Virtus Health Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	7.5%	to	258,932
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	27.2%	to	46,212
Earnings Before Interest and Tax (EBIT)	down	57.5%	to	21,195
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	down	98.4%	to	469
Profit from ordinary activities after tax	down	96.7%	to	946

Dividends
The payment of the interim dividend in respect of the 30 June 2020 financial year of $9,541,000 scheduled for 16 April 2020 was deferred until 30 November 2020 subject to trading conditions and is currently recognised in other payables.

No final dividend has been declared given the uncertain economic environment.

Comments
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $469,000 (30 June 2019: $28,426,000).

The implementation with effect from 1 July 2019 of the new accounting standard AASB 16 'Leases' had a significant impact on the EBITDA for the current period. The current EBITDA was increased by $14,856,000 resulting from a reduction in other expenses (reclassification of lease expenses) that was replaced by a depreciation charge in respect of the right of use assets of $11,826,000 (included in operating costs) and interest expense on the recognised lease liabilities of $3,440,000 (included in finance costs). The overall net impact on profit before income tax expense for the current period as a result of the implementation of AASB 16 'Leases' was a reduction of $410,000.

The results above also include the following significant items of income and expenses:
1. Non cash impairment charge of $24,975,000 on Intangible assets
2. Non cash fair value gain on Put liabilities of $1,500,000
3. Non cash fair value gain on contingent consideration of $4,495,000
4. Government incentives of $7,738,000 classified in other income

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Segment EBITDA[1]	84,043	71,146
Transfer of Intellectual Property (IP)	-	4,110
Share-based payment expense	(1,252)	(1,161)
Other non-trading expenses	(17,599)	(13,045)
Fair value adjustment to put liabilities and contingent consideration	5,995	8,261
Impairment of goodwill	(24,587)	(5,800)
Impairment of brand	(388)	-
EBITDA (reported)	46,212	63,511
Depreciation and amortisation[2]	(25,017)	(13,628)
EBIT	21,195	49,883
Net financial Interest[3]	(10,763)	(9,709)
Profit before income tax from continuing activities	10,432	40,174

Notes
1. Segment EBITDA - Excluded $14.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases'
2. Depreciation and amortisation - Includes $11.8m of depreciation on Right-of-use assets arising from adoption of AASB 16 'Leases'
3. Net finance costs - Includes $3.4m of interest on lease liabilities arising from adoption of AASB 16 'Leases'

The new accounting standard AASB 16 'Leases' was adopted with effect from 1 July 2019 using the modified retrospective approach and as such the comparatives for the year ended 30 June 2019 have not been restated.

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

3. Net tangible assets/(liabilities)

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(205.86)	(205.20)
Net assets per ordinary security	333.63	366.48

4. Loss of control over entities

Not applicable.

5. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend for the year ended 30 June 2019 of 12.0 cents per fully paid ordinary share paid in October 2019	12.000	12.000

The payment of the interim dividend in respect of the 30 June 2020 financial year of $9,541,000 scheduled for 16 April 2020 was deferred until 30 November 2020 subject to trading conditions and is currently recognised in other payables.

Previous period

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend for the year ended 30 June 2019 of 12.0 cents per fully paid ordinary share paid in April 2019	12.000	12.000
Final ordinary dividend for the year ended 30 June 2018 of 12.0 cents per fully paid ordinary share paid in October 2018	12.000	12.000

6. Dividend reinvestment plans

Not applicable.

7. Foreign entities

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

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

8. 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.

9. Attachments

Details of attachments (if any):

The Annual Report of Virtus Health Limited for the year ended 30 June 2020 is attached.

10. Signed

Signed ______________________________ Date: 18 August 2020

Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Virtus Health Limited

ABN 80 129 643 492

Annual Report - 30 June 2020

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 18 August 2020. The directors have the power to amend and reissue the financial statements.

Chair's Statement

The financial year ended 30 June 2020 will be remembered for the incredible disruption to the activities of many businesses, including Virtus Health, caused by the world wide COVID-19 pandemic.

The year also represented a period of change and renewal within Virtus with the appointment of our new Chief Executive Officer and Managing Director, Kate Munnings, who joined the Company on 18 March 2020. As Virtus Health is one of the top five assisted fertility providers in the World, Kate's leadership style is well suited to enhancing Virtus' culture of operational excellence and clinical and scientific rigor.

The disruption caused by COVID-19 commenced in March and impacted every part of our business. Such a dramatic change to our business activities was met by an agile and flexible approach across the company. The Board and executive management implemented a range of measures to protect the business, understand the degree of COVID 19 disruption and developed responses for different scenarios. Further information on our response is provided in a separate COVID-19 impact statement.

We are grateful that to date, there are no cases of people testing positive to COVID-19 within our workforce.

The outstanding contributions of everybody associated with Virtus Health during the initial period of clinic and facility closures and business uncertainty are to be commended. In particular, we recognize the difficult decisions which resulted in temporary employee stand downs. The global pandemic came at a time when our employees, customers and the Australian economy was just starting to emerge from devasting bushfires in Australia. We recognize the impact this has on resilience.

For many employees who were stood down, we acknowledge and thank you for the patience and good grace you showed at a time of great difficulty for all of us. Several members of the senior management team, including Board members, accepted salary reductions and the Board is very grateful to all employees for their flexibility.

During the periods of clinic shutdown, our fertility specialists and clinic teams maintained close contact with our patients through telehealth consulting. The efforts of our IT team should be noted for their part in creating a digital consulting environment in a matter of weeks.

The benefits of all these crisis management activities were realized as the restrictions on each of our jurisdictions were lifted progressively. Business operations resumed in all jurisdictions and throughout May, June and July our teams have treated significantly more patients than in the prior corresponding period.

Although our financial performance has been impacted by clinic and facility shutdowns there were some notable performances during the financial year.

Our Queensland business achieved an increase in EBITDA, several Day Hospitals improved EBITDA, including East Melbourne, Alexandria and Hobart, and Complete Fertility in the UK achieved strong growth in EBITDA after a weak prior year result. Virtus TFC clinics in Australia achieved cycle growth of 11.6% and we achieved cycle volume growth in Singapore and the Aagaard clinic in Denmark.

Liquidity and long term sustainability has certainly been in the forefront of the Board's deliberations. Virtus and its banking partners agreed to relevant normalisations to covenant calculations that extend to the reporting period ending 31 December 2020. Whilst this normalization flexibility has not been needed to date, it has provided the Board with confidence that we have adequate financial capacity. Importantly, after analysis and consideration of multiple scenarios, we determined that we did not need to raise equity in a discounted market.

The arrival of our new CEO, Kate Munnings is an exciting development for Virtus. Kate has led the Company since late March and amidst a global pandemic worked with the management team to develop a new strategic vision and plan for future growth. Kate's strong interest in digital healthcare forms a key aspect of our strategic vision and we will share more with our shareholders and stakeholders over the next few months. Further development and application of Artificial Intelligence to the field of Assisted Reproductive Services, where Virtus has already had some success with "Ivy", and focused R&D will feature heavily in our growth strategy.

Board changes

At Board level, we welcomed Michael Stanford as an independent non-executive Director in September 2019. Michael reinforces the healthcare operating experience on our Board. I also wish to recognise Peter Macourt's service to the Board as Chair over a six year period which included the Virtus IPO in June 2013; Peter retired at the Annual General Meeting. Of course we also thank Sue Channon, former CEO, for her sixteen years of outstanding service to Virtus Health and the business built under her leadership.

Dividends

Due to the impact of COVID-19 and the importance of managing liquidity, the Board deferred payment of the previously declared interim dividend; it is our intention to pay this dividend on 30 November 2020 subject to trading conditions remaining at satisfactory levels. As a precautionary measure, and in the face of continued economic uncertainty, the Board has resolved not to pay a final dividend this year.

We will all continue to be challenged by the impact of COVID-19, a slow growth economy, and a volatile one, digitization, cautious behavior of customers, greater focus on supply chains, and flexible and distributed working arrangements for some time to come.

COVID-19 Impact Statement

This statement provides an overview of how the COVID-19 pandemic has impacted Virtus Health and the actions introduced by management and the Board to manage the new commercial and operating environment:

Business continuity management and safety of our people

Management initiated COVID-19 response teams, meeting daily at the peak of the crisis, to ensure patient, specialist, visiting medical officer and employee welfare and safety was given the highest priority, particularly during times of facility closure. Response teams addressed all aspects of business continuity including the management of service delivery suspension in each geography. Simultaneously, management were also focused on the plan to return to work and a key aspect of this activity was the ability to support patients through telehealth consulting when physical clinic locations were closed. We have also provided wellbeing resources and access to assistance to our staff to help them manage the uncertainty that prevails.

In Australia, Virtus Health and other participants in the Assisted Reproduction sector worked closely with Federal and State government health representatives to ensure that the resumption of patient services could be effected within a robust infection control framework for enhanced patient and employee safety. We are proud of the real commitment our staff and fertility specialists demonstrated to ensure high levels of infection control

Liquidity management/debt covenants

Virtus and its banking partners agreed to relevant normalisations to covenant calculations for the reporting periods ending 30 June 2020 and 31 December 2020, respectively. Virtus management demonstrated that the liquidity and funding needs of the business could be accommodated through its syndicated facility arrangements, without the need for additional near term funding. The Board and management continue to monitor liquidity and funding on a regular basis.

Patient and customer demand

Cycle and procedure volumes were impacted by suspensions in activity to varying degrees across all Virtus clinics worldwide. The suspension durations, initiated by State and National governments often following the advice of local regulatory bodies, lasted from four to eight weeks. Following the lifting of regulatory suspensions Virtus Health clinics have returned to normal trading activity and in June and July 2020, patient activity has exceeded prior year comparative activity. Management believe that the increased level of activity reflects the inherent demand for Assisted Reproductive Services.

Business projects and initiatives

Management took immediate action in March 2020 to suspend major project activity to protect financial liquidity. Following the return to normal levels of activity these major initiatives have re-commenced. Additionally management has accelerated its strategic planning activity, preliminary details of which are set out in the CEO’s review.

Operational impact

- Employees – unfortunately, many employees in all our activities in Australia, Denmark, Ireland and UK were stood down (or furloughed in UK/Ireland) during periods of clinic closure. Management maintained a regular flow of communication to employees which included emails and video conference meetings.

The Australian Federal government's Job Keeper scheme was an important support to many of our employees and Virtus also benefited from similar support schemes in Singapore, Denmark, Ireland and the UK. Several of our UK employees and Doctors should be recognized for their flexibility in transferring to work in the National Health Service during April and May.

Virtus introduced restrictions on business travel in March and the movement of directors, employees and specialists between Virtus locations has been restricted to minimize the potential risk of community transmission. Non-patient facing employees are, where possible, working remotely.

- Fertility specialists and other visiting medical officers also received a regular flow of communication through email and participation in video conferences. To maintain patient contact during the periods of physical clinic lockdown, Virtus established a full telehealth capability for all specialists and this enabled regular support with existing patients and consultation with new patients.

- Procurement – Virtus and the healthcare industry have and continue to be particularly exposed to the reliance on internationally manufactured consumables. Higher demand and lower supply led to short-term difficulties in sourcing enough Personal Protection Equipment to allow Virtus to continue operations at the current rate and has increased costs within our hospitals, labs and clinics. However, extensive mitigation actions by the Virtus procurement team, working with suppliers and our own clinical teams has enabled Virtus to limit the disruption to our daily operations.

Financial impacts

The financial impacts on the FY20 results of Virtus Health are set out in the Operating and Financial Review.

I would again like to thank all our staff, fertility specialists and management teams who responded in such an outstanding manner to the challenges of the last twelve months and our shareholders for their continuing support.

Sonia Petering
Chair

18 August 2020.

Chief Executive Overview

FY20 was full of lessons and opportunities. Virtus has not only adjusted to new leadership and a refreshed corporate structure, we have also navigated a global pandemic and developed a new strategic direction that is focused on technology enabled future growth.

It's been a challenging year to say the least and our services across fertility, diagnostics and day hospitals have come out the other side in good shape. Although all parts of our business were impacted by the COVID-19 crisis during the period from mid-March to the end of the financial year, our results show the resilience of assisted reproduction and IVF. The desire to have a family endures well beyond a global health crisis and if anything, our results show that COVID-19 was the inspiration many people needed to start their journey to parenthood.

An investment in people and culture

I am extremely proud of the way Virtus' operational and frontline teams responded to the events of FY20. When the pandemic escalated in March, our staff demonstrated their commitment to the sustainability of the company by supporting the haste in which we moved to a state of hibernation across four of our five geographies. During that time, our team effectively planned for restart and were well positioned to recommence services safely, with an unwavering commitment to infection control.

As someone who is relatively new to Virtus, one of my earliest observations was the incredible level of skill within the organisation. I quickly prioritised harnessing this talent and elevating the employee and clinician experience to ensure we recruit and retain the highest calibre of staff and specialists across all areas of the business.

We have now refreshed the executive team structure with key appointments across a number of areas, replacing past roles, expanding existing remits and removing external consultant arrangements. We have a strong team with the depth and breadth of experience to be able to deliver on the new strategic direction for Virtus.

A position of leadership in Research and Innovation

The journey of *One Lab*, developed by our Group Director of ARS Scientific Innovation & Research, Professor David Gardner, has continued throughout FY20. When this program first launched in 2018, the focus was to consolidate the technology we were using in our embryology laboratories to ensure all our major facilities have access to the most advanced equipment and tools.

The focus of *One Lab* is now on process harmonisation, ensuring we operate at the highest standard consistently across all our laboratories. Assisted Reproduction Services ("ARS") take an incredibly skilled embryologist and an equally talented doctor and clinical team. This reinforcement of teamwork has led us to the evolution of the *One Clinic* philosophy, where we are working with our doctors to also harmonise and continually optimise the key processes and procedures across our clinics globally.

One Lab and *One Clinic* will become the conduit for accelerating the introduction of new technologies and enhanced research across our network, thereby improving patient outcomes.

Our investment in Research and Development remains a focus with approximately $2million invested in FY20 and several exciting projects underway.

A trial in Victoria is investigating if a combination of antioxidants can improve embryo development and pregnancy outcomes in IVF. The study has seen promising results for implantation and pregnancy rates for patients in the 35 to 40 age bracket. A larger study is now commencing for further evaluation that antioxidants can help to reduce the age related decline in fertility – a positive impact on clinical outcomes.

Following the development of the *Ivy* Artificial Intelligence system in FY19, this technology has been further developed with *Vitrolife* and *Harrison.a.i*. In 2020 Virtus launched a Randomised Controlled Trial ("RCT") to evaluate the effectiveness of this embryo evaluation tool. The RCT is the world's biggest prospective clinical trial of AI and is enrolling 1,000 patients at seven sites across our fertility clinics in Australia, Ireland and Denmark.

The next iteration of our artificial intelligence program ("AI") will focus on expanding our AI capability beyond embryo evaluation into additional areas of the IVF treatment journey and is explained in more detail below.

The global leader in *Precision Fertility*: our strategy for the future

Having met the immediate challenges of commencing as CEO during a pandemic, setting the strategic direction for Virtus quickly became the priority. Virtus is an organisation with significant potential, and we believe we have identified strategic growth opportunities that will deliver on that potential, and will redefine our value proposition for patients, staff and specialists.

Optimising the core

Our strategy to be the global leader in *Precision Fertility* will start by optimising our existing operations and leveraging our current geographical footprint via our Virtual Clinic strategy. The COVID-19 pandemic has accelerated our ability to deliver many of the steps along the assisted reproduction pathway remotely via a range of technologies. Building on this will enhance our reach initially in Australia, Asia and Scandinavia, reduce the need for “bricks and mortar” investment and drive significant efficiencies, while allowing our people to provide the value-adding support that our patients require.

Delivering on the promise of *Precision Fertility* will also be underpinned by the process design and data capture requirements of our *One Lab*/*One Clinic* strategy. This will build on our unique and significant datasets and will deliver enhanced efficiencies within the organisation.

Develop Precision Fertility

Our services will be differentiated through our increasing ability to augment clinical and scientific expertise, with insights from our datasets. To realise the true potential of *Precision Fertility*, we are progressing our relationship with our collaborators in building *Ivy*, *Harrison.ai*, with the intent of co-creating ARS AI solutions that will enhance many of the decisions along the assisted reproduction pathway. From this work, patient outcomes will become more predictable and success rates will increase as the algorithms are applied to our datasets to help determine the precise treatment that is optimal for a specific individual or couple.

Ultimately, the aim of the strategic relationship will be to develop, deliver and own ARS solutions, being franchisable technology, processes, systems and IP, enabled by AI, thereby providing a unique, capital light opportunity for international expansion and new revenue.

Grow Capability in Genetics

Precision Fertility will also benefit from our continuing investment in fertility-related genetic testing which is an area of rapid innovation that also offers growth and differentiation opportunities. Virtus’ existing capability in genetics creates a strong position to also capture the growth in ARS which will increasingly come as families look to ARS in an effort to avoid passing potential genetic diseases to their children. We will again leverage the value of collaboration to grow our genetics capability by partnering with start-ups and leading providers to bring innovations to Australia early.

We recognise that our current footprint of day hospitals offers key advantages, namely the proximity to our embryology laboratories and security of access for clinicians. We will improve the operating performance of our day hospitals with enhanced capability and focus, while exploring further partnerships and JVs with clinicians to drive utilisation.

The outcome of this strategy work so far is pleasing and I extend my gratitude to our Board of Directors, my leadership team as well as our team of scientists, specialists and many staff who made a valuable contribution to our future.

The execution and investment in delivering on the strategy will be phased over a three year period and as we enter this exciting time in Virtus’ history, we are confident that we have clear goals and objectives and extremely competent leadership across all areas of the business.

A commitment to continuous improvement

I have been delighted to observe that Virtus is a high performing organisation committed to operational excellence and clinical and scientific rigor across multiple regulatory environments. Virtus is one of the top five assisted fertility providers in the world. That is testament to the skill of our workforce, and the quality of our services.

Our financial results, given the circumstances of a global pandemic in the second half of FY20, are strong and reinforce the importance of assisted reproductive services within the community. The focus of our people from the Board and leadership team through to operational functions, clinicians, scientists and the frontline workforce has been inspiring. It is a pleasure to work alongside each and every member of the Virtus team.

We are in a coveted position to bolster and extend our position globally in a relatively short timeframe, and we'll achieve this not only through the execution of our strategy but also through adopting a mindset of continuous improvement and empowering our employees.

Virtus is an organisation built around collaboration and we will continue to strengthen this legacy well into the future. Looking forward, opportunities abound. And while there is significant work to be done, there is also a sense of excitement as we improve our work practices, patient services and people development, giving our employees – at all levels – the opportunity to work together to achieve change for the better.

Thank you to the Virtus Board, my team and all our colleagues across Virtus for embracing my leadership in 2020. I am proud of what we stand for and how we help people, and I look forward to the work ahead as we embark on a new chapter of growth.

Kate Munnings
Group CEO and Managing Director

18 August 2020

Directors	Peter Macourt - (retired on 20 November 2019) Susan Channon- (resigned on 29 February 2020) Kate Munnings (appointed on 18 March 2020) Lyndon Hale Sonia Petering - (appointed chairperson on 20 November 2019) Greg Couttas Shane Solomon Michael Stanford (appointed on 2 September 2019)
Company secretary	Glenn Powers
Notice of annual general meeting	The details of the annual general meeting of Virtus Health Limited are: Thursday, 19 November 2020. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all shareholders and released to ASX immediately after despatch.
Registered office	Level 3 176 Pacific Highway Greenwich NSW 2065 Phone: (02) 9425 1722 Fax: (02) 9425 1633
Principal place of business	Level 3 176 Pacific Highway Greenwich NSW 2065
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Phone: 1300 554 474
Auditor	PricewaterhouseCoopers One International Towers Sydney Watermans Quay,Barangaroo NSW 2000
Solicitors	King & Wood Mallesons Level 61 Governor Phillip Tower,1 Farrer place Sydney NSW 2000
Bankers	Westpac Banking Corporation Level 3, 275 Kent Street, Sydney NSW 2000 Commonwealth Bank of Australia, Ground floor, Tower 1, 201 Sussex Street Sydney NSW 2000 Siemens Financial Services Inc 170 Wood Avenue, South Iselin New Jersey 08830, United States of America National Australia Bank, Level 19, NAB House, 255 George Street, Sydney NSW 2000 HSBC UK Bank Plc, Sixth Floor, 71 Queen Street, London, EC4V 4AY
Stock exchange listing	Virtus Health Limited shares are listed on the Australian Securities Exchange (ASX code: VRT)
Website	www.virtushealth.com.au
Corporate Governance Statement	The Corporate Governance Statement was approved by the Board of Directors on 18 August 2020 and can be found at https://www.virtushealth.com.au/investor-centre/corporate-governance

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 2020.

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 - (retired on 20 November 2019)
Susan Channon - (resigned on 29 February 2020)
Kate Munnings - (appointed on 18 March 2020)
Lyndon Hale
Sonia Petering - (appointed chairperson on 20 November 2019)
Greg Couttas
Shane Solomon
Michael Stanford - (appointed on 2 September 2019)

Principal activities
During the financial year the principal continuing activities of the consolidated entity were the provision of healthcare services in Australia, Denmark, UK, Ireland and Singapore, which included fertility services, medical day procedure services and medical diagnostic services.

Dividends
Dividends paid during the financial year were as follows:

	Consolidated	
	2020 $'000	2019 $'000
Interim ordinary dividend for the year ended 30 June 2020 of 12.0 cents (2019: 12.0 cents) per fully paid ordinary share deferred (2019: paid on April 2019)	-	9,647
Final ordinary dividend for the year ended 30 June 2019 of 12.0 cents (2018: 12.0 cents) per fully paid ordinary share paid in October 2019	9,647	9,647
	9,647	19,294

The payment of the interim dividend in respect of the 30 June 2020 financial year of $9,541,000 scheduled for 16 April 2020 was deferred until 30 November 2020 subject to trading conditions and is currently recognised in other payables.

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

Operating and Financial Review
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $469,000 (30 June 2019: $28,426,000).

The financial result for the year ended 30 June 2020 is after recognising an impairment of intangibles of $24,975,000 (2019: $5,800,000).

The implementation with effect from 1 July 2019 of the new accounting standard AASB 16 'Leases' had a significant impact on the EBITDA for the current period. The current EBITDA was increased by $14,856,000 resulting from a reduction in other expenses (reclassification of lease expenses) that was replaced by a depreciation charge in respect of the right of use assets of $11,826,000 (included in operating costs) and interest expense on the recognised lease liabilities of $3,440,000 (included in finance costs). The overall net impact on profit before income tax expense for the current period as a result of the implementation of AASB 16 ‘Leases’ was a reduction of $410,000.

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

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Segment EBITDA[1]	84,043	71,146
Transfer of Intellectual Property (IP)	-	4,110
Share-based payment expense	(1,252)	(1,161)
Other non-trading expenses	(17,599)	(13,045)
Fair value adjustment to put liabilities and contingent consideration	5,995	8,261
Impairment of goodwill	(24,587)	(5,800)
Impairment of brand	(388)	-
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EBIT	21,195	49,883
Net financial Interest[3]	(10,763)	(9,709)
Profit before income tax from continuing activities	10,432	40,174

Notes
1. Segment EBITDA - Excluded $14.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases'
2. Depreciation and amortisation - Includes $11.8m of depreciation on Right-of-use assets arising from adoption of AASB 16 'Leases'
3. Net finance costs - Includes $3.4m of interest on lease liabilities arising from adoption of AASB 16 'Leases'

The new accounting standard AASB 16 'Leases' was adopted with effect from 1 July 2019 using the modified retrospective approach and as such the comparatives for the year ended 30 June 2019 have not been restated.

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 decreased by 7.5% to $258.9m;
- Group EBITDA decreased by 27.2% to $46.2m (see earlier comments on the impact of the implementation of AASB 16 'Leases' on EBITDA and a summary of significant items included in the Group EBITDA below);
- Segment EBITDA increased by 18.1% to $84.0m (excludes $14.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases');
- Australian segment EBITDA increased by 22.7% to $74.9m (excludes $11.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases');
- International segment EBITDA decreased by 9.8% to $9.0m (excludes $3.0m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases') and
- Net profit after tax (“NPAT”) attributable to equity holders decreased by 98.4% to $0.5m

Segment EBITDA

$ Millions	FY20	FY19
Segment EBITDA	84.0	71.1
Impact on adoption of AASB 16 'Leases'	(14.8)	-
Segment EBITDA (excluding the impact of AASB 16 'Leases')	69.2	71.1

Segment EBITDA (excluding the impact of AASB 16 Leases) decreased by $1.9m. This demonstrates the resilience of the business as the EBITDA remains comparable to the prior corresponding period notwithstanding the impact of the COVID-19 related disruption to activity levels during the period March to June 2020 (refer to discussion below).

Reported EBITDA

Reported EBITDA for the year ended 30 June 2020 was $46.2m (2019: $63.5m). Significant income and expenditure items impacting reported EBITDA were as follows:

$Millions	FY20	FY19
Impairment of Intangible assets [1]	(25.0)	(5.8)
Fair Value Adjustment to contingent consideration and put liabilities [2]	6.0	8.3
Government assistance (COVID-19 related) [3]	7.7	-
Professional and consulting fees (legal and banking support COVID-19 related)	(0.4)	-
CEO transition and recruitment costs	(0.8)	-
Sale of IP[4]	-	4.1
Total	(12.5)	6.6

Notes

1. Non cash impairment charges in relation to Tasmania and the Denmark CGU reflecting changes in competitive landscape, delays in doctor resourcing and business development activities and the impact of COVID-19 (refer to note 10 for details).
2. Non-cash fair value adjustments in relation to the put option liability and contingent consideration reflecting actual and expected settlements.
3. Receipts from the Australian Federal Government's JobKeeper Program and similar government programs in other countries in response to the COVID-19 pandemic (see note on government assistance below in the COVID-19 section of OFR for details).
4. Profit on sale of Virtus' IP in relation to its Artificial Intelligence software "Ivy" in the prior period.

Operating and Financial Review (OFR)

COVID-19

The following summary provides an overview of the impact and status of COVID-19 across Virtus Health Businesses for the financial year ended 30 June 2020

Australia IVF – After the introduction of restrictions on activity in the third week of March 2020, Virtus Health clinics in Australia resumed fertility services and ARS treatment from 27 April 2020 with increased infection control and safety protocols. For social distancing reasons, fertility specialists will continue telehealth consulting via phone or online video conferencing through our Fertility Link service. Face-to-face consultations and services are provided where clinically required, with appropriate infection control measures in place.

Australian Day Hospitals – Following the restrictions introduced in the third week of March 2020, Virtus Health resumed ARS procedures and non-IVF elective surgery including laparoscopic gynaecology procedures, endoscopy and other same-day surgery across our seven day hospitals from 27 April 2020 in accordance with state capacity guidelines and increased infection control and safety protocols.

Virtus continues to stand ready to assist in the Government response to the COVID-19 pandemic. However, Virtus did not enter into any agreements with state governments under the viability guarantee for private hospitals, as they were not suitable for the integrated day hospital model Virtus operates. Therefore, the lifting of the suspension of elective surgery, including IVF, meant that Virtus returned to full operation and earnings generation from June 2020.

Australian Diagnostics – Diagnostics remained open throughout the pandemic although revenue was severely impacted during April and May.

Singapore – Virtus Health's Singapore clinic, the Virtus Fertility Centre, remained open during April 2020 but operated under some restrictions introduced by the Singapore Government for elective treatments in May and June 2020. Except for May, activity levels remained strong in the clinic and revenue was maintained at prior year levels.

Europe – After the introduction of restrictions on activity in the second week of March 2020, Virtus clinics in Denmark resumed ARS procedures in the second week of April 2020. Virtus clinics in Ireland reopened on 4 May 2020 and our UK clinic was reactivated during the week commencing 11 May 2020. In each of our three European markets, Denmark, Ireland and the UK, Virtus Health's clinics were the first in territory to reactivate. Fertility specialists in these regions continue to utilise telehealth consultations where requested to facilitate the continuity of care and the clinics operate under increased infection control and safety protocols. Our Ireland clinics continue to face restrictions relating to their international egg donation activity.

Key impacts on trading performance compared to prior year comparative period:

	6 months to December 2020	8 months to February 2020 Pre-COVID-19	4 months to June 2020 during restrictions
Australian fresh cycles	+2.7%	+1.4%	(15.3%)
International fresh cycles	(3.3%)	(2.3%)	(35.1%)
Diagnostic revenue	+0.2%	+0.2%	(11.9%)
Day Hospital revenue	+2.1%	+1.5%	(15.8%)

The estimated loss of gross profit (revenue less variable cost of sales) as a result of the decline in revenue in the 4 months to 30 June 2020 during which there were restrictions on elective surgery and clinic closures across the consolidated entity amounted to approximately $14.6m. This estimate has been determined by reference to activity levels in the prior corresponding months of FY19.

Government assistance - Governments around the world (including the countries in which Virtus operates in) have reacted to the impact of COVID-19 with a variety of assistance packages, including tax deferrals, exemptions and in some cases, specific support for ensuring employees remain employed. The most material Government assistance for Virtus was via the Job Keeper Scheme in Australia which supported Virtus operations by $7.2m out of an overall sum of $7.7m received across the group in various forms of government assistance.

These assistance packages across the consolidated entity enabled the group to preserve a large part of its existing workforce and offset the impact on the results from the lost revenue.

Liquidity Position - As at 30 June 2020, the consolidated entity was in compliance with its debt covenants. Due to the significant uncertainty associated with COVID-19, the consolidated entity agreed, with its lender group, appropriate normalisations to covenant calculations for reporting periods up to 31 December 2020. Virtus' ongoing trading and cash flow assumptions in the COVID-19 impacted business environment, demonstrates that the liquidity and funding needs of the business can be accommodated through its syndicated facility arrangements, without the need for additional near term funding.

Australia

Australian fresh cycle activity declined by 5.3% in the markets in which Virtus participates; Virtus fresh cycle activity in Australia in FY20 fell by 4.4%. Volume growth summary by state is as follows:
- NSW down by 7.3%, Virtus down by 8.0%;
- VIC down by 3.6%, Virtus up by 2.4%;
- QLD down by 3.8%, Virtus down by 5.0%; and
- TAS down by 13.8%, Virtus down by 27.5%

Key aspects of the Virtus cycle movement compared to pcp were as follows:
- Premium service volumes reduced by 7.8%; and
- TFC volumes increased by 11.6%

Virtus volume growth was 1.4% as at the end of February 2020, ahead of available market volume decline of 0.6%. This outperformance resulted from market share gains in Victoria in the low cost segment and growth in premium service volumes in Queensland. These were offset by declines in NSW and TAS volumes.

Overall, EBITDA in the Australian segment increased by 22.7% to $74.9m compared to pcp with the following factors contributing to this:

- **AASB 16 Lease impact – EBITDA increase of $11.8m**
  The positive impact on Australian EBITDA as a result of $11.8m of lease payments being reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases';
- **Australian Job Keeper – EBITDA increase of $7.2m**
  This covers the three month period to June 2020.
- **Diagnostics volume reduction – EBITDA decrease of $2.4m**
  $1.1m related to decreases in testing revenue driven by a softer cycle activity in the key states of NSW and VIC; and $1.3m due to increase in supervision costs as a result of new regulatory requirements and the appointment of an additional pathologist.
- **Day Hospital volume reduction – EBITDA decrease of $0.3m**
  Procedure volumes were impacted by COVID-19 with all hospitals constrained by Federal and State restrictions on elective procedures. However, underlying performance was much improved with three out of seven facilities increasing EBITDA compared to pcp, and this included improvement at our newest facilities in Alexandria and Hobart.

International

AASB 16 'Leases' had a positive impact on the International EBITDA of $3.0m compared to pcp. The analysis below does not include this impact.

Cycle volumes in Ireland decreased by 20.1% from pcp and revenue was down by $7.9m primarily due to the impact of COVID-19. EBITDA reduced by $3.5m. In the UK, Complete Fertility achieved growth in EBITDA of $0.4m in spite of COVID-19 related shutdowns.

The Danish clinics reported a decrease of $0.9m to EBITDA compared to pcp. Both clinics were impacted by COVID-19 closures, although volumes at Aagaard increased by 4.8% as a result of increased clinical resource.

Volumes in Singapore increased by 8.9% and EBITDA decreased by $0.02m over pcp. Results were impacted by slightly higher OPEX for the year.

Overall, international revenue declined by 12.8% and EBITDA decreased by 9.8% to $9.0m compared to pcp, with COVID-19 having a significant impact on the international results.

Operating expenses movement analysis excluding impairment charges and fair value adjustments (OPEX)

$Millions	FY20	FY19
Employee benefits expense	(100.1)	(98.9)
Occupancy expense	(6.0)	(19.9)
Advertising and marketing	(3.9)	(4.3)
Practice equipment expenses	(2.6)	(2.6)
Professional and consulting fees	(4.8)	(3.6)
Other expenses	(14.7)	(14.5)
Total OPEX	(132.1)	(143.8)

Group OPEX was approximately $12m lower compared to pcp and this included several significant movements.

- Excluded $14.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases'. There was an overall increase in facility costs of $0.9m, reflecting increased occupancy costs of the Diagnostic laboratory facility relocation completed in April 2019;
- Costs associated with the separation and recruitment of the CEO, $0.8m;
- Employment costs (adjusted for CEO succession costs) were unchanged, although the expense included a higher than normal level of employment termination costs ($1.5m).
- Professional and consulting costs increased by $1.2m and was a result of fees relating to a strategic review, process improvement projects and legal and consulting (COVID-19 related).

Debt and interest expense

The increase in interest expense over the prior period relates to the $3.4m of interest on lease liabilities arising from adoption of AASB 16 'Leases', partially offset by decreases in the interest expense on borrowings ($1.3m) and non-cash interest on other financial liabilities ($1.0m).

At 30 June 2020, total bank facilities drawn were $165m in borrowings and $5.3m in guarantees. Unused and available debt facilities amounted to $92.3m. $92m of the debt facility expires in September 2021, whilst the remaining $170m expires in September 2023. There has been no change in the facilities drawn since 31 December 2019 except for a voluntary debt repayment of $8m during June 2020. Despite the debt repayment, cash balance at 30 June 2020 is $38m, an increase of approximately $19m since 30 June 2019. Voluntary debt repayments of $11.0m were made during FY20. Accordingly, net debt reduced by $29m in the financial year to $127m

The company continued to comply with the financial covenants of its facility agreement.

Other financial liabilities ($3.6m)

The other financial liabilities relates to contingent consideration ($1.5m) and a vendor loan note ($2.1m) in relation to the acquisition of Trianglen. Based on the most recent forecast trading outlook, the consolidated entity reduced the estimated liability for the contingent consideration by $4.5m to $1.5m at 30 June 2020.

Impairment of intangible assets
Virtus undertakes impairment testing on the carrying value of goodwill and indefinite life intangibles on an annual basis, or more frequently if there is a trigger of impairment. An impairment charge of $25m was recognised during the year and arose in the following operating segments:

TAS IVF – In H1 of FY20, the Tasmanian business was restructured and streamlined in response to changes that had taken place in the competitive landscape in that State. The consolidated entity as part of its budgeting process for the FY2021 financial year has undertaken a detailed reviewed of the Tasmanian business. Based on this review and in light of the further impact on the economic environment of COVID-19 related uncertainties, an impairment charge of $15,049,000 was recorded in the statement of comprehensive income for the year ended 30 June 2020.

Denmark - Following a detailed review of future cash flow projections of the Danish clinics, an impairment charge of $9,926,000 million was recorded in the statement of comprehensive income for the year ended 30 June 2020. This was primarily as a result of the uncertainties associated with COVID-19 and certain earn out related targets set at the time of acquisition not being achieved. In addition to the impact of COVID-19, the achievement of these earn out targets was impacted by the easing of regulatory restrictions in neighbouring countries that had a negative impact on inbound activity levels into Denmark and delays in doctor recruitment and business developments activities.

Further details and sensitivities are provided in Note 10 of the financial report.

Amortisation of borrowing costs
Amortisation of borrowing cost expense for FY20 was $411,000, (FY19: $563,000). FY2019 included a write-off of residual borrowing costs on the previous facility that was refinanced in September 2018.

Taxation
The effective tax rate on operating earnings (excluding impairment charges) for FY20 was 26.9% (FY19: 27.8%).

Earnings per share
Basic earnings per share decreased by 98.3% to 0.59 cents per share (FY19: 35.37 cents per share). In the current year the options on issue are not dilutive and hence the diluted earnings per share is the same as the basic earnings per share. The decline in earnings per share is primarily as a result of the non-cash impairment charge of $25m noted above. Underlying basic earnings per share before the impairment charge is 31.77 cents per share.

Dividends
No final dividend is recommended for payment. The Board will review the resumption of interim dividend payments in FY21 based on cash flow and trading performance in the six month period to 31 December 2020.

Outlook
The disruption from COVID-19, has been significant. Furthermore, the Board recognises that although general economic conditions have been less than favourable in certain markets in the last twelve months growth opportunities exist for all Virtus business activities.

During July 2020 all businesses were operating without significant regulatory constraint, subject to some exceptions in our Ireland egg donation activity. Virtus experienced aggregate consolidated volume growth in June and July 2020 of 22.1% compared to pcp.

In the two months ending 31 July 2020 the key movements on pcp in trading activity are as follows:

	%
Australian fresh cycles	+23.0%
International fresh cycles	+18.9%
Diagnostic revenue	+14.9%
Day hospital revenue	+37.7%

Management are encouraged by the strong recovery in activity in each of its clinics immediately following the lifting of local restrictions. However, during July 2020 new cases of COVID-19 increased rapidly in Victoria and this led to the reintroduction of some restrictions on capacity for our Melbourne clinics.

Virtus acknowledges that there could be similar occurrences across its clinic network during FY21. However, management are confident that the Company is well positioned to manage potential variations in regulatory conditions and is also committed to an active program of business development and growth initiatives in all territories.

Significant changes in the state of affairs

Sue Channon stepped down from her role as CEO of Virtus Health Limited on 29 February 2020. Kate Munnings commenced as CEO of Virtus Health Limited on 18 March 2020.

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

Subsequent to year end new cases of COVID-19 rose rapidly in Victoria to new record levels. The subsequent restrictions imposed by the Victorian government have caused disruption to business and economic activity and are likely to negatively impact the consolidated entity’s trading revenue and operations. At the same time there has been a rise in the number of clusters in NSW.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in the 30 June 2020 financial statements and are discussed in the Operating and Financial Review section of the Directors Report. To the extent that ongoing impacts have been estimated we have considered the uncertainties arising from the COVID-19 pandemic in preparation of our financial statements. However, the expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy are unclear. The financial impact going forward for the consolidated entity will depend on evolving changes in government policy and business and customer reactions.

As at 30 June 2020, the group was in compliance with its debt covenants. This has been further bolstered by the support of its lender group to allow for appropriate normalisations for COVID-19 impacts in covenant calculations extending out to the reporting period to 31 December 2020. Virtus’ ongoing trading and cash flow assumptions in the COVID-19 impacted environment, demonstrate that liquidity and funding needs of the business can be accommodated through its syndicated facility arrangements, without the need for additional near-term funding. At 30 June 2020, the consolidated entity had $38million in cash and $92.3million in unused and available debt facilities.

The consolidated entity has managed, and continues to actively manage, the risks arising from COVID-19. This includes a financial response plan that incorporates scenario and contingency planning at all clinics across the globe, stress testing of cash flow forecasts and sensitivity analysis.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

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

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

As noted earlier in the report, the directors of Virtus Limited consider that the financial effects of the COVID-19 pandemic cannot be reasonably estimated for future financial periods.

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

The COVID-19 pandemic
The COVID-19 pandemic materially changed the markets in which the consolidated entity operates due to the overall impact of government restrictions on the economy. Any significant increase or outbreaks in COVID-19 cases in countries the consolidated entity operates in, could result in additional restrictions which limit operation of Virtus' clinics, Day Hospitals and Laboratories for an extended period.

Change in Commonwealth Government funding/increasing patient out of pocket expenses
Australian patients receive partial reimbursement for the consolidated entity's services through Commonwealth Government programs, including the Medicare Benefits Schedule ('MBS') and the Extended Medicare Safety Net ('EMSN'). A review of the MBS has been undertaken by the Federal Health department and, to date, no changes to the MBS have been proposed.

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

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

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

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

(For further details refer to Corporate Governance Statement at www.virtushealth.com.au/corporategovernance).

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

Information on directors

Name:	Sonia Petering
Title:	Chairperson
Qualifications:	LLB; BComm; FAICD
Experience and expertise:	Sonia has more than 15 years experience in non executive director and chair roles with listed and unlisted companies and government authorities across financial services, payments, insurance, professional services and healthcare. Sonia is an experienced commercial lawyer who commenced her legal practice in 2001. She holds a current Victorian legal practicing certificate. Sonia previously served as a non executive director on the boards of Transport Accident Commission of Victoria and Rural Finance Corporation of Victoria and as Chair of the Board of Rural Finance Corporation from 2009 - 2016. Sonia is also a non executive director of TAL Dai - ichi Australia Ltd, Qantm IP (ASX:QIP) and Cuscal Ltd
Other current directorships:	Qantm IP Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee and member of the Risk Committee
Interests in shares:	45,000 ordinary shares
Interests in options:	None

Name:	Kathryn Munnings
Title:	Group Chief Executive Officer & Managing Director
Qualifications:	LLB, Bachelor of Health Science (Nursing)
Experience and expertise:	Kate joined Virtus in March 2020. A qualified lawyer and registered nurse, Kate has a diverse breadth of professional and operational experience spanning more than 30 years. Most recently, Kate led strategy, hospital operations and a significant organisational change program as Chief Operating Officer of Ramsay Health Care's Australia. As Chief Executive, Operations at Transfield Services (now Broadspectrum), Kate led a portfolio of large government contracts across Australia, New Zealand and Melanesia. Kate was a partner at law firms, Corrs Chambers Westgarth and Baker McKenzie; specialising in construction law and also spent eight years as Chief Risk and Legal Officer/Company Secretary at Transfield Services, focused on corporate law, risk management and commercial management. Early in her career Kate practiced as a registered nurse and specialized in HIV/AIDS.
Other current directorships:	Director, Digital Health Co-operative Research Centre
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in options:	162,037 performance rights

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

Name:	Dr 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. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Risk Committee
Interests in shares:	826,572 ordinary shares
Interests in options:	None

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

Name:	Dr Michael Stanford AM
Title:	Non-Executive Director
Qualifications:	MBBS; MBA; FAICD
Experience and expertise:	Michael, a registered medical practitioner, has extensive experience in the Australia health services sector in Group CEO roles of large healthcare organisations and as a Non Executive Director. Michael's 23 years of Group CEO roles included 16 years at St John of God HealthCare which he grew into being Australia's third largest private hospital operator, and one year at the ASX listed Australian Hospital Care Ltd . Michael's NED career, in addition to Virtus Health, includes current roles on the Board of the manager of the NZX listed Vital Healthcare Property Trust(NorthWest Healthcare Property Management), Nucleus Networks (the world's largest Phase One clinical trial business) , and as Chair of Diabetes Australia. Michael previously served on the Boards of ASX listed Healthscope and of private equity owned Australian Clinical Laboratories. Michael was awarded an AM in 2018 for services to health, higher education and the community of WA.
Other current directorships:	Director, Nucleus Network Pty Ltd
Former directorships (last 3 years):	Healthscope Pty Ltd,
Special responsibilities:	Chair of the Virtus Health Remuneration Committee and member of the Risk Committee
Interests in shares:	20,000
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 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held
Peter Macourt	5	5	3	3
Susan Channon	8	8	3	3
Kate Munnings	10	10	1	1
Greg Couttas	19	19	5	5
Lyndon Hale	19	19	-	-
Sonia Petering - Chairperson	19	19	5	5
Shane Solomon	18	19	-	-
Michael Stanford	17	17	4	4

	Audit Committee		Risk Committee	
	Attended	Held	Attended	Held
Peter Macourt	3	3	-	-
Susan Channon	3	3	2	2
Kate Munnings	1	1	1	1
Greg Couttas	5	5	4	4
Lyndon Hale	-	-	4	4
Sonia Petering- Chairperson	4	4	-	-
Shane Solomon	3	4	4	4
Michael Stanford	-	-	4	4

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 2020 remuneration report prepared in accordance with the requirements of the Corporations Act 2001.

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

A. Executive summary

Key Changes in FY2020
There were no significant changes made to the remuneration framework in FY2020.

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

Following a review of the management and group decision making structure conducted by the new CEO, the Board has determined that the Key Management Personnel ('KMP'), as defined by Australian Accounting Standard AASB 124 'Related Party Disclosures' are as follows:

Non-Executive Directors
Sonia Petering – Chair, non-executive director
Peter Macourt – Retiring Chair, non-executive director (retired 20 November 2019)
Greg Couttas – Non-executive director
Shane Solomon – Non-executive director
Michael Stanford – Non-executive director (appointed 2 September 2019)

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

Executive KMP
Kate Munnings – Managing Director and Chief Executive Officer ("CEO") (appointed 18 March 2020)
Sue Channon – Managing Director and Chief Executive Officer (resigned 29 February 2020)
Glenn Powers – Chief Financial Officer ("CFO")
Richard Banks – Chief Strategy Officer ("CSO") and European Managing Director
Lyndon Hale – Executive Director and Medical Director, Victoria

Following the review of KMPs the remuneration disclosures have been amended to reflect the new group decision making structure; accordingly the number of KMPs has been reduced from that disclosed in the prior year. Total KMP remuneration for FY2020 increased from FY2019 by $549,983 (32.4%). Included in the net increase, $531,658 relates to payments in lieu of notice to the previous CEO, Sue Channon. In view of the impact of the COVID-19 pandemic, the CEO and CFO voluntarily reduced their fixed remuneration by 20% and the Board reduced their fees by 20% for the final quarter of the financial year. Fixed KMP remuneration has returned to normal levels with effect from 1 July 2020.

The short term incentives ('STI') and long term incentives ('LTI') achieved in FY2020 are set out in further detail below. There are no STI accruals for FY2020 as the EPS hurdle of 5% growth was not met.

The performance hurdles tested in FY2020 of the LTIs granted in November 2016 and November 2017 were not achieved and accordingly 111,302 performance rights lapsed during the financial year.

The Board considered the impact of the COVID-19 pandemic on the financial performance of Virtus Health for the year ended 30 June 2020 and whether discretionary awards should be made to recognise the negative impact on the achievement of performance hurdles for current STI and LTI arrangements. The Board concluded that discretionary awards should not be made recognising the following indicators:

- In relation to the achievement of the STI, in the eight months to February 2020, the period which was not impacted by COVID-19, the actual NPAT growth (per unaudited management accounts) was 3.6% and the forecast NPAT growth for FY2020 at that time was less than 5%, the Earnings Per Share ("EPS") hurdle for the STI;
- In relation to the achievement of the LTI performance hurdles for the performance grant made in November 2017, the return on equity hurdle would not have been met even if financial performance was normalised for the impact of COVID-19; and
- There is no need to adjust the measurement of relative total shareholder return ('RTSR') for the November 2016 and November 2017 performance grants for the impact of COVID-19 as by its nature RTSR is a measure of relative performance.

B. Role of the Nomination and Remuneration Committee

The Board of Directors ('the Board') maintains a combined Nomination and Remuneration Committee (the 'Committee'). The members of the Committee are all independent non-executive Directors: Michael Stanford (Chair), Sonia Petering and Greg Couttas. Details of the qualifications and experience of the members of the Committee are provided in the 'Information on directors' section of the Directors' Report.

The Committee assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, senior executives and key management personnel whose activities, individually or collectively, affect the financial soundness of the consolidated entity. The responsibilities of the Committee are set out in the Nomination and Remuneration Committee Charter which may be found on the Investor Centre page of the Virtus Health website.

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

Use of remuneration consultants
When considered necessary, the Committee seeks external advice from independent consultants on the appropriateness of the remuneration practices and arrangements including remuneration levels, independent benchmarking data and incentive structures. The Committee and Board consider this input with several other factors when making decisions regarding remuneration.

During FY2020, the Committee engaged KPMG to provide advice on a range of matters, including CEO remuneration and FY2021 incentive arrangements.

KPMG provided a formal declaration confirming that its recommendations were made free from undue influence by the members of KMP to whom the recommendations related. On the basis of this declaration and the protocols and processes governing the engagement of KPMG and receipt of its recommendations, the Board is satisfied that each of the recommendations were free from undue influence by such persons.

In FY2020, KPMG was paid $50,000 (excluding GST) in relation to remuneration recommendations provided as part of its engagement as a remuneration consultant.

KPMG was paid $185,968 (excluding GST) for other services provided across the business during FY2020.

The remuneration package for the new CEO was considered in the context of a report prepared by KPMG and legal advice from employment law specialists. The remuneration package also took account of a peer group benchmark agreed by the Nomination and Remuneration Committee.

The Committee concluded that:

- CEO remuneration would comprise fixed remuneration, STI, LTI and an initial one-off grant of performance rights under the LTI Plan as compensation for the incentives foregone by the CEO as a result of leaving her previous employment position.

  In recognition of incentives Ms Munnings has foregone a one-off grant of performance rights was made under the LTI Plan valued at $700,000. Vesting of the performance rights is subject to the Board's assessment of Ms Munning's performance over each year of a 3 year vesting period and will vest as follows:

  - 1/3rd in FY21 on the first anniversary of the date of commencement of employment;
  - 1/3rd in FY22 on the second anniversary of the date of commencement of employment; and
  - 1/3rd in FY23 on the third anniversary of the date of commencement of employment.

- Changes to the STI scheme for FY2021 for the CEO will be made as follows:
  - There will be three measures, a financial measure which will account for 70% of the STI and two non-financial measures (15% each of the STI). The financial measure will be EBITDA. For FY21, vesting will be as follows:
  - if FY21 EBITDA is less than the prior comparative period ('pcp'), no STI will be paid; or
  - if FY21 EBITDA is greater than or equal to FY20 EBITDA then 50% of the STI will vest (i.e. 50% of the 70% available); or
  - if FY21 EBITDA is 105% or more of the FY20 EBITDA then 100% of the STI will vest (i.e. 100% of the 70% available); or
  - if FY21 EBITDA is 110% or more of the FY20 EBITDA then 110% of the STI will vest (i.e. 110% of the 70% available).

EBITDA benchmark for FY20 and the equivalent measure for FY21 will exclude non-trading expenses. There will be no EPS growth hurdle in FY2021.
The non-financial measures for the CEO will be:
- Net Promoter Score will account for 15% of the STI. For FY21 vesting will be as follows:
- If FY21 result is greater than or equal to FY20 then 50% of the at risk STI will vest (i.e. 50% of the 15% available); or
- If FY21 result is 105% of FY20 then 100% of the at-risk STI will vest (i.e. 100% of the 15% available); or
- If FY21 result is 110% of FY20 then 110% of the at-risk STI will vest (i.e.110% of the 15% available).

- A COVID-19 infection control measure, such that no closure occurs of a Virtus clinic or facility due to an avoidable COVID-19 outbreak (based on data or review from a relevant State or National Health Department's Root Cause Analysis). If no closure is achieved 100% of the at-risk STI will vest (i.e. 100% of the 15% available).

- Changes to the STI scheme for FY2021 for the CFO will be made as follows:
  - There will be five measures, a financial measure which will account for 60% of the STI and four non-financial measures (10% each of the STI). The financial measure will be NPAT. For FY21, vesting will be as follows:
  - if FY21 NPAT is less than the prior comparative period ('pcp'), no STI will be paid; or
  - if FY21 NPAT is greater than or equal to FY20 NPAT then 50% of the STI will vest (i.e. 50% of the 60% available); or
  - if FY21 NPAT is equal to the FY21 Board approved budget NPAT then 100% of the STI will vest (i.e. 100% of the 60% available); or
  - if FY21 NPAT is 110% or more of the FY21 Board approved budget NPAT then 110% of the STI will vest (i.e. 110% of the 60% available).

  There will be no EPS growth hurdle in FY2021.

  The financial measures for the CSO will account for 60% of the STI, 40% of which will be measured against Group EBITDA and 20% will be measured against the EBITDA of the European businesses. For FY21 the vesting format will be as follows:
  - if FY21 EBITDA is less than the prior comparative period ('pcp'), no STI will be paid; or
  - if FY21 EBITDA is greater than or equal to FY20 EBITDA then 50% of the STI will vest (i.e. 50% of the 60% available); or
  - if FY21 EBITDA is equal to the FY21 Board approved budget EBITDA then 100% of the STI will vest (i.e. 100% of the 60% available); or
  - if FY21 EBITDA is 110% or more of the FY21 Board approved budget EBITDA then 110% of the STI will vest (i.e. 110% of the 60% available).

  The non-financial measures for the CFO and CSO will be:
  - Net Promoter Score (as for the CEO)
  - COVID-19 Infection control measure (as for the CEO)
  - Staff engagement score trending – 50% vesting for the implementation of a staff engagement survey process and improvement plans in place for each business unit and pro-rata vesting for the balance if positive trending in engagement score on subsequent surveys during the year; and
  - Compliance to Virtus Health One Lab program with 50% vesting for 80% compliance and 100% vesting for 100% compliance.

- It would retain the measure of 50% of the LTI grant to be linked to average annual Return on Equity ("ROE"). The Committee noted that the ROE hurdle had previously been a set at a fixed percentage. In light of the current uncertainty and volatility created by the COVID-19 pandemic the Committee determined to amend the average annual ROE hurdle to one that is directly related to the Virtus Health weighted average cost of capital ("WACC"). Target average annual ROE for FY21 to FY23 will be 1.35 times WACC, agreed with the Audit Committee.
- It would retain the measure of 50% of the LTI grant to be linked to RTSR measured over a three year period against the constituents of a single comparator group, the ASX300, as this index appears to have the closest correlation to Virtus Health share price volatility.

C. Executive remuneration framework

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

The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice. The Board seeks to ensure that executive reward satisfies the following key criteria for good governance practices:

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- STIs;
- LTIs; and
- other remuneration such as superannuation and long service leave.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. The key objective of the remuneration framework is the alignment to shareholder interests and this is achieved by ensuring that:

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

Fixed remuneration
Fixed remuneration for Australian employees comprises base salary, superannuation and other benefits such as annual leave and long service leave in accordance with the regulations in the Australian state in which they are employed. European employees receive a base salary, superannuation and other benefits such as annual leave.

Short term incentive plan – STI
The STI plan is an annual individual target based scheme aligned to the targets of an individual executive's respective business units or responsibility. STI payments are granted to executives based on achievement of specific annual targets and key performance indicators ('KPIs'). Financial and non-financial KPIs are reviewed and amended annually by the Nomination and Remuneration Committee to ensure STI payments are aligned with the short term objectives of the business. STIs are not made available to the group's Medical Directors.

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

The STI KPIs for FY2020, which were set by the Nomination and Remuneration Committee for the CEO and by the CEO for Senior Executives, included:

- EPS growth target of 5% over prior year that acts as a financial gateway for the payment of STIs
- 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:
    - Risk management;
    - Patient experience and improvement in net promoter score;
    - Corporate governance objectives; and
    - Other individual personal goals.

The STI KPI structure for FY2021, established by the Nomination and Remuneration Committee, applicable to three of the KMP referred to above, namely Kate Munnings, Glenn Powers and Richard Banks is set out in section B above. A similarly structured scheme is also applicable to other senior executives in the company who are not considered KMP.

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

Long term incentive plan – LTI

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

- Participant's experience, reward, motivation and retention in response to challenging but achievable LTI measures;
- Recognise the abilities, efforts and contributions of participants to Virtus' performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the company;
- Shareholder expectations and alignment of executive reward outcomes to shareholder experience; and
- Appropriate cost to the business considering the affordability and quantum of awards for Participants.

The Virtus plan objectives are aligned to market practice and the LTI Plan provides participants with grants of performance rights that vest over three year performance periods. Performance rights are granted annually and vested performance rights convert into shares. Holders of unvested performance rights do not receive dividends on those rights until the rights have vested and converted into shares.

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

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

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

1. Senior executives - FY2017 grant

On 10 November 2016, performance rights were granted to several members of the executive management team. Following employee resignations only Sue Channon and Glenn Powers retain performance rights under this grant.

The performance rights vest subject to the following performance hurdles:

Relative TSR and average annual return on equity attributable to shareholders ('ROE'). Each hurdle applies to 50% of the grant. RTSR is measured on the company's TSR relative to a peer group of companies in both the S&P ASX 200 Index and the S&P ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period. Calculations of the company's RTSR and ROE are determined at the end of the three year vesting period by the Board with verification performed by an external party.

FY2017 STI Grant	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 200	S&P ASX 200 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	$8.05	$8.05		
	3 Year average ROE			
% ROE less than	15.0%		0%	
% ROE at	15.0%		25%	
% ROE range	15.0-17.5%		25-50%	Progressive pro-rata vesting for the range

The RTSR performance hurdle tested on 15 September, 2019 was not met and the ROE performance hurdle tested on 30 June 2019 was not met.

2. Senior executives - FY2018 grant
On 10 November 2017, performance rights were granted to several members of the executive management team. Following employee resignations only Sue Channon, Glenn Powers, Jade Phelan (Managing Director, Melbourne IVF) and Richard Banks retain performance rights under this grant. The performance rights vest subject to the same performance hurdles as the FY2017 grant, and the TSR base share price is $5.58.

As at 30 June 2020, it is expected that the TSR performance hurdles, to be tested on 15 September 2020 will not be met. The ROE performance hurdle, tested on 30 June 2020 was not met. The annual AASB 2 accounting charge of this scheme is currently $23,888 and the maximum earnings dilution to existing shareholders is 0.08%.

3. Senior executives - FY2019 grant
On 21 November 2018, performance rights were granted to several members of the executive management team. Following employee resignations only Sue Channon, Glenn Powers Jade Phelan and Richard Banks retain performance rights under this grant.

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

- Recognising the change in the S&P Index classification for the company, the RTSR performance hurdles were amended to ASX300 and ASX 300 Healthcare Index; and
- The ROE hurdle was set at 12% which in the view of the Nomination and Remuneration Committee maintained the aspirational aspect of this hurdle given the company's level of performance in the prior two years.

FY2019 STI Grant	Relative TSR	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 300	S&P ASX 300 Health		
Percentile less than	50	50	0%	
Percentile at	50	50	12.5%	For each hurdle
Percentile range	50-75	50-75	12.5-25%	Progressive pro-rata vesting for the range for each hurdle
TSR Base share price	$5.70	$5.70		
	3 Year average ROE			
% ROE less than	12.0%		0%	
% ROE at	12.0%		25%	
% ROE range	12.0-14.0%		25-50%	Progressive pro-rata vesting for the range

Calculations of the company's TSR and ROE will be determined at the end of the three year vesting period by the Board with verification performed by an external party. The annual AASB 2 accounting charge of this scheme is currently ($23,997) and the maximum earnings dilution to existing shareholders is 0.13%.

4. Senior executives - FY2020 grant
On 20 November 2019, performance rights were granted to several members of the executive management team. Following employee resignations only Glenn Powers, Jade Phelan and Richard Banks retain performance rights under this grant.

The Nomination and Remuneration Committee changed the performance hurdles for the FY2020 grant as follows:

- The RTSR performance hurdles were amended to be measured on the company's TSR relative to only one index, the ASX300 over the three year performance period; and
- The ROE hurdle remained unchanged from the 2019 grant. It should be noted that the minimum average annual ROE remains above the level achieved in the previous two years and the Nomination and Remuneration Committee believes this maintains the aspirational aspect of this hurdle.

FY2020 STI Grant	Relative TSR	Rights Vesting %	Notes
Performance Hurdle	S&P ASX 300		
Percentile less than	50	0%	
Percentile at	50	25%	
Percentile range	50-75	25-50%	Progressive pro-rata vesting for the range
TSR Base share price	$4.11		
	3 Year average ROE		

% ROE less than	12.0%	0%	
% ROE at	12.0%	25%	
% ROE range	12.0-14.0%	25-50%	Progressive pro-rata vesting for the range

Calculations of the company's RTSR and ROE will be determined at the end of the three year vesting period by the Board (2022) with verification performed by an external party. The annual AASB 2 accounting charge of this scheme is currently $9,504 and the maximum earnings dilution to existing shareholders is 0.15%.

5. CEO - FY2020 grant in respect of incentives foregone
Details of the grants made under this arrangement are provided in section B of this report.

D. Link between remuneration and consolidated entity performance

Consolidated entity performance and link to remuneration
Remuneration for certain individuals is directly linked to performance of the consolidated entity. Non-executive Directors receive only fixed remuneration. STI payments for FY20 were dependent on a defined earnings per share target being met. Assuming that all performance conditions are met the proportion of remuneration linked to performance and the fixed proportion is as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2020	2019	2020	2019	2020	2019
Executive Directors:						
K Munnings	50%	-	-	-	50%	-
S Channon	48%	48%	24%	24%	28%	28%
L Hale	100%	100%	-	-	-	-
Other Key Management Personnel:						
G Powers	47%	48%	24%	24%	29%	28%
R Banks	60%	52%	16%	13%	24%	35%

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

	Cash bonus paid/payable		Cash bonus forfeited	
Name	2020	2019	2020	2019
Executive Directors:				
K Munnings	-	-	-	-
S Channon	-	-	100%	100%
Other Key Management Personnel:				
G Powers	-	-	100%	100%
R Banks	-	-	100%	100%

Accordingly the actual proportion of remuneration linked to performance and the fixed proportion in FY2020 is as follows:

	Fixed remuneration		At risk - STI		At risk – LTI	
Name	2020	2019	2020	2019	2020	2019
Executive Directors:						
K Munnings	59%	-	-	-	41%	-
S Channon	100%	86%	-	-	-	14%
L Hale	100%	100%	-	-	-	-
Other Key Management Personnel:						
G Powers	93%	85%	-	-	7%	15%
R Banks	97%	88%	-	9%	3%	3%

The earnings of the consolidated entity that are considered to affect total shareholders return ('TSR') for the five years to 30 June 2020 are summarised below:

	2020 $'000	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Revenue	258,932	280,069	263,916	256,518	261,210
EBITDA	46,212	63,511	65,027	64,834	68,916
EBIT	21,195	49,883	52,531	50,799	57,736
Profit after income tax	946	28,990	32,009	30,004	34,865
NPAT attributable to Virtus shareholders	469	28,426	30,753	28,103	32,918

	2020	2019	2018	2017	2016
Share price at financial year end ($)	2.83	4.50	5.75	5.38	6.87
Total dividends paid (cents per share)	12.00	24.00	26.00	28.00	28.00
Basic earnings per share (cents per share)	0.59	35.37	38.26	35.00	41.18
Diluted earnings per share (cents per share)	0.59	34.97	37.98	34.79	40.79
EPS Growth on prior year	(98.3%)	(7.6%)	9.3%	(15.0%)	11.7%

Remuneration outcomes for FY2020
Total KMP remuneration for FY2020 increased by $549,983 (32.4%). Included in the net increase, $531,658 relates to payments in lieu of notice to the previous CEO, Sue Channon.

STI Outcomes for FY2020
Based on the financial results of the consolidated entity the Committee determined that as a consequence of the decrease in EPS, no STIs are payable to any KMP for FY20.

LTI outcomes for FY2020
In FY2020 the following performance hurdles were tested in respect of the performance rights grants dated 10 November 2016 and 10 November 2017:

- Performance rights grant dated 10 November 2017:
  From a potential total of 50% of the performance rights available, 0% of available rights vested in respect of average ROE over the three year performance period; accordingly 61,557 of the performance rights granted on 10 November 2017 did not vest and have lapsed. A further 54,252 rights were forfeited by executives who left employment. The remaining 50% of the performance rights which are to be tested against the RTSR performance hurdles on 15 September 2020 will not vest; and
- Performance rights grant dated 10 November 2016:
  From a potential total of 50% of the performance rights available, 0% of available rights vested in respect of relative TSR over the three year performance period; accordingly 49,745 of the performance rights granted on 10 November 2016 did not vest and have lapsed. The other 50% of these performance rights were tested by reference to the average ROE over the three year performance period to 30 June 2019, did not vest and accordingly lapsed.

E. Executive service agreements

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

Name:	Lyndon Hale
Title:	Executive Director and Medical Director, Victoria
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	The Executive may terminate the fertility specialist contract by giving a minimum of 3 months' notice in writing. The company may terminate by giving 3 months' notice in writing.

Name:	Kate Munnings
Title:	Chief Executive Officer
Agreement commenced:	18 March 2020
Term of agreement:	No fixed end date
Details:	The employment contract may be terminated by either the Executive or the Company by giving 6 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 6 months. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Name:	Glenn Powers
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	The Executive's contract is similar to that of Kate Munnings except the employee may terminate by giving 3 months' notice in writing or by making a payment in lieu of notice

Name:	Richard Banks
Title:	Chief Strategy Officer and European Managing Director
Agreement commenced:	29 May 2017
Term of agreement:	No fixed end date
Details:	The Executive's contract is similar to that of Glenn Powers.

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

F. Remuneration, share and option disclosures for FY2020

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2020	Salary, leave and fees $	STI $	Non-monetary and termination $	Super-annuation $	Long Service Leave $	Equity-settled $	Total $
Non-Executive Directors:							
P Macourt	53,362	-	-	5,069	-	-	58,431
S Petering	113,832	-	-	10,814	-	-	124,646
G Couttas	96,301	-	-	9,149	-	-	105,450
S Solomon	91,963	-	-	8,737	-	-	100,700
M Stanford	71,256	-	-	6,769	-	-	78,025
Executive Directors:							
K Munnings	161,056	-	-	5,874	-	116,028	282,958
S Channon	877,072	-	-	37,669	12,728	(70,553)	856,916
L Hale	160,011	-	-	6,882	-		166,893
Other Key Management Personnel:							
G Powers	360,965	-	-	21,003	(6,895)	29,631	404,704
R Banks	63,655	-	-	4,013	-	2,098	69,766
	2,049,473	-	-	115,979	5,833	77,204	2,248,489

Michael Stanford joined the Board in September 2019 so the total benefit in FY2020 does not represent a full year of fees. Kate Munnings joined the Board in March 2020 so the total benefit in FY2020 does not represent a full year of remuneration. Richard Banks assumed the role of Chief Strategy Officer in May 2020 so the total benefit in FY2020 does not represent a full year remuneration. Peter Macourt retired from the Board in November 2019 and Sue Channon stood down from the Board in

February 2020 respectively so the total benefit in FY2020 does not represent a full year of remuneration. Sue Channon's Salary leave and fees includes payments in lieu of notice of $531,658. Negative adjustments in this table reflect reductions in accruals.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2019	Salary, leave and fees $	STI $	Non-monetary and termination $	Super-annuation $	Long Service Leave $	Equity-settled $	Total $
Non-Executive Directors:							
P Macourt	135,803	-	-	12,901	-	-	148,704
P Turner	42,743	-	-	4,061	-	-	46,804
S Petering	91,001	-	-	8,645	-	-	99,646
G Couttas	91,477	-	-	8,690	-	-	100,167
S Solomon	65,525	-	-	6,225	-	-	71,750
Executive Directors:							
S Channon	504,348	-	-	20,531	10,815	89,584	625,278
L Hale	163,171	-	-	7,103	-	-	170,274
Other Key Management Personnel:							
G Powers	344,870	-	-	20,531	6,895	63,587	435,883
	1,438,938	-	-	88,687	17,710	153,171	1,698,506

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

The value of share-based payments and the employee leave represents the accounting charge or accrual and not the cash benefit received by the KMP. Long term leave benefits are the long service leave accruals calculated in accordance with state entitlements. The value of share-based payments during the financial year also includes performance rights which lapsed during the year.

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

Amounts of remuneration – cash basis
The next two tables show the actual cash payments made to KMPs in the relevant financial years:

2020	Salary, leave and fees $	STI $	Super-annuation $	Total $
Non-Executive Directors:				
P Macourt	64,696	-	6,146	70,842
S Petering	112,155	-	10,655	122,810
G Couttas	97,296	-	9,243	106,539
S Solomon	93,452	-	8,878	102,330
M Stanford	65,107	-	6,185	71,292
Executive Directors:				
K Munnings	108,113	-	4,066	112,179
S Channon	521,705	-	21,003	542,707
L Hale	161,157	-	6,991	168,148

Other Key Management Personnel:				
G Powers	355,103	-	21,003	376,106
R Banks	58,071	-	4,013	62,085
	1,636,855	-	98,183	1,735,038

	Salary, leave and fees	STI	Super-annuation	Total
2019	$	$	$	$
Non-Executive Directors:				
P Macourt	135,803	-	12,901	148,704
P Turner	42,743	-	4,061	46,804
S Petering	91,001	-	8,645	99,646
G Couttas	91,477	-	8,690	100,167
S Solomon	65,525	-	6,225	71,750
Executive Directors:				
S Channon	511,022	132,865	20,531	664,418
L Hale	156,940	-	5,327	162,267
Other Key Management Personnel:				
G Powers	355,491	146,677	20,531	522,699
	1,450,002	279,542	86,911	1,816,455

Additional disclosures relating to key management personnel:

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Kate Munnings	-	-	-	-	-
Sonia Petering	8,066	-	36,934	-	45,000
Greg Couttas	5,000	-	-	-	5,000
Lyndon Hale	823,694	2,878	-	-	826,572
Shane Solomon	-	-	-	-	-
Michael Stanford	-	-	20,000	-	20,000
Glenn Powers	114,150	-	-	-	114,150
	950,910	2,878	56,934	-	1,010,722

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

	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Kate Munnings	-	162,037	-	-	162,037
Glenn Powers	93,823	56,671	-	(33,800)	116,694
Richard Banks	41,888	29,678	-	(10,454)	61,112
	135,711	248,386	-	(44,254)	339,843

Share based compensation
Issue of shares
Lyndon Hale received 2,878 shares as part of compensation during the year ended 30 June 2020 under the terms of the Fertility Specialist Loyalty Scheme.

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per right at grant date
11 November 2016	11 November 2019	11 November 2026	$0.00	$4.52
22 November 2017	22 November 2020	22 November 2027	$0.00	$3.79
21 November 2018	21 November 2021	21 November 2028	$0.00	$2.77
20 November 2019	20 November 2022	20 November 2029	$0.00	$1.49
27 April 2020	20 November 2022	20 November 2029	$0.00	$1.49

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

The number of options or performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the years ended 30 June 2020 and 30 June 2019 are set out below:

Name	Number of rights granted during the year 2020	Number of rights granted during the year 2019	Number of rights vested during the year 2020	Number of rights vested during the year 2019
Kate Munnings	162,037	-	-	-
Glenn Powers	56,671	40,061	-	-
Richard Banks	29,678	20,980	-	-

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 2020 are set out below:

Name	Fair value of rights granted during the year $	Net market value of rights exercised during the year $	Number of rights lapsed during the year
Kate Munnings	241,435	-	-
Glenn Powers	84,440	-	33,800
Richard Banks	44,220	-	10,454

Note: Of the options lapsing 13,837 were granted on 10 November 2016 and 30,417 were granted on 11 November 2017.

G. Non-executive director remuneration

Overview of non-executive director remuneration
In accordance with best practice corporate governance, the structure of non-executive directors' and executive remuneration is different. Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent

remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of her remuneration. Non-executive directors do not receive share options or other incentives.

In FY2020 the Committee elected to increase remuneration for non-executive directors by 2%. The Chairman of the Committee is satisfied that the recommendation relating to non-executive director fees, including the fees for the Chairman, has not been subject to any undue influence by the Chairman or other independent directors.

Under the Constitution, the directors decide the total amount paid to each director as remuneration for their services as a director to the company. However, under the listing rules of the ASX ('ASX Listing Rules'), the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount approved by the shareholders. Aggregate annual directors' fees paid to non-executive directors for the financial year ended 30 June 2020 were $467,252. The maximum authorised amount payable including superannuation to all non-executive directors in total for their services approved by the shareholders at the 2015 Annual General Meeting is $600,000 per annum.

The Chair receives a base fee of $139,300. Non-executive director fees comprise a base director fee of $83,500 (including superannuation), and an additional payment to reflect a director's involvement in Board committees as follows:

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

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

This concludes the remuneration report which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise or base price	Number under option or shares to be issued
21 August 2015*	21 August 2025	$5.67	5,856
28 October 2015*	28 October 2025	$5.01	2,205
16 December 2015*	16 December 2025	$6.07	2,410
21 September 2016*	21 September 2026	$8.05	7,176
21 September 2016*	21 September 2026	$8.05	3,489
21 June 2017*	21 June 2027	$5.35	2,236
24 October 2017*	24 October 2027	$0.00	61,556
24 October 2017*	24 October 2027	$0.00	72,580
24 October 2017*	24 October 2027	$0.00	116,128
24 October 2017*	24 October 2027	$0.00	43,548
22 November 2017*	22 November 2027	$0.00	243,728
22 November 2017*	22 November 2027	$0.00	136,508
10 October 2018*	10 October 2028	$0.00	241,581
10 October 2018*	10 October 2028	$0.00	31,579
10 October 2018*	10 October 2028	$0.00	14,336
10 October 2018*	10 October 2028	$0.00	14,211
21 November 2018*	21 November 2028	$0.00	104,644
20 November 2018*	20 November 2028	$0.00	118,075
09 December 2019*	09 December 2029	$0.00	78,832
09 December 2019*	09 December 2029	$0.00	19,708
27 April 2020*	27 April 2030	$0.00	162,037
			1,482,423

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

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

Shares issued on the exercise of options

During the financial year nil ordinary shares were issued on the exercise of options. No share options were cancelled during the financial year. There were no shares of Virtus Health Limited issued on the exercise of options from 1 July 2020 up to and including the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 41 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 41 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the company who are former partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors

Sonia Petering
Chairperson

18 August 2020
Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
18 August 2020

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Liability limited by a scheme approved under Professional Standards Legislation.

Virtus Health Limited
Statement of comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue	4	258,932	280,069
Share of profits of associates accounted for using the equity method		403	510
Other income	4	15,040	8,890
Expenses			
Fertility specialists, consumables and associated costs		(70,754)	(76,170)
Employee benefits expense		(100,177)	(98,972)
Depreciation and amortisation expense	5	(25,017)	(13,628)
Impairment of goodwill	5	(24,587)	(5,800)
Impairment of brand		(388)	-
Occupancy expense		(6,026)	(19,936)
Advertising and marketing		(3,970)	(4,259)
Practice equipment expenses		(2,645)	(2,601)
Professional and consulting fees		(4,839)	(3,653)
Other expenses		(14,748)	(14,456)
Finance costs	5	(10,792)	(9,820)
Profit before income tax expense		10,432	40,174
Income tax expense	6	(9,486)	(11,184)
Profit after income tax expense for the year		946	28,990
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax	25	(862)	(1,383)
Foreign currency translation		1,394	2,561
Other comprehensive income for the year, net of tax		532	1,178
Total comprehensive income for the year		1,478	30,168
Profit for the year is attributable to:			
Non-controlling interest		477	564
Owners of Virtus Health Limited	26	469	28,426
		946	28,990
Total comprehensive income for the year is attributable to:			
Non-controlling interest		524	456
Owners of Virtus Health Limited		954	29,712
		1,478	30,168
		Cents	**Cents**
Basic earnings per share	3	0.59	35.37
Diluted earnings per share	3	0.59	34.97

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 2020

	Note	Consolidated 2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	7	38,047	18,831
Trade and other receivables	8	13,372	14,842
Inventories		1,399	1,256
Prepayments		3,149	2,876
Total current assets		55,967	37,805
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment	11	34,913	38,036
Right-of-use assets	13	89,719	-
Intangibles	10	433,694	459,576
Deferred tax	6	10,329	7,143
Other	40	306	287
Total non-current assets		570,450	506,531
Total assets		626,417	544,336
Liabilities			
Current liabilities			
Trade and other payables	9	41,538	24,856
Lease liabilities	14	10,661	-
Derivative financial instruments	19	1,148	764
Income tax	6	9,662	1,121
Provisions	16	4,396	4,642
Other financial liabilities	21	2,374	9,397
Unearned income		20,032	16,306
Total current liabilities		89,811	57,086
Non-current liabilities			
Borrowings	18	164,087	173,678
Lease liabilities	15	92,137	-
Derivative financial instruments	20	2,586	1,738
Deferred tax	6	799	1,065
Provisions	17	7,510	6,722
Other financial liabilities	22	1,284	7,750
Other payables		-	1,684
Total non-current liabilities		268,403	192,637
Total liabilities		358,214	249,723
Net assets		268,203	294,613

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

	Note	Consolidated 2020 $'000	2019 $'000
Equity			
Issued capital	23	240,785	241,890
Reserves	25	16,004	5,159
Retained profits	26	10,617	37,111
Equity attributable to the owners of Virtus Health Limited		267,406	284,160
Non-controlling interest	27	797	10,453
Total equity		268,203	294,613

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 2020

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	242,251	2,837	27,979	10,483	283,550
Profit after income tax expense for the year	-	-	28,426	564	28,990
Other comprehensive income/(loss) for the year, net of tax	-	1,286	-	(108)	1,178
Total comprehensive income for the year	-	1,286	28,426	456	30,168
Transactions with owners in their capacity as owners:					
Dividends payable by subsidiaries to non-controlling interests	-	-	-	(486)	(486)
Issue of shares pursuant to share based payment schemes (note 23)	125	(125)	-	-	-
Share based payment expense	-	1,161	-	-	1,161
Settlement of partly paid shares (note 23)	225	-	-	-	225
Purchase of treasury shares (note 23)	(711)	-	-	-	(711)
Dividends paid (note 24)	-	-	(19,294)	-	(19,294)
Balance at 30 June 2019	241,890	5,159	37,111	10,453	294,613

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2019	241,890	5,159	37,111	10,453	294,613
Adjustment on adoption of AASB 16- net of tax (note 12)	-	-	(7,775)	-	(7,775)
Balance at 1 July 2019 - restated	241,890	5,159	29,336	10,453	286,838
Profit after income tax expense for the year	-	-	469	477	946
Other comprehensive income for the year, net of tax	-	485	-	47	532
Total comprehensive income for the year	-	485	469	524	1,478
Transactions with owners in their capacity as owners:					
Put option exercise	-	9,571	-	(9,571)	-
Dividends payable by subsidiary to non-controlling interest	-	-	-	(609)	(609)
Issue of shares pursuant to share based payment schemes (note 23)	463	(463)	-	-	-
Share based payment expense	-	1,252	-	-	1,252
Settlement of partly paid shares (note 23)	416	-	-	-	416
Purchase of treasury shares (note 23)	(1,984)	-	-	-	(1,984)
Dividends (note 24)	-	-	(19,188)	-	(19,188)
Balance at 30 June 2020	240,785	16,004	10,617	797	268,203

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

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		262,820	273,095
Payments to suppliers (inclusive of GST)		(193,273)	(217,696)
		69,547	55,399
Other revenue		8,258	6,481
Interest and other finance costs paid		(6,132)	(7,793)
Lease interest paid		(3,440)	-
Income taxes paid		(1,850)	(15,797)
Net cash from operating activities	36	66,383	38,290
Cash flows from investing activities			
Payment of acquisition of non-controlling interest		(7,109)	-
Payments for property, plant and equipment and intangibles		(7,921)	(14,553)
Payment of security deposits		(19)	-
Proceeds from release of security deposits		-	243
Interest received		28	111
Associate distributions received		382	665
Net cash used in investing activities		(14,639)	(13,534)
Cash flows from financing activities			
Proceeds from partly paid shares	23	416	225
Payment of dividends		(9,647)	(19,294)
Dividend paid to non-controlling interest in subsidiaries		(609)	(486)
Repayment of borrowings		(11,000)	(7,500)
Proceeds from borrowings		1,000	1,500
Payment of finance facility fees in relation to refinancing		-	(1,628)
Repayment of lease liabilities		(10,812)	-
Purchase of treasury shares	23	(1,984)	(711)
Net cash used in financing activities		(32,636)	(27,894)
Net increase/(decrease) in cash and cash equivalents		19,108	(3,138)
Cash and cash equivalents at the beginning of the financial year		18,831	21,713
Effects of exchange rate changes on cash and cash equivalents		108	256
Cash and cash equivalents at the end of the financial year	7	38,047	18,831

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

Notes to the Financial Statements

Note 1. Notes to the financial report

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Virtus Heath Limited is a for-profit entity for the purpose of preparing the financial statements. The consolidated financial statements of the Virtus Health Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

At 30 June 2020 the consolidated entity's current liabilities exceeded its current assets by $33,844,000 (June 2019: $19,281,000).The increase in this excess of current liabilities over current assets has arisen largely as a result of the inclusion of current lease liabilities of $10,661,000 recognised for the first time as a result of adopting AASB 16 'Leases'.

The current liabilities also include unearned income of $20,032,000 as well as employee leave liabilities of $10,496,000. Whilst the leave liabilities are required to be disclosed as a current liability, a large portion of this liability is expected not to be settled within 12 months. The consolidated entity also has unused and available debt facilities of $92,348,000 which has a combination of a 3 year and 5 year maturity period to September 2021 and September 2023.

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

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

Historical cost convention

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

Parent entity information

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

Principles of consolidation

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

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

Note 1. Notes to the financial report (continued)

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

New or revised accounting standards
The Group adopted all relevant new and amended accounting standards and interpretations issued by the Australian Accounting Standards Board which are effective for annual reporting periods beginning on or after 1 July 2019. Further information on the impact of adopting AASB 16 Leases is contained in Note 12. Other adopted new and amended standards and interpretations don't have a material impact on the Group

New standards not yet applicable
Standards not yet applicable are not expected to have a material impact on the consolidated entity.

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

Judgement/Estimation	Note
Goodwill and other indefinite life intangible assets	10
Share-based payments	33

Notes to the financial reports
The notes are organised into the following sections.

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

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

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

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

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

Note 2. Operating segments

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

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

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

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

Consolidated - 2020	Healthcare Services Australia $'000	Healthcare Services International $'000	Unallocated $'000	Total $'000
Revenue				
Sales to external customers	206,902	50,318	-	257,220
Other revenue	1,684	-	-	1,684
Interest revenue	26	-	2	28
Total revenue	208,612	50,318	2	258,932
Segment EBITDA	74,971	9,072	-	84,043
Share based payment expense				(1,252)
Corporate costs				(17,388)
Transaction costs				(4)
Fair value adjustments to put liabilities and contingent consideration				5,995
Depreciation and amortisation expense				(25,017)
Impairment of goodwill				(24,587)
Impairment of brand				(388)
Foreign exchange				(207)
Net interest				(10,763)
Profit before income tax expense				10,432
Income tax expense				(9,486)
Profit after income tax expense				946
Total assets includes:				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	5,184	2,737	-	7,921

Segment EBITDA - Excluded $14.8m of lease payments reclassified to depreciation and interest charges on the adoption of AASB 16 'Leases'.

Note 2. Operating segments (continued)

Corporate costs include $760,000 of CEO transition and recruitment costs. Other significant increases from prior period includes the following expenses:

- $1,800,000 in IT infrastructure and security related enhancements
- $1,200,000 in professional consulting fees that relate to strategic review, process improvement projects and legal and consulting (COVID-19 related)
- $600,000 in termination costs

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

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

Note 3. Earnings per share

	Consolidated 2020 $'000	Consolidated 2019 $'000
Profit after income tax	946	28,990
Non-controlling interest	(477)	(564)
Profit after income tax attributable to the owners of Virtus Health Limited	469	28,426
Add: interest savings on conversion of options	-	118
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	469	28,544
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	80,080,891	80,373,944
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares that are dilutive	-	1,248,839
Weighted average number of ordinary shares used in calculating diluted earnings per share	80,080,891	81,622,783
	Cents	**Cents**
Basic earnings per share	0.59	35.37
Diluted earnings per share	0.59	34.97

In the current year the options are not dilutive and hence the DPS is the same as the EPS.

Recognition and measurement

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

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

Note 4. Revenue

	Consolidated	
	2020 $'000	2019 $'000
Revenue from contracts with customers		
Rendering of services	257,220	274,105
Other revenue		
Rent	1,684	1,743
Transfer of IP	-	4,110
Interest	28	111
	1,712	5,964
Revenue	258,932	280,069

	Consolidated	
	2020 $'000	2019 $'000
Other income		
Fair value gain on put liabilities	1,500	4,484
Fair value gain on contingent consideration	4,495	3,778
Other income	1,307	628
Government grants	7,738	-
Other income	15,040	8,890

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

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

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

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

Government grants: The receipts from the Federal Government’s JobKeeper Program and similar government programs in other countries are accounted for as government grants and have been presented as other income.

Note 5. Expenses

	Consolidated	
	2020 $'000	2019 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	4,083	3,492
Right-of-use assets	11,826	-
Furniture and fittings	472	486
Office equipment	2,088	2,588
Medical equipment	3,459	3,406
Total depreciation	21,928	9,972
Amortisation		
Software	1,954	2,174
Brand names	1,135	1,482
Total amortisation	3,089	3,656
Total depreciation and amortisation	25,017	13,628
Impairment		
Impairment of goodwill	24,587	5,800
Impairment of brand	388	-
Total impairment	24,975	5,800
Finance costs		
Interest and finance charges paid/payable on borrowings	6,382	7,793
Interest on lease liabilities	3,440	-
Interest on other financial liability - non-cash interest	559	1,464
Amortisation of bank facility fees	411	563
Finance costs expensed	10,792	9,820
Superannuation expense		
Defined contribution superannuation expense	6,471	6,606
Research costs		
Research costs	2,038	2,200
Share-based payments expense		
Share-based payments expense - fertility specialists	1,177	1,009
Share-based payments expense - employee benefits	75	152
Total share-based payments expense	1,252	1,161

Note 6. Income tax

	Consolidated	
	2020 $'000	2019 $'000
Income tax expense		
Current tax	9,814	12,580
Deferred tax - origination and reversal of temporary differences	(884)	(1,234)
Adjustment recognised for prior periods	323	(162)
Write off of tax losses	233	-
Aggregate income tax expense	9,486	11,184
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(725)	(1,082)
Decrease in deferred tax liabilities	(159)	(152)
Deferred tax - origination and reversal of temporary differences	(884)	(1,234)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	10,432	40,174
Tax at the statutory tax rate of 30%	3,130	12,052
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	7,376	1,740
Impairment of brand	116	-
Fair value gain on Put Liabilities and Contingent Consideration	(1,560)	(2,421)
Other	441	861
	9,503	12,232
Difference in overseas tax rates	(573)	(886)
Losses written off	233	-
Adjustment recognised for prior periods	323	(162)
Income tax expense	9,486	11,184

	Consolidated	
	2020 $'000	2019 $'000
Amounts credited directly to equity		
Deferred tax assets	(369)	(593)
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	810	1,397
Potential tax benefit at 17%	138	237

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

Note 6. Income tax (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	3,413	3,337
Right-of-use assets	3,673	-
Tax losses	138	283
Intangible assets	(144)	(165)
Other	2,129	2,937
	9,209	6,392
Amounts recognised in equity:		
Other	1,120	751
Deferred tax asset	10,329	7,143
Amount expected to be recovered within 12 months	2,999	3,154
Amount expected to be recovered after more than 12 months	7,330	3,989
	10,329	7,143
Movements:		
Opening balance	7,143	5,468
Credited to profit or loss	725	1,082
Credited to equity	369	593
Opening adjustment - on transition of AASB 16 'Leases'	2,092	-
Closing balance	10,329	7,143

Note 6. Income tax (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Right-of-use assets	(125)	-
Intangible assets	920	1,079
Other	4	(14)
Deferred tax liability	799	1,065
Amount expected to be settled within 12 months	153	151
Amount expected to be settled after more than 12 months	646	914
	799	1,065
Movements:		
Opening balance	1,065	866
Credited to profit or loss	(159)	(152)
Additions through business combinations	-	351
Opening adjustment - on transition of AASB 16 'Leases'	(107)	-
Closing balance	799	1,065

	Consolidated 2020 $'000	Consolidated 2019 $'000
Provision for income tax		
Provision for income tax	9,662	1,121

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

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

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

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

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

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

Note 6. Income tax (continued)

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

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

Note 7. Current assets - cash and cash equivalents

	Consolidated	
	2020 $'000	2019 $'000
Cash at bank and on hand	38,047	18,831

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

Note 8. Current assets - trade and other receivables

	Consolidated	
	2020 $'000	2019 $'000
Trade receivables	11,172	12,552
Less: Allowance for expected credit losses	(2,226)	(1,859)
	8,946	10,693
Other receivables	4,426	4,149
	13,372	14,842

Allowance for expected credit losses
The consolidated entity has recognised an expense of $466,000 (2019: $546,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2020.

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

	Consolidated	
	2020 $'000	2019 $'000
3 to 6 months overdue	592	300
Over 6 months overdue	1,634	1,559
	2,226	1,859

The nominal value of the impaired receivables is $2,818,621 (2019: $2,159,621).

Note 8. Current assets - trade and other receivables (continued)

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

	Consolidated	
	2020 $'000	2019 $'000
Opening balance	1,859	1,470
Additional provisions recognised	466	546
Receivables written off during the year as uncollectable	(99)	(157)
Closing balance	2,226	1,859

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

Virtus has adopted AASB 9 Financial instruments, which requires the use of an expected credit loss ('ECL') model. The ECL model requires Virtus to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Accordingly, Virtus allowance for doubtful debts calculation applies the ECL model and takes into consideration the likely level of bad debts (based on historical experience) as well as any known 'at risk' receivables. Bad debts are written off against the allowance account and any other changes in the allowance account is recognised in the statement of financial performance. Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 9. Current liabilities - trade and other payables

	Consolidated	
	2020 $'000	2019 $'000
Trade payables	12,343	8,395
Dividends payable	9,541	-
Other payables	19,654	16,461
	41,538	24,856

Refer to note 28 for further information on financial risk management.

Dividend payable represents the deferred interim dividend that was originally scheduled to be paid in April 2020.

Recognition and measurement

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

Note 10. Non-current assets - intangibles

	Consolidated 2020 $'000	Consolidated 2019 $'000
Goodwill - at cost	424,791	448,198
Software - at cost	23,981	23,100
Less: Accumulated amortisation	(20,617)	(18,728)
	3,364	4,372
Brand names - at cost	19,549	19,493
Less: Accumulated amortisation	(13,622)	(12,487)
Less: Impairment	(388)	-
	5,539	7,006
	433,694	459,576

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

Consolidated	Goodwill $'000	Software $'000	Brand names $'000	Total $'000
Balance at 1 July 2018	453,437	5,500	6,499	465,436
Additions	-	1,108	-	1,108
Disposals	-	(83)	-	(83)
Exchange differences	2,592	21	169	2,782
Impairment	(5,800)	-	-	(5,800)
Transfers	(2,031)	-	1,820	(211)
Amortisation expense	-	(2,174)	(1,482)	(3,656)
Balance at 30 June 2019	448,198	4,372	7,006	459,576
Additions	-	929	-	929
Exchange differences	1,180	17	56	1,253
Impairment	(24,587)	-	(388)	(24,975)
Amortisation expense	-	(1,954)	(1,135)	(3,089)
Balance at 30 June 2020	424,791	3,364	5,539	433,694

Recognition and measurement

Intangible assets
Intangible assets including brand names acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment.

Goodwill
Goodwill arises on the acquisition of a business and represents the excess of the cost of acquisition over the fair value of the identified assets and liabilities acquired. Goodwill is not amortised, but is tested for impairment annually and whenever there is an indicator of impairment. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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

Note 10. Non-current assets - intangibles (continued)

Brand names
Brand names are amortised over a defined useful life of 10-15 years and subsequently carried net of accumulated amortisation.

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and it's 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.

Critical accounting estimates- impairment tests of goodwill
Goodwill is allocated to the group's cash generating units ('CGUs') identified according to operating segment:

	Consolidated	
	2020	**2019**
	$'000	**$'000**
New South Wales	111,807	111,807
Victoria	122,294	122,294
Queensland	66,626	66,626
Tasmania	-	14,661
Australian Diagnostics	26,721	26,719
International	97,343	106,091
	424,791	448,198

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

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

	Terminal Growth Rate		Pre-tax discount rate	
	2020	2019	2020	2019
New South Wales	2.5%	2.5%	10.7%	10.6%
Victoria	2.5%	2.5%	10.7%	10.6%
Queensland	2.5%	2.5%	10.7%	10.6%
Tasmania	1.0%	1.0%	11.6%	10.6%
International	2.0%	2.5%	10.5%	9.3%
Australia Diagnostics	2.5%	2.0%	10.7%	10.6%

Note 10. Non-current assets - intangibles (continued)

Tasmania:
In H1 of FY20, the Tasmanian business was restructured and streamlined in response to changes that had taken place in the competitive landscape in that State. The consolidated entity as part of its budgeting process for the FY2021 financial year has undertaken a detailed reviewed of the Tasmanian business. Based on this review and in light of the further impact on the economic environment of COVID-19 related uncertainties, an impairment charge of $15,049,000 was recorded in the statement of comprehensive income for the year ended 30 June 2020. This impairment charge has been allocated to goodwill ($14,661,000) and other intangible assets ($388,000). This impairment charge has fully impaired all intangible assets previously recognised in respect of the Tasmanian CGU.

If there are any further unfavourable changes in the assumptions on which the recoverable amount of Tasmania CGU is based, this would result in a further impairment charge.

Queensland:
Queensland remains a price sensitive market and the recoverable amount of this business remains sensitive to annual projected growth rates and discount rates used as disclosed above. These sensitivities are further exacerbated as a result of the economic uncertainty resulting from COVID-19. Management believes that its review of pricing in conjunction with targeted post COVID-19 growth initiatives and its efforts to manage costs will enable the business to achieve its revenue and growth targets for FY2021 and beyond. Should the business be unable to achieve its forecast EBITDA, the carrying amount of its goodwill may become impaired. The key sensitivities for the Queensland cash-generating unit are as follows:

- If forecast revenue decreases by 2.0%, an impairment charge of $2,952,000 would need to be recognised, with all other assumptions remaining constant;
- If the discount rate increases by 0.5%, an impairment charge of $1,445,000 would need to be recognised, with all other assumptions remaining constant;
- If the terminal growth rate decreases by 1.0%, an impairment charge of $4,280,000 would need to be recognised, with all other assumptions remaining constant.

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

International
International is a group of CGUs that includes goodwill allocated to our operations in Denmark, Ireland and the UK.

Denmark:
Following a detailed review of future cash flow projections of the International CGUs, an impairment charge of $9,925,000 was recorded in the statement of comprehensive income for the year ended 30 June 2020. This impairment charge was allocated to goodwill in respect of the Danish clinics and is primarily as a result of the uncertainties associated with COVID-19 and certain earnout related targets set at the time of acquisition not being achieved. In addition to the impact of COVID-19, the achievement of these earnout targets was impacted by:

- the easing of regulatory restrictions in neighbouring countries that had a negative impact on inbound activity levels into Denmark; and
- delays in doctor recruitment and business development activities

If there are any further unfavourable changes in the assumptions on which the recoverable amount of the Danish CGUs is based, this would result in a further impairment charge.

The key sensitivities for the Danish cash-generating unit are as follows:

- If forecast revenue decreases by 2.0%, a further impairment charge of $2,681,000 would need to be recognised, with all other assumptions remaining constant;
- If the discount rate increases by 0.5%, a further impairment charge of $3,267,000 would need to be recognised, with all other assumptions remaining constant;
- If the terminal growth rate decreases by 0.5%, a further impairment charge of $2,428,000 would need to be recognised, with all other assumptions remaining constant.

Note 10. Non-current assets - intangibles (continued)

Ireland and UK:
The economic uncertainties and disruption arising as a result of COVID-19 in Ireland and the UK have increased the sensitivity to annual projected growth rates and discount rates used as disclosed above. Management believes that its post COVID-19 strategic plans and growth initiatives will help these businesses achieve their revenue and EBITDA growth targets for FY2021 and beyond. Should these future growth estimates not be achieved, the carrying value of goodwill in relation to Ireland and UK may become impaired. The key sensitivities for the UK and Irish cash-generating units are as follows:

- If forecast revenue decreases by 2.0% an impairment charge of $$4,040,000 and $736,000 would need to be recognised for Irish and UK CGUs, respectively, with all other assumptions remaining constant;
- If the discount rate increases by 0.5%, an impairment charge of $1,703,000 and $293,000 would need to be recognised for Irish and UK CGUs, respectively, with all other assumptions remaining constant;
- If the terminal growth rate decreases by 0.5% an impairment charge of $701,000 and $111,000 would need to be recognised for Irish and UK CGUs, respectively, with all other assumptions remaining constant.

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

Note 11. Non-current assets - property, plant and equipment

	Consolidated	
	2020 $'000	2019 $'000
Leasehold improvements - at cost	53,102	51,941
Less: Accumulated depreciation	(34,354)	(30,310)
	18,748	21,631
Furniture and fittings - at cost	4,067	3,926
Less: Accumulated depreciation	(2,980)	(2,505)
	1,087	1,421
Office equipment - at cost	21,744	19,865
Less: Accumulated depreciation	(16,715)	(14,751)
	5,029	5,114
Medical equipment - at cost	39,264	35,660
Less: Accumulated depreciation	(29,215)	(25,790)
	10,049	9,870
	34,913	38,036

Note 11. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

Consolidated	Leasehold improvements $'000	Furniture and fittings $'000	Office equipment $'000	Medical equipment $'000	Total $'000
Balance at 1 July 2018	19,288	1,503	5,444	8,242	34,477
Additions	5,833	394	2,237	4,981	13,445
Disposals	(51)	-	-	(1)	(52)
Exchange differences	53	11	21	53	138
Depreciation expense	(3,492)	(486)	(2,588)	(3,406)	(9,972)
Balance at 30 June 2019	21,631	1,422	5,114	9,869	38,036
Additions	1,195	133	2,000	3,663	6,991
Exchange differences	5	4	3	(24)	(12)
Depreciation expense	(4,083)	(472)	(2,088)	(3,459)	(10,102)
Balance at 30 June 2020	18,748	1,087	5,029	10,049	34,913

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

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

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

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

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

Note 12. Leases

The consolidated entity leases various offices and medical centres, typically are for a period of 2 to 10 years with, in some cases, options to extend. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The consolidated entity has adopted AASB 16 with effect from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge in respect of the right-of-use assets and an interest expense on the recognised lease liabilities. In the earlier periods of a lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating lease expense is now replaced by interest expense and depreciation expense in profit or loss. For classification within the statement of cash flows, the interest portion of the lease payments is disclosed in operating activities and the principal portion of the lease payments is separately disclosed in financing activities.

Note 12. Leases (continued)

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Leases Liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Extension and termination options are included in most of the property leases. All extension and termination options held are exercisable only by Virtus and not by the respective lessor. In determining the lease term, management considered all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of Virtus as lessee.

(i) Impact of adoption on 1 July 2019
On adoption of AASB 16, the consolidated entity recognised lease liabilities and right-of-use assets in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the consolidated entities incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.5%. Right-of-use assets are calculated at the commencement date of a lease. In applying AASB 16 for the first time, the consolidated entity has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-to-use asset at the date of initial application.
- Relying on previous assessments as to whether a lease is onerous.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.
The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

Note 12. Leases (continued)

	Consolidated 1 July 2019 $'000
Operating lease commitments as at 1 July 2019 (AASB 117)	(85,642)
Short term & low value leases (AASB 16)	88
New leases and option period increases	(37,541)
Discounting using the weighted average incremental borrowing rate of 3.5% (AASB 16)	19,500
Lease Liability recognised as at 1 July 2019 (AASB 16)	(103,595)
Net Right-of-use assets - Properties (AASB 16)	91,468
Write back of straight lining provision	2,153
Tax effect on the above adjustments	2,199
Reduction in opening retained profits as at 1 July 2019	(7,775)

(ii) Amounts recognised in the statement of financial position
The balance sheet shows the following amounts relating to leases:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Right-of-use assets		
Properties	89,719	-
Lease liabilities		
Current	(10,661)	-
Non-current	(92,137)	-
Total lease liabilities	(102,798)	-

(iii) Amounts recognised in the statement of financial performance
The statement of financial performance contains the following amounts relating to leases:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Depreciation charge for right-of-use assets	11,826	-
Interest expense (included in finance costs)	3,440	-
	15,266	-

The impact on the consolidated entity 's statements of financial performance is set out below:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Increase in earnings before interest tax, depreciation and amortisation (EBITDA)	14,856	-
Increase in earnings before interest and tax (EBIT)	3,030	-
Decrease in net profit before tax (NPBT)	(410)	-

The statement of cash flows for 30 June 2020 includes cash outflows for lease payments of $10,812,000 and lease interest of $3,440,000 within ‘cash flows from financing activities’. The cash flows for the year ended 30 June 2019 have not been restated, with the cash outflow associated with lease payments included in ‘payments to suppliers and employees’ within ‘cash flows from operating activities’.

Note 13. Non-current assets - right-of-use assets

	Consolidated	
	2020 $'000	2019 $'000
Right-of-use assets	101,235	-
Less: Accumulated depreciation	(11,516)	-
	89,719	-

Right-of-use assets have arisen as a result of the adoption of AASB 16 'Leases', refer to note 12.

Note 14. Current liabilities - lease liabilities

	Consolidated	
	2020 $'000	2019 $'000
Lease liabilities	10,661	-

Refer to note 28 for further information on financial risk management.

Lease liabilities have arisen as a result of the adoption of AASB 16 'Leases', refer to note 12.

Note 15. Non-current liabilities - lease liabilities

	Consolidated	
	2020 $'000	2019 $'000
Lease liabilities	92,137	-

Refer to note 28 for further information on financial risk management.

Lease liabilities have arisen as a result of the adoption of AASB 16 'Leases', refer to note 12.

Note 16. Current liabilities - provisions

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits - long service leave	4,396	4,642

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.

Note 16. Current liabilities - provisions (continued)

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Long service leave obligation expected to be settled after 12 months	3,956	4,178

Accounting policy for employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave where there is no unconditional right to defer settlement of the liability are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities for wages and salaries (including non-monetary benefits and annual leave) is included in Note 9 Current liabilities - trade and other payables.

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

Note 17. Non-current liabilities - provisions

	Consolidated 2020 $'000	Consolidated 2019 $'000
Employee benefits - long service leave	1,635	1,424
Lease make good	5,875	5,298
	7,510	6,722

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

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

Consolidated - 2020	Lease make good $'000
Carrying amount at the start of the year	5,298
Additional provisions recognised	377
Provision utilised	(17)
Exchange differences	7
Unwinding of discount	210
Carrying amount at the end of the year	5,875

Note 17. Non-current liabilities - provisions (continued)

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

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

Note 18. Non-current liabilities - borrowings

	Consolidated	
	2020 $'000	2019 $'000
Bank loans (net of borrowing costs)	164,087	173,678

Refer to note 28 for further information on financial risk management.

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

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

	Consolidated	
	2020 $'000	2019 $'000
Cash and cash equivalents	27,492	7,992
Receivables	10,012	7,313
Inventories	812	790
Right- of-use assets	65,264	-
Other current assets	2,439	2,245
Investments	81,465	81,465
Plant and equipment	26,132	29,761
Intangible assets (excluding goodwill)	2,834	3,804
Deferred tax assets	9,326	6,456
Other financial assets	66	64
	225,842	139,890

Note 18. Non-current liabilities - borrowings (continued)

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Total facilities		
Bank loans (excluding capitalised borrowing costs)	252,660	252,403
Working capital facilities	10,000	10,000
	262,660	262,403
Used at the reporting date		
Bank loans (excluding capitalised borrowing costs)	165,000	175,000
Working capital facilities	5,312	5,001
	170,312	180,001
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	87,660	77,403
Working capital facilities	4,688	4,999
	92,348	82,402

Borrowings-Financial Arrangements
The consolidated entity has total commitments of $262,660,000 through its syndicated debt facilities. At 30 June 2020, total facilities drawn were $165,000,000 in borrowings and $5,311,741 (FY19: $5,001,000) in guarantees. Unused and available facilities amounted to $92,348,000. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2020. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 2 years (30 June 2019: 3 year).

$92,660,000 of the facility expires in September 2021, while the remaining $170,000,000 expires in September 2023.

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

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

Note 19. Current liabilities - derivative financial instruments

	Consolidated 2020 $'000	Consolidated 2019 $'000
Interest rate swap contracts - cash flow hedges	1,148	764

Refer to note 28 for further information on financial risk management.

Refer to note 29 for further information on fair value measurement.

Note 19. Current liabilities - derivative financial instruments (continued)

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

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

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

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

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

Note 20. Non-current liabilities - derivative financial instruments

	Consolidated	
	2020 $'000	2019 $'000
Interest rate swap contracts - cash flow hedges	2,586	1,738

Refer to note 28 for further information on financial risk management.

Refer to note 29 for further information on fair value measurement.

Note 21. Current liabilities - other financial liabilities

	Consolidated	
	2020 $'000	2019 $'000
Other financial liability	1,546	8,582
Loan note	828	815
	2,374	9,397

The other current financial liabilities represent the fair value of the contingent consideration arising from the acquisition of Fertilitesklinikken Trianglen Aps of $1,546,000. This liability is expected to be settled within the next 12 months.

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

Note 22. Non-current liabilities - Other financial liabilities

	Consolidated 2020 $'000	Consolidated 2019 $'000
Other financial liabilities	-	5,656
Loan note	1,284	2,094
	1,284	7,750

Refer to note 29 for other information on financial instruments- including table explaining the movements on other financial liabilities.

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

Note 23. Equity - issued capital

	Consolidated 2020 Shares	Consolidated 2019 Shares	Consolidated 2020 $'000	Consolidated 2019 $'000
Ordinary shares - fully paid	80,389,938	80,389,938	242,892	242,476
Treasury Shares	(470,141)	(146,768)	(2,107)	(586)
	79,919,797	80,243,170	240,785	241,890

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	80,389,938		242,251
Settlement of partly paid shares	12 October 2018	-	$0.00	115
Settlement of partly paid shares	18 April 2019	-	$0.00	110
Balance	30 June 2019	80,389,938		242,476
Settlement of partly paid shares	25 October 2019	-	$0.00	110
Settlement of partly paid shares	30 March 2020	-	$0.00	306
Balance	30 June 2020	80,389,938		242,892

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

All shares on issue are fully paid apart from 1,620,741 shares which are partly paid. The 1,620,741 shares were issued at $4.71 per share and are unpaid up to the extent of $2.58 per share at 30 June 2020

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

Note 23. Equity - issued capital (continued)

	Number of Shares	$
On market acquisitions during the period	177,394	711,029
Distribution of shares during the period to fertility specialists	(30,626)	(124,901)
Balance at 1 July 2019	146,768	586,128
On market acquisitions during the period	439,462	1,984,187
Distribution of shares during the period to fertility specialists	(116,089)	(463,610)
Balance at 30 June 2020	470,141	2,106,705

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

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

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

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

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

Recognition and measurement
Ordinary shares are classified as equity.

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

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

Note 24. Equity - dividends

Dividend type	Cents per share	Franking	$'000	Date paid
2018 Final	12.0	100%	9,647	12/10/2018
2019 Interim	12.0	100%	9,647	18/04/2019
2019 Final	12.0	100%	9,647	04/10/2019

The payment of the interim dividend in respect of the 30 June 2020 financial year of $9,541,000 scheduled for 16 April 2020 was deferred until 30 November 2020 subject to trading conditions and is currently recognised in other payables.

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

Note 24. Equity - dividends (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Franking account balance	29,672	24,008

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

Note 25. Equity - reserves

	Consolidated 2020 $'000	Consolidated 2019 $'000
Foreign currency translation reserve	7,565	6,218
Cash flow hedges reserve	(2,617)	(1,755)
Share-based payments reserve	15,293	14,504
Business combination reserve	(4,237)	(13,808)
	16,004	5,159

Nature and purpose of reserves
- Foreign currency translation reserve: this reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.
- Cash flow hedge reserve: the reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that are determined to be an effective hedge.
- Share-based payments reserve: the reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.
- Business combination reserve: the reserve is used to recognise the impact of the non-controlling interest put options relating to the Sims Clinic Limited and Tas IVF Pty Limited acquisitions. The reduction is for the exercise of all put options in relation to both these entities.

Note 25. Equity - reserves (continued)

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

Consolidated	Foreign currency translation reserve $'000	Cash flow hedges reserve $'000	Share-based payments reserve $'000	Business combination reserve $'000	Total $'000
Balance at 1 July 2018	3,549	(372)	13,468	(13,808)	2,837
Revaluation - net	-	(1,383)	-	-	(1,383)
Foreign currency translation	2,669	-	-	-	2,669
Option expense	-	-	1,161	-	1,161
Issue of shares pursuant to share based payment schemes	-	-	(125)	-	(125)
Balance at 30 June 2019	6,218	(1,755)	14,504	(13,808)	5,159
Revaluation - net	-	(862)	-	-	(862)
Foreign currency translation	1,347	-	-	-	1,347
Option expense	-	-	1,252	-	1,252
Put option exercise	-	-	-	9,571	9,571
Issue of shares pursuant to share based payment schemes	-	-	(463)	-	(463)
Balance at 30 June 2020	7,565	(2,617)	15,293	(4,237)	16,004

Note 26. Equity - retained profits

	Consolidated 2020 $'000	Consolidated 2019 $'000
Retained profits at the beginning of the financial year	37,111	27,979
Profit after income tax expense for the year	469	28,426
Dividends (note 24)	(19,188)	(19,294)
Adjustment on adoption of AASB 16- net of tax (note 12)	(7,775)	-
Retained profits at the end of the financial year	10,617	37,111

Note 27. Equity - non-controlling interest

	Consolidated 2020 $'000	Consolidated 2019 $'000
Issued capital	1,842	1,842
Reserves	(4,207)	5,315
Retained profits	3,162	3,296
	797	10,453

Note 28. Financial risk management

Financial risk management objectives
The group has exposure to the following risks in the course of its activities:
- Market risk;
- Credit risk; and
- Liquidity risk.

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

The consolidated entity's financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. Derivative financial instruments such as forward foreign exchange contracts are used to hedge certain risk exposures.

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

Market risk

Foreign currency risk
The group operates internationally and is exposed to foreign currency risk from various currency exposures, primarily with respect to the Euro, GBP, Singapore dollars and Danish Krone.

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

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

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

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

	2020		2019	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loans	2.76%	165,000	3.46%	175,000
Interest rate swaps (notional principal amount)	-	(60,000)	-	(110,000)
Net exposure to cash flow interest rate risk		105,000		65,000

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

Note 28. Financial risk management (continued)

	Basis points increase			Basis points decrease		
Consolidated - 2020	Basis points change	Profit after tax $'000	Equity $'000	Basis points change	Profit after tax $'000	Equity $'000
Bank loans	100	(735)	(735)	(100)	735	735

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

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

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

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

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

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

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

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Bank loans (excluding capitalised borrowing costs)	88,573	78,725
Working capital facilities	4,688	4,999
	93,261	83,724

The consolidated entity has borrowing facilities totalling $262,660,000. $92,660,000 of the facility expires in September 2021,whilst the remaining $170,000,000 expires in September 2023

Note 28. Financial risk management (continued)

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

Consolidated - 2020	Weighted average interest rate %	1 year or less $'000	Between 1 and less than 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	12,343	-	-	-	12,343
Other payables	-	29,195	-	-	-	29,195
Interest-bearing - variable						
Bank loans	2.76%	4,550	53,864	129,419	-	187,833
Lease liabilities	-	13,981	13,934	36,958	56,568	121,441
Other financial liabilities	2.76%	1,546	-	-	-	1,546
Loan note	4.00%	903	870	422	-	2,195
Total non-derivatives		62,518	68,668	166,799	56,568	354,553
Derivatives						
Derivative financial instruments	-	1,148	1,148	1,438	-	3,734
Total derivatives		1,148	1,148	1,438	-	3,734

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

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 29. Fair value measurement

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

Consolidated - 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	3,734	-	3,734
Other financial liabilities	-	-	1,546	1,546
Total liabilities	-	3,734	1,546	5,280

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

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.

Note 29. Fair value measurement (continued)

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

Consolidated	Contingent Consideration $'000	Put Option $'000	Total $'000
Balance at 1 July 2018	8,817	12,158	20,975
Interest on unwinding	363	689	1,052
Foreign exchange impact	254	219	473
Fair value adjustment	(3,778)	(4,484)	(8,262)
Balance at 30 June 2019	5,656	8,582	14,238
Foreign exchange impact	141	27	168
Amounts paid in exercise of put option	-	(7,109)	(7,109)
Interest on unwinding	244	-	244
Fair value adjustment	(4,495)	(1,500)	(5,995)
Balance at 30 June 2020	1,546	-	1,546

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

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

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

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

Note 30. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	2019 %
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%
City East Specialist Day Hospital Trust	Australia	100.00%	100.00%
Virtus Health Singapore Pte Ltd	Singapore	100.00%	100.00%
Virtus Health Europe Limited	United Kingdom	100.00%	100.00%
Virtus Health Ireland Limited	Ireland	100.00%	100.00%
SIMS Clinic Limited	Ireland	100.00%	85.00%
Xentra Pharm Limited	Ireland	100.00%	85.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	100.00%	85.00%
TAS IVF Pty Limited	Australia	100.00%	85.00%
Virtus Andrology Laboratory Singapore Pte. Ltd	Singapore	70.00%	70.00%
Virtus Fertility Centre Singapore Pte Limited	Singapore	70.00%	70.00%
Virtus Health Specialist Diagnostics Pty Limited	Australia	100.00%	100.00%
Lab Services Pty Limited	Australia	100.00%	100.00%
Lab Services Unit Trust	Australia	100.00%	100.00%
Aagaard Fertilitetsklinik Aps	Denmark	100.00%	100.00%
Complete Fertility Limited	United Kingdom	90.00%	90.00%
Fertilitesklinikken Trianglen Aps	Denmark	100.00%	100.00%
Virtus Innovation Pty Ltd	Australia	100.00%	100.00%
Virtus Health Limited Employee Share Trust	Australia	100.00%	100.00%
Hobart Specialist Day Hospital Pty Limited	Australia	100.00%	85.00%
Alexandria Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
Skejby Cryobank Aps	Denmark	100.00%	100.00%

Note 30. 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:

			Parent		Non-controlling interest	
Name	Principal place of business / Country of incorporation	Principal activities	Ownership interest 2020 %	Ownership interest 2019 %	Ownership interest 2020 %	Ownership interest 2019 %
Virtus Fertility Centre Singapore Pte Limited and its controlled entities	Singapore	provision of healthcare services	70.00%	70.00%	30.00%	30.00%
Complete Fertility Limited	United Kingdom	provision of healthcare services	90.00%	90.00%	10.00%	10.00%

Note 31. Deed of cross guarantee

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

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

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

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

Note 31. Deed of cross guarantee (continued)

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

Statement of comprehensive income	2020 $'000	2019 $'000
Revenue	118,989	126,083
Share of profits of associates accounted for using the equity method	403	510
Trust distributions received	23,430	22,561
Other income	7,079	5,678
Fertility specialists, consumables and associated costs	(29,965)	(32,424)
Employee benefits expense	(52,448)	(50,303)
Depreciation and amortisation expense	(13,634)	(7,418)
Occupancy expense	(796)	(8,930)
Advertising and marketing	(2,944)	(3,270)
Practice equipment expenses	(1,050)	(1,133)
Professional and consulting fees	(2,626)	(1,422)
Other expenses	(7,162)	(6,541)
Finance costs	(8,951)	(8,763)
Impairment charge	(15,049)	(5,800)
Profit before income tax expense	15,276	28,828
Income tax expense	(7,291)	(10,624)
Profit after income tax expense	7,985	18,204
Other comprehensive loss		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(862)	(1,383)
Other comprehensive loss for the year, net of tax	(862)	(1,383)
Total comprehensive income for the year	7,123	16,821

Equity - retained profits	2020 $'000	2019 $'000
Retained profits at the beginning of the financial year	28,418	29,508
Profit after income tax expense	7,985	18,204
Dividends paid	(19,188)	(19,294)
Adjustment on adoption of AASB 16- net of tax	(5,627)	-
Retained profits at the end of the financial year	11,588	28,418

Note 31. Deed of cross guarantee (continued)

Statement of financial position	2020 $'000	2019 $'000
Current assets		
Cash and cash equivalents	21,151	4,387
Trade and other receivables	20,124	17,809
Prepayments	2,244	1,977
	43,519	24,173
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	200,596	215,315
Property, plant and equipment	16,294	18,993
Right-of-use assets	51,720	-
Intangibles	203,990	204,961
Deferred tax	7,397	5,275
Other	153	217
	481,639	446,250
Total assets	525,158	470,423
Current liabilities		
Trade and other payables	20,811	6,224
Lease liabilities	6,065	-
Derivative financial instruments	1,148	765
Income tax	9,562	2,008
Provisions	2,765	2,866
Unearned income	6,926	5,582
	47,277	17,445
Non-current liabilities		
Borrowings	164,161	173,803
Lease liabilities	54,583	-
Derivative financial instruments	2,586	1,738
Provisions	3,699	3,282
Other financial liabilities	-	1,451
	225,029	180,274
Total liabilities	272,306	197,719
Net assets	252,852	272,704
Equity		
Issued capital	240,786	241,890
Reserves	478	2,396
Retained profits	11,588	28,418
Total equity	252,852	272,704

Note 32. Parent entity information

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

Statement of comprehensive income

	Parent 2020 $'000	Parent 2019 $'000
Profit after income tax	1,149	30,283
Total comprehensive income	1,149	30,283

Statement of financial position

	Parent 2020 $'000	Parent 2019 $'000
Total current assets	55,131	41,557
Total assets	299,973	299,712
Total current liabilities	23,173	3,574
Total liabilities	23,442	3,647
Net assets	276,531	296,065
Equity		
Issued capital	240,785	241,890
Share-based payments reserve	7,124	7,513
Retained profits	28,622	46,662
Total equity	276,531	296,065

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 2020 and 30 June 2019 apart from being a party to the deed of cross guarantee as detailed in note 31.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Note 33. 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 relating to Virtus Health Executives.

Note 33. Share-based payments (continued)

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

2020

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
03/10/2014	03/10/2024	$8.57	45,415	-	-	(45,415)	-
13/05/2015	13/05/2025	$7.16	1,536	-	-	(1,536)	-
13/05/2015	13/05/2025	$7.53	617	-	-	(617)	-
13/05/2015	13/05/2025	$7.94	712	-	-	(712)	-
13/05/2015	13/05/2025	$7.94	329	-	-	(329)	-
21/08/2015	21/08/2025	$5.67	7,434	-	-	(1,578)	5,856
28/10/2015	28/10/2025	$5.01	8,231	-	-	(6,026)	2,205
16/12/2015	16/12/2025	$6.17	4,236	-	-	(1,826)	2,410
21/09/2016	21/09/2026	$8.05	8,616	-	-	(1,440)	7,176
21/09/2016	21/09/2026	$8.05	3,969	-	-	(480)	3,489
11/11/2016	11/11/2026	$0.00	49,745	-	-	(49,745)	-
21/06/2017	21/06/2027	$5.35	3,129	-	-	(893)	2,236
24/10/2017	24/10/2027	$0.00	177,365	-	-	(115,809)	61,556
24/10/2017	24/10/2027	$0.00	72,580	-	-	-	72,580
24/10/2017	24/10/2027	$0.00	116,128	-	-	-	116,128
24/10/2017	24/10/2027	$0.00	43,548	-	-	-	43,548
22/11/2017	22/11/2027	$0.00	243,728	-	-	-	243,728
22/11/2017	22/11/2027	$0.00	136,508	-	-	-	136,508
10/10/2018	10/10/2028	$0.00	241,581	-	-	-	241,581
10/10/2018	10/10/2028	$0.00	31,579	-	-	-	31,579
10/10/2018	10/10/2028	$0.00	14,336	-	-	-	14,336
10/10/2018	10/10/2028	$0.00	14,211	-	-	-	14,211
21/11/2018	21/11/2028	$0.00	177,740	-	-	(73,096)	104,644
20/11/2019	20/11/2029	$0.00	-	146,506	-	(28,431)	118,075
09/12/2019	09/12/2029	$0.00	-	78,832	-	-	78,832
09/12/2019	09/12/2029	$0.00	-	19,708	-	-	19,708
27/04/2020	27/04/2030	$0.00	-	162,037	-	-	162,037
			1,403,273	407,083	-	(327,933)	1,482,423

The weighted average exercise price is $0.11 (2019: $0.48).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 8.2 years (2019: 8.5 years).

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

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
20/11/2019	20/11/2029	$4.20	$0.00	28.00%	4.85%	1.07%	$1.49
09/12/2019	09/12/2029	$4.46	$0.00	28.00%	4.85%	1.15%	$2.13
09/12/2019	09/12/2029	$4.46	$0.00	28.00%	4.85%	1.15%	$2.13
27/04/2020	27/04/2030	$2.95	$0.00	28.00%	4.85%	1.07%	$1.49

Note 33. Share-based payments (continued)

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.

One off compensation for incentive forgone
In recognition of incentives Ms Munnings has forgone as a result of her leaving her former employment and accepting employment with Virtus Health Limited , a grant of performance rights under the LTI Plan valued at $700,000 was granted to Ms Munnings on commencing employment with Virtus. Vesting of the performance rights will be subject to the Board's assessment of Ms Munning's performance over each year of a 3 year vesting period and will vest as follows:
i. 1/3rd in FY21 on the first anniversary of the date of commencement of employment;
ii. 1/3rd in FY22 on the second anniversary of the date of commencement of employment;and
iii. 1/3rd in FY23 on the third anniversary of the date of commencement of employment.

Fertility specialist performance rights and share incentives
Grants of performance rights - fertility specialists
The fertility specialist incentive schemes applicable for FY19 and FY20 are as follows:
- initial and performance rights granted to specialists before 1 September 2016;
- initial and performance rights granted to specialists after 1 September 2016;
- high performance rights granted to specialists up to 1 July 2018; and
- a loyalty share scheme

Performance rights are granted on an annual basis to existing fertility specialists who achieve a benchmark level of IVF cycles above a base or adjusted base number of IVF cycles established in one of the financial years ending after June 2008 up to 30 June 2017. All incentive schemes are administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

Grants made before 1 September 2016
Vesting is dependent on achievement of performance and share price hurdles. Upon the satisfaction of the vesting conditions and any other conditions to exercise, each performance right will be exercisable into a variable number of shares based on the terms of issue of the performance rights. The number of shares to be issued will be calculated by multiplying the applicable component of the grant offer value by the amount of the increase in the share price between the share price at vesting compared to the share price at grant date all divided by the share price at vesting.

At 30 June 2020 the potential number of unvested initial and performance rights subject to these grants is estimated to be 10,471.

Note 33. Share-based payments (continued)

Grants made after 1 September 2016
Grants of rights are made as follows:
- Grants in March each year to new fertility specialists contracting in the six month period ending 31 December and grants in September each year to new fertility specialists contracting in the 6 month period ending 30 June. These performance rights vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the performance rights, subject to the fertility specialist achieving the relevant benchmark (currently 50 IVF cycles) in a twelve month period during the two years post commencement of the contractual relationship with the consolidated entity;
- Grants in September each year of performance rights to existing fertility specialists in relation to achievement of incremental increases in practice cycles in the 12 month period ending 30 June. These performance rights are awarded for incremental increases in practice cycles of 50, up to a limit of 200 cycles and rights will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the performance rights, conditional upon the fertility specialist performing a number of IVF cycles in the immediately preceding year not less than 75% of the relevant benchmark in the year pursuant to which the performance rights were awarded; and
- In all cases the number of performance rights granted to a fertility specialist is derived using the volume weighted average closing share price for the 15 business days immediately following the announcement of the Company's results to the ASX for the financial periods ending 31 December and 30 June and accordingly the number of performance rights granted is fixed at grant date.

At 30 June 2020 the potential number of unvested performance rights subject to these grants is estimated to be 750,333.

High performance rights – fertility specialists
The Board recognises those fertility specialists that achieve a high level of fresh cycles over a defined period acknowledging the value they generate for shareholders. The High Performer Share Incentive Scheme ('HPSIS') rewards fertility specialists who consistently deliver more than 299 cycles per annum. There are two issues of HPSIS tranches outstanding, details of which are as follows:
- HPSIS Issue three commenced on 1 July 2016 and runs for a four year period ending 30 June 2020 with the first year being the qualifying period. There is no share price hurdle applicable to this grant; and
- HPSIS Issue four commenced on 1 July 2017 and runs for a four year period ending 30 June 2021 with the first year being the qualifying period. There is no share price hurdle applicable to this grant.

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

At 30 June 2020 the potential number of unvested performance rights subject to these grants is estimated to be 275,307.

High performance rights vest and become exercisable to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied. Vesting conditions may include conditions relating to continuous service and the individual performance of the participant in the Plan. Participants are not required to pay cash to receive performance rights under the Plan. No further grants are planned under this structure.

Loyalty share scheme – fertility specialists
The Loyalty Share Scheme ('LSS') is designed to recognise the sustained contribution of the top quartile of specialists on an annual basis and replaced the High Performance Share Incentive Scheme in FY19. The key features of the LSS are as follows:
- Value of award is variable and dependent on individual number of personal cycles delivered adjusted by a loading factor to recognise a higher award for specialists making a higher contribution to the business.
- Annual Qualifying hurdle is 200 cycles;
- Annual vesting, no waiting period, no escrow arrangements;
- Other considerations;
    - awards are payable in shares; conversion from award value is at the Virtus share price on the 15th business day following the group's annual result announcement (normally mid-September); and
    - annual pool value for FY20 is capped at $500,000 (assessed annually by the Nomination and Remuneration Committee).

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

Note 33. Share-based payments (continued)

Critical accounting estimate - valuation of share based payments
The consolidated entity measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a hybrid option-pricing model provided by Hoadley, taking into account the terms and conditions upon which the instruments were granted.

Note 34. Related party transactions

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

Subsidiaries
Interests in subsidiaries are set out in note 30.

Key management personnel
Disclosures relating to key management personnel are set out in note 35 and the remuneration report included in the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2020 $	2019 $
Other revenue:		
Rental income (i)	47,520	278,726
Other transactions:		
Provider fees (ii)	968,454	2,892,025
Share based payments (iii)	15,565	137,862

(i) The following key management personnel paid rent for the use of leased space in Virtus : Lyndon Hale (30 June 2019: Lyndon Hale, Peter Illingworth and David Molloy).

(ii) The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale (30 June 2019: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins).

(iii) The following key management personnel received performance rights for the provision of IVF services delivered to patients: Lyndon Hale (30 June 2019: Lyndon Hale, Peter Illingworth, David Molloy and William Walkins).

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

	Consolidated	
	2020 $	2019 $
Current receivables:		
Trade receivables from associates	537,431	517,025
Other receivables	4,356	17,821
Current payables:		
Other payables for provider fees	437,404	358,808

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

Note 35. 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	
	2020 $	2019 $
Short-term employee benefits	2,049,473	3,052,929
Post-employment benefits	115,979	197,662
Long-term benefits	5,833	30,280
Share-based payments	77,204	159,588
	2,248,489	3,440,459

Aggregate compensation to key management personnel (KMP) for the year ended 30 June 2019 does not agree to the Remuneration report as the disclosures in the Remuneration report have been amended following a reassessment of the composition of KMP.

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

	Consolidated	
	2020 $'000	2019 $'000
Profit after income tax expense for the year	946	28,990
Adjustments for:		
Depreciation and amortisation	25,017	13,628
Impairment of intangibles	24,975	5,800
Write off of non-current assets	-	135
Share-based payments	1,252	1,161
Amortisation of bank facility fees	411	563
Net fair value gain on other financial liabilities	(5,995)	(8,261)
Other non-cash items	(263)	(30)
Interest on other financial liabilities - non-cash interest	559	1,464
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,915)	(2,963)
Increase in inventories	(143)	(504)
Increase in deferred tax assets	(907)	(1,476)
Increase in trade and other payables	10,339	380
Increase/(decrease) in provision for income tax	8,543	(3,137)
Increase in other provisions	542	780
Increase in other operating liabilities	3,022	1,760
Net cash from operating activities	66,383	38,290

Note 37. Events after the reporting period

Subsequent to year end new cases of COVID-19 rose rapidly in Victoria to new record levels. The subsequent restrictions imposed by the Victorian government have caused disruption to business and economic activity and are likely to negatively impact the consolidated entity's trading revenue and operations. At the same time there has been a rise in the number of clusters in NSW.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in the 30 June 2020 financial statements and are discussed in the Operating and Financial Review section of the Directors Report. To the extent that ongoing impacts have been estimated we have considered the uncertainties arising from the COVID-19 pandemic in preparation of our financial statements. However, the expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy are unclear. The financial impact going forward for the consolidated entity will depend on evolving changes in government policy and business and customer reactions.

As at 30 June 2020, the group was in compliance with its debt covenants. This has been further bolstered by the support of its lender group to allow for appropriate normalisations for COVID-19 impacts in covenant calculations extending out to the reporting period to 31 December 2020. Virtus' ongoing trading and cash flow assumptions in the COVID-19 impacted environment, demonstrate that liquidity and funding needs of the business can be accommodated through its syndicated facility arrangements, without the need for additional near-term funding. At 30 June 2020, the consolidated entity had $38million in cash and $92.3million in unused and available debt facilities.

The consolidated entity has managed, and continues to actively manage, the risks arising from COVID-19. This includes a financial response plan that incorporates scenario and contingency planning at all clinics across the globe, stress testing of cash flow forecasts and sensitivity analysis.

No other matter or circumstance has arisen since 30 June 2020 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 38. Commitments

Capital Commitments

The consolidated entity had $4,604,000 (FY19:$Nil) in capital commitments for property, plant and equipment as at 30 June 2020.

Note 39. Contingent liabilities

Claims
The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess of $25,000 to $250,000 per claim. The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not materially affect the financial position of the entity and it is expected that the claims will be covered by the consolidated entity's insurance policies.

Guarantees
Drawdowns of $5,312,000 (2019:$5,001,000) 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 2 years (2019:3 year).

Note 40. Non-current assets - other

	Consolidated	
	2020 $'000	2019 $'000
Security deposits	306	287

Note 41. 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 2020 $	Consolidated 2019 $
Audit services - PricewaterhouseCoopers		
Audit or review of the financial statements	493,000	480,000
Other services - PricewaterhouseCoopers		
Due diligence	-	20,000
Tax compliance services	12,500	-
	12,500	20,000
	505,500	500,000
Audit services - network firms		
Audit or review of the financial statements	147,729	141,513
Other services - network firms		
Tax services	53,722	52,584
Other	-	103,991
	53,722	156,575
	201,451	298,088

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 42. Other accounting policies

Current and non-current classification

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

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

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

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

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

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

Note 42. Other accounting policies (continued)

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.

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 2020 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become liable, subject by virtue of the deed of cross guarantee described in note 31 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

Sonia Petering
Chairperson

18 August 2020
Sydney

Independent auditor's report

To the members of Virtus Health Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Our audit approach

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

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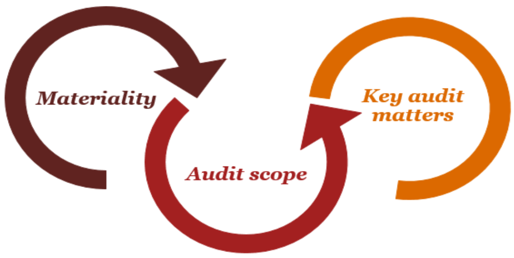
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $2.0 million, which represents approximately 5% of the Group's profit before impairment of assets and before tax averaged over the current and two previous reporting periods. We selected this threshold, based on our professional judgement, noting that:
    - profit before tax is a key benchmark against which the performance of the Group is commonly measured
    - we adjusted for impairment as it is an infrequently occurring item impacting profit
    - we applied a three-year average to address volatility in the calculation of materiality that arises from fluctuations in profit from year to year
    - approximately 5% is within the range of commonly acceptable profit-based thresholds.

- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises businesses in New South Wales, Queensland, Victoria, Tasmania, Denmark, United Kingdom, Ireland and Singapore, with the most financially significant operations being those in Australia and Europe. Accordingly, we structured our audit as follows:
    - The Group audit was led by our team from the Australian PwC firm ("Group audit team"). The Group audit team conducted an audit of the special purpose financial information of selected Australian businesses used to prepare the consolidated financial statements.
    - The component auditor in Ireland, under instruction from the Group audit team, performed specified audit procedures on the special purpose financial information for specified entities within that country, used to prepare the consolidated financial statements.
    - The component auditor in Denmark, under instructions from the Group audit team, performed a review of the special purpose financial information for a specified entity within that country, used to prepare the consolidated financial statements.
    - The Group audit team decided on their level of involvement needed in the work performed by the component auditors, to be satisfied that sufficient appropriate evidence had been obtained for the purpose of our opinion. Review of the work undertaken by the component teams and regular dialogue between the teams up to the reporting date supplemented the specific direct written instruction provided by PwC Australia and augmented the reporting provided by the component auditors.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Estimated recoverable amount of goodwill assets *(Refer to note 10)* Goodwill of $425 million is recognised on the consolidated statement of financial position. Under Australian Accounting Standards, the Group is required to test the goodwill annually for impairment, irrespective of whether there are indicators of impairment. This assessment is inherently complex and judgemental. It requires judgement by the Group in forecasting the operational cash flows of its cash generating units and determining discount rates and terminal value growth rates to be used in the discounted cash flow models used to assess impairment (the models). The current year assessment performed by the Group: - identified an impairment of $14.7 million against the goodwill recognised in the Tasmanian cash generating unit (CGU) and an impairment of $9.9 million against the goodwill recognised in the Danish CGUs; and - did not identify the need for an impairment in any of the other CGUs. The recoverable amount of goodwill was a key audit matter given the: - financial significance of goodwill to the statement of financial position - magnitude of the impairments recognised in the statement of comprehensive income; and - judgement applied by the Group in completing and concluding upon the impairment assessment.	We focused our efforts on developing an understanding and testing the overall calculation and methodology of the Group's impairment assessment, including identification of the cash generating units (CGUs) of the Group for the purposes of impairment testing, and the attribution of net assets, revenues and costs to those CGUs. In obtaining sufficient audit evidence, our procedures included, amongst others: - assessing the reasonableness of the cash flow forecasts included in the models; - testing the mathematical calculations within the models including assessing the adoption of *AASB 16 Leases*; - assessing the reasonableness of the terminal value growth rates by comparing to external information sources; - assessing if the discount rate assumptions were reasonable by comparing them to market data and comparable companies, with the assistance of our valuation specialists; - performing sensitivity analyses over the key assumptions used in the models; - considering the allocation and presentation of the impairment charges recognised; and - assessing the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

Key audit matter	*How our audit addressed the key audit matter*

Revenue *(Refer to note 4)*
Revenue of $259 million is recognised on the consolidated statement of comprehensive income.
 	
The recognition of revenue from contracts with customers was a key audit matter due to the financial significance of revenue from contracts with customers to the consolidated statement of comprehensive income.
	In obtaining sufficient, appropriate audit evidence, our procedures included, amongst others:
	
	• consideration and assessment of the Group's accounting policy in line with the requirements of *AASB 15 Revenue from Contracts with Customers*
	• analysing the expected flows of revenue transactions and agreeing a sample of transactions that deviated from our expectations to supporting documentation
	• testing, for a sample of transactions, whether revenue had been recorded at the correct amount and in the correct financial period, in accordance with the Group's revenue recognition policy. This included assessing whether:
	    • evidence of an underlying arrangement with the customer existed;
	    • appropriate performance obligations and consideration had been identified;
	    • amounts allocated to the performance obligations were made with reference to their standalone selling prices , where relevant; and
	    • the timing of revenue recognition had been appropriately considered and recognised at the appropriate time.
	
	• evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report, Chair's Statement, Chief Executive's Overview and the Corporate directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf.

This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 21 to 33 of the directors' report for the year ended 30 June 2020. In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
18 August 2020