

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2017 ('H1 FY2018'). Key highlights from the results are:

			\$'000
Revenues from ordinary activities	up	1.8% to	133,813
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	9.7% to	34,818
Earnings Before Interest and Tax (EBIT)	up	11.4% to	28,651
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	up	12.6% to	16,580
Profit from ordinary activities after tax	up	10.9% to	17,315

Dividends

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

An interim dividend of 14.00 cents per share fully franked will be paid on 17 April 2018 for shareholders on the register at 29 March 2018.

Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,580,000 (31 December 2016: \$14,721,000).

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

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Segment EBITDA	40,616	36,535
Share-based payment expense	(627)	(95)
Other non-trading expenses	(5,171)	(5,722)
Fair value adjustment to put liabilities	-	484
Fair value adjustment to contingent consideration	-	529
EBITDA (reported)	34,818	31,731
Depreciation and amortisation expenses	(6,167)	(6,022)
EBIT	28,651	25,709
Interest revenue	62	61
Interest expense	(3,330)	(3,375)
Interest on other financial liability - non-cash interest	(505)	(481)
Amortisation of bank facility fees	(104)	(104)
Profit before income tax from continuing activities	24,774	21,810

Key features of the results are:

- Revenue increased by 1.8% to \$133.8m
- EBITDA increased by 9.7% to \$34.8m
- Australian segment EBITDA increased by 6.3% to \$36.0m;
- International segment EBITDA increased by 74.4% to \$4.6m;
- Segment EBITDA increased by 11.2% to \$40.6m; and
- Profit before income tax expense increased by 13.6% to \$24.8m.

Profit before tax includes acquisition transaction costs of \$322,000, non-cash interest expense of \$505,000, and restructure costs of \$265,000.

A key feature of the result was the benefit of prior year cost reduction initiatives. At gross profit level, improvements in variable costs resulted in a 1.8% improvement in gross margin. OPEX reduction, adjusted for the timing of acquisitions was 1.4% in absolute terms.

The improvements in cost management contributed to a Segment EBITDA margin of 30.4% compared to 27.8% in the pcp.

Operating overview

Australia

Fresh cycle activity reported by Medicare in H1 FY2018 in Virtus state markets increased by 6.1% compared to the prior year comparative period. Virtus fresh cycle activity in Australia in this half year decreased by 0.5% on a like for like basis. There are two main issues currently impacting Virtus cycle volumes in Australia:

- a combination of low cost competition and full service volume weakness has contributed to market share losses in Queensland; and
- a combination of new competition and general market weakness has contributed to a volume decline in Tasmania.

Virtus notional market share (in New South Wales, ACT, Queensland, Tasmania and Victoria) in the six months to December 2017 has decreased to 40.0% from 40.9% for the six months to June 2017 reflecting the impact of the increased bulk bill activity in Queensland. During the six month period, Virtus volume growth in NSW and Victoria exceeded state market growth due to improved performance by NSW full service and TFC activity increases in NSW and Victoria.

Specialist diagnostic revenue increased by 5.8% in H1 FY2018 compared to H1 FY2017 reflecting further increases in genetic testing utilisation. Revenue growth in our PGD/PGS activity was 26.6% on pcp and this activity represents utilisation of this capability in our full service clinics at 18.9% of fresh cycles (H1 FY2017:12.3%). The level of general endocrinology testing also increased slightly.

In day hospitals Virtus revenue increased by 2.0%, a consequence of improved demand for IVF procedures. Non-IVF procedure revenue, accounting for 51.0% of total day hospital revenue, decreased by 1.3% across all day hospitals.

International

Ireland experienced a slightly weaker first half with volumes decreasing by 6.1% compared to H1 FY2017; EBITDA in local currency decreased by 6.7%; referral activity in the first quarter was weaker than expected.

Volumes in Singapore reflected continued improvement in the last six months and the business achieved a first half EBITDA of SG\$245,000 compared to a pcp EBITDA loss of SG\$192,000.

Agaard consolidated improvements made in last six months of the previous financial year and delivered EBITDA of DKK6.9million in H1 FY2018.

Capital Expenditure

Total expenditure on tangible and intangible assets was \$5.6m in H1 FY2018 (H1 FY2017; \$4.6m). The largest investment relates to the development of a greenfield site in Alexandria to which we will relocate our existing day hospital and fertility clinic in Maroubra; this facility will be completed and operational in the second half of 2018.

Debt and interest expense

At 31 December 2017, total facilities drawn were \$148m in borrowings and \$5m in guarantees. Unused and available facilities amounted to \$57m. Credit facilities expire in September 2019. Cash balances at the end of December 2017 were \$29m. Gross debt decreased as a result of a voluntary repayment of \$6m since June 2017. The company continued to comply with the financial covenants of its facility agreement.

Other financial liabilities (\$19.4m)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold a series of put options established at the time of acquisition. Consequently in accordance with accounting standards the group is required to recognise liabilities for the estimated consideration to acquire the non-controlling interests. The liabilities have been discounted at the date of acquisition and the corresponding entry is included in the business combinations reserve. The unwinding of the inherent discounting within the liabilities has resulted in a non-cash interest expense in H1FY2018 of \$450,000 (H1FY2017: \$481,000). The first put option in relation to 15% of Sims Clinic Limited was exercised in October 2017 and resulted in a payment of \$7.4m. At 31 December 2017 the carrying value of the put option liabilities was \$15.2m. The remaining \$4.2m of the balance of other financial liabilities relates to contingent consideration in relation to the acquisition of Agaard Fertilitetsklinik Aps. It should be noted that \$7.0m of the estimated liabilities are now classified as current liabilities.

Amortisation of borrowing costs

Amortisation of borrowing cost expense for H1 FY2018 was \$104,000 (H1 FY2017: \$104,000).

Taxation

The effective tax rate on operating earnings for H1 FY2018 was 30.1% (H1 FY2017: 28.4%). The increase in the effective tax rate is mostly related to higher share based payments during H1FY18 which is not deductible for tax purposes.

Earnings per share

Basic earnings per share increased by 12.4% to 20.62 cents per share (H1 FY2017: 18.35 cents per share). Diluted earnings per share increased by 12.5% to 20.48 cents per share (H1 FY2017: 18.21 cents per share).

Dividend

An interim dividend of 14.00 cents per share fully franked (April 2017: 13.00 cents per share) will be paid on 17 April 2018 to shareholders on the register at 29 March 2018.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(167.57)</u>	<u>(178.03)</u>
Net assets per ordinary security	<u>345.76</u>	<u>333.84</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends paid

Current period

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

Previous period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2016 paid in October 2016	15.000	15.000

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Obstetrics & Gynaecological Imaging Australia Pty Limited and City West Specialist Day Hospital Pty Ltd	50.00%	50.00%	352	289
<i>Group's aggregate share of associates and joint venture entities' profit/(loss)</i>				
Profit/(loss) from ordinary activities before income tax			352	289
Income tax on operating activities			(106)	(87)

9. Foreign entities

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

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

10. Audit qualification or review

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

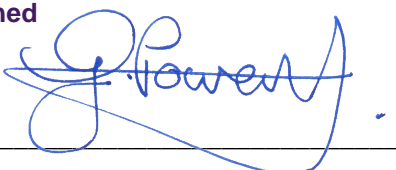
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2017 is attached.

12. Signed

Signed 

Date: 20 February 2018

Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

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

Peter Macourt - Chairman
Susan Channon
Lyndon Hale
Peter Turner
Sonia Petering
Greg Couttas

Principal activities

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

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,580,000 (31 December 2016: \$14,721,000).

Segment EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific non-cash and significant items.

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

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Segment EBITDA	40,616	36,535
Share-based payment expense	(627)	(95)
Other non-trading expenses	(5,171)	(5,722)
Fair value adjustment to put liabilities	-	484
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EBITDA (reported)	34,818	31,731
Depreciation and amortisation expenses	(6,167)	(6,022)
EBIT	28,651	25,709
Interest revenue	62	61
Interest expense	(3,330)	(3,375)
Interest on other financial liability - non-cash interest	(505)	(481)
Amortisation of bank facility fees	(104)	(104)
Profit before income tax from continuing activities	<u>24,774</u>	<u>21,810</u>

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

For further details refer to ASX market announcement on 20 February 2018.

Significant changes in the state of affairs

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

Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors

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

Peter Macourt
Chairman

20 February 2018
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Mark Dow', with a stylized flourish at the end.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
20 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757

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General information

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

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 February 2018. The directors have the power to amend and reissue the financial statements.

Virtus Health Limited
Statement of comprehensive income
For the half-year ended 31 December 2017



		Consolidated	
	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Revenue	3	133,813	131,438
Share of profits of associates accounted for using the equity method		352	289
Other income		441	588
Expenses			
Fertility specialists, consumables and associated costs		(36,285)	(37,689)
Employee benefits expense		(43,803)	(43,790)
Depreciation and amortisation expense		(6,167)	(6,022)
Occupancy expense		(8,272)	(8,083)
Advertising and marketing		(2,098)	(2,260)
Practice equipment expenses		(1,037)	(1,008)
Professional and consulting fees		(1,344)	(1,246)
Other expenses		(6,887)	(6,447)
Finance costs	4	(3,939)	(3,960)
Profit before income tax expense		24,774	21,810
Income tax expense		(7,459)	(6,201)
Profit after income tax expense for the half-year		17,315	15,609
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		147	522
Foreign currency translation		1,585	(519)
Other comprehensive income for the half-year, net of tax		1,732	3
Total comprehensive income for the half-year		19,047	15,612
Profit for the half-year is attributable to:			
Non-controlling interest		735	888
Owners of Virtus Health Limited		16,580	14,721
		17,315	15,609
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		707	886
Owners of Virtus Health Limited		18,340	14,726
		19,047	15,612
		Cents	Cents
Basic earnings per share	13	20.62	18.35
Diluted earnings per share	13	20.48	18.21

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

		Consolidated	
	Note	31 Dec 2017	30 June 2017
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		28,690	27,337
Trade and other receivables		9,834	12,341
Inventories		796	758
Other		2,997	2,434
Total current assets		42,317	42,870
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment		29,191	28,989
Intangibles		412,658	411,483
Deferred tax		4,916	4,551
Other		509	531
Total non-current assets		448,763	447,043
Total assets		491,080	489,913
Liabilities			
Current liabilities			
Trade and other payables		22,539	20,925
Derivative financial instruments		528	527
Income tax		3,049	378
Provisions		3,845	3,768
Other financial liabilities	5	7,015	14,044
Unearned income		8,077	8,169
Total current liabilities		45,053	47,811
Non-current liabilities			
Borrowings		147,668	153,564
Derivative financial instruments		226	437
Deferred tax		611	585
Provisions		5,963	6,063
Other financial liabilities	6	12,429	11,755
Other payables		1,182	1,327
Total non-current liabilities		168,079	173,731
Total liabilities		213,132	221,542
Net assets		277,948	268,371
Equity			
Issued capital	7	242,116	242,001
Reserves	8	(2,666)	(11,416)
Retained profits		25,061	18,127
Equity attributable to the owners of Virtus Health Limited		264,511	248,712
Non-controlling interest		13,437	19,659
Total equity		277,948	268,371

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

Virtus Health Limited
Statement of changes in equity
For the half-year ended 31 December 2017



Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2016	238,829	(12,764)	12,531	19,448	258,044
Profit after income tax expense for the half-year	-	-	14,721	888	15,609
Other comprehensive income for the half-year, net of tax	-	5	-	(2)	3
Total comprehensive income for the half-year	-	5	14,721	886	15,612
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares on exercise of options	2,504	-	-	-	2,504
Settlement of partly paid shares	543	-	-	-	543
Share-based payments	-	95	-	-	95
Dividends payable by subsidiary to non-controlling interest	-	-	-	(861)	(861)
Dividends paid (note 9)	-	-	(12,057)	-	(12,057)
Balance at 31 December 2016	<u>241,876</u>	<u>(12,664)</u>	<u>15,195</u>	<u>19,473</u>	<u>263,880</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2017	242,001	(11,416)	18,127	19,659	268,371
Profit after income tax expense for the half-year	-	-	16,580	735	17,315
Other comprehensive income for the half-year, net of tax	-	1,760	-	(28)	1,732
Total comprehensive income for the half-year	-	1,760	16,580	707	19,047
<i>Transactions with owners in their capacity as owners:</i>					
Put option exercise (note 8)	-	6,363	-	(6,363)	-
Settlement of partly paid shares	115	-	-	-	115
Share-based payments	-	627	-	-	627
Dividends payable by subsidiary to non-controlling interest	-	-	-	(566)	(566)
Dividends paid (note 9)	-	-	(9,646)	-	(9,646)
Balance at 31 December 2017	<u>242,116</u>	<u>(2,666)</u>	<u>25,061</u>	<u>13,437</u>	<u>277,948</u>

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

Virtus Health Limited
Statement of cash flows
For the half-year ended 31 December 2017



		Consolidated	
	Note	31 Dec 2017	31 Dec 2016
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		136,147	131,320
Payments to suppliers (inclusive of GST)		(97,404)	(107,569)
Other revenue		441	588
Interest and other finance costs paid		(3,268)	(3,314)
Income taxes paid		(5,216)	(4,924)
Net cash from operating activities		30,700	16,101
Cash flows from investing activities			
Final payments for prior period's business acquisition		-	(826)
Payment for acquisition of non-controlling interest	10	(7,417)	-
Payments for purchase of entity/businesses, net of cash acquired		-	(10,036)
Payments for property, plant and equipment and intangibles		(5,616)	(4,586)
Proceeds from release of security deposits		22	-
Proceeds from disposal of property, plant and equipment		6	9
Payments for security deposits		-	(200)
Interest received		62	61
Associate distributions received		375	250
Net cash used in investing activities		(12,568)	(15,328)
Cash flows from financing activities			
Proceeds from issue of shares	7	-	2,504
Proceeds from partly paid shares	7	115	543
Dividends paid to non-controlling interest in subsidiaries		(1,466)	(861)
Proceeds from borrowings		-	11,000
Repayment of borrowings		(6,000)	-
Dividends paid	9	(9,646)	(12,057)
Repayment of leases		-	(22)
Net cash from/(used in) financing activities		(16,997)	1,107
Net increase in cash and cash equivalents		1,135	1,880
Cash and cash equivalents at the beginning of the financial half-year		27,337	22,215
Effects of exchange rate changes on cash and cash equivalents		218	(123)
Cash and cash equivalents at the end of the financial half-year		28,690	23,972

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Basis of Preparation

At 31 December 2017 the consolidated entity's current liabilities exceeded its current assets by \$2,736,000 (June 2017: \$4,941,000). The current liabilities include unearned income of \$8,077,000 as well as employee leave liabilities of \$3,845,000. Whilst, the leave liabilities are required to be disclosed as a current liability not all of this liability is expected to be settled within 12 months. The consolidated entity also has unused and available debt facilities of \$57,000,000 that do not expire until September 2019 and a cash balance of \$29,000,000 as at 31 December 2017.

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.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2017 and are not expected to have any significant impact for the full financial year ending 30 June 2018.

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

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of IFRS 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The consolidated entity has assessed the effects of applying the new standard on the consolidated entity's financial statements and does not expect the new standard to have a material impact on transition. This new standard will first be adopted for the financial year ending 30 June 2019.

Note 1. Significant accounting policies (continued)

AASB 15 Revenue from contracts with customers

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

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

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

The consolidated entity has assessed the effects of applying the new standard on the consolidated entity's financial statements and does not expect the new standard to have a material impact on transition. This new standard will first be adopted for the financial year ending 30 June 2019.

AASB 16 Leases

In February 2016 the AASB issued AASB 16, 'Leases', which replaces the current guidance in AASB 117 'Leases'. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if AASB 15, 'Revenue from Contracts with Customers', is also applied. The standard requires lessees to bring all leases on balance sheet as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged.

The consolidated entity had previously conducted reviews of the impact of AASB 16 and performed some detailed work on a sample of leases. Initial indications are that the consolidated entity will likely apply this standard retrospectively to each prior period presented. Work is in progress to now analyse all of the current operating leases that will be impacted by AASB 16 and identifying and assessing the key terms which will impact the calculation of the lease-related balances. It is too early to properly quantify the overall impacts on the results and financial position for the 2019 and 2020 financial years and work will continue over the next 12 months to assess the full impacts on the consolidated entity. The consolidated entity has not yet decided whether to adopt the new standard before its normal application date of 1 July 2019.

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

Comparatives

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

Note 2. Operating segments

Identification of reportable operating segments

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

Segment revenue

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

Note 2. Operating segments (continued)

Segment EBITDA

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

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

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

Note 2. Operating segments (continued)

	Healthcare services Australia \$'000	Healthcare services International \$'000	Total \$'000
Consolidated - 31 Dec 2016			
Revenue			
Sales to external customers	111,129	19,313	130,442
Other revenue	935	-	935
Interest revenue	61	-	61
Total revenue	112,125	19,313	131,438
Segment EBITDA	33,911	2,624	36,535
Share-based payment expense			(95)
Transaction costs			(758)
Corporate costs			(4,988)
Foreign exchange			24
Depreciation and amortisation expenses			(6,022)
Fair value adjustment to put liabilities			484
Fair value adjustment to contingent consideration			529
Interest expense			(3,375)
Interest revenue			61
Interest on other financial liability - non-cash interest			(481)
Amortisation of bank facility fees			(104)
Profit before income tax expense			21,810
Income tax expense			(6,201)
Profit after income tax expense			15,609

Note 3. Revenue

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<i>Sales revenue</i>		
Rendering of services	132,883	130,442
<i>Other revenue</i>		
Interest	62	61
Rent	868	935
	930	996
Revenue	133,813	131,438

Note 4. Expenses

Consolidated	
31 Dec 2017	31 Dec 2016
\$'000	\$'000

Profit before income tax includes the following specific expenses:

Finance costs

Interest and finance charges paid/payable	3,330	3,375
Interest on other financial liabilities - non-cash interest	505	481
Amortisation of bank facility fees	104	104
Finance costs expensed	3,939	3,960

Share-based payments expense

Share-based payments expense - fertility specialists	458	(4)
Share-based payments expense - employee benefits	169	99
Total share-based payments expense*	627	95

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

Note 5. Current liabilities - Other financial liabilities

Consolidated	
31 Dec 2017	30 June 2017
\$'000	\$'000

Other financial liabilities	7,015	14,044
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The other current financial liabilities represent the fair value of the first put option held by the non-controlling interest in TAS IVF Pty Limited and the contingent consideration in relation to the acquisition of Aagaard Fertilitetsklinik Aps.

Note 6. Non-current liabilities - other financial liabilities

Consolidated	
31 Dec 2017	30 June 2017
\$'000	\$'000

Other financial liabilities	12,429	11,755
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The other non-current financial liabilities represent the fair value of the second put options held by the non-controlling interest in Sims Clinic Limited and TAS IVF Pty Limited.

Note 7. Equity - issued capital

	Consolidated			
	31 Dec 2017	30 June 2017	31 Dec 2017	30 June 2017
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>80,388,494</u>	<u>80,388,494</u>	<u>242,116</u>	<u>242,001</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2017	80,388,494		242,001
Settlement of partly paid shares	11 October 2017	-	\$0.00	115
Balance	31 December 2017	<u>80,388,494</u>		<u>242,116</u>

Note 8. Equity - reserves

	Consolidated	
	31 Dec 2017	30 June 2017
	\$'000	\$'000
Foreign currency translation reserve	2,114	501
Hedging reserve - cash flow hedges	(531)	(678)
Share-based payments reserve	13,213	12,586
Put option business combination reserve	<u>(17,462)</u>	<u>(23,825)</u>
	<u>(2,666)</u>	<u>(11,416)</u>

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

Note 9. Equity - dividends

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

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Final dividend of 12.0 cents (31 December 2016: 15.0 cents) per fully paid share paid in October 2017	<u>9,646</u>	<u>12,057</u>

Note 10. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	754	-	754
Other financial liabilities	-	-	19,444	19,444
Total liabilities	-	754	19,444	20,198

Consolidated - 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	964	-	964
Other financial liabilities	-	-	25,799	25,799
Total liabilities	-	964	25,799	26,763

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

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

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

Level 3 assets and liabilities

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

Consolidated	Put Options \$'000	Contingent Consideration \$'000	Total \$'000
Balance at 1 July 2017	21,777	4,022	25,799
Foreign exchange impact	492	120	612
Amounts paid on exercise of put option*	(7,417)	-	(7,417)
Interest on unwinding	381	69	450
Balance at 31 December 2017	15,233	4,211	19,444

*This refers to the first put option in relation to 15% of Sims Clinic Limited that was exercised for \$7,417,000 in October 2017.

\$7,015,000 of the \$19,444,000 is current and the balance of \$12,429,000 is non-current.

Note 11. Borrowings and Contingent liabilities

Borrowings-Financial Arrangements

At 31 December 2017, total facilities drawn were \$148,000,000 in borrowings and \$4,753,000 in guarantees. Unused and available facilities amounted to \$57,247,000. The consolidated entity complied with the financial covenants of its borrowing liabilities during the half financial year ended 31 December 2017. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 1.5 years (30 June 2017: 2 years).

Credit Facilities expire in September 2019.

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 relating to each and every claim (30 June 2017: \$25,000). The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not be significant and will be covered by the consolidated entity's insurance policies.

Note 12. Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 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 13. Earnings per share

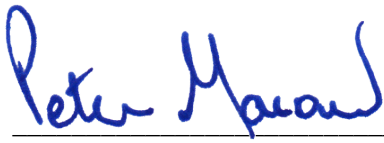
	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Profit after income tax	17,315	15,609
Non-controlling interest	(735)	(888)
Profit after income tax attributable to the owners of Virtus Health Limited	16,580	14,721
Add: interest savings on conversion of options	107	41
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	<u>16,687</u>	<u>14,762</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,388,494	80,230,126
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	810,631	801,580
Estimated Issuable shares	291,084	41,679
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,490,209</u>	<u>81,073,385</u>
	Cents	Cents
Basic earnings per share	20.62	18.35
Diluted earnings per share	20.48	18.21

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read "Peter Macourt", written over a horizontal line.

Peter Macourt
Chairman

20 February 2018
Sydney



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Virtus Health Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Virtus Health Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Virtus Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A large, stylized handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Mark Dow'.

Mark Dow
Partner

Sydney
20 February 2018