

## 1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the year ended 30 June 2016
Previous period:	For the year ended 30 June 2015

## 2. Results for announcement to the market

			<b>\$'000</b>
Revenues from ordinary activities	up	11.6% to	261,210
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	12.3% to	68,916
Earnings Before Interest and Tax (EBIT)	up	12.4% to	57,736
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	up	11.8% to	32,918
Profit for the year attributable to the owners of Virtus Health Limited	up	11.8% to	32,918
Profit from ordinary activities after tax	up	14.5% to	34,865

### Dividends

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Interim ordinary dividend for the year ended 30 June 2016 of 14.0 cents per fully paid share paid in April 2016	14.000	14.000
Final ordinary dividend for the year ended 30 June 2015 of 14.0 cents per fully paid ordinary share paid in October 2015	14.000	14.000

### Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$32,918,000 (30 June 2015: \$29,434,000).

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Segment EBITDA	76,878	70,977
Share-based payment expense	(559)	(945)
Net gain on acquisition of associate	-	300
Other non-trading expenses	(9,568)	(8,977)
Fair value adjustment to put liabilities	2,165	-
EBITDA (reported)	68,916	61,355
Depreciation and amortisation expense	(11,180)	(9,994)
EBIT	57,736	51,361
Interest revenue	143	220
Interest expense	(7,240)	(7,235)
Interest on other financial liability - non-cash interest	(1,338)	(960)
Amortisation of bank facility fee	(208)	(911)
Profit before income tax from continuing activities	<u>49,093</u>	<u>42,475</u>

Refer to 'Review of operations' within the Directors' report of the Annual Report for commentary on the results.

### 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(176.34)</u>	<u>(180.70)</u>

### 4. Control gained over entities

Name of entities: Lab Services Pty Limited and Lab Services Unit Trust

Date control gained: 20 May 2016

### 5. Loss of control over entities

Not applicable.

### 6. Dividends

*Current period*

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend for the year ended 30 June 2016 of 14.0 cents per fully paid share paid in April 2016	14.000	14.000
Final ordinary dividend for the year ended 30 June 2015 of 14.0 cents per fully paid ordinary share paid in October 2015	14.000	14.000

*Previous period*

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend for the year ended 30 June 2015 of 13.0 cents per fully paid share paid in April 2015	13.000	13.000
Final ordinary dividend for the year ended 30 June 2014 of 14.0 cents per fully paid ordinary share paid in October 2014	14.000	14.000

### 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Obstetrics and Gynaecological Imaging Australia Pty Limited and City West Specialist Hospital Pty Limited	50.00%	50.00%	681	563
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			681	563
Income tax on operating activities			-	-

## 9. Foreign entities

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

AIFRS has been applied to the foreign entities of Virtus Health.

## 10. Audit qualification or review

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

The financial statements have been audited and an unqualified opinion has been issued.

## 11. Attachments

*Details of attachments (if any):*

The Annual Report of Virtus Health Limited for the year ended 30 June 2016 is attached.

## 12. Signed

Signed 

Glenn Powers  
Chief Financial Officer and Company Secretary  
Sydney

Date: 23 August 2016

# **Virtus Health Limited**

**ABN 80 129 643 492**

**Annual Report - 30 June 2016**

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## **General information**

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

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

Level 3  
176 Pacific Highway  
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2016. The directors have the power to amend and reissue the financial statements.

## Chairman's Statement

Results for the financial year ending 30 June 2016 reflect steady growth in our core Australian fertility operations and strong growth from our international activities reaffirming the strategic vision of Virtus Health.

Group revenue increased 11.6% to \$261.2 million primarily as a result of significant growth in Ireland and improvement in our Singapore clinic performance. We also benefitted domestically from strong performance of the premium services especially in NSW and the full year contribution of two Australian clinics, *Sunshine Coast IVF* and *TasIVF*, which we acquired in the previous financial year. The performance of our domestic premium IVF business is reflective of the strength of our model, even in a competitive market. Net profit after tax increased 14.5% to \$34.8million.

For the year ended 30 June 2016 the Directors are pleased to announce a final dividend of 15.0 cents per share fully franked and this results in a full year dividend payout of 29 cents per share fully franked, an increase of 7.4% over the prior year.

Our international activities achieved a significant improvement in EBITDA to \$5.7m compared to \$2.4m in the prior year with Ireland continuing to perform very strongly. In Singapore we progressively improved performance reducing EBITDA losses by \$1.4m to \$0.5m and in the last four months we achieved a positive EBITDA result. The Singapore team's clinical success and patient care has steadily built their reputation and we expect to see the benefits of this improved profile continue in the new financial year.

In the Australian eastern state markets in which we operate there was an overall market volume increase of 7.7% for Assisted Reproductive Services ("ARS") partially driven by new entrants opening ARS up to a broader population.

Underlying cycle volume in Virtus Australian clinics increased 4.1% compared to the four year market compound average growth rate of 2.9 % with strong growth in NSW premium service. Growth in Tasmania and Queensland was broadly in line with the market and in Queensland we experienced growth in several regional clinics for the first time in three years. Victorian premium service activity was unchanged. Our Sydney and Melbourne metropolitan based "The Fertility Centre" ("TFC") branded clinics experienced a slowdown; this resulted in an EBITDA decline in these clinics of \$1.4m. However our regionally positioned TFC clinics performed strongly and we plan to expand the Wollongong and Sunshine Coast formats in other regional locations. In May we acquired *Canberra Fertility Centre* extending our presence in the Eastern states and territories.

The underlying demographic drivers of ARS remain favourable in all markets with the key factors stimulating volume growth being the impact of rising maternal age, the impact of underlying medical conditions on fertility, and increasing demand from same sex and single women accessing donor sperm and ARS to start a family.

Diagnostic revenue increased by 5.1% in FY2016, partially impacted by price deflation on certain genetic tests. However, we have continued to see an increased utilisation of cytogenetic testing and a very strong increase in the use of pre-implantation genetic screening. The new applications of genetic testing and screening in reproductive medicine are improving success rates for patients and providing access to new patient segments including the fertile population.

To further consolidate our pathology network we acquired *Independent Diagnostic Services* ("IDS") in September 2015 a small general pathology laboratory. This acquisition mitigated proposed regulatory changes in the pathology sector, which threatened to undermine our diagnostic service revenues. The addition of the "G" laboratory capability secured our service delivery to patients and fertility specialists and retains revenue in house that was previously passed onto third party providers.

The day hospitals experienced a quieter year with modest growth in non-IVF revenue in five of our six locations offset by the loss of a major specialist provider in one of our hospitals to a new facility; this was a key reason for a slight decline in day hospital profitability.

We will continue to selectively invest in our network of full service and low cost fertility clinics and also the clinical and scientific services offered to patients in Australia and offshore. The Board continues to work closely with management to identify international opportunities in UK and Europe where we can leverage the considerable expertise Virtus has in the provision of ARS.

In the Chief Executive's review Sue Channon provides an update on new initiatives within our research activities. As a healthcare business the pursuit of clinical and scientific research and development is critical to our success and remains a key strategic imperative.

The Board is also conscious that federal and territory legislation is an important feature of the future landscape for ARS across the world. It has been well documented that the federal health department in Australia will undertake a review of the Medicare Benefits Schedule during the next twelve months. Additionally, the National Health and Medical Research Council ("NHMRC") is also reviewing Australian regulations for sex selection for family balancing (not currently permitted) and separately, certain legal and ethical aspects of donor services.

I would like to thank all our staff, fertility specialists and management teams who contribute daily to the success of Virtus Health. I was pleased to visit our team in Ireland recently and I was extremely impressed by the clinic and the people involved in the provision of patient care in our Irish facilities.

Finally, Dennis O'Neill has announced his intention to retire from the Virtus Board and he will not seek re-election at the AGM in November. Dennis has been associated with Queensland Fertility Group since 2009 and he joined the Virtus Board at the time of its ASX listing. On behalf of all shareholders I would like to thank Dennis for his contribution to the development of the group.

Peter Macourt  
Chairman

## **Chief Executive's overview**

Virtus Health is a recognised global healthcare company with a proud Australian heritage. As the market leading Assisted Reproductive Services ("ARS") provider in Australia and Ireland with a growing presence in Singapore, patients have access to some of the highest levels of clinical and scientific expertise in fertility treatment as well as the latest in assisted reproductive technologies.

As one of the world's most successful medical collaborations we bring together 116 fertility specialists supported by over 1,200 professional staff including scientists, nurses, researchers and administrators to provide the very best in fertility care, related specialised diagnostics and day hospital services. Our distinctive, diversified and vertically integrated model is delivering results for patients and shareholders alike.

Through our 'Leading minds, leading science' philosophy, Virtus Health has established a culture that is committed to providing women and men aspiring to have a child the best possible chance to create their family.

### *Fertility business growth*

The Australian fertility business continues to deliver year on year growth and we take great pride in the outstanding success of our Ireland operations this year affirming our overseas expansion strategy. Sims IVF Dublin, Cork and Rotunda IVF have delivered significant growth as a consequence of the collaboration of our highly experienced fertility specialists, scientists and professional health management.

The performance of our Singapore operation has improved with the clinic achieving a positive EBITDA result in the last four months of the financial year. This has been driven by patient experience and treatment results reflected in the increasingly positive profile of the local team. Increased enquiries following a targeted marketing campaign have translated to solid patient treatment volume delivered by an expanding clinical team of contracted and associate specialists. Our strategy to drive the Virtus collaborative model in carefully selected international markets is achieving results and we will continue to pursue acquisition opportunities in the UK and Europe in support of our strategic objectives.

In May we expanded our domestic presence by acquiring Canberra Fertility Centre which is in its 30th year of operation. This acquisition consolidated our Australian eastern seaboard network and we expect to maintain our market leading position against a backdrop of increasing Australian competition.

Our size and scale enables Virtus to respond to specific local market needs; in Tasmania we expanded our services in Launceston while broadening the advanced diagnostic services available through our Hobart clinic resulting in modest year on year growth.

The Tasmanian approach utilises the experience learned from our regional TFC clinics, our successful dual brand presence on the Sunshine Coast and in Wollongong and our enhanced diagnostics capability. The ability of our regional domestic clinics to provide a full range of fertility treatments at different price points positions Virtus for optimal market penetration.

### *Virtus Ireland shines*

Over the past three years Virtus has pursued opportunities to expand its fertility clinic network overseas and we have established a very successful partnership in Ireland. Virtus Health's investment in Ireland's leading IVF provider, Sims Clinic ("SIMS") has delivered significant clinical improvement and financial growth.

Founded in 1997 by two of Ireland's leading IVF specialists, Dr Anthony Walsh and Dr David Walsh, the duo were responsible for the country's first IVF baby, first donor sperm IVF program, first donor egg program and first clinic to provide Intracytoplasmic Morphologically selected Sperm Injection ("IMSI"). They have been the backbone of Sims' strong reputation for excellence.

In Ireland fertility treatment is currently self-funded by the increasing number of couples and single women requiring medical assistance to start their family due to the social and health drivers of age, obesity and reproductive medical issues.

This year saw new marketing initiatives shared across the group, driving increased enquiries and patient numbers. Ireland's Fertility Awareness Week prompted women to have their Ovarian Reserve measured via an AMH blood test seeking advice on improving their chances of conception. The expansion of Sims IVF to Cork and the acquisition of the IVF unit of the world's oldest maternity hospital, rebranded as Rotunda IVF, has required consultative management and disciplined collaboration both of which have been achieved. Our network ensures Virtus Ireland is positioned appropriately to support the growing demands of the community.



This international partnership has also facilitated positive flow-on effects including collaboration on research and science, sharing best practice treatment options for patients, attracting the best fertility specialists and providing international opportunities for career advancement for staff.

#### *Diagnostics platform established*

In the first quarter the acquisition of Independent Diagnostics Services, a Category G pathology laboratory, enabled the establishment of a strong platform for future growth within the specialised diagnostics operation. Virtus recognise the need to control the quality and standards of service delivery for our patients in the associated services of in-house specialised diagnostic and day hospital facilities. This approach ensures revenue is optimised across the full ARS value chain.

#### *Pre-implantation genetic screening*

The use of genetic technologies in reproductive health is extending further specialty services for infertile and fertile patients improving their chances of conceiving a healthy baby. Technologies that have previously been used to screen embryos for specific genetic or chromosomal abnormalities have been extended to the testing and selection of embryos that are more likely to implant and achieve a pregnancy.

For couples wanting to avoid the transmission of a known genetic condition to their children, pre-implantation genetic diagnosis ("PGD") has for some time allowed for the testing of single gene disorders.

Virtus continue to deploy the latest technologies in next generation sequencing for the purposes of screening in PGD and PGS.

This technology is being utilised by Virtus for preconception screening, a blood test that patients can undergo before becoming pregnant to help determine the likelihood of having a baby with a genetic disorder that can negatively impact the baby's health. There are more than 3,000 inherited disorders that are individually rare but collectively affect approximately 1% of births. The information potential parents obtain can then be used in planning future pregnancies and deciding on any possible forms of diagnostic intervention, such as PGD or non-invasive prenatal testing ("NIPT").

We are proud of the experience and intellectual property that Virtus has developed over a long period of time in the area of pre-implantation genetics and the enhanced outcomes it offers our patients.

#### *Patient service and safety standards*

Our core value to ensure the needs of patients come first has guided our commitment to enhanced patient service and safety with investment in radio-frequency identification ("RFID") electronic witnessing and verification systems. This technology is being implemented throughout all Virtus embryology laboratories. Electronic tracking tags are attached to dishes or tubes containing patient eggs, embryos and sperm. The tags contain electronically stored patient information and monitor the movement of patients' samples throughout the IVF process, providing more security around the identification process.

#### *Research*

Research has a strong place in our organisation enabling our commitment to improving patient outcomes and being abreast of the most current technology. Our clinicians and scientists have been pioneers in fertility care for over 30 years and we continue to be a leader in this advanced field of healthcare through our scientific and clinical research activities with an annual R&D investment of approximately \$4 million. A new initiative this year saw a Virtus PhD Scholarship in Reproductive Science awarded and the initiation of a major internal research project to explore the growing 'freeze all' treatment approach both of which should directly benefit patients.

#### *Fertility specialists and employees*

Virtus fertility specialists and scientists continue to contribute to innovation and development within the fertility profession in Australia and internationally.

We continue to collaborate with universities and public hospitals through academic appointments of our clinicians. This collaboration between Virtus, academia and the public health system ensures a solid training profile for new specialists and provides strong support for our succession program.

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

The average age of our fertility specialists remains at 50 unchanged since our ASX listing reflecting the recruitment of new specialists to balance the retirements of established specialists. Our medical and scientific teams have been collectively responsible for the creation of over 60,000 babies since our inception. All of our fertility specialists are qualified obstetricians and gynaecologists the majority of who have subspecialty training in infertility and have achieved the highest possible level of qualification in this field obtaining a Certificate of Reproductive Endocrinology and Infertility (CREI), and its worldwide equivalents.

In summary, Virtus continues to build on its strong foundation supporting our growth aspirations. Our medical, scientific and management team is focussed on maximising operational efficiency and scalability, preserving clinical sovereignty, achieving the highest possible outcomes for our patients thus maintaining our competitive advantage. We expect the disciplined evolution of our three key pillars of fertility, diagnostics and day hospitals to deliver continued growth with a particular focus on international developments. We will focus on our “leading minds leading science” philosophy to ensure patients across the world have access to the best teams to support their fertility journey.

Directors	Peter Macourt - Chairman Susan Channon Dennis O'Neill Lyndon Hale Peter Turner Sonia Petering
Company secretary	Glenn Powers
Notice of annual general meeting	The details of the annual general meeting of Virtus Health Limited are: Wednesday, 9 November 2016 at the Hilton Hotel Sydney at 2pm 488 George St Sydney NSW 2000
Registered office	Level 3 176 Pacific Highway Greenwich NSW 2065 Phone: (02) 9425 1722 Fax: (02) 9425 1633
Principal place of business	Level 3 176 Pacific Highway Greenwich NSW 2065
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Phone: 1300 554 474
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street Sydney NSW 1171
Solicitors	Minter Ellison Aurora Place 88 Phillip Street Sydney NSW 2000
Bankers	Australia and New Zealand Banking Group Limited, 242 Pitt Street, Sydney NSW 2000 Westpac Banking Corporation Level 3, 275 Kent Street, Sydney NSW 2000 Commonwealth Bank of Australia, Ground floor, Tower 1, 201 Sussex Street Sydney NSW 2000 Siemens Financial Services Inc 170 Wood Avenue, South Iselin New Jersey 08830, United States of America National Australia Bank, Level 19, NAB House, 255 George Street, Sydney NSW 2000
Stock exchange listing	Virtus Health Limited shares are listed on the Australian Securities Exchange (ASX code: VRT)
Website	<a href="http://www.virtushealth.com.au">www.virtushealth.com.au</a>
Corporate Governance Statement	The Corporate Governance Statement was approved by the Board of Directors on 23 August 2016 and can be found at <a href="http://virtushealth.com.au/about-us/corporate-governance">http://virtushealth.com.au/about-us/corporate-governance</a>

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

**Directors**

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

Peter Macourt - Chairman  
 Susan Channon  
 Dennis O'Neill  
 Lyndon Hale  
 Peter Turner  
 Sonia Petering

Dennis O'Neill has indicated that he does not intend to seek re-election at the annual general meeting to be held in November.

**Principal activities**

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

**Dividends**

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Interim ordinary dividend for the year ended 30 June 2016 of 14.0 cents (2015: 13.0 cents) per fully paid share paid in April 2016	11,191	10,385
Final ordinary dividend for the year ended 30 June 2015 of 14.0 cents (2015: 14.0 cents) per fully paid ordinary share paid in October 2015	11,191	10,915
	<b>22,382</b>	<b>21,300</b>

A final dividend of 15.00 cents per share, fully franked, will be paid on 14 October 2016 to the shareholders on the register at 16 September 2016.

**Review of operations**

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$32,918,000 (30 June 2015: \$29,434,000).

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

	Consolidated	
	2016 \$'000	2015 \$'000
Segment EBITDA	76,878	70,977
Share-based payment expense	(559)	(945)
Net gain on acquisition of associate	-	300
Other non-trading expenses	(9,568)	(8,977)
Fair value adjustment to put liabilities	2,165	-
	<hr/>	<hr/>
EBITDA (reported)	68,916	61,355
Depreciation and amortisation expense	(11,180)	(9,994)
	<hr/>	<hr/>
EBIT	57,736	51,361
Interest revenue	143	220
Interest expense	(7,240)	(7,235)
Interest on other financial liability - non-cash interest	(1,338)	(960)
Amortisation of bank facility fee	(208)	(911)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>49,093</u>	<u>42,475</u>

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

Key features of the results are:

- Revenue increased by 11.6% to \$261.2m;
- Group EBITDA increased by 12.3% to \$68.9m;
- Segment EBITDA increased by 8.3% to \$76.9m;
- Australian segment EBITDA increased by 3.8% to \$71.2m;
- International segment EBITDA was \$5.7m up from \$2.4m in the prior year;
- Net profit after tax ("NPAT") increased by 14.5% to \$34.9m; and
- Adjusted NPAT after adding back non-recurring gains and expenses and non-cash acquisition related interest increased by 5.8% to \$34.6m.

Adjusted NPAT for FY2016 is calculated after deducting non-recurring gains and adding back non-recurring expenses and non-cash acquisition related interest totalling \$198,000. Details of this adjustment are set out below:

- Acquisition transaction costs of \$886,000;
- Non-cash put interest expense of \$1,081,000 related to non-current liability to acquire non-controlling interests; and
- Fair value gain of \$2,165,000 on the put liabilities relating to Sims and Tasmania

#### *Operating overview*

##### *Australia segment*

There was an overall market volume increase in New South Wales, Queensland, Tasmania and Victoria of 7.7% for Assisted Reproductive Services ("ARS") and the eastern state market enjoyed strong growth particularly in NSW. (Note: market volume reflects fresh and cancelled cycles).

Cycle volume in Virtus clinics increased by 6.6 % with growth in New South Wales, Queensland and Tasmania. Victorian full service volume was unchanged and market volume growth was below the national benchmark. Like for like volumes in The Fertility Centre ("TFC") clinics declined by 15% due to competitive pressures and a less favourable extended Medicare safety net ("EMSN"). Strong performances were recorded by IVFAustralia full service clinics in NSW, the newly opened TFC facility in Wollongong, NSW and the rebranded TFC Sunshine Coast in Queensland.

Specialist diagnostic revenue increased by 5.1% in FY2016, with greater utilization of pre-implantation genetic diagnosis ("PGD") and screening ("PGS") as a result of the price reduction earlier in the year. Day hospital revenue activity was lower than anticipated with total revenue unchanged and non-IVF revenue declining by 8% as a result of the loss of a high volume ophthalmic specialist from one of our Sydney day hospitals. We increased non-IVF revenue in each of the other five day hospitals and non-IVF procedures accounted for 54% of day hospital revenue, slightly down on prior year.

Overall the Australian segment EBITDA was suppressed by the volume decline in TFCs (\$1.4m), day hospital revenue weakness (\$0.9m) and increased costs in Tasmania (\$0.5m) as we added a new clinic and laboratory facility in Launceston without the corresponding cycle volume increase in the short term.

#### *International*

The company's international activities achieved significant improvements in FY2016 with segment EBITDA increasing to \$5.7m from \$2.4m in the prior year.

Singapore EBITDA losses reduced from \$1.9m in the prior year to \$0.5m and in the last four months the clinic has achieved a positive EBITDA result.

Ireland enjoyed a strong year with EBITDA increasing by 33% compared to prior year; EBITDA margin was slightly down at 19% although this was after incurring restructuring costs as we seek to improve the services provided by our Irish teams.

#### *Capital expenditure*

Total expenditure on tangible and intangible assets was \$9.6m in FY2016 (FY2015; \$12.6m) reflecting a lower level of geographic expansion. The largest investment related to the continued development and rollout of the company's Virtus Patient Management software in Australia.

#### *Acquisitions*

Virtus completed two acquisitions during the year:

- The business of Independent Diagnostic Services Pty Ltd ("IDS"). The IDS laboratory operation is complementary to the diagnostic structure and the enhanced footprint supports Virtus' stated diversification strategy to expand its specialist diagnostics capability. IDS has a team of 36 experienced staff including scientists and support staff delivering haematology, microbiology, biochemistry, serology and immunology pathology services. In the 9 month period to June 2016, IDS revenue was \$2.15m. The consideration of \$3.5m was satisfied from cash resources.
- Acquisition of Lab Services Pty Ltd trading as Canberra Fertility Centre ("CFC"). The acquisition comes as CFC celebrates 30 years of patient service and adds to Virtus' domestic growth strategy consolidating the group's geographic expansion strategy along the eastern seaboard of Australia. The maximum transaction value is \$3.5 million on a cash free debt free basis and this was satisfied from existing cash resources. If owned for the full year to 30 June 2016, CFC revenue would have been \$4.8m.

#### *Outlook*

The long term trend of women over 30 delaying the birth of children is a key factor in each of our geographic markets and demand for ARS is expected to grow. In Australia the median age of the first time mother in 2014 increased slightly to 30.9 years compared to prior year. Market compound average growth rate ("CAGR") for fresh cycles in the eastern state markets over the last four years has been 2.9% compared to a seven year CAGR of 3.1% supporting the view that demand for IVF services is continuing to grow.

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

#### *Debt and interest expense*

At 30 June 2016, total facilities drawn were \$148m in cash and \$4m in guarantees. Cash balances at the end of June 2016 were \$22m. Net debt reduced by \$8.8m. The company continued to comply with the financial covenants of its facility agreement.

*Other financial liabilities (\$24.1m)*

The non-controlling interests of Sims Clinic Limited and Tas IVF Pty Limited hold put options established at the time of acquisition. Consequently in accordance with accounting standards the group is required to recognise a liability for the estimated consideration to acquire the non-controlling interests. This liability has 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 liability has resulted in a non-cash interest expense in FY2016 of \$1,081,000 (FY2015: \$960,000). The company has also undertaken a review of the underlying liabilities and recognising the forecast trading outlook for FY2017 for each of these businesses has reduced the aggregate fair value of the financial liability by \$2,165,000.

*Amortisation of borrowing costs*

Amortisation of borrowing cost expense for FY2016 was \$208,000, (FY2015: \$911,000).

*Taxation*

The effective tax rate on operating earnings for FY2016 was 29.0% (FY2015; 28.3%) as a consequence of the non-deductibility of certain costs and expenses.

*Earnings per share*

Basic earnings per share increased by 11.7% to 41.18 cents per share (FY2015: 36.86 cents per share). Diluted earnings per share increased by 11.6% to 40.79 cents per share (FY2015: 36.54 cents per share).

*Dividend*

A final dividend of 15.00 cents per share fully franked (October 2015: 14.00 cents per share) will be paid on 14 October 2016 to shareholders on the register at 16 September 2016.

**Significant changes in the state of affairs**

On 14 September 2015, Virtus acquired the business and certain assets of Independent Diagnostic Services ('IDS'), a general category pathology laboratory based in Sydney, Australia, as part of its strategy to expand and strengthen its diagnostics services. The acquisition enables Virtus to expand the scope of diagnostic tests that can be conducted in-house and facilitates the retention of revenue for the wide array of tests that are already conducted as part of fertility treatment (See note 42 for details).

On the 20 May 2016, Virtus acquired 100% of the shares in Lab Services Pty Ltd ('Canberra Fertility Centre') for a consideration of up to \$3.5m. The acquisition of Canberra Fertility Centre aligns with our growth strategy domestically expanding into the Canberra market where Virtus does not currently have any presence. It is a good quality clinic with potential for further growth as part of the Virtus network including opportunities for growing diagnostic services.

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

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Likely developments and expected results of operations**

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

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

*Business sustainability risks*

The consolidated entity is faced with certain material business risks that could have an effect on the financial prospects of the consolidated entity. These include:



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

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

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

*Availability of fertility specialists*

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

*Variability of growth*

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

*Increased competition*

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

**Environmental regulation**

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

**Information on directors**

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



**Name:** Susan Channon  
**Title:** Chief Executive Officer  
**Qualifications:** Registered Nurse Div1; OR Management Certificate  
**Experience and expertise:** Susan (Sue) has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to Chief Executive Officer ('CEO') of the company in November 2010, Sue was CEO of IVF Australia Pty Ltd. Prior to joining the company, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Member of the Risk Committee  
**Interests in shares:** 448,633 ordinary shares  
**Interests in options:** 208,435 options over ordinary shares

**Name:** Dennis O'Neill  
**Title:** Non-Executive Director  
**Qualifications:** BSc. (Hons) Mech. Eng; CPE (ret), FIEA; FAICD; FAIM  
**Experience and expertise:** Dennis is the former Chief Executive Officer and Managing Director of Evans Deakin Industries Ltd and United Group Ltd and the former Chairman of Decmil Group Ltd. In March 2009 Dennis was appointed as Chairman and Advisory Chairman of Queensland Fertility Group Pty Ltd and stepped down as the Advisory Chairman in October 2014. He is also Advisory Chairman to several unlisted companies and was the Steel Supplier Advocate for the Commonwealth Government until 30 June 2014.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chair of the Audit Committee  
**Interests in shares:** 50,000 ordinary shares  
**Interests in options:** None

**Name:** Lyndon Hale  
**Title:** Executive Director  
**Qualifications:** MBBS; FRACOG; CREI  
**Experience and expertise:** Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also director of Reproductive Surgery at The Women's Hospital, and is a board member of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 823,694 ordinary shares  
**Interests in options:** None

**Name:** Peter Turner  
**Title:** Non-Executive Director  
**Qualifications:** BSc.; MBA; GAICD  
**Experience and expertise:** Prior to joining the company, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently Chairman of NPS MedicineWise.

**Other current directorships:** Bionomics Limited  
**Former directorships (last 3 years):** CSL Limited, Ashley Services Group Limited  
**Special responsibilities:** Chair of the Risk Committee and the Nomination and Remuneration Committee and member of the Audit Committee.  
**Interests in shares:** 50,000 ordinary shares  
**Interests in options:** None

Name: Sonia Petering  
Title: Non-Executive Director  
Qualifications: LLB; BComm; FAICD  
Experience and expertise: Sonia is a corporate lawyer who brings extensive experience as a Director. She also served as Chair of the Rural Finance Corporation of Victoria and a Non-Executive Director of Victoria's Transport Accident Commission until July 2016. Sonia is also a director of TAL, Dia-Ichi Life Australia Pty Limited and Qantm IP Limited.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Member of the Risk Committee and the Nomination and Remuneration Committee.  
Interests in shares: 2,500 ordinary shares  
Interests in options: None

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

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

### Company secretary

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

### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held
Peter Macourt - Chairman	9	9	3	3
Susan Channon	9	9	3	3
Dennis O'Neill	9	9	-	-
Lyndon Hale	9	9	-	-
Peter Turner	9	9	3	3
Sonia Petering	9	9	3	3
	Audit Committee		Risk Committee	
	Attended	Held	Attended	Held
Peter Macourt - Chairman	3	3	-	-
Susan Channon	-	-	3	3
Dennis O'Neill	3	3	-	-
Lyndon Hale	-	-	3	3
Peter Turner	3	3	3	3
Sonia Petering	-	-	3	3

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

### **Remuneration report (audited)**

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

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

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

- A. Executive summary;
- B. Role of the Nomination and Remuneration Committee;
- C. Executive remuneration framework;
- D. Link between remuneration and consolidated entity performance;
- E. Executive services agreements;
- F. Remuneration, share and option disclosures for FY2016;
- G. Non-executive director remuneration; and
- H. Fertility specialist performance rights incentives.

#### **A. Executive summary**

##### *Remuneration framework update and key management personnel*

There were no changes made to the remuneration framework in FY2016. The objective of the remuneration framework is to attract and retain high calibre talent while ensuring that pay outcomes are aligned to company performance and shareholder expectations.

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

##### *Non-Executive Directors*

Peter Macourt – Chairman  
Peter Turner – Director  
Dennis O'Neill – Director  
Sonia Petering – Director

There have been no changes to the non-executive directors during the year and a profile of each director is provided in the Directors' Report.

##### *Executive KMP*

Sue Channon – Chief Executive Officer  
Glenn Powers – Chief Financial Officer  
Lyndon Hale – Director and Medical Director, Victoria  
Andrew Othen – Managing Director, Victoria  
Nadia Stankovic – Managing Director, New South Wales  
Steve Zappia – Managing Director, Queensland  
Anthony Walsh – Executive Chairman, Ireland  
Peter Illingworth – Medical Director, New South Wales  
David Molloy – Medical Director, Queensland  
William Watkins – Medical Director, Tasmania

There have been no changes to the executive KMP during the year.

For the year ended 30 June 2016 base salaries show a small decline on FY2015 which reflects a decrease in the vacation leave accrual for certain individuals in FY2016 compared to FY2015. Actual fixed remuneration (including superannuation) for the executive KMP was increased by 3.6% during FY2016.

The short term incentives ("STI") achieved in FY2016 are set out on page 24. As the financial hurdles were not fully achieved the average STI achievement in FY2016 is 28% of the maximum available.

The long term incentives ("LTI") achieved in FY2016 are set out on page 24. Target comparative returns were only partially achieved resulting in 43% of performance options granted in June 2013 meeting their vesting requirements this year.

### ***B. Role of the Nomination and Remuneration Committee***

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

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

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

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

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

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

#### *Use of remuneration consultants*

When considered necessary, the Committee may obtain external advice from independent consultants in determining the consolidated entity's remuneration practices including remuneration levels.

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

- long term incentive performance hurdles;
- executive remuneration benchmarking; and
- non-executive director fees benchmarking.

In the current year the Committee elected not to seek recommendations from KPMG and the committee members relied on previous reports provided by KPMG and their own enquiries relating to remuneration matters.

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

#### *Remuneration framework review for FY2017*

The Board continually monitors the effectiveness of the remuneration framework in terms of alignment with shareholder interests and market practice. Following a review of the STI arrangements the Board has introduced a pooled STI plan for all qualifying KMPs. Participants in the STI plan will receive a share of the STI pool based on the performance of the Australian segment and their own individual state or functional responsibility (such as NSW, Victoria, Queensland or Diagnostics). Key features of the new arrangements are as follows:

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

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

The financial KPIs initially include:

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

In FY2018 the STI pool will be derived as an average of the FY2017 and FY2018 pool calculations and in FY2019 the STI pool will be calculated as the average of the three year pool calculation for FY2017 to FY2019. Thereafter, the pool will be calculated as a rolling three year average with all pool calculations linked to growth in EPS. This approach aligns the STI payouts with shareholder returns and reduces the impact of short term one-off events which may impact EPS.

Following a review of the LTI arrangements no changes to the plan structure are proposed for FY2017.

### **C. Executive remuneration framework**

#### *Remuneration philosophy and principles*

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

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- STI's;
- LTI's; and
- other remuneration such as superannuation and long service leave.

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

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

#### *Fixed remuneration*

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

#### *Short term incentive plan – STI*

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

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

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

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

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

The KPI structure for FY16, established by the Nomination and Remuneration Committee, was as follows:

- Applicable to Sue Channon and Glenn Powers – 60% of STI relates to the achievement of Net Profit after Tax ('NPAT') attributable to the company's shareholders; 20% of STI relates to the addition of earnings enhancing acquisitions; 10% of STI relates to the achievement of financial targets for the Australian diagnostic operations; and 10% of the STI relates to non-financial Board management objectives.
- Applicable to Andrew Othen, Steve Zappia and Nadia Stankovic - 30% of STI relates to the achievement of consolidated Australian EBIT; 40% of STI relates to the achievement of State EBIT; 20% of STI relates to the achievement of cost reduction and EBIT Margin enhancement targets in their individual state business activities; and 10% of STI relates to the achievement of other non-financial management objectives.

EBIT and NPAT targets include an interpolation schedule which provides for payment of bonus as follows:

For achievement of 95% of budget, 25% of relevant STI component is payable  
For achievement of 96% of budget, 35% of relevant STI component is payable  
For achievement of 97% of budget, 45% of relevant STI component is payable  
For achievement of 98% of budget, 55% of relevant STI component is payable  
For achievement of 99% of budget, 65% of relevant STI component is payable  
For achievement of 100% of budget, 75% of relevant STI component is payable  
For achievement of 105% of budget, 100% of relevant STI component is payable

In FY2016 the budget NPAT growth was targeted to be 13.3% and the Australian EBIT growth was targeted to be 21.2%.

#### *Long term incentive plans – LTI*

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



dividends until rights have vested and converted into shares.

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

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

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

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

*1. Senior executives - FY2015 grant*

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

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

The performance rights vest subject to the following performance hurdles:

- The performance hurdles for the FY2015 grant are relative to TSR and earnings per share ('EPS') growth. Each hurdle applies to 50% of the grant. TSR is measured on the company's TSR relative to a peer group of companies in both the S&P ASX 200 Index and the S&P ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.
- The percentage of the TSR component which may vest is based on a sliding scale as follows:
  - 0% if the TSR does not reach the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
  - 50% if the TSR reaches the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each);
  - Progressive rate (straight-line) vesting from 50% to 100% if the TSR exceeds the 50th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each) but does not reach the 75th percentile; and
  - 100% if the TSR reaches or exceeds the 75th percentile of the TSRs of the S&P ASX 200 index and the S&P ASX 200 Healthcare index (weighted 50% each).
- The percentage of the EPS growth component which may vest is based on a sliding scale as follows:
  - 0% if the compound average growth rate ('CAGR') does not reach 7.5%;
  - 50% if the CAGR reaches 7.5%;
  - Progressive rate (straight-line) vesting from 50% to 100% if the CAGR exceeds 7.5% but does not reach 10%; and
  - 100% if the CAGR reaches or exceeds 10%.

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

The annual AASB 2 'Share-Based Payments' accounting charge of this scheme is currently \$109,001 and the maximum earnings dilution to existing shareholders is 0.14%.

*2. Senior executives - FY2016 grant*

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

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

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

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

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

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

#### *Other remuneration*

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



#### D. Link between remuneration and consolidated entity performance

##### Consolidated entity performance and link to remuneration

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Non-Executive Directors:</i>						
P Macourt	100%	100%	-	-	-	-
D O'Neill	100%	100%	-	-	-	-
P Turner	100%	100%	-	-	-	-
S Petering	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
S Channon	48%	51%	24%	18%	28%	31%
L Hale	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
G Powers	48%	52%	23%	17%	29%	31%
A Othen	60%	60%	16%	16%	24%	24%
N Stankovic	59%	59%	18%	18%	23%	23%
S Zappia	58%	58%	18%	18%	24%	24%
A Walsh	78%	78%	-	-	22%	22%
P Illingworth	100%	100%	-	-	-	-
D Molloy	100%	100%	-	-	-	-

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2016	2015	2016	2015
<i>Executive Directors:</i>				
S Channon	25%	50%	75%	50%
<i>Other Key Management Personnel:</i>				
G Powers	30%	55%	70%	45%
A Othen	10%	33%	90%	67%
S Zappia	35%	33%	65%	67%
N Stankovic	46%	58%	54%	42%

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Executive Directors:</i>						
S Channon	70%	69%	9%	11%	21%	20%
L Hale	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
G Powers	71%	72%	10%	11%	19%	17%
A Othen	92%	88%	2%	8%	6%	4%
N Stankovic	82%	83%	12%	13%	6%	4%
S Zappia	85%	87%	9%	9%	6%	4%
A Walsh	96%	97%	-	-	4%	3%
P Illingworth	100%	100%	-	-	-	-
D Molloy	100%	100%	-	-	-	-

The earnings of the consolidated entity that are considered to affect total shareholders return ('TSR') for the five years to 30 June 2016 are summarised below:

	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000
Sales revenue	261,210	234,142	201,249	186,581	165,119
EBITDA*	68,916	61,355	59,404	43,429	48,708
EBIT	57,736	51,361	51,212	34,684	39,736
Profit after income tax	34,865	30,441	30,957	10,104	19,660
NPAT attributable to Virtus shareholders	32,918	29,434	30,885	10,104	19,660

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

	2016	2015	2014	2013	2012*
Share price at financial year end (\$)	6.87	5.37	8.16	6.45	-
Total dividends paid (cents per share)	28.00	27.00	12.00	133.50	-
Basic earnings per share (cents per share)	41.18	36.86	38.80	17.78	36.73
Diluted earnings per share (cents per share)	40.79	36.54	38.48	16.78	34.22

\* Share price is not applicable for 2012 as the company was not a listed entity in that year.

#### Remuneration outcomes for FY2016

The following is a summary of the key KMP remuneration outcomes for FY2016:

- Total remuneration increased by 2.0% reflecting annual increases in base remuneration; and
- STI outcomes decreased by 23.3% as KMPs generally did not meet all internal targets.

#### STI Outcomes

Based on the achievements of the consolidated entity this year the Committee determined that executives had achieved the following percentages of their overall STI targets:

Susan Channon – 25%, including 0% for the NPAT target;  
 Glenn Powers – 30%, including 0% for the NPAT target;  
 Andrew Othen – 10%, including 0% for the EBIT target;  
 Steve Zappia – 35%, including 36% for the EBIT target;  
 Nadia Stankovic – 46%, including 37% for the EBIT target;  
 Anthony Walsh – no STI as he is incentivised by way of his minority shareholder interest in the business of Sims Clinic.

#### LTI outcomes for FY2016

In FY16 a number of performance hurdles were met for Sue Channon and Glenn Powers resulting in partial vesting of performance options granted on 10 June 2013. The following vests were confirmed:

- from a potential total of 50% of the performance options available, 28.37% of available options vested in respect of share price growth of 19.72% over the three year performance period;
- from a potential total of 25% of the performance options available, 14.73% of available options vested in respect of achieving a total shareholder return ('TSR') at the 59th percentile compared to the ASX 300 index TSR over the three year performance period; and
- from a potential total of 25% of the performance options available, none of the available options vested in respect of not achieving a TSR at the 50th percentile compared to the ASX 300 Healthcare index TSR over the three year performance period.

The total options vesting for Sue Channon were 113,138 with an exercise price of \$5.68 per option, and the total options vesting for Glenn Powers were 64,650 with an exercise price of \$5.68 per option. The total dilution to the company's shareholders of the vested options is 0.22%. Accordingly 234,712 of the performance options granted on 10 June 2013 did not vest and have lapsed.

## E. Executive service agreements

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

Name: Lyndon Hale  
Title: Executive Director  
Agreement commenced: 11 June 2013  
Term of agreement: No fixed end date  
Details: The executive may terminate the fertility specialist contract by giving a minimum of 6 months' notice or maximum of 12 months' notice in writing. The company may terminate by giving 12 months' notice in writing. Upon the termination of the fertility specialist contract, the fertility specialist will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

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

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

### *Other Key Management Personnel*

Andrew Othen, Steve Zappia, Nadia Stankovic and Anthony Walsh are employed under individual executive services agreements. These establish:

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

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

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

**F. Remuneration, share and option disclosures for FY2016**

*Amounts of remuneration*

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

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

2015	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Employee leave \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
P Macourt	132,991	-	-	12,634	-	-	145,625
D O'Neill	84,246	-	-	8,003	-	-	92,249
P Turner	100,228	-	-	9,521	-	-	109,749
S Petering	66,400	-	-	6,308	-	-	72,708
<i>Executive Directors:</i>							
S Channon	470,857	85,000	-	36,966	11,078	147,593	751,494
L Hale	75,000	-	-	-	-	-	75,000
<i>Other Key Management Personnel:</i>							
G Powers	331,622	60,500	-	37,521	6,947	89,520	526,110
N Stankovic	254,800	46,617	-	27,770	4,576	13,467	347,230
A Othen	290,638	28,189	-	30,199	9,050	16,699	374,775
S Zappia	257,013	27,337	-	26,590	966	13,750	325,656
A Walsh	158,026	-	-	-	-	5,211	163,237
P Illingworth	177,290	-	-	-	-	-	177,290
D Molloy	80,126	-	-	-	-	-	80,126
	<u>2,479,237</u>	<u>247,643</u>	<u>-</u>	<u>195,512</u>	<u>32,617</u>	<u>286,240</u>	<u>3,241,249</u>

Sonia Petering joined the Board in September 2014 so the total benefit in FY2015 does not represent a full year salary.

William Watkins did not receive any remuneration in his capacity as a key management person for the financial years ended 30 June 2016 and 2015.

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

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

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

*Additional disclosures relating to key management personnel*

*Shareholding*

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Macourt	18,485	-	-	-	18,485
Susan Channon	448,633	-	-	-	448,633
Dennis O'Neill	50,000	-	-	-	50,000
Lyndon Hale	823,694	-	-	-	823,694
Peter Turner	50,000	-	-	-	50,000
Glenn Powers	114,150	-	-	-	114,150
Peter Illingworth	654,023	-	-	(300,003)	354,020
David Molloy	400,628	-	-	(36,421)	364,207
Sonia Petering	2,500	-	-	-	2,500
	<u>2,562,113</u>	<u>-</u>	<u>-</u>	<u>(336,424)</u>	<u>2,225,689</u>

*Option holding*

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

	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Susan Channon	298,972	58,825	-	(149,362)	208,435
Andrew Othen	54,266	25,585	-	-	79,851
Glenn Powers	175,888	41,754	-	(85,350)	132,292
Peter Illingworth	50,000	-	-	-	50,000
Nadia Stankovic	13,118	21,009	-	-	34,127
Steve Zappia	13,393	21,190	-	-	34,583
Anthony Walsh	5,076	7,797	-	-	12,873
	<u>610,713</u>	<u>176,160</u>	<u>-</u>	<u>(234,712)</u>	<u>552,161</u>

**Share based compensation**

*Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016.

*Options or performance rights*

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
11 June 2013	11 June 2016	11 June 2018	\$5.68	\$1.26
01 July 2013	27 February 2014	27 January 2017	\$5.68	\$1.43
10 November 2014	10 November 2017	10 November 2024	\$0.00	\$6.90
10 November 2015	10 November 2018	10 November 2025	\$0.00	\$4.41

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

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

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

Name	Number of options granted during the year 2016	Number of options granted during the year 2015	Number of options vested during the year 2016	Number of options vested during the year 2015
Susan Channon	58,825	36,472	113,138	-
Glenn Powers	41,754	25,888	64,650	-
Andrew Othen	25,585	16,266	-	-
Nadia Stankovic	21,009	13,118	-	-
Steve Zappia	21,190	13,393	-	-
Anthony Walsh	7,797	5,076	-	-

Fair values of options and performance rights over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$
Susan Channon	139,856	-	188,196
Glenn Powers	99,270	-	107,541
Andrew Othen	60,828	-	-
Nadia Stankovic	49,949	-	-
Steve Zappia	50,379	-	-
Anthony Walsh	18,537	-	-

## **G. Non-executive director remuneration**

### *Overview of non-executive director remuneration*

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

Under the Constitution, the directors decide the total amount paid to each director as remuneration for their services as a director to the company. However, under the listing rules of the ASX ('ASX Listing Rules'), the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount approved by the shareholders. Aggregate annual directors' fees paid to directors for the financial year ended 30 June 2016 were \$442,100. Details of the fees payable to each director are set out in section F of this report. A shareholder resolution was approved at the Annual General Meeting in November 2015 to increase the total amount payable including superannuation to all non-executive directors for their services from \$500,000 to \$600,000.



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

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

*Other information about directors' remuneration*

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

## **H. Fertility specialist performance rights incentives**

*Grants of performance rights - fertility specialists*

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

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

The key terms and conditions to these performance rights are set out below:

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

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

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

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

*Vesting conditions*

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

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

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

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



*High performance options – fertility specialists*

The Board also recognises those fertility specialists that achieve a high level of fresh cycles over a defined period acknowledging the value they generate for all stakeholders. The Board has created a High Performer Share Incentive Scheme to reward fertility specialists who consistently deliver more than 400 cycles per annum for a consecutive three year period.

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

- the first incentive period commenced on 1 January 2014 and runs for a three year period ending 31 December 2016;
- the second incentive period commenced on 1 January 2015 and runs for a three year period ending 31 December 2017. The base price at date of grant is the average daily closing share price for the month ending 31 December 2014; this has been calculated at \$7.42; the base price value of the incentive is \$500,000; and
- the third incentive period commenced on 1 January 2016 and runs for a three year period ending 31 December 2018. The base price at date of grant is the average daily closing share price for the month ending 31 December 2015; this has been calculated at \$6.22; the base price value of the incentive is \$500,000.

Currently two fertility specialists meet the performance criteria in the second incentive period and none in the first incentive period.

The vesting date of the second incentive period is 1 January 2018 and vesting is also dependent on the company's ordinary share price at exercise being higher than the base price set at the time of incentive commencement.

Other features of the scheme are as follows:

- the actual number of vested performance rights awarded will be in accordance with the calculation methodology applied to the fertility specialist performance incentive structure;
- performance rights grants may still be accrued for incremental performance above 400 cycles;
- once a vesting award is achieved after three years of consecutive high performance, a fertility specialist may then commence a new three year high performer incentive period. For example in a six year period a fertility specialist may achieve two vested awards each with a base value of \$500,000 if he/she achieves 400 cycles per annum for a consecutive period of six years; and
- The High Performer Share Incentive Scheme is administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

**This concludes the remuneration report which has been audited.**

### Shares under option

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

Grant date	Expiry date	Exercise or base price	Number under option or shares to be issued
11 June 2013	11 June 2018	\$5.68	177,788
28 January 2014*	27 January 2017	\$5.68	263,000
20 January 2014**	20 January 2024	\$0.00	22,568
21 January 2014**	21 January 2024	\$0.00	96,238
03 October 2014**	03 October 2024	\$8.57	88,948
10 November 2014	10 November 2024	\$0.00	126,457
13 May 2015**	13 May 2025	\$8.57	7,372
13 May 2015**	13 May 2025	\$7.53	912
13 May 2015**	13 May 2025	\$7.34	794
13 May 2015**	13 May 2025	\$7.96	343
13 May 2015**	13 May 2025	\$8.01	262
10 November 2015	10 November 2025	\$0.00	201,111
21 August 2015	21 August 2025	\$5.67	7,434
28 October 2015	28 October 2025	\$5.01	16,406
16 December 2015	16 December 2025	\$6.07	6,197
16 December 2015	16 December 2025	\$6.17	5,509
			1,021,339

\* The consolidated entity agreed to issue 450,000 options to fertility specialists and 174,082 options to management as part of the IPO listing. Rights to these options were confirmed on 11 June 2013, and the options were formally granted 28 January 2014. For compliance with AASB 2 'Share-based Payment' it is assumed that 11 June 2013 is the grant date for these options.

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

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

### Shares issued on the exercise of options

During the financial year 175,000 ordinary shares were issued on the exercise of options. No share options were cancelled during the financial year. There were no shares of Virtus Health Limited issued on the exercise of options from 1 July 2016 up to and including the date of this report.

### Indemnity and insurance of officers

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

During the financial year, the company paid a premium of \$161,500 in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001.

### Indemnity and insurance of auditor

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

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

### Proceedings on behalf of the company

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

### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 37 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 37 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

### **Officers of the company who are former partners of PricewaterhouseCoopers**

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

### **Rounding of amounts**

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

### **Auditor's independence declaration**

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

### **Auditor**

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

As recommended by the Audit Committee, the Directors considered and approved the extension of the current PricewaterhouseCoopers engagement partner for a further two years (2016 and 2017 financial years ) in accordance with section 324DAA of the Corporations Act 2001. Prior to the 2016 financial year, the current engagement partner audited 2 years of Virtus Health's financial statements while it was a private company and 3 years as a public company. The Directors are satisfied that this approval is consistent with maintaining the quality of the audit provided to the company and that this does not give rise to a conflict of interest situation.

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

On behalf of the directors



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Peter Macourt  
Chairman

23 August 2016  
Sydney



## **Auditor's Independence Declaration**

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'Eddie Wilkie'.

Eddie Wilkie  
Partner  
PricewaterhouseCoopers

Sydney  
23 August 2016

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

**Virtus Health Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2016**



	Note	Consolidated 2016 \$'000	2015 \$'000
<b>Revenue</b>	4	261,210	234,142
Share of profits of associates accounted for using the equity method	5	681	563
Other income	6	3,519	1,067
<b>Expenses</b>			
Fertility specialists, consumables and associated costs		(74,383)	(63,718)
Employee benefits expense		(84,293)	(75,996)
Depreciation and amortisation expense	7	(11,180)	(9,994)
Occupancy expense		(15,608)	(14,103)
Advertising and marketing		(4,102)	(3,683)
Practice equipment expenses		(2,092)	(1,906)
Professional and consulting fees		(2,919)	(2,603)
Other expenses		(12,954)	(12,188)
Finance costs	7	(8,786)	(9,106)
<b>Profit before income tax expense</b>		49,093	42,475
Income tax expense	8	(14,228)	(12,034)
<b>Profit after income tax expense for the year</b>		34,865	30,441
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax	30	(756)	(380)
Foreign currency translation		575	125
Other comprehensive loss for the year, net of tax		(181)	(255)
<b>Total comprehensive income for the year</b>		<u>34,684</u>	<u>30,186</u>
Profit for the year is attributable to:			
Non-controlling interest		1,947	1,007
Owners of Virtus Health Limited	31	32,918	29,434
		<u>34,865</u>	<u>30,441</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		2,100	1,007
Owners of Virtus Health Limited		32,584	29,179
		<u>34,684</u>	<u>30,186</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	48	41.18	36.86
Diluted earnings per share	48	40.79	36.54

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

**Virtus Health Limited**  
**Statement of financial position**  
**As at 30 June 2016**



	Note	Consolidated 2016 \$'000	2015 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	22,215	18,371
Trade and other receivables	10	11,332	13,647
Inventories	11	550	278
Other	12	1,934	1,508
<b>Total current assets</b>		<b>36,031</b>	<b>33,804</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method	13	1,489	1,489
Property, plant and equipment	14	30,320	30,822
Intangibles	15	399,000	390,763
Deferred tax	16	6,013	8,064
Other	17	335	304
<b>Total non-current assets</b>		<b>437,157</b>	<b>431,442</b>
<b>Total assets</b>		<b>473,188</b>	<b>465,246</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	23,539	21,554
Borrowings	19	22	50
Income tax	20	12	4,256
Provisions	21	3,236	2,908
Other financial liabilities	22	1,355	-
Other	23	5,826	5,390
<b>Total current liabilities</b>		<b>33,990</b>	<b>34,158</b>
<b>Non-current liabilities</b>			
Borrowings	24	147,357	152,246
Derivative financial instruments	25	1,756	676
Provisions	26	6,348	5,523
Other financial liabilities	27	24,130	24,705
Other payables	28	1,563	1,617
<b>Total non-current liabilities</b>		<b>181,154</b>	<b>184,767</b>
<b>Total liabilities</b>		<b>215,144</b>	<b>218,925</b>
<b>Net assets</b>		<b>258,044</b>	<b>246,321</b>
<b>Equity</b>			
Issued capital	29	238,829	238,429
Reserves	30	(12,764)	(12,989)
Retained profits	31	12,531	1,995
Equity attributable to the owners of Virtus Health Limited		<b>238,596</b>	<b>227,435</b>
Non-controlling interest	32	19,448	18,886
<b>Total equity</b>		<b>258,044</b>	<b>246,321</b>

*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 year ended 30 June 2016**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2014	237,135	(1,610)	(6,139)	10,240	239,626
Profit after income tax expense for the year	-	-	29,434	1,007	30,441
Other comprehensive loss for the year, net of tax	-	(255)	-	-	(255)
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>(255)</b>	<b>29,434</b>	<b>1,007</b>	<b>30,186</b>
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 29)	1,294	-	-	-	1,294
Non-controlling interest on acquisition of subsidiary	-	-	-	6,454	6,454
Issue of shares by subsidiary to non-controlling interest	-	-	-	1,787	1,787
Dividends payable by subsidiary to non-controlling interest	-	-	-	(465)	(465)
Non-controlling interest share of reserves	-	-	-	(137)	(137)
Put option business combination reserve	-	(12,069)	-	-	(12,069)
Share-based payments	-	945	-	-	945
Dividends paid (note 33)	-	-	(21,300)	-	(21,300)
<b>Balance at 30 June 2015</b>	<b>238,429</b>	<b>(12,989)</b>	<b>1,995</b>	<b>18,886</b>	<b>246,321</b>
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2015	238,429	(12,989)	1,995	18,886	246,321
Profit after income tax expense for the year	-	-	32,918	1,947	34,865
Other comprehensive income/(loss) for the year, net of tax	-	(334)	-	153	(181)
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>(334)</b>	<b>32,918</b>	<b>2,100</b>	<b>34,684</b>
<i>Transactions with owners in their capacity as owners:</i>					
Payment of partly paid shares	400	-	-	-	400
Dividends payable by subsidiary to non-controlling interest	-	-	-	(1,567)	(1,567)
Non-controlling interest on acquisition of subsidiary	-	-	-	29	29
Share-based payments	-	559	-	-	559
Dividends paid (note 33)	-	-	(22,382)	-	(22,382)
<b>Balance at 30 June 2016</b>	<b>238,829</b>	<b>(12,764)</b>	<b>12,531</b>	<b>19,448</b>	<b>258,044</b>

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 year ended 30 June 2016**



	Note	Consolidated	
		2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		290,029	233,070
Payments to suppliers (inclusive of GST)		(220,328)	(173,116)
		69,701	59,954
Other revenue		1,354	367
Interest and other finance costs paid		(7,097)	(7,228)
Income taxes paid		(16,270)	(12,255)
Net cash from operating activities	47	47,688	40,838
<b>Cash flows from investing activities</b>			
Payments for acquisition of subsidiaries and businesses, net of cash acquired		(5,775)	(25,180)
Payments for property, plant and equipment and intangibles		(9,628)	(12,336)
Proceeds from disposal of property, plant and equipment		18	47
Interest received		143	220
Net cash used in investing activities		(15,242)	(37,249)
<b>Cash flows from financing activities</b>			
Proceeds from partly paid shares	29	122	-
Proceeds from issue of shares		-	994
Proceeds from issue of shares to non-controlling interest		-	1,787
Payment of dividends		(22,104)	(21,300)
Dividend paid to non-controlling interest in subsidiaries		(1,567)	(150)
Proceeds from borrowings		-	13,000
Repayment of borrowings		(5,000)	-
Payment of fees in relation to refinancing		-	(1,038)
Payment for finance lease facility		(125)	(62)
Net cash used in financing activities		(28,674)	(6,769)
Net increase/(decrease) in cash and cash equivalents		3,772	(3,180)
Cash and cash equivalents at the beginning of the financial year		18,371	21,498
Effects of exchange rate changes on cash and cash equivalents		72	53
Cash and cash equivalents at the end of the financial year	9	22,215	18,371

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



## **Note 1. Significant accounting policies**

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

### **New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity 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.

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

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

### **Basis of preparation**

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

#### *Historical cost convention*

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

#### *Critical accounting estimates*

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

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 41.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Virtus Health Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Virtus Health Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

## Note 1. Significant accounting policies (continued)

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

### Operating segments

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

### Foreign currency translation

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

#### *Foreign currency transactions*

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

#### *Foreign operations*

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

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

### Revenue recognition

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

#### *Rendering of services*

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

#### *Deferred revenue*

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

#### *Interest*

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

#### *Rent*

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

#### *Other revenue*

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

### Income tax

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

### **Note 1. Significant accounting policies (continued)**

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

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

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

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

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

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

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

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

#### **Current and non-current classification**

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

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

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

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

#### **Cash and cash equivalents**

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

## Note 1. Significant accounting policies (continued)

### Trade and other receivables

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

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

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

### Inventories

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

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

### Derivative financial instruments

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

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

#### *Cash flow hedges*

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

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

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

### Associates

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

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

### Note 1. Significant accounting policies (continued)

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

#### Property, plant and equipment

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

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

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

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

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

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

#### Leases

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

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

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

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

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

#### Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The 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.

## Note 1. Significant accounting policies (continued)

### *Goodwill*

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

### *Software*

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

### *Brand names*

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

### **Impairment of non-financial assets**

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

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

### **Trade and other payables**

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

### **Borrowings**

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

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

### **Finance costs**

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

### **Provisions**

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

### **Employee benefits**

#### *Short-term employee benefits*

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



## Note 1. Significant accounting policies (continued)

### *Other long-term employee benefits*

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

### *Defined contribution superannuation expense*

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

### *Share-based payments*

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

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

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

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

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

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

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

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

### *Profit sharing and bonus plans*

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

### **Fair value measurement**

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

### **Note 1. Significant accounting policies (continued)**

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

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

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

#### **Issued capital**

Ordinary shares are classified as equity.

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

#### **Dividends**

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

#### **Business combinations**

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

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

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

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

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

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



## Note 1. Significant accounting policies (continued)

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

### Earnings per share

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

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

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

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

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

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

### Rounding of amounts

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

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. 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.

## Note 1. Significant accounting policies (continued)

### *AASB 15 Revenue from contracts with customers*

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

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

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

At this stage, the consolidated entity intends to make a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2018.

### *IFRS 16 Leases*

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

The consolidated entity intends to make a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2019.

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

## Note 2. Critical accounting judgements, estimates and assumptions

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

### *Share-based payment transactions*

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

### *Provision for impairment of receivables*

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

## Note 2. Critical accounting judgements, estimates and assumptions (continued)

### *Goodwill and other indefinite life intangible assets*

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

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

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

### *Business combinations*

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

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

## Note 3. Operating segments

### *Identification of reportable operating segments*

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

### *Segment revenue*

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

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

### *Segment EBITDA*

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

**Note 3. Operating segments (continued)**

*Operating segment information*

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

**Note 3. Operating segments (continued)**

<b>Consolidated - 2015</b>	Healthcare Services Australia \$'000	Healthcare Services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
<b>Revenue</b>				
Sales to external customers	205,231	27,186	-	232,417
Intersegment sales	2,420	-	(2,420)	-
Total sales revenue	207,651	27,186	(2,420)	232,417
Other revenue	1,505	-	-	1,505
Interest revenue	201	1	18	220
<b>Total revenue</b>	<b>209,357</b>	<b>27,187</b>	<b>(2,402)</b>	<b>234,142</b>
<b>Segment EBITDA</b>	<b>68,575</b>	<b>2,402</b>	<b>-</b>	<b>70,977</b>
Share based payment expense				(945)
Corporate costs				(8,007)
Foreign exchange loss				176
Transaction costs				(1,146)
Net gain on acquisition of associate				300
Depreciation and amortisation expense				(9,994)
Interest revenue				220
Interest expense				(7,235)
Interest on other financial liability - non-cash interest				(960)
Amortisation of bank facility fee				(911)
<b>Profit before income tax expense</b>				<b>42,475</b>
Income tax expense				(12,034)
<b>Profit after income tax expense</b>				<b>30,441</b>
<i>Total assets includes:</i>				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	28,791	15,264	3,593	47,648

**Note 4. Revenue**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Sales revenue</i>		
Rendering of services	258,847	232,417
<i>Other revenue</i>		
Interest	143	220
Rent	2,220	1,505
	2,363	1,725
Revenue	261,210	234,142

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Share of profits - associates	681	563

**Note 6. Other income**

	Consolidated	
	2016 \$'000	2015 \$'000
Fair value gain on put liabilities	2,165	-
Other income	1,354	1,067
	<u>3,519</u>	<u>1,067</u>

**Note 7. Expenses**

	Consolidated	
	2016 \$'000	2015 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	3,170	3,471
Plant and equipment under lease	-	48
Furniture and fittings	312	289
Office equipment	2,032	1,624
Medical equipment	2,912	2,541
Total depreciation	<u>8,426</u>	<u>7,973</u>
<i>Amortisation</i>		
Software	1,268	561
Brand names	1,486	1,460
Total amortisation	<u>2,754</u>	<u>2,021</u>
Total depreciation and amortisation	<u>11,180</u>	<u>9,994</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	7,240	7,235
Interest on other financial liability - non-cash interest	1,338	960
Amortisation of bank facility fees	208	911
Finance costs expensed	<u>8,786</u>	<u>9,106</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>11,691</u>	<u>10,289</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>5,441</u>	<u>4,992</u>
<i>Research costs</i>		
Research costs	<u>3,891</u>	<u>3,544</u>
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	217	642
Share-based payments expense - employee benefits	342	303
Total share-based payments expense	<u>559</u>	<u>945</u>

**Note 8. Income tax expense**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax	11,427	12,675
Deferred tax - origination and reversal of temporary differences	2,526	(45)
Adjustment recognised for prior periods	275	(596)
	<u>14,228</u>	<u>12,034</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 16)	2,526	(45)
	<u>49,093</u>	<u>42,475</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense		
Tax at the statutory tax rate of 30%	14,728	12,743
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	159	284
Research and development	(387)	(963)
Acquisition transaction costs	175	344
Other	(154)	146
Tax losses not recognised	334	393
	<u>14,855</u>	<u>12,947</u>
Difference in overseas tax rates	(902)	(317)
Adjustment recognised for prior periods	275	(596)
	<u>14,228</u>	<u>12,034</u>

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts credited directly to equity</i>		
Deferred tax assets (note 16)	(324)	(163)
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	3,919	2,806
Potential tax benefit at 17%	666	477

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

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and on hand	<u>22,215</u>	<u>18,371</u>

**Note 10. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	11,690	12,807
Less: Provision for impairment of receivables	(1,816)	(1,535)
	<u>9,874</u>	<u>11,272</u>
Other receivables	<u>1,458</u>	<u>2,375</u>
	<u><u>11,332</u></u>	<u><u>13,647</u></u>

*Impairment of receivables*

The consolidated entity has recognised a loss of \$598,000 (2015: \$775,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2016.

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
3 to 6 months overdue	417	470
Over 6 months overdue	<u>1,399</u>	<u>1,065</u>
	<u><u>1,816</u></u>	<u><u>1,535</u></u>

The nominal value of the impaired receivables is \$2,233,000 (2015: \$2,004,000).

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	1,535	1,104
Additional provisions recognised	800	835
Additions through business combinations	-	25
Receivables written off during the year as uncollectable	(317)	(369)
Unused amounts reversed	<u>(202)</u>	<u>(60)</u>
Closing balance	<u><u>1,816</u></u>	<u><u>1,535</u></u>

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$1,788,000 as at 30 June 2016 (\$2,778,000 as at 30 June 2015).

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 3 months overdue	<u>1,788</u>	<u>2,778</u>



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

No collateral is held in relation to the above receivables.

**Note 11. Current assets - inventories**

	Consolidated	
	2016	2015
	\$'000	\$'000
Stock on hand - at cost	550	278

**Note 12. Current assets - other**

	Consolidated	
	2016	2015
	\$'000	\$'000
Prepayments	1,934	1,508

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Investment in associates	1,489	1,489

Refer to note 44 for further information on interests in associates.

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Leasehold improvements - at cost	36,553	33,666
Less: Accumulated depreciation	(22,609)	(19,252)
	<u>13,944</u>	<u>14,414</u>
Plant and equipment under lease - at cost	1,990	2,689
Less: Accumulated depreciation	(1,990)	(2,475)
	<u>-</u>	<u>214</u>
Furniture and fittings - at cost	2,727	2,182
Less: Accumulated depreciation	(1,238)	(830)
	<u>1,489</u>	<u>1,352</u>
Office equipment - at cost	13,228	10,412
Less: Accumulated depreciation	(7,363)	(5,149)
	<u>5,865</u>	<u>5,263</u>
Medical equipment - at cost	25,522	23,020
Less: Accumulated depreciation	(16,500)	(13,441)
	<u>9,022</u>	<u>9,579</u>
	<u>30,320</u>	<u>30,822</u>

**Note 14. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

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

<b>Consolidated</b>	Leasehold improvements \$'000	Plant and equipment under lease \$'000	Furniture and fittings \$'000	Office equipment \$'000	Medical equipment \$'000	Total \$'000
Balance at 1 July 2014	14,607	-	724	1,574	11,302	28,207
Additions	3,123	6	958	2,006	3,755	9,848
Additions through business combinations (note 42)	219	256	155	65	221	916
Disposals	(265)	-	(3)	(27)	(59)	(354)
Exchange differences	19	-	63	(2)	(13)	67
Transfers in/(out)	182	-	(256)	3,271	(3,086)	111
Depreciation expense	(3,471)	(48)	(289)	(1,624)	(2,541)	(7,973)
Balance at 30 June 2015	14,414	214	1,352	5,263	9,579	30,822
Additions	2,325	-	392	2,439	2,101	7,257
Additions through business combinations (note 42)	302	-	10	47	147	506
Disposals	-	-	-	(2)	(16)	(18)
Exchange differences	67	-	17	14	81	179
Transfers in/(out)	6	(214)	30	136	42	-
Depreciation expense	(3,170)	-	(312)	(2,032)	(2,912)	(8,426)
Balance at 30 June 2016	<u>13,944</u>	<u>-</u>	<u>1,489</u>	<u>5,865</u>	<u>9,022</u>	<u>30,320</u>

*Property, plant and equipment secured under finance leases*

Refer to note 39 for further information on property, plant and equipment secured under finance leases.

**Note 15. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	387,453	379,168
Software - at cost	17,363	14,979
Less: Accumulated amortisation	(12,690)	(11,422)
	<u>4,673</u>	<u>3,557</u>
Brand names - at cost	14,798	14,475
Less: Accumulated amortisation	(7,924)	(6,437)
	<u>6,874</u>	<u>8,038</u>
	<u>399,000</u>	<u>390,763</u>

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

*Reconciliations*

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

<b>Consolidated</b>	Goodwill \$'000	Software \$'000	Brand names \$'000	Total \$'000
Balance at 1 July 2014	345,988	1,486	8,603	356,077
Additions	-	2,745	-	2,745
Additions through business combinations (note 42)	33,405	7	886	34,298
Exchange differences	(225)	(9)	9	(225)
Transfers in/(out)	-	(111)	-	(111)
Amortisation expense	-	(561)	(1,460)	(2,021)
Balance at 30 June 2015	379,168	3,557	8,038	390,763
Additions	-	2,371	-	2,371
Additions through business combinations (note 42)	7,170	-	190	7,360
Disposals	-	(4)	-	(4)
Exchange differences	1,115	17	132	1,264
Amortisation expense	-	(1,268)	(1,486)	(2,754)
Balance at 30 June 2016	<u>387,453</u>	<u>4,673</u>	<u>6,874</u>	<u>399,000</u>

*Impairment tests for goodwill*

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
New South Wales	111,674	114,881
Victoria	122,294	124,904
Queensland	66,626	80,689
Tasmania	22,331	21,999
Australian Diagnostics	26,719	-
International	37,809	36,695
	<u>387,453</u>	<u>379,168</u>

The consolidated entity has reorganised its reporting structure post the acquisition of Independent Diagnostic Services and created Virtus Health Specialist Diagnostics Pty Limited ('Australian Diagnostics') as a separate operating segment during the year. As a result, there was a reallocation of goodwill from the NSW, Queensland and Victoria, to which goodwill was previously allocated to in relation to the diagnostic businesses.

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

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

Key assumptions used for value in use calculations

Terminal growth rate

New South Wales - 2.5% (2015: 2.5%)

Victoria - 2.5% (2015: 2.5%)

Queensland - 2.5% (2015: 2.5%)

Tasmania - 2.5% (2015: 2.5%)

International - 2.5% (2015: 2.5%)

Australian Diagnostics - 2.0% (2015: n/a)

Pre-tax discount rate

New South Wales - 11.3% (2015: 10.9%)

Victoria - 11.5% (2015: 10.9%)

Queensland - 11.5% (2015: 10.9%)

Tasmania - 11.4% (2015: 10.9%)

International - 9.6% (2015: 10.9%)

Australian Diagnostics - 11.8% (2015: n/a)

These assumptions have been used for the analysis of each CGU within the business segment. The equity rates of return and therefore discount rates reflect specific risks relating to the relevant segments. In performing the value-in-use calculations for each CGU, the consolidated entity has applied post tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

*Impact of possible changes in assumptions*

A reasonable possible change in assumptions would not cause the carrying amount of each CGU to exceed its recoverable amount.

**Note 16. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	380	395
Property, plant and equipment	(171)	(239)
Employee benefits	3,290	2,768
Provision for lease make good	1,090	939
Accrued expenses	483	703
Intangible assets	(1,417)	(1,329)
Other	814	2,230
	<u>4,469</u>	<u>5,467</u>
Amounts recognised in equity:		
Transaction costs on share issue	378	755
Deductible option adjustment payments	639	1,639
Other	527	203
	<u>1,544</u>	<u>2,597</u>
Deferred tax assets	<u><u>6,013</u></u>	<u><u>8,064</u></u>
Amount expected to be recovered within 12 months	4,691	3,544
Amount expected to be recovered after more than 12 months	1,322	4,520
	<u><u>6,013</u></u>	<u><u>8,064</u></u>
<i>Movements:</i>		
Opening balance	8,064	8,154
Credited/(charged) to profit or loss (note 8)	(2,526)	45
Credited to equity (note 8)	324	163
Additions through business combinations (note 42)	151	(298)
Closing balance	<u><u>6,013</u></u>	<u><u>8,064</u></u>

**Note 17. Non-current assets - other**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Security deposits	<u><u>335</u></u>	<u><u>304</u></u>

**Note 18. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	10,039	10,331
Other payables	13,500	11,223
	<u>23,539</u>	<u>21,554</u>

Refer to note 34 for further information on financial risk management.

**Note 19. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Lease liability	22	50

Refer to note 24 for further information on assets pledged as security and financing arrangements.

Refer to note 34 for further information on financial risk management.

**Note 20. Current liabilities - income tax**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision for income tax	12	4,256

**Note 21. Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits - long service leave	3,236	2,908

*Amounts not expected to be settled within the next 12 months*

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Long service leave obligation expected to be settled after 12 months	2,108	2,082

**Note 22. Current liabilities - other financial liabilities**

	Consolidated	
	2016	2015
	\$'000	\$'000
Other financial liability	1,355	-

Refer to note 34 for other information on financial instruments.

The other financial liability represents the fair value of the contingent consideration arising from the acquisition of the Canberra Fertility Centre. The consideration will be payable subject to the achievement of normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') of \$636,000 for the calendar year ending 31 December 2016 and will be payable January 2017. The fair value of the contingent consideration of \$1,355,000 was estimated with reference to the expected EBITDA of Canberra Fertility Centre from the actual results as at 31 December 2015 and December 2016 management forecasts.

**Note 23. Current liabilities - other**

	Consolidated	
	2016	2015
	\$'000	\$'000
Deferred revenue	5,826	5,390

**Note 24. Non-current liabilities - borrowings**

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans (net of borrowing costs)	147,357	152,148
Lease liability	-	98
	<u>147,357</u>	<u>152,246</u>

Refer to note 34 for further information on financial risk management.

*Total secured liabilities*

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans (net of borrowing costs)	147,357	152,148
Lease liability	22	148
	<u>147,379</u>	<u>152,296</u>

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

*Assets pledged as security*

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

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	16,985	16,130
Receivables	9,775	10,835
Inventories	297	278
Other current assets	1,462	1,158
Investments	33,565	30,065
Plant and equipment	22,077	24,997
Intangible assets (excluding goodwill)	6,530	7,135
Deferred tax assets	6,066	8,304
Other financial assets	49	76
	<b>96,806</b>	<b>98,978</b>
	<b>96,806</b>	<b>98,978</b>

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank loans (excluding capitalised borrowing costs)	200,000	200,000
Working capital facilities	10,000	10,000
	<b>210,000</b>	<b>210,000</b>
Used at the reporting date		
Bank loans (excluding capitalised borrowing costs)	148,000	153,000
Working capital facilities	4,002	3,430
	<b>152,002</b>	<b>156,430</b>
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	52,000	47,000
Working capital facilities	5,998	6,570
	<b>57,998</b>	<b>53,570</b>

The consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2016 and 30 June 2015.

Working capital facilities utilised consist of \$4,002,000 (2015: \$3,430,000) of bank guarantees.



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

Credit facilities expire in September 2019.

**Note 25. Non-current liabilities - derivative financial instruments**

	Consolidated	
	2016	2015
	\$'000	\$'000
Interest rate swap contracts - cash flow hedges	1,756	676

Refer to note 34 for further information on financial risk management.

Refer to note 35 for further information on fair value measurement.

**Note 26. Non-current liabilities - provisions**

	Consolidated	
	2016	2015
	\$'000	\$'000
Employee benefits - long service leave	2,108	1,761
Lease make good	4,240	3,762
	<u>6,348</u>	<u>5,523</u>

*Lease make good*

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

*Movements in provisions*

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

<b>Consolidated - 2016</b>	Lease make good \$'000
Carrying amount at the start of the year	3,762
Additional provisions recognised	199
Unused amounts reversed	279
	<u>4,240</u>
Carrying amount at the end of the year	<u>4,240</u>

**Note 27. Non-current liabilities - Other financial liabilities**

	Consolidated	
	2016	2015
	\$'000	\$'000
Other financial liability	24,130	24,705

Refer to note 34 for other information on financial instruments.

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

**Note 28. Non-current liabilities - other payables**

	Consolidated	
	2016 \$'000	2015 \$'000
Other payables	1,563	1,617

**Note 29. Equity - issued capital**

	Consolidated			
	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares - fully paid	79,935,938	79,935,938	238,829	238,429

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2014	79,722,678		237,135
Shares issued - exercise of options	18 September 2014	125,000	\$5.68	710
Shares issued - acquisition of IVF Sunshine Coast Pty Limited	31 October 2014	38,260	\$7.84	300
Shares issued - exercise of options	3 March 2015	50,000	\$5.68	284
Balance	30 June 2015	79,935,938		238,429
Settlement of partly paid shares		-	\$0.00	400
Balance	30 June 2016	79,935,938		238,829

*Ordinary shares*

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

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

All shares on issue are fully paid apart from 2,009,880 shares which are partly paid. The 2,009,880 shares were issued at \$4.71 per share and are unpaid up to the extent of \$2.80 per share at 30 June 2016.

*Share buy-back*

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

*Capital risk management*

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

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

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

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

**Note 30. Equity - reserves**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency translation reserve	147	(275)
Cash flow hedges reserve	(1,232)	(476)
Share-based payments reserve	12,146	11,587
Put option business combination reserve	(23,825)	(23,825)
	<u>(12,764)</u>	<u>(12,989)</u>

*Foreign currency translation reserve*

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

*Cash flow hedges reserve*

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

*Share-based payments reserve*

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

*Put option business combination reserve*

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

*Movements in reserves*

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

<b>Consolidated</b>	Foreign currency translation reserve \$'000	Cash flow hedges reserve \$'000	Share-based payments reserve \$'000	Put option business combination reserve \$'000	Total \$'000
Balance at 1 July 2014	(400)	(96)	10,642	(11,756)	(1,610)
Revaluation - net	-	(380)	-	-	(380)
Foreign currency translation	125	-	-	-	125
Option expense	-	-	945	-	945
Business combinations	-	-	-	(12,069)	(12,069)
	<u>(275)</u>	<u>(476)</u>	<u>11,587</u>	<u>(23,825)</u>	<u>(12,989)</u>
Balance at 30 June 2015	(275)	(476)	11,587	(23,825)	(12,989)
Revaluation - net	-	(756)	-	-	(756)
Foreign currency translation	422	-	-	-	422
Option expense	-	-	559	-	559
	<u>147</u>	<u>(1,232)</u>	<u>12,146</u>	<u>(23,825)</u>	<u>(12,764)</u>
Balance at 30 June 2016	<u>147</u>	<u>(1,232)</u>	<u>12,146</u>	<u>(23,825)</u>	<u>(12,764)</u>

**Note 31. Equity - retained profits**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Retained profits/(accumulated losses) at the beginning of the financial year	1,995	(6,139)
Profit after income tax expense for the year	32,918	29,434
Dividends paid (note 33)	<u>(22,382)</u>	<u>(21,300)</u>
Retained profits at the end of the financial year	<u><u>12,531</u></u>	<u><u>1,995</u></u>

**Note 32. Equity - non-controlling interest**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Issued capital	1,842	1,842
Reserves	14,574	15,965
Retained profits	<u>3,032</u>	<u>1,079</u>
	<u><u>19,448</u></u>	<u><u>18,886</u></u>

**Note 33. Equity - dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Interim ordinary dividend for the year ended 30 June 2016 of 14.0 cents (2015: 13.0 cents) per fully paid share paid in April 2016	11,191	10,385
Final ordinary dividend for the year ended 30 June 2015 of 14.0 cents (2015: 14.0 cents) per fully paid ordinary share paid in October 2015	<u>11,191</u>	<u>10,915</u>
	<u><u>22,382</u></u>	<u><u>21,300</u></u>

A final dividend of 15.00 cents per share, fully franked, will be paid on 14 October 2016 to the shareholders on the register at 16 September 2016.

*Franking credits*

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u><u>18,472</u></u>	<u><u>17,245</u></u>

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

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

## Note 34. Financial risk management

### Financial risk management objectives

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

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

### Market risk

#### Foreign currency risk

The group operates internationally and is exposed to foreign currency risk from various currency exposures, primarily with respect to the Euro.

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

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were not significant.

#### Price risk

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

#### Interest rate risk

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

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

Consolidated	2016		2015	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	3.93%	148,000	4.10%	153,000
Interest rate swaps (notional principal amount)	-	(50,000)	-	(50,000)
Net exposure to cash flow interest rate risk		<u>98,000</u>		<u>103,000</u>

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

**Note 34. Financial risk management (continued)**

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

  

Consolidated - 2015	Basis points change	Basis points increase		Basis points decrease		
		Effect on profit after tax \$'000	Effect on equity \$'000	Effect on profit after tax \$'000	Effect on equity \$'000	
Bank loans	100	(721)	(721)	(100)	721	721

**Credit risk**

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

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

**Liquidity risk**

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

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

**Financing arrangements**

Unused borrowing facilities at the reporting date:

	Consolidated	
	2016 \$'000	2015 \$'000
Bank loans (excluding capitalised borrowing costs)	52,000	47,000
Working capital facilities	5,998	6,570
	<u>57,998</u>	<u>53,570</u>

Credit facilities expire in September 2019.

**Note 34. Financial risk management (continued)**

*Remaining contractual maturities*

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

	Weighted average interest rate %	1 year or less \$'000	Between 1 and less than 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Consolidated - 2016</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	10,039	-	-	-	10,039
Other payables	-	13,500	-	-	-	13,500
Other financial liability	-	1,355	-	-	-	1,355
<i>Interest-bearing</i>						
Bank loans	3.93%	5,826	5,826	155,279	-	166,931
Lease liability	7.66%	23	-	-	-	23
Other financial liability	3.93%	-	12,063	14,393	-	26,456
Total non-derivatives		30,743	17,889	169,672	-	218,304
<b>Derivatives</b>						
Derivative financial instruments	-	-	-	1,756	-	1,756
Total derivatives		-	-	1,756	-	1,756
<b>Consolidated - 2015</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	10,331	-	-	-	10,331
Other payables	-	11,223	-	-	-	11,223
<i>Interest-bearing</i>						
Bank loans	4.10%	6,273	6,273	167,111	-	179,657
Lease liability	7.66%	61	94	-	-	155
Other financial liability	4.10%	-	-	28,451	-	28,451
Total non-derivatives		27,888	6,367	195,562	-	229,817
<b>Derivatives</b>						
Derivative financial instruments	-	-	-	676	-	676
Total derivatives		-	-	676	-	676

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

**Fair value of financial instruments**

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

**Note 35. 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

<b>Consolidated - 2016</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	1,756	-	1,756
Other financial liabilities	-	-	25,485	25,485
Total liabilities	-	1,756	25,485	27,241

<b>Consolidated - 2015</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	676	-	676
Other financial liabilities	-	-	24,705	24,705
Total liabilities	-	676	24,705	25,381

There were no transfers between levels during the financial year.

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

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

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

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

*Level 3 assets and liabilities*

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

<b>Consolidated</b>	Other financial liabilities \$'000	Total \$'000
Balance at 1 July 2014	11,802	11,802
Additions	12,069	12,069
Foreign exchange impact	(126)	(126)
Interest on unwinding	960	960
Balance at 30 June 2015	24,705	24,705
Additions	1,355	1,355
Foreign exchange impact	509	509
Interest on unwinding	1,081	1,081
Fair value adjustment recognised in profit or loss	(2,165)	(2,165)
Balance at 30 June 2016	25,485	25,485



**Note 35. Fair value measurement (continued)**

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

Description	Unobservable inputs	Sensitivity
Other financial liabilities	Discount rate	a 1% change would increase/decrease the fair value by \$239,196/(\$240,147)
	EBITDA	a 1% change would increase/decrease the fair value by \$545,325/(\$525,661)

**Note 36. Key management personnel disclosures**

*Compensation*

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

	Consolidated	
	2016	2015
	\$	\$
Short-term employee benefits	2,752,664	2,726,880
Post-employment benefits	187,223	195,512
Long-term benefits	45,764	32,617
Share-based payments	319,824	286,240
	<u>3,305,475</u>	<u>3,241,249</u>

**Note 37. Remuneration of auditors**

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

	Consolidated	
	2016	2015
	\$	\$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	<u>528,000</u>	<u>525,750</u>
<i>Other services - PricewaterhouseCoopers</i>		
Due diligence	261,442	128,131
Tax compliance services	83,172	62,976
Non statutory audits and reviews relating to acquisitions	<u>42,000</u>	<u>120,000</u>
	<u>386,614</u>	<u>311,107</u>
	<u>914,614</u>	<u>836,857</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	<u>121,787</u>	<u>141,954</u>
<i>Other services - network firms</i>		
Tax services	<u>47,359</u>	<u>83,739</u>
	<u>169,146</u>	<u>225,693</u>

**Note 37. Remuneration of auditors (continued)**

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

**Note 38. Contingent liabilities**

*Claims*

The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess of \$25,000. 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.

*Guarantees*

Drawdowns of \$4,002,000 (2015: \$3,430,000) in the form of financial guarantees have been made against the working capital facility. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 3 years (2015: 4 years).

**Note 39. Commitments**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	9,602	8,633
One to five years	17,720	20,102
More than five years	9,783	12,297
	<u>37,105</u>	<u>41,032</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	23	50
One to five years	-	105
	<u>23</u>	<u>155</u>
Total commitment	23	155
Less: Future finance charges	(1)	(7)
	<u>22</u>	<u>148</u>
Net commitment recognised as liabilities	<u>22</u>	<u>148</u>
Representing:		
Lease liability - current (note 19)	22	50
Lease liability - non-current (note 24)	-	98
	<u>22</u>	<u>148</u>

Operating lease commitments includes contracted amounts for various offices and medical centres under non-cancellable operating leases expiring within 2 to 8 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases. These leases have future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases of \$554,270 (2015: \$702,213).

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$nil (30 June 2015: \$nil) under finance leases expiring within 1 year. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

**Note 40. Related party transactions**

*Parent entity*

Virtus Health Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 43.

*Associates*

Interests in associates are set out in note 44.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 36 and the remuneration report included in the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Other revenue:		
Rental income	64,704	69,907
Other transactions:		
Provider fees (i)	3,280,235	2,813,773

(i) The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins (30 June 2015: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins).

*Receivable from and payable to related parties*

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Current receivables:		
Trade receivables from associates	985,774	1,189,450
Other receivables	6,367	6,773
Current payables:		
Other payables	186,015	268,500

*Terms and conditions*

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

**Note 41. Parent entity information**

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

*Statement of comprehensive income*

	<b>Parent</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax	29,324	13,349
Total comprehensive income	<u>29,324</u>	<u>13,349</u>

*Statement of financial position*

	<b>Parent</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	1,893	1,884
Total assets	<u>274,813</u>	<u>271,072</u>
Total current liabilities	2,584	2,579
Total liabilities	<u>2,736</u>	<u>6,363</u>
Net assets	<u><u>272,077</u></u>	<u><u>264,709</u></u>
Equity		
Issued capital	238,829	238,429
Share-based payments reserve	7,303	7,056
Retained profits	<u>25,945</u>	<u>19,224</u>
Total equity	<u><u>272,077</u></u>	<u><u>264,709</u></u>

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2016 and 30 June 2015 apart from being a party to the deed of cross guarantee as detailed in note 45.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015.

*Capital commitments - property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2016 and 30 June 2015.

*Significant accounting policies*

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

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

**Note 42. Business combinations**

*Lab Services Pty Limited, Lab Services Unit Trust*

On 20 May 2016, Virtus Health Limited acquired 100% of the ordinary share capital and units in Lab Services Pty Limited and Lab Services Unit Trust. The consideration transferred amounted to \$3,500,000. The values identified in relation to the acquisition of the business are provisional as at 30 June 2016.

	<b>Fair value \$'000</b>
Cash and cash equivalents	157
Trade and other receivables	106
Other receivables	77
Property, plant and equipment	469
Brand names	190
Deferred tax asset	119
Trade payables	(115)
Other payables	(154)
Deferred tax liability	(57)
Employee benefits	(323)
Other provisions	(74)
Other liabilities	(189)
	<hr/>
Net assets acquired	206
Goodwill	3,294
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>3,500</u>
Representing:	
Cash paid or payable to vendor	2,145
Contingent consideration	1,355
	<hr/>
	<u>3,500</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>152</u>
	<hr/>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	3,500
Less: cash and cash equivalents	(157)
Less: contingent consideration	(1,355)
	<hr/>
Net cash used	<u>1,988</u>

The acquired business contributed revenue and other income of \$336,000 and loss before tax of \$5,700 (excluding the cost of financing the transaction) to the consolidated entity for the period from 20 May 2016 to 30 June 2016. If the acquisition had occurred on 1 July 2015, the full year contribution would have been revenues of \$4,799,000 and pro-forma profit before tax of \$393,000 excluding any additional financing costs. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2015, together with the consequential tax effects.

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

*Contingent consideration*

In the event that Canberra Fertility Centre achieves a normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') of \$636,000 for the calendar year ending 31 December 2016, additional consideration of up to \$1,355,000 will be payable in cash during January 2017. The fair value of the contingent consideration of \$1,355,000 was estimated with reference to the expected EBITDA of Canberra Fertility Centre from the actual results as at 31 December 2015 and December 2016 management forecasts.

**Note 42. Business combinations (continued)**

*Acquisition of the business of Independent Diagnostic Services Pty Limited*

On 14 September 2015, Virtus Health Limited formed a new company, Virtus Health Specialist Diagnostics Pty Limited, to acquire the business and assets of Independent Diagnostic Services Pty Limited. The consideration amounted to \$3,455,000. The values identified in relation to the acquisition of the business are provisional as at 30 June 2016.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Trade receivables and other receivables	82
Plant and equipment	37
Deferred tax asset	89
Employee benefits	(251)
Lease make good provision	(43)
Lease incentive provision	(3)
	<hr/>
Net liabilities acquired	(89)
Goodwill	3,544
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>3,455</u>
Representing:	
Cash paid or payable to vendor	<u>3,455</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>154</u>

The acquired business contributed revenue and other income of \$2,153,000 and loss before tax of \$192,000 (excluding the cost of financing the transaction) to the consolidated entity for the period from 14 September 2015 to 30 June 2016. If the acquisition had occurred on 1 July 2015, the full year contribution would have been revenues of \$2,989,000 and pro-forma profit before tax of \$49,000 excluding any additional financing costs. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2015, together with the consequential tax effects.

The goodwill is allocated to the business of Independent Diagnostics Services Pty Limited's strong position in trading in the diagnostics market, the workforce and synergies expected to arise after the consolidated entity's acquisition of the new business. None of the goodwill is expected to be deductible for tax purposes.

*Tas IVF Pty Limited*

On 5 December 2014 Virtus Health Limited, acquired 70% of the issued share capital and units of Tas IVF Pty Ltd details of which are disclosed in the 2015 Financial Report. During the year ended 30 June 2016 there was a working capital adjustment to the purchase price of \$332,000 resulting in an equivalent increase in goodwill.

**Note 43. Interests in subsidiaries**

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
IVF Finance Pty Limited	Australia	100.00%	100.00%
IVFA Sub-Holdings Pty Ltd	Australia	100.00%	100.00%
IVF Australia Pty Ltd	Australia	100.00%	100.00%
Melbourne IVF Holdings Pty Ltd	Australia	100.00%	100.00%
Melbourne I.V.F. Pty. Ltd.	Australia	100.00%	100.00%
The Heptarchy Trust	Australia	100.00%	100.00%
North Shore Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Queensland Fertility Group Pty. Ltd.	Australia	100.00%	100.00%
Spring Hill Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
The QFG Day Theatres Unit Trust	Australia	100.00%	100.00%
Hunter Fertility Pty Limited	Australia	100.00%	100.00%
Hunter Fertility Unit Trust	Australia	100.00%	100.00%
Bremiera Pty Limited	Australia	100.00%	100.00%
Queensland Fertility Group Gold Coast Pty Ltd	Australia	100.00%	100.00%
Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd	Australia	100.00%	100.00%
Mackay Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
Maroubra Day Surgery Trust	Australia	100.00%	100.00%
City East Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Virtus Health Singapore Pte Ltd	Singapore	100.00%	100.00%
Virtus Health Europe Limited	United Kingdom	100.00%	100.00%
Virtus Health Ireland Limited	Ireland	100.00%	100.00%
Zentra Labs Limited*	Ireland	-	70.00%
SIMS Clinic Limited	Ireland	70.00%	70.00%
Xentra Pharm Limited	Ireland	70.00%	70.00%
SIMS Institute Limited*	Ireland	-	70.00%
SIMS EDE Limited*	Ireland	-	70.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	70.00%	70.00%
TAS IVF Pty Limited	Australia	70.00%	70.00%
Virtus Andrology Laboratory Singapore Pte. Ltd	Singapore	90.00%	90.00%
Virtus Fertility Centre Singapore Pte Limited	Singapore	90.00%	90.00%
Virtus Health Specialist Diagnostics Pty Limited	Australia	100.00%	100.00%
Lab Services Pty Limited	Australia	100.00%	-
Lab Services Unit Trust	Australia	100.00%	-

\* These entities were deregistered during the year.

**Note 43. Interests in subsidiaries (continued)**

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

Name	Principal place of business / Country of incorporation	Principal activities	Parent		Non-controlling interest	
			Ownership interest 2016 %	Ownership interest 2015 %	Ownership interest 2016 %	Ownership interest 2015 %
SIMS Clinic Limited	Ireland	provision of healthcare services	70.00%	70.00%	30.00%	30.00%
TAS IVF Pty Limited	Australia	provision of healthcare services	70.00%	70.00%	30.00%	30.00%
Virtus Fertility Centre Singapore Pte Limited	Singapore	provision of healthcare services	90.00%	90.00%	10.00%	10.00%



**Note 43. Interests in subsidiaries (continued)**

*Summarised financial information*

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

	<b>SIMS Clinic Limited</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Summarised statement of financial position</i>		
Current assets	4,964	3,998
Non-current assets	12,025	12,443
<b>Total assets</b>	<b>16,989</b>	<b>16,441</b>
Current liabilities	5,922	6,358
Non-current liabilities	596	502
<b>Total liabilities</b>	<b>6,518</b>	<b>6,860</b>
<b>Net assets</b>	<b>10,471</b>	<b>9,581</b>
<i>Summarised statement of comprehensive income</i>		
Revenue	35,715	26,343
Expenses	(30,134)	(22,941)
Profit before income tax expense	5,581	3,402
Income tax expense	(696)	(514)
Profit after income tax expense	4,885	2,888
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>4,885</b>	<b>2,888</b>
<i>Statement of cash flows</i>		
Net cash from operating activities	5,392	5,208
Net cash used in investing activities	(729)	(11,207)
Net cash from/(used in) financing activities	(4,149)	4,923
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>514</b>	<b>(1,076)</b>
<i>Other financial information</i>		
Profit attributable to non-controlling interests	1,367	866
Dividends paid to non-controlling interests	1,267	315
Accumulated non-controlling interests at the end of reporting period	12,377	12,030
<i>Transactions with non-controlling interests</i>		
	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividends paid/payable to non-controlling interest	(1,267)	(315)
Capital contribution received from non-controlling interest	-	1,787
	<b>(1,267)</b>	<b>1,472</b>

#### Note 44. Interests in associates

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Obstetrics & Gynaecological Imaging Australia Pty Ltd	Australia	50.00%	50.00%
City West Specialist Day Hospital Pty Ltd	Australia	50.00%	50.00%

#### Summarised financial information

	2016 \$'000	2015 \$'000
<i>Summarised statement of financial position</i>		
Current assets	646	755
Non-current assets	1,309	1,456
Total assets	1,955	2,211
Current liabilities	739	1,098
Total liabilities	739	1,098
Net assets	1,216	1,113
<i>Summarised statement of comprehensive income</i>		
Revenue	3,945	3,764
Expenses	(3,264)	(3,201)
Profit before and after income tax	681	563
Other comprehensive income	-	-
Total comprehensive income	681	563

#### Note 45. Deed of cross guarantee

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

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

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and 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 Virtus Health Limited, they also represent the 'Extended Closed Group'.

**Note 45. Deed of cross guarantee (continued)**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statement of comprehensive income</b>		
Revenue	119,455	106,402
Share of profits of associates accounted for using the equity method	681	563
Trust distributions received	20,598	21,184
Other income	4,477	4,794
Fertility specialists, consumables and associated costs	(31,835)	(28,195)
Employee benefits expense	(41,850)	(34,987)
Depreciation and amortisation expense	(5,923)	(4,906)
Occupancy expense	(7,065)	(6,280)
Advertising and marketing	(2,275)	(2,199)
Practice equipment expenses	(758)	(646)
Professional and consulting fees	(1,470)	(1,505)
Other expenses	(6,283)	(6,129)
Finance costs	(7,879)	(8,279)
	<u>39,873</u>	<u>39,817</u>
<b>Profit before income tax expense</b>	39,873	39,817
Income tax expense	(11,364)	(11,240)
	<u>28,509</u>	<u>28,577</u>
<b>Profit after income tax expense</b>	28,509	28,577
<b>Other comprehensive loss</b>		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(756)	(380)
	<u>(756)</u>	<u>(380)</u>
Other comprehensive loss for the year, net of tax	(756)	(380)
	<u>(756)</u>	<u>(380)</u>
<b>Total comprehensive income for the year</b>	<u>27,753</u>	<u>28,197</u>
	<u>27,753</u>	<u>28,197</u>
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Equity - retained profits</b>		
Retained profits at the beginning of the financial year	16,335	9,058
Profit after income tax expense	28,509	28,577
Dividends paid	(22,382)	(21,300)
	<u>22,462</u>	<u>16,335</u>
Retained profits at the end of the financial year	<u>22,462</u>	<u>16,335</u>

**Note 45. Deed of cross guarantee (continued)**

<b>Statement of financial position</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	9,577	9,854
Trade and other receivables	24,471	38,414
Other	1,152	685
	<u>35,200</u>	<u>48,953</u>
<b>Non-current assets</b>		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	170,376	170,201
Property, plant and equipment	15,208	14,572
Intangibles	207,748	200,567
Deferred tax	4,948	6,418
Other	76	76
	<u>399,845</u>	<u>393,323</u>
<b>Total assets</b>	<u>435,045</u>	<u>442,276</u>
<b>Current liabilities</b>		
Trade and other payables	7,267	14,911
Income tax	77	3,060
Provisions	1,916	1,699
Other	3,503	2,977
	<u>12,763</u>	<u>22,647</u>
<b>Non-current liabilities</b>		
Borrowings	147,328	152,120
Derivative financial instruments	1,756	676
Provisions	3,086	2,489
Other financial liabilities	7,406	7,949
	<u>159,576</u>	<u>163,234</u>
<b>Total liabilities</b>	<u>172,339</u>	<u>185,881</u>
<b>Net assets</b>	<u>262,706</u>	<u>256,395</u>
<b>Equity</b>		
Issued capital	238,829	238,429
Reserves	1,415	1,631
Retained profits	22,462	16,335
<b>Total equity</b>	<u>262,706</u>	<u>256,395</u>

**Note 46. Events after the reporting period**

No matter or circumstance has arisen since 30 June 2016 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 47. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	34,865	30,441
Adjustments for:		
Depreciation and amortisation	11,180	9,994
Net fair value gain on other financial assets	(2,165)	-
Share-based payments	559	945
Amortisation of bank facility fees	208	911
Interest on finance lease facility	1	13
Interest income	(143)	(220)
Doubtful debts expense	598	775
Other non-cash items	(940)	(86)
Net (gain)/loss in disposal of non-current assets	4	307
Interest on other financial liabilities - non-cash interest	1,338	960
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,525	(1,388)
Increase in inventories	(272)	(112)
Decrease in deferred tax assets	2,202	226
Increase/(decrease) in trade and other payables	2,254	(3,902)
Decrease in provision for income tax	(4,232)	(251)
Increase in other provisions	459	1,118
Increase in other operating liabilities	247	1,107
Net cash from operating activities	<u>47,688</u>	<u>40,838</u>

**Note 48. Earnings per share**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax	34,865	30,441
Non-controlling interest	(1,947)	(1,007)
Profit after income tax attributable to the owners of Virtus Health Limited	32,918	29,434
Add: interest savings on conversion of options	69	140
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	<u>32,987</u>	<u>29,574</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	79,935,938	79,861,949
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	939,024	1,067,866
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>80,874,962</u>	<u>80,929,815</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	41.18	36.86
Diluted earnings per share	40.79	36.54

#### Note 49. Share-based payments

##### *Virtus Health Limited Executive Option Plan and Specialist Option Plan ('Virtus Health Limited Share Option Plan')*

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

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

#### 2016

Effective grant date	Expiry date	Exercise or base price	Balance at the start of the year	Granted	Exercised/ cancelled/ other	Expired/ forfeited/ other	Balance at the end of the year
11/06/2013	11/06/2018	\$5.68	412,500	-	-	(234,712)	177,788
01/07/2013	27/01/2017	\$5.68	263,005	-	-	(5)	263,000
01/07/2013	21/01/2024	\$0.00	45,136	-	(22,568)	-	22,568
01/07/2013	21/01/2024	\$0.00	96,238	-	-	-	96,238
01/01/2014	01/01/2024	\$8.69	29,073	-	(29,073)	-	-
03/10/2014	03/10/2024	\$8.57	117,251	-	(28,303)	-	88,948
10/11/2014	10/11/2024	\$0.00	126,457	-	-	-	126,457
13/05/2015	13/05/2025	\$7.16	7,372	-	-	-	7,372
13/05/2015	13/05/2025	\$7.53	912	-	-	-	912
13/05/2015	13/05/2025	\$7.94	794	-	-	-	794
13/05/2015	13/05/2025	\$7.96	343	-	-	-	343
13/05/2015	13/05/2025	\$8.01	262	-	-	-	262
10/11/2015	10/11/2025	\$0.00	-	201,111	-	-	201,111
21/08/2015	21/08/2025	\$5.67	-	7,434	-	-	7,434
28/10/2015	28/10/2025	\$5.01	-	16,406	-	-	16,406
16/12/2015	16/12/2025	\$6.07	-	6,197	-	-	6,197
16/12/2015	16/12/2025	\$6.17	-	5,509	-	-	5,509
			1,099,343	236,657	(79,944)	(234,717)	1,021,339

#### 2015

Grant date	Expiry date	Exercise or base price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
11/06/2013	11/06/2018	\$5.68	412,500	-	-	-	412,500
01/07/2013	27/01/2017	\$5.68	438,005	-	(175,000)	-	263,005
01/07/2013	21/01/2024	\$0.00	45,136	-	-	-	45,136
01/07/2013	21/01/2024	\$0.00	96,238	-	-	-	96,238
01/01/2014	01/01/2024	\$8.69	-	29,073	-	-	29,073
03/10/2014	03/10/2024	\$8.57	-	117,251	-	-	117,251
10/11/2014	10/11/2024	\$7.65	-	126,457	-	-	126,457
13/05/2015	13/05/2025	\$7.16	-	7,372	-	-	7,372
13/05/2015	13/05/2025	\$7.53	-	912	-	-	912
13/05/2015	13/05/2025	\$7.94	-	794	-	-	794
13/05/2015	13/05/2025	\$7.96	-	343	-	-	343
13/05/2015	13/05/2025	\$8.01	-	262	-	-	262
			991,879	282,464	(175,000)	-	1,099,343

The weighted average exercise price is \$3.46 (2015: \$5.50).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 5.4 years (2015: 4.8 years).

**Note 49. Share-based payments (continued)**

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

Grant date	Expiry date	Share price at grant date	Exercise price or base price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/11/2015	10/11/2025	\$6.19	\$0.00	23.20%	3.75%	2.06%	\$4.41
21/08/2015	21/08/2025	\$4.80	\$5.67	23.20%	3.75%	1.92%	\$0.15
28/10/2015	28/10/2025	\$6.34	\$5.01	23.20%	3.75%	1.92%	\$2.22
16/12/2015	16/12/2025	\$5.96	\$6.07	23.20%	3.75%	1.92%	\$0.99
16/12/2015	16/12/2025	\$5.96	\$6.17	23.20%	3.75%	1.92%	\$0.89

*Grants of options and performance rights - fertility specialists*

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

*Vesting Conditions*

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

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

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

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 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 by virtue of the deed of cross guarantee described in note 45 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

A handwritten signature in blue ink that reads "Peter Macourt".

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Peter Macourt  
Chairman

23 August 2016  
Sydney





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

### ***Report on the financial report***

We have audited the accompanying financial report of Virtus Health Limited (the company), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Virtus Health Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### ***Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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

### ***Auditor's opinion***

In our opinion,

- (a) the financial report of Virtus Health Limited is in accordance with the *Corporations Act 2001*, including:

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- i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 15 to 29 of the directors' report for the year ended 30 June 2016. 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.

### ***Auditor's opinion***

In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

### ***Matters relating to the electronic presentation of the audited financial report***

This auditor's report relates to the financial report and remuneration report of Virtus Health Limited (the company) for the year ended 30 June 2016 included on Virtus Health Limited's web site. The company's directors are responsible for the integrity of Virtus Health Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Eddie Wilkie'.

Eddie Wilkie  
Partner

Sydney  
23 August 2016