the previous facility that was refinanced in September 2018. (Refer to note 12 for details of the refinancing).

Taxation
The effective tax rate on operating earnings for H1 FY2019 was 28.8% (H1 FY2018: 30.1%).

Earnings per share
Basic earnings per share decreased by 11.7% to 18.21 cents per share (H1 FY2018: 20.62 cents per share). Diluted earnings per share decreased by 11.6% to 18.10 cents per share (H1 FY2018: 20.48 cents per share).

Dividend
An interim dividend of 12.00 cents per share fully franked (April 2018: 14.00 cents per share) will be paid on 18 April 2019 to shareholders on the register at 29 March 2019

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(218.19)	(226.25)
Net assets per ordinary security	363.00	352.72

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends paid

Current period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2018 paid in October 2018	12.000	12.000

Previous period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2017 paid in October 2017	12.000	12.000

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
Name of associate / joint venture	**Reporting period %**	**Previous period %**	**Reporting period $'000**	**Previous period $'000**
Obstetrics & Gynaecological Imaging Australia Pty Limited and City West Specialist Day Hospital Pty Ltd	50.00%	50.00%	249	352
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			249	352
Income tax on operating activities			(75)	(106)

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Virtus Health Limited's foreign subsidiaries have used the International Financial Reporting Standards in compiling the report.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

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11. Attachments

Details of attachments (if any):

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2018 is attached.

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12. Signed

Signed _____ Date: 19 February 2019

Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2018

Virtus Health Limited
Directors' report
31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

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

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

Principal activities

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

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $14,635,000 (31 December 2017: $16,580,000).

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

For a detailed review on the trading results refer to the operating and financial review section in Appendix 4D and to the ASX market announcement on 19 February 2019.

Significant changes in the state of affairs

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

Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Macourt
Chairman

19 February 2019
Sydney

Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review other than as noted below.

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

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

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
19 February 2019

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General information

The financial statements cover Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 19 February 2019. The directors have the power to amend and reissue the financial statements.

Virtus Health Limited
Statement of comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue	3	140,690	133,813
Share of profits of associates accounted for using the equity method		249	352
Other income	4	1,096	441
Expenses			
Fertility specialists, consumables and associated costs		(38,278)	(36,285)
Employee benefits expense		(48,589)	(43,803)
Depreciation and amortisation expense		(6,595)	(6,167)
Occupancy expense		(9,935)	(8,272)
Advertising and marketing		(2,179)	(2,098)
Practice equipment expenses		(1,209)	(1,037)
Professional and consulting fees		(1,803)	(1,344)
Other expenses		(7,540)	(6,887)
Finance costs	5	(4,952)	(3,939)
Profit before income tax expense		20,955	24,774
Income tax expense		(6,032)	(7,459)
Profit after income tax expense for the half-year		14,923	17,315
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		134	147
Foreign currency translation		2,615	1,585
Other comprehensive income for the half-year, net of tax		2,749	1,732
Total comprehensive income for the half-year		17,672	19,047
Profit for the half-year is attributable to:			
Non-controlling interest		288	735
Owners of Virtus Health Limited		14,635	16,580
		14,923	17,315
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		167	707
Owners of Virtus Health Limited		17,505	18,340
		17,672	19,047
		Cents	**Cents**
Basic earnings per share	14	18.21	20.62
Diluted earnings per share	14	18.10	20.48

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

Virtus Health Limited
Statement of financial position
As at 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	Consolidated 30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		18,822	21,713
Trade and other receivables		10,790	12,491
Inventories		900	752
Other		3,900	3,035
Total current assets		34,412	37,991
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment		37,977	34,477
Intangibles		467,218	465,436
Deferred tax		6,705	5,468
Other		3,084	517
Total non-current assets		516,473	507,387
Total assets		550,885	545,378
Liabilities			
Current liabilities			
Trade and other payables		21,329	24,468
Derivative financial instruments		335	420
Income tax		3,933	4,337
Provisions		4,385	4,169
Other financial liabilities	6	12,368	397
Unearned income		12,003	14,779
Total current liabilities		54,353	48,570
Non-current liabilities			
Borrowings		181,108	180,773
Derivative financial instruments		-	107
Deferred tax		811	866
Provisions		6,566	6,415
Other financial liabilities	7	11,665	23,757
Other payables		4,565	1,340
Total non-current liabilities		204,715	213,258
Total liabilities		259,068	261,828
Net assets		291,817	283,550
Equity			
Issued capital	8	242,366	242,251
Reserves	9	6,320	2,837
Retained profits		32,967	27,979
Equity attributable to the owners of Virtus Health Limited		281,653	273,067
Non-controlling interest		10,164	10,483
Total equity		291,817	283,550

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

Virtus Health Limited
Statement of changes in equity
For the half-year ended 31 December 2018

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017	242,001	(11,416)	18,127	19,659	268,371
Profit after income tax expense for the half-year	-	-	16,580	735	17,315
Other comprehensive income for the half-year, net of tax	-	1,760	-	(28)	1,732
Total comprehensive income for the half-year	-	1,760	16,580	707	19,047
Transactions with owners in their capacity as owners:					
Put option exercise	-	6,363	-	(6,363)	-
Settlement of partly paid shares	115	-	-	-	115
Share-based payments	-	627	-	-	627
Dividends payable by subsidiary to non-controlling interest	-	-	-	(566)	(566)
Dividends paid (note 10)	-	-	(9,646)	-	(9,646)
Balance at 31 December 2017	242,116	(2,666)	25,061	13,437	277,948

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	242,251	2,837	27,979	10,483	283,550
Profit after income tax expense for the half-year	-	-	14,635	288	14,923
Other comprehensive income for the half-year, net of tax	-	2,870	-	(121)	2,749
Total comprehensive income for the half-year	-	2,870	14,635	167	17,672
Transactions with owners in their capacity as owners:					
Settlement of partly paid shares	115	-	-	-	115
Share-based payments	-	613	-	-	613
Dividends payable by subsidiary to non-controlling interest	-	-	-	(486)	(486)
Dividends paid (note 10)	-	-	(9,647)	-	(9,647)
Balance at 31 December 2018	242,366	6,320	32,967	10,164	291,817

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

Virtus Health Limited
Statement of cash flows
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	Consolidated 31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		138,722	136,147
Payments to suppliers (inclusive of GST)		(113,012)	(97,404)
Other revenue		1,171	441
Interest and other finance costs paid		(3,896)	(3,268)
Income taxes paid		(7,868)	(5,216)
Net cash from operating activities		15,117	30,700
Cash flows from investing activities			
Payment for acquisition of non-controlling interest		-	(7,417)
Payments for property, plant and equipment and intangibles		(9,044)	(5,616)
Proceeds from release of security deposits		51	22
Proceeds from disposal of property, plant and equipment		5	6
Payments for security deposits		(8)	-
Interest received		61	62
Associate distributions received		310	375
Net cash used in investing activities		(8,625)	(12,568)
Cash flows from financing activities			
Proceeds from partly paid shares	8	115	115
Dividends paid to non-controlling interest in subsidiaries		(486)	(1,466)
Proceeds from borrowings		1,500	-
Repayment of borrowings		-	(6,000)
Payment of finance facility fees in relation to refinancing		(1,110)	-
Dividends paid	10	(9,647)	(9,646)
Net cash used in financing activities		(9,628)	(16,997)
Net increase/(decrease) in cash and cash equivalents		(3,136)	1,135
Cash and cash equivalents at the beginning of the financial half-year		21,713	27,337
Effects of exchange rate changes on cash and cash equivalents		245	218
Cash and cash equivalents at the end of the financial half-year		18,822	28,690

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Basis of Preparation

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

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

At 31 December 2018 the consolidated entity's current liabilities exceeded its current assets by $19,941,000 (June 2018: $10,579,000). The current liabilities include unearned income of $12,003,000 as well as employee leave liabilities of $10,386,000. Whilst, the leave liabilities are required to be disclosed as a current liability not all of this liability is expected to be settled within 12 months. At 31 December 2018 put option liabilities relating to Sims Clinic Limited and TASIVF Pty Limited of $11,960,000 have been classified as current liabilities as these put options are expected to be exercised within the next 12 months. The cash balance as at 31 December is $18,822,000 and the consolidated entity also has unused and available debt facilities totaling $73,048,000 which have a combination of a 3 year and a 5 year maturity period to September 2021 and September 2023. Refer to note 12 for further details.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period which included AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2018 and are not expected to have any significant impact for the full financial year ending 30 June 2019.

Note 1. Significant accounting policies (continued)

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases
In February 2016 the AASB issued AASB 16, 'Leases', which replaces the current guidance in AASB 117 'Leases'. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if AASB 15, 'Revenue from Contracts with Customers', is also applied. The standard requires lessees to bring all leases on balance sheet as the distinction between operating and finance leases has been eliminated. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are in respect of short term leases and leases of low value assets. Lessor accounting remains largely unchanged.

The standard will affect primarily the accounting for the consolidated entities operating leases. As at 30 June 2018, the consolidated entity's non-cancellable operating lease commitments were $71,210,000. The present value of the consolidated entity's operating lease payments as defined under the new standard will be recognised as lease liabilities on the balance sheet and included in net debt. There are a number of differences between the two standards.

The Segment EBITDA, as disclosed in note 2 will increase as the operating lease cost is charged against EBITDA under AASB 117 whilst under AASB 16 the charge will be included in depreciation and interest expense which are excluded from EBITDA (although included in overall earnings). Operating cash flows will increase under AASB 16 as the element of cash paid under leases attributable to the repayment of principal will be included in financing cash flows. The overall increase/decrease in cash and cash equivalents will however remain the same.

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

● Identified the population of leases for evaluation and classified its population into different types of lease arrangements. The majority of the consolidated entity's current operating lease commitments relate to property leases;

● Assessed its current policies, controls, processes and systems and identified where we can leverage our existing processes and have now implemented a contract management system for lease data and a lease software to electronically manage the lease portfolio and perform lease calculations as required by the new lease standard; and

● On boarded all of its leases onto the lease software and reviewing preliminary output.

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

AASB 16 is expected to be the most significant of the new accounting standards for the consolidated entity in terms of impact on the financial statements and on its systems and processes. Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Comparatives
Comparatives in the statement of comprehensive income have been reclassified, where necessary, to align with the current period presentation. There was no effect on profit or net assets.

Note 2. Operating segments

Identification of reportable operating segments
AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. For disclosure purposes the consolidated entity currently has two reportable segments being Healthcare services Australia and Healthcare services International. The consolidated entity has determined that the aggregated segmental reporting for Australia is most appropriate due to the economic characteristics faced by the Australian operating segments and the similar nature of the products and services being delivered to a similar patient base.

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

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

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

Consolidated - 31 Dec 2018	Healthcare services Australia $'000	Healthcare services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	111,547	28,249	-	139,796
Other revenue	833	-	-	833
Interest revenue	60	-	1	61
Total revenue	112,440	28,249	1	140,690
Segment EBITDA	33,412	5,524	-	38,936
Share-based payment expense				(613)
Transaction costs				(176)
Corporate costs				(6,274)
Foreign exchange				(190)
Depreciation and amortisation expenses				(6,595)
Fair value adjustment to put liability				758
Interest expense				(3,896)
Interest revenue				61
Interest on other financial liability - non-cash interest				(703)
Amortisation of bank facility fees				(353)
Profit before income tax expense				20,955
Income tax expense				(6,032)
Profit after income tax expense				14,923

Note 2. Operating segments (continued)

Consolidated - 31 Dec 2017	Healthcare services Australia $'000	Healthcare services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	110,790	22,093	-	132,883
Other revenue	868	-	-	868
Interest revenue	60	-	2	62
Total revenue	111,718	22,093	2	133,813
Segment EBITDA	36,041	4,575	-	40,616
Share-based payment expense				(627)
Transaction costs				(322)
Corporate costs				(4,790)
Foreign exchange				(59)
Depreciation and amortisation expenses				(6,167)
Interest expense				(3,330)
Interest revenue				62
Interest on other financial liability - non-cash interest				(505)
Amortisation of bank facility fees				(104)
Profit before income tax expense				24,774
Income tax expense				(7,459)
Profit after income tax expense				17,315

Note 3. Revenue

	Consolidated	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
Revenue from contracts with customers		
Rendering of services	139,796	132,883
Other revenue		
Rent	833	868
Interest	61	62
	894	930
Revenue	140,690	133,813

Note 4. Other income

	Consolidated	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
Fair value gain on put liability	758	-
Other income	338	441
Other income	1,096	441

Note 5. Expenses

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	3,896	3,330
Interest on other financial liabilities - non-cash interest	703	505
Amortisation of bank facility fees	353	104
Finance costs expensed	4,952	3,939
Share-based payments expense		
Share-based payments expense - fertility specialists	450	458
Share-based payments expense - employee benefits	163	169
Total share-based payments expense*	613	627

*Share-based payment expense is included in employee benefits expense and fertility specialists, consumables and associated costs in the Statement of comprehensive income.

Note 6. Current liabilities - Other financial liabilities

	Consolidated	
	31 Dec 2018 $'000	30 June 2018 $'000
Other financial liabilities	11,960	-
Loan note	408	397
	12,368	397

The other current financial liabilities represent the fair value of the put options held by the non-controlling interests in SIMS Clinic Limited and TAS IVF Pty Limited. Both of the put options are expected to be exercised by December 2019 and hence have been classified as current.

Loan note reflect the current portion of a loan owing to the vendor of Fertilitesklinikken Trianglen Aps.

Note 7. Non-current liabilities - other financial liabilities

	Consolidated	
	31 Dec 2018 $'000	30 June 2018 $'000
Other financial liabilities	9,221	20,975
Loan Note	2,444	2,782
	11,665	23,757

The other financial liabilities represent the fair value of the contingent consideration arising from the acquisition of Fertilitesklinikken Trianglen Aps.

Loan Note reflects the non-current portion of a loan owing to the vendors of Fertilitesklinkken Trianglen Aps.

Note 8. Equity - issued capital

	Consolidated			
	31 Dec 2018 Shares	30 June 2018 Shares	31 Dec 2018 $'000	30 June 2018 $'000
Ordinary shares - fully paid	80,389,938	80,389,938	242,366	242,251

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	1 July 2018	80,389,938		242,251
Settlement of partly paid shares	12 October 2018	-	$0.00	115
Balance	31 December 2018	80,389,938		242,366

Note 9. Equity - reserves

	Consolidated	
	31 Dec 2018 $'000	30 June 2018 $'000
Foreign currency translation reserve	6,285	3,549
Hedging reserve - cash flow hedges	(238)	(372)
Share-based payments reserve	14,081	13,468
Put option business combination reserve	(13,808)	(13,808)
	6,320	2,837

Put option business combination reserve reflects the initial recognition of the financial liabilities in relation to a series of put options held by the non-controlling interest in Sims Clinic Limited and TAS IVF Pty Limited.

Note 10. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Final dividend of 12.0 cents (31 December 2017: 12.0 cents) per fully paid share paid in October 2018	9,647	9,646

Note 11. Fair value measurement

Fair value hierarchy
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	335	-	335
Other financial liabilities	-	-	21,181	21,181
Total liabilities	-	335	21,181	21,516

Consolidated - 30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	527	-	527
Other financial liabilities	-	-	20,975	20,975
Total liabilities	-	527	20,975	21,502

The carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

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

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

Consolidated	Put Options $'000	Contingent Consideration $'000	Total $'000
Balance at 1 July 2018	12,158	8,817	20,975
Foreign exchange impact	225	225	450
Interest on unwinding	335	179	514
Fair value adjustment	(758)	-	(758)
Balance at 31 December 2018	11,960	9,221	21,181

Note 12. Borrowings and Contingent liabilities

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

Following the early refinancing, the consolidated entity has total commitments of $261,000,000 through its syndicated debt facilities. At 31 December 2018, total facilities drawn were $182,500,000 in borrowings and $5,452,000 (FY18: $4,718,000) in guarantees. Unused and available facilities amounted to $73,048,000. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial half-year ended 31 December 2018. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 3.5 years (30 June 2018: 1 year).

$170,000,000 of the facility expires in September 2021, whilst the remaining $91,000,000 expires in September 2023.

Contingent Liabilities-Claims
The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess in the range of $25,000 to $100,000 relating to each and every claim (30 June 2018: $25,000). The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not be significant and will be covered by the consolidated entity's insurance policies.

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 14. Earnings per share

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit after income tax	14,923	17,315
Non-controlling interest	(288)	(735)
Profit after income tax attributable to the owners of Virtus Health Limited	14,635	16,580
Add: interest savings on conversion of options	133	107
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	14,768	16,687
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	80,389,938	80,388,494
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,180,722	810,631
Estimated Issuable shares	-	291,084
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,570,660	81,490,209
	Cents	**Cents**
Basic earnings per share	18.21	20.62
Diluted earnings per share	18.10	20.48

In the directors' opinion:

- the financial statements and notes set out on pages 9 to 16 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date and

- there are reasonable grounds to believe that Virtus Health Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors

Peter Macourt
Chairman

19 February 2019
Sydney

Independent auditor's review report to the members of Virtus Health Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Virtus Health Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the Virtus Health Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Virtus Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have compiled with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Virtus Health Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
19 February 2019