

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

2. Results for announcement to the market

		*/\$'000	\$'000
Revenues from ordinary activities	up	25.4% to	324,602
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	102.2% to	93,399
Earnings Before Interest and Tax (EBIT)	up	227.0% to	69,313
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited (\$'000)	up	42,666 to	43,135
Profit from ordinary activities after tax (\$'000)	up	42,856 to	43,802

*% movements replaced with actual numbers where % movements were not considered meaningful.

Dividends

A final dividend of 12.00 cents per share, fully franked, will be paid on 29 October 2021 to the shareholders on the register at 11 October 2021.

Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$43,135,000 (30 June 2020: \$469,000).

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Segment EBITDA	112,909	84,043
Share-based payment expense	(1,899)	(1,252)
Information technology costs	(9,590)	(6,899)
Other non-trading expenses	(9,620)	(10,700)
Fair value adjustment to put liabilities and contingent consideration	1,599	5,995
Impairment of goodwill	-	(24,587)
Impairment of brand	-	(388)
	<u>93,399</u>	<u>46,212</u>
EBITDA (reported)	93,399	46,212
Depreciation and amortisation	(24,086)	(25,017)
	<u>69,313</u>	<u>21,195</u>
EBIT	69,313	21,195
Net financial Interest	(8,915)	(10,763)
	<u>60,398</u>	<u>10,432</u>
Profit before income tax	60,398	10,432

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

Key features of the results are:

- Revenue increased by 25.4% to \$324.6m;
- Group EBITDA increased by 102.2% to \$93.4m;
- Segment EBITDA increased by 34.3% to \$112.9m;
- Net profit after tax (“NPAT”) attributable to equity holders increased by \$42.6m to \$43.1m.

EBITDA and Profit before income tax for the period included \$7.7m of COVID-19 related Government assistance that assisted the consolidated entity to preserve employee relationships through the pandemic by minimising employee stand downs and permanent job losses, providing a stable platform to allow the group to meet the deferred pent up patient demand in FY2021. The other significant item reflected in profit before income tax was a fair value gain of \$1.6m on finalisation of the contingent consideration relating to the acquisition of Fertilitesklinikken Trianglen Aps.

A summary of significant income and expenditure items impacting reported EBITDA were as follows:

\$Millions	FY21	FY20
Impairment of Intangible assets - note 1	-	(25.0)
Fair Value Adjustment to contingent consideration and put liabilities - note 2	1.6	6.0
Government assistance (COVID-19 related) - note 3	7.7	7.7
CEO transition and recruitment costs	-	(0.8)
	<u>9.3</u>	<u>(12.1)</u>
Total	<u>9.3</u>	<u>(12.1)</u>

Notes

1. Non cash impairment charges in the prior period was in relation to Tasmania and the Denmark CGU reflecting changes in competitive landscape, delays in doctor resourcing and the impact of COVID-19.
2. Non-cash fair value adjustments in relation to the contingent consideration reflecting final settlement.
3. Receipts from the Australian Federal Government’s JobKeeper Program and similar government programs in other countries in response to the COVID-19 pandemic.

Operating and Financial Review (OFR)

The consolidated entity recorded strong cycle growth in all markets and correspondingly strong revenue in diagnostics and day hospitals across the network. The environment remains challenging due to the ongoing COVID-19 pandemic however the strong FY2021 results provide a strong base for investment in strategic platforms and future growth.

Comparable period results

When comparing to prior year performance it should be noted that 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 due to the COVID-19 pandemic, was previously estimated to be approximately \$14.6m. This estimate was determined by reference to activity levels in the prior corresponding months of FY2019.

The impact in terms of volumes/revenues on the various segments of the business was estimated as follows:

	4 Months to June 2020 during restrictions %
Australian fresh cycles	(15.3%)
International fresh cycles	(35.1%)
Diagnostic revenue	(11.9%)
Day Hospital revenue	(15.8%)

Australia

Virtus fresh cycle activity in Australia increased by 25.7% compared to pcp. Key aspects of the volume movements compared to pcp were as follows:

- Premium service volumes increased by 28.4% with growth in all regions ; and
- TFC volumes increased by 15.6% driven by strong growth in New South Wales and Queensland that was partially offset by a 2.1% reduction in Victorian cycles due to COVID-19 capacity restrictions during the extended lockdown in early FY2021.

Overall, EBITDA in the Australian segment increased by approximately \$22.7m (30.0% increase compared to pcp). There were four main factors contributing to this increase:

- Doctor and staff availability and detailed planning for the restart of elective surgery enabled Virtus to leverage the buoyancy in market activity in FY2021. Consumer behavioural shifts during the COVID-19 pandemic, to a focus on home and family, have resulted in a higher proportion of new patients commencing ARS, contributing to the increased volumes over the past 12 months,
- Increased cycle activity in ARS clinics resulted in an improvement in EBITDA of \$17.5m with improvements achieved by all Australian ARS clinics,
- Specialist diagnostic revenue increased in FY2021 compared to pcp reflecting improved IVF volumes and PGT activity from premium service cycles. This contributed to an increase in EBITDA of approximately \$1.4m in FY2021 compared to pcp; and
- In day hospitals, revenue increased by 41%, in part as a consequence of the increase in IVF activity mentioned above. Of note, there was significant improvement in demand for non-IVF procedures which now accounts for 45% of total day hospital revenue. Non-IVF revenue increased by 65% and revenue from IVF procedures increased by 26% across all day hospitals. The management of day hospitals was also restructured during FY2021 contributing to improvements in operating efficiency. Day Hospital EBITDA increased by \$3.8m compared to pcp.

International

Overall, EBITDA in the International segment increased by approximately \$6.2m (68.0% increase compared to pcp).

Ireland reported cycle volume increase of 24.6% over pcp and this resulted in EBITDA in local currency increasing by €1.8m compared to pcp. This was despite the costs and business interruption associated with the Rotunda IVF clinic relocation that was completed in December 2020 and continued constraints on the Ireland egg donation programme from travel restrictions during FY2021.

Cycle volumes in Singapore increased by 55.3% over pcp and resulted in EBITDA in local currency increasing by SG\$1.6m compared to pcp.

Virtus Danish clinics reported a combined growth in cycle volume of 23.0% and this resulted in EBITDA in local currency increasing by DKK3.0m compared to pcp.

In the UK, Complete Fertility reported cycle volume increase of 45.6% and this resulted in EBITDA growth in local currency of £0.6m compared to pcp.

Operating expenses movement analysis (OPEX)

\$Millions	FY21	FY20
Employee benefits expense	(117.3)	(100.1)
Occupancy expense	(6.6)	(6.0)
Advertising and marketing	(4.2)	(3.9)
Practice equipment expenses	(3.3)	(2.6)
Professional and consulting fees	(4.4)	(4.8)
Other expenses	(17.7)	(14.7)
	<u>(153.5)</u>	<u>(132.1)</u>
Total OPEX	<u>(153.5)</u>	<u>(132.1)</u>

Group OPEX was approximately \$21.4m higher compared to pcp. Significant movements are summarised below:

- Employment costs increased by \$17.2m (17.2%), driven mostly by higher cycle volumes (requiring higher FTEs) and additional FTEs to support the group's digital health strategy, reduced employee leave taken during FY2021 and, STI accruals being included as compared to pcp where STI hurdles were not achieved;
- Occupancy costs increased by \$0.6m (10.0%) resulting from increase in outgoings arising from settlement of a land tax dispute of \$0.4m and additional cleaning costs of \$0.2m in clinics and hospitals from increased throughput and COVID-19 safety related precautions;
- Practice equipment expenses increased by \$0.7m (26.9%) because of repairs and maintenance to medical equipment and premises, some of which were deferred from FY2020;
- Professional and consulting costs decreased by \$0.4m (8.3%) as FY2020 included fees relating to the Groups strategic review and COVID-19 related legal and banking support;
- Other expenses increased by \$3.0m (20.4%) and was a result of increase of \$1.5m in IT and Infrastructure expenses, increase of \$0.9m in insurance costs and the balance of \$0.6m related to increased freight and laundry costs.

Operating cash flow

Net cash from operating activities decreased by \$0.6m mostly by negative working capital movements and the payment of income tax balances in respect of the year to June 2020 (most of these were deferred in FY2020 in accordance with government mandated provisions in order to preserve cash and were settled during H1 FY2021 from operating cash inflows).

Capital Expenditure

Total expenditure on tangible and intangible assets was \$14.9m in FY2021 (FY2020: \$7.9m) and included \$5.3m for the relocation of the Rotunda IVF clinic to Swords Business Campus in Ireland.

Debt and interest expense

The decrease in finance costs over the prior period primarily relates to the decrease in the interest expense of \$1.6m on borrowings resulting from lower variable interest rates and lower debt levels. Non-cash interest on other financial liabilities also decreased by \$0.3m following the release of contingent consideration payable included in other financial liabilities – see note on other financial liabilities below.

During December 2020, the consolidated entity successfully extended its existing three-year facilities, amounting to A\$92m maturing in October 2021 to October 2023, aligning with the maturity of its five-year facilities. At 30 June 2021, total bank facilities drawn were \$145m (FY2020: \$165m) in borrowings and \$5.0m (FY2020: \$5.3m) in guarantees. Unused and available debt facilities amounted to \$111.8m. The consolidated entity complied with the financial covenants of its borrowing facilities during the financial year ended 30 June 2021. Subject to the continued compliance with the debt covenants, the bank facilities may be drawn at any time and the total facility of \$262m expires in October 2023. Cash balances at 30 June 2021 were \$37m.

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

Other financial liabilities (\$1.2m)

Other financial liabilities of \$1.2m at 30 June 2021 represents a vendor loan note of \$1.2m in relation to the acquisition of Fertilitesklinikken Trianglen Aps. The reduction of Other financial liabilities from prior year reflects the write back of contingent consideration relating to the acquisition of Fertilitesklinikken Trianglen Aps during the period resulting in a fair value gain of \$1.6m.

Amortisation of borrowing costs

Amortisation of borrowing cost expense for FY2021 was \$550,000, (FY2020: \$411,000). FY21 included a write-off of residual borrowing costs in relation to the three year facility which was refinanced during December 2020.

Taxation

The effective tax rate on operating earnings for F2021 was 27.5% (FY2020: 26.9% excluding impairment charges).

Earnings per share

Basic earnings per share increased by more than 100% to 53.86 cents per share (FY2020: 0.59 cents per share). Diluted earnings per share increased by more than 100% to 53.17 cents per share (FY2020: 0.59 cents per share).

Dividends

A final dividend of 12.00 cents per share fully franked will be paid on 29 October 2021 to shareholders on the register at 11 October 2021.

Outlook

The Australian ARS market demonstrated resilience in FY2021 from the severe disruptions of the COVID-19 pandemic which impacted Q4 of FY2020. Detailed planning for the successful restart of services and a change in consumer focus on the importance of home and family contributed to the positive performance. We expect demand for ARS to continue into FY2022, however market conditions remain competitive and fragmented.

The most recent outbreak of the COVID-19 Delta variant has resulted in lockdowns of various magnitudes across most Australian states since 26 June 2021. While access to ARS treatment and elective surgeries has continued in all states during lockdowns; heightened infection control and safety protocols, including a strict requirement for our doctors and staff to self-isolate when displaying symptoms or being identified as a casual or close contact; is contributing to some deferral of certain treatments.

International ARS markets continue to operate in the context of high numbers of COVID-19 cases and border closures. These conditions are delaying the commencement of our egg donation program in Ireland and our ARS “hub” strategy in Denmark. We remain confident that both initiatives will commence in FY2022 and that any of the potential near term impacts of COVID-19 on demand will likely be reflected as deferred, not lost, demand for ARS services.

Virtus continues to invest in state-of-the-art clinics & labs with new clinics under development in FY2022 to support growth in Nepean, Brisbane & Copenhagen. Our *One Lab* also continues to be deployed to further improve success rates. The Board has also approved the business case for the deployment of the *Precision Fertility* Digital Platform which will be a key investment in FY2022/23 and thereafter will support growth & drive efficiencies.

The demand for ARS in FY2022 and beyond will be influenced by a number of factors including, in the near term, consumer sentiment being focused on home and family, future pandemic lockdowns and vaccination rollout effectiveness. In the medium term, ARS demand will continue to be influenced by trends in maternal age, greater fertility choices and improvements in success rates. Virtus is well positioned to service the ongoing demand for ARS as well as to further diversify revenue via growth in its Day Hospitals and its Fertility Diagnostic and Reproductive Genetics service.

3. Net tangible assets/(liabilities)

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(158.91)	(205.86)
Net assets per ordinary security	373.94	333.63

4. Loss or gain of control over entities

Not applicable.

5. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend paid for the year ended 30 June 2020 paid in November 2020	12.000	12.000
Interim ordinary dividend paid for the year ended 30 June 2021 paid in April 2021	12.000	12.000

Previous 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
No final dividend was declared in June 2020		

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 unmodified opinion has been issued.

9. Attachments

Details of attachments (if any):

The Annual Report of Virtus Health Limited for the year ended 30 June 2021 is attached.

10. Signed

Signed



Date: 23 August 2021

Matthew Prior
Chief Financial Officer
Sydney

Virtus Health Limited

ABN 80 129 643 492

Annual Report - 30 June 2021

Corporate directory	2
Directors' report	3
Auditor's independence declaration	33
Statement of comprehensive income	34
Statement of financial position	35
Statement of changes in equity	37
Statement of cash flows	38
Notes to the financial statements	39
Directors' declaration	83
Independent auditor's report to the members of Virtus Health Limited	84

General information

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

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2021. The directors have the power to amend and reissue the financial statements.

Directors	Kate Munnings Lyndon Hale Sonia Petering Greg Couttas Shane Solomon Michael Stanford (resigned on 19 February 2021)
Company secretaries	Glenn Powers (resigned 14 May 2021) Ava Bentley (appointed 14 May 2021)
Notice of annual general meeting	The details of the annual general meeting of Virtus Health Limited are: Thursday, 18 November 2021. 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	Gilbert + Tobin Level 35 Two, International Towers, 200 Barangaroo Ave 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
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 23 August 2021 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 2021.

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:

Kate Munnings
 Lyndon Hale
 Sonia Petering
 Greg Couttas
 Shane Solomon
 Michael Stanford - (resigned on 19 February 2021)

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.

In FY21 Virtus has progressed its refreshed strategy with:

- i) The business case being approved, and the 18 month program of work commencing for the development of the Precision Fertility Digital Platform which will enhance patient & clinician experience, improve clinical outcomes and deliver operational efficiency;
- ii) Investments in the growth of the Virtus ARS clinic network with approval of business cases for three new clinics that incorporate the One Lab embryology & andrology laboratories, designed with world leading partners and;
- iii) The restructuring of the Virtus Fertility Diagnosis & Reproductive Genetics Service with the recruitment of enhanced genetic expertise with a Genetic Pathologist joining Virtus Genetics Service, and another offer pending, positioning Virtus as the leading Reproductive Genetics service in Australia.

Collectively, these strategic initiatives will provide for greater company growth opportunities and improve pregnancy success rates for Virtus patients.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2021 \$'000	2020 \$'000
Interim ordinary dividend for the year ended 30 June 2020 of 12.0 cents (2019: 12.0 cents) per fully paid ordinary share paid in November 2020	9,647	-
Interim ordinary dividend for the year ended 30 June 2021 of 12.0 cents (2020: nil) per fully paid share paid in April 2021	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
	19,294	9,647

November dividend paid was the FY2020 interim dividend that was deferred in H2 FY2020. Dividend paid in prior year was the final dividend for FY2019 and no final dividend was declared in June 2020.

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 \$43,135,000 (30 June 2020: \$469,000).

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

For a detailed review on the trading results refer to the operating and financial review section in Appendix 4E and to the ASX market announcement on 23 August 2021.

Significant changes in the state of affairs

Glenn Powers resigned from his role as Group CFO of Virtus Health Limited on 14 May 2021. Matthew Prior commenced as Group CFO of Virtus Health Limited on 28 June 2021.

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

An outbreak of the Delta variant of COVID-19 has put most of the Australian States into lockdowns of different magnitudes since 26 June 2021. Whilst, COVID-19 case numbers have been the largest in New South Wales, other states in Australia have also been affected by the Delta variant outbreak.

As evidenced from the above, the impact of the Coronavirus (COVID-19) pandemic is ongoing and while in the year to 30 June 2021 the consolidated entity experienced strong rebound in activity post the first wave of the virus in Q4 of FY2020, the potential impact, positive or negative, after the reporting date will be a function of a number of factors including consumer sentiment, availability of international travel, the length of the current lockdowns, future pandemic lockdowns, vaccination rollout effectiveness and any economic stimulus that may be provided.

On 22 August 2021, the consolidated entity (Virtus) signed a Share Sale Agreement to acquire 100% of the issued share capital of Adora Fertility Pty Limited, Craigie Day Hospital Pty Ltd, Darlinghurst Day Hospital Pty Ltd and Greensborough Day Hospital Pty Ltd ("Adora Businesses"). The purchase price of \$45 million will be funded through the combination of a fully underwritten \$35 million institutional placement and existing cash reserves. Note 37 provides further information about this transaction.

No other matter or circumstance has arisen since 30 June 2021 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 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.

Information security

The consolidated entity handles and stores personal information, including health information, for its customers and employees. With expanding information privacy and security regulations, and an increasingly complex cyber environment, the consolidated entity recognises information privacy and cyber security as an increasing risk.

The consolidated entity regularly assesses its information governance and cybersecurity controls considering emerging technological threats and expanding privacy laws. These assessments are used to determine any appropriate corrective actions and improvements. In addition to the ongoing assessment and remediation of operational privacy and security activities, the consolidated entity maintains cyber insurance as part of its overall risk mitigation strategy for information privacy and security risk.

(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: Independent Chairperson (appointed to the Board 1 September 2014, Chair appointment November 2019)
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 also an experienced commercial lawyer who commenced her own legal practice in 2001 and holds a current Victorian legal practicing certificate. She continues to be engaged on advisory and recruitment panels including advising the Minister for Water in relation to selection of board members for the 18 water corporation boards across Victoria. 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 and Qantm IP (ASX:QIP).
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 (appointed 18 March 2020)
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: 54,013 ordinary shares
Interests in options: 312,106 performance rights

Name: Greg Coultas
 Title: Independent Non-Executive Director (appointed 4 October 2016)
 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.
 Greg held a number of management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008. He was a member of the Deloitte Australia Board of Partners from 2005 to 2016 and was chair of the Audit and Risk Committee for eleven years. Greg is also a director of Sydney Water Corporation, Hireup Pty Limited and is 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, Acting Chair of the Nomination and Remuneration Committee and a member of the Risk Committee.
 Interests in shares: 10,000 ordinary shares
 Interests in options: None

Name: Lyndon Hale
 Title: Executive Director
 Qualifications: MBBS; FRACOG; CREI
 Experience and expertise: Lyndon has been the Medical Director of Melbourne IVF Pty Ltd from 2008 - 2020. 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: Independent Non-Executive Director (appointed 24 September 2018)
 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

'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 secretaries

Ava Bentley, Group General Manager, Legal and Risk, was appointed to the role of Company Secretary on 14 May 2021 following the resignation of Glenn Powers, Chief Financial Officer and Company Secretary. Ava is an experienced corporate and litigation lawyer with a broad range of experience gained in private practice and in-house roles. Prior to joining Virtus Health, Ava also held risk and leadership roles in the insurance and medical defence industries.

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 2021, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held
Sonia Petering - Chairperson	15	15	7	7
Kate Munnings	15	15	7	7
Greg Couttas	15	15	7	7
Lyndon Hale	15	15	-	-
Shane Solomon	15	15	-	-
Michael Stanford	11	11	4	4
	Audit Committee		Risk Committee	
	Attended	Held	Attended	Held
Sonia Petering- Chairperson	4	4	-	-
Kate Munnings	4	4	4	4
Greg Couttas	4	4	4	4
Lyndon Hale	-	-	4	4
Shane Solomon	4	4	4	4
Michael Stanford	-	-	2	2

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)

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Report for FY2021 for which we seek your support at our Annual General Meeting (AGM) on 18 November 2021.

This letter covers the following areas we expect to be of key interest to shareholders and stakeholders:

- How we are managing COVID-19;
- Revitalisation of the Virtus Health executive leadership team;
- Summary of FY2021 KMP Remuneration Outcomes;
- Reinvigorated Remuneration Framework;
- Non – Executive Director remuneration arrangements; and
- Focus for FY2022

How we are managing COVID-19:

Whilst COVID-19 remained a constant challenge throughout the year, the manner in which Virtus navigated the disruption caused by the pandemic is to be commended. Our strong financial performance is a result of consistently delivering safe services, ensuring strict infection control, engagement and support of our people and maintaining the highest standard of patient care. It is something to which each and every person within Virtus has made a contribution.

Revitalisation of the Virtus Health executive leadership team:

A key theme of the past year has been the revitalisation of the Virtus Health executive leadership team. With the launch of our new organisational growth strategy in FY2020, we have attracted leaders of the highest calibre, all of whom will play an important role in ensuring we deliver on our ambitious strategy.

Summary of FY2021 KMP Remuneration Outcomes:

There were no increases in fixed remuneration for any of the current executive KMP in FY2021. However, the former Chief Financial Officer, Glenn Powers, did receive a 2% increase in the first half of FY2021, prior to his resignation in May 2021.

Short Term Incentive Plan (STI)

Despite the uncertainty and challenges posed by COVID-19, the company has delivered a very strong financial result allowing Virtus to pay dividends in FY2021. Virtus achieved \$93.4m in Group EBITDA, which was double that of the previous year. The business recorded a net profit after tax of \$43.1m attributable to Virtus shareholders, which was 40% better than any result over the past five years. The European operations also delivered a significant improvement in EBITDA from the previous year's reported results, contributing to the exceptional group performance. These results meant STI financial targets were exceeded.

The STI non-financial targets were partially achieved, and are summarised as follows:

- Virtus achieved its COVID-19 Controls KPI – no Virtus facility was required to close because of an unavoidable COVID -19 outbreak.
- The Net Promoter Score has not increased as compared to the prior year, and this can in part be attributed to the challenges arising from the sharp increase in patient volumes throughout FY2021. Consequently the threshold target for that KPI has not been met.
- The Chief Strategy Officer and European Managing Director, Richard Banks, was measured on the employee engagement results for Europe, which saw improvement resulting in a partial achievement of this KPI.
- Richard Banks was also to be measured on implementing One Lab compliance in Europe during the year. However, throughout FY21, the focus of One Lab changed to ensure project requirements were properly defined for the design of all existing and future Virtus labs. As a result, the Board redistributed the weighting for this KPI across the rest of Richard Banks' KPIs.

Given the strength of the results delivered in FY2021, achieved in alignment with our values and risk appetite, the Board has approved an aggregate total STI payment of \$424,385 to be paid in cash to the participating executive KMP in line with their achievement of their financial and non-financial targets.

Long-Term Incentive Plan (LTI)

The LTI grants delivered in FY2018 were tested during FY2021 and did not meet the required Return on Equity (ROE) and Relative Total Shareholder Return (rTSR) performance hurdles over the three-year performance period. As a result, 100% of these grants have lapsed or were forfeited. There are no remaining unvested performance rights in respect of this grant.

Reinvigorated Remuneration Framework

Our remuneration strategy and framework evolved over the past year, delivering fair, performance-based outcomes that align with shareholder value.

In FY2021, we redefined our comparator group for the purpose of benchmarking executive KMP and NED remuneration. We now make reference to S&P/ASX 300 organisations with similar revenues to Virtus as the primary reference group. This aligns Virtus to organisations that are similar in size and complexity to the Virtus business.

The remuneration framework sets variable STI targets measured against threshold, target, and maximum target values. These targets are based on the degree of difficulty the Committee perceives is inherent in each respective KPI and provides the Committee with the scope to set STI outcomes that are challenging and which will deliver value for shareholders.

Non – Executive Director Remuneration Arrangements:

The Board has also revised our Non-Executive Director (NED) fee structure to better align with market practice using the updated comparator group noted above. This review resulted in an increase in NED fees with effect from 1 April 2021.

Further, in recognition of stakeholder and market expectations, the Board has implemented a Minimum Shareholding policy pursuant to which NEDs will be expected to acquire and hold shares equivalent to approximately one-year's NED fees over a three year period.

Focus for FY2022:

We continue to monitor and adjust how remuneration drives performance; to ensure our focus on sustainable performance and alignment between executive and shareholder outcomes. Looking forward to FY2022, the Board has approved a number of refinements to the remuneration framework, including:

- Setting consistent STI financial measures for the CEO and the CFO based on reported statutory Group NPAT attributable to Virtus shareholders;
- Measuring the Chief Strategy Officer (CSO) & European Managing Director on both Group EBITDA and consolidated EBITDA for the European operations. This approach is aligned with other operational senior executives of Virtus.
- Non-financial KPIs continue to measure patient experience, employee engagement and the delivery of strategic initiatives. For the FY2022 STI plan, the latter measurement will be a KPI designed to ensure the effective delivery of our Precision Fertility Digital Platform project on schedule and on budget; and
- For any non-financial KPIs to be achieved, the executive must first achieve the threshold for one of their financial KPIs. This approach serves as a natural hurdle for non-financial targets.

On behalf of the Board, thank you for your support and to our people, thank you for your achievements during FY2021.



Greg Couttas

Chair, Nomination and Remuneration Committee

1. 2021 Remuneration at a Glance

1.1. Introduction

The Directors present the Remuneration Report for Virtus Health Limited and its controlled entities ("Virtus") for the year ended 30 June 2021 (FY2021). The report has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001* and has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The report sets out Virtus' remuneration strategy, framework and the compensation arrangements in place for Key Management Personnel (KMP), defined as those persons having authority and responsibility for planning, directing and controlling the major activities of Virtus.

1.2. Key management personnel

The table below lists the KMP for the year ended 30 June 2021. All KMP held their positions for the full year, unless otherwise noted.

Name	Position	Dates
Non-Executive Directors		
<i>Current</i>		
Sonia Petering	Chair	Full year
Greg Coultas	Non-Executive Director	Full year
Shane Solomon	Non-Executive Director	Full year
<i>Former</i>		
Michael Stanford ¹	Non-Executive Director	Until 19 February 2021
Executives		
<i>Current</i>		
Kate Munnings	Managing Director and Chief Executive Officer (CEO)	Full year
Matthew Prior ²	Group Chief Financial Officer (CFO)	From 28 June 2021
Richard Banks	Chief Strategy Officer (CSO) and European Managing Director	Full year
Lyndon Hale ³	Executive Director and Medical Director TasIVF	Full year
<i>Former</i>		
Glenn Powers ⁴	Chief Financial Officer (CFO)	Until 14 May 2021

¹ Dr Michael Stanford ceased to be a Non-Executive Director when he resigned from the Board with effect from 19 February 2021.

² Matthew Prior became a KMP on 28 June 2021 when he was appointed Group CFO.

³ Dr Lyndon Hale stepped down from his role as Medical Director for Victoria on 1 January 2021 and has remained engaged as a Medical Director for TasIVF.

⁴ Glenn Powers resigned and stepped down from his CFO duties on 14 May 2021 and ceased to be a KMP at that time. His employment terminated with the company on 31 May 2021.

1.3. Governance

1.3.1. Role of the Board

The Board oversees Virtus' remuneration arrangements. It is accountable for the remuneration of executives and of Non – Executive Directors, and the policies and processes governing remuneration. It reviews and considers the appropriateness of recommendations from the Nomination and Remuneration Committee (the Committee) concerning remuneration policies and practices and ultimately approves the remuneration of executive KMP and of NEDs.

The Board assesses the performance of the CEO and oversees executive KMP performance and approves all related reward outcomes.

The Board retains absolute discretion to adjust Short Term and Long Term incentive components and outcomes.

1.3.2. Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee operates under its own charter and reports to the Board. The Committee is a committee of the Board established in accordance with Virtus' constitution and authorised by the Board to assist it in fulfilling its statutory, fiduciary and regulatory responsibilities. It has the authority and power to exercise the role and responsibilities set out in the charter and granted to it under any separate resolutions of the Board from time to time.

The Committee assists and advises the Board on remuneration policies and practices for the Board, the MD and CEO, the CFO, other executive KMP and other senior executives of Virtus. The responsibilities of the Committee are set out in the Nomination and Remuneration Committee Charter, which was updated on 22 September, 2020. The Charter may be found at the Investor Centre page of the Virtus website.

1.3.3. Independent Remuneration Advisors

Where appropriate, the Board and the Committee consult independent external advisors concerning the appropriateness of Virtus' remuneration practices and arrangements including remuneration levels, independent benchmarking data and incentive structures. The requirement for external remuneration advisor services is assessed on a needs basis and is used as guidance for Directors to consider when deciding on relevant matters. The Committee and Board consider this input amongst other factors when making decisions regarding remuneration.

While the Committee has relied on relevant market data from qualified independent remuneration surveys, in respect to executive KMP, the Committee did not seek advice from remuneration advisors in respect of executive remuneration during the financial year.

The Committee did receive advice from independent advisors regarding the remuneration of the Non-Executive directors (refer Section 3.1).

1.4. Remuneration Strategy and Framework

The Virtus remuneration strategy and framework is designed to support Virtus' strategic priorities by rewarding executives for successfully creating value for its patients, employees, and shareholders. It is structured to align executives and other employees interests with the creation of long-term shareholder value, to recognise high-performance and to attract, motivate and retain high calibre executives who can drive organisational performance in the short and long-term.

Virtus Health Strategy					
Become the global leader in precision fertility:					
Virtus Health has engaged in an ambitious strategy focussed on transforming the business through: Optimising Core Activities / Growing Capability in Genetics / Developing a World Class Digital Platform to Enable Precision Fertility					
Remuneration Strategy					
Virtus Health's executive remuneration strategy rewards executives for achievement and over-achievement of short and long-term objectives to align executives with shareholders' interests through a mix of fixed and variable remuneration components.					
Remuneration Philosophy					
Attract and Retain High-Performing Leaders		Pay Fairly		Simple and Transparent	
The remuneration framework attracts high-calibre leaders capable of delivering on our strategy and transforming Virtus Health to its future state		Remuneration is market competitive and rewards our leaders in relation to Company performance, high standard of values-based behaviours and alignment with shareholder expectations		The remuneration framework is designed to be easily understood by executives and shareholders	
Continuous Improvement					
Rewards should reflect year on year improvement and results					
Remuneration Mix					
Remuneration Component	Fixed Annual Remuneration (FAR)	Short Term Incentive (STI)		Long term Incentive (LTI)	
		Variable - at risk			
Alignment to Philosophy and Strategy	Competitive fixed pay to attract and retain high-calibre leaders capable of delivering business strategy	STI annual targets align with the delivery of business plans and strategic pillars. KPIs include financial performance, customer experience, employee engagement and strategic initiatives.		LTI plans are designed to align executives with shareholder interests, retain high-calibre leaders, encourage long-term focus, and instil a sense of ownership.	
Payment Delivery	Comprises cash salary, superannuation and benefits	Annual cash payment		Granted annually as performance rights subject to two equally weighted performance hurdles: Relative Total Shareholder Return (rTSR) and Return on Equity (ROE). Grants vest over 3 years and once vested can be exercised over 10 years.	
Opportunity Level	FAR levels are set in relation to skills, experience, level and complexity of role. FAR is benchmarked against external market.	CEO and CFO 54% of FAR (at maximum)	Other Senior Executives 31% of FAR (at maximum)	CEO 100% of FAR (maximum face value)	CFO and CSO 60% of FAR (maximum face value)

The Board assesses performance against short and long-term criteria and has discretion to determine award outcomes at the end of the respective performance periods.

1.5 Remuneration Mix

The FY2021 remuneration mix for executive KMP is a balance between fixed and short and long-term variable remuneration. There is a weighting towards at-risk, higher performance-based remuneration for outperformance. Short and long-term incentive opportunities are expressed as a percentage of FAR.

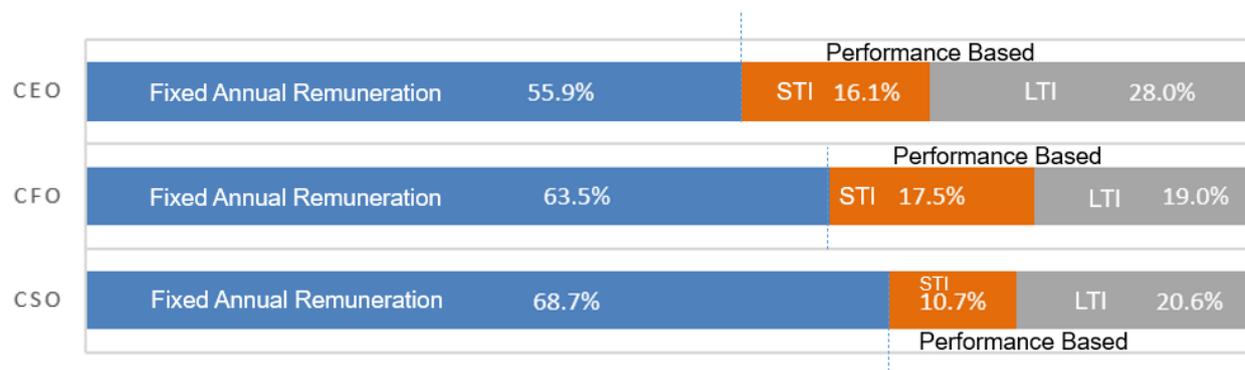
While at-target performance levels are set for variable remuneration, the Board also sets threshold and maximum outcome ranges for STI objectives. The threshold defines the minimum level of performance resulting in any payment, while the maximum defines what level of performance is exceptional, resulting in a payment above the target weighting for the respective STI objective. The LTI plan also sets threshold and target performance levels.

Below describes the range of these remuneration aggregates:

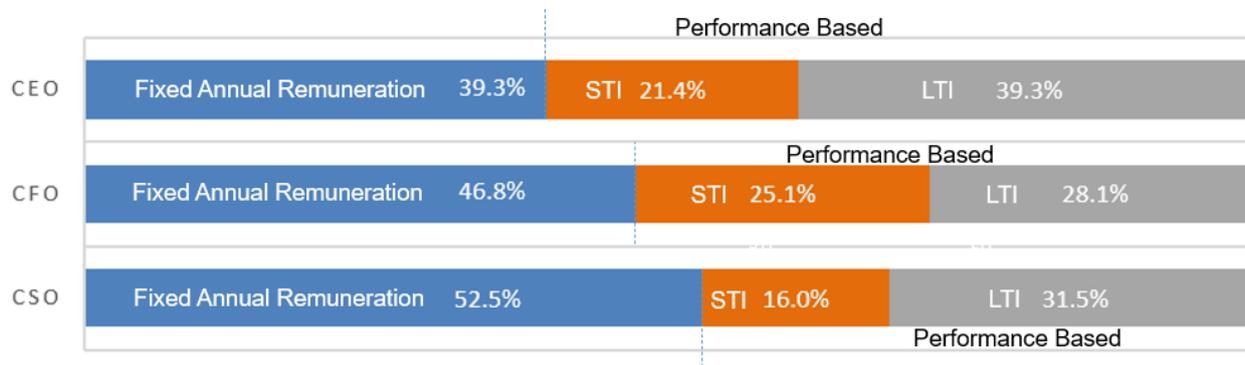
The **Remuneration at Threshold Level (RTL)** comprises FAR, achievement of threshold levels for each of the STI objectives, and the vesting of 50% of maximum face value of the LTI component, at the year of granting. The RTL is intended to be an estimate of executive remuneration outcomes for variable remuneration components, with a reasonable likelihood of achievement. Threshold levels are set at challenging levels deemed by the Board to align with the creation of shareholder value.

The **Total Maximum Remuneration (TMR)** comprises FAR and the achievement of stretch “outperformance” STI targets, and the vesting of 100% maximum face value of the LTI component, at the year of granting.

Remuneration at Threshold Level



Total Maximum Remuneration



Dr Lyndon Hale’s remuneration as a Director does not include eligibility to STI or LTI and is 100% Fixed Annual Remuneration. However, as a practicing fertility specialist he has the opportunity to participate in the Fertility Specialist Loyalty Scheme (refer Note 33 to the financial statements), as his remuneration is aligned with other Fertility Specialists within the Virtus Group.

2. Our Performance and Remuneration Outcomes

The remuneration outcomes of executive KMP are aligned with short and long-term performance outcomes. The tables below show the relationship between Virtus' financial performance over the past five years and executive KMP short and long-term variable remuneration outcomes. The FY2021 remuneration outcomes reflect the outstanding financial results for the current financial year.

Group Five Year Financial Performance

		FY21	FY20	FY19	FY18	FY17
Revenue	(\$'000)	324,602	258,932	280,069	263,916	256,518
EBITDA	(\$'000)	93,399	46,212	63,511	65,027	64,834
EBIT	(\$'000)	69,313	21,195	49,883	52,531	50,799
Profit after income tax	(\$'000)	43,802	946	28,990	32,009	30,004
NPAT attributable to Virtus shareholders	(\$'000)	43,135	469	28,426	30,753	28,103
Share price at financial year end	(\$)	6.60	2.83	4.50	5.75	5.38
Total dividends paid	(cents per share)	24	12	24	26	28
Basic earnings per share	(cents per share)	53.86	0.59	35.37	38.26	35.00
Diluted earnings per share	(cents per share)	53.17	0.59	34.97	37.98	34.79
EPS Growth on prior year	(%)	>100%	-98.3%	-7.6%	9.3%	-15.0%

Executive KMP Five Year Remuneration Outcomes

	FY21	FY20	FY19	FY18	FY17
Managing Director & CEO STI outcomes (% of maximum)	85%	0%	0%	51%	0%
CFO ¹ STI outcomes (% of maximum)	0%	0%	0%	79%	0%
Other Executive KMP STI outcomes (range of eligible KMPs % of maximum)	87%	0%	0%	0% - 51%	0%-100%
LTIP vesting outcomes (% vesting of maximum)	0%	0%	0%	0%	0%

¹ Glenn Powers (CFO) resigned from the company in May 2021 and hence was not entitled to any STI outcome for FY2021.

LTI Performance Rights are granted annually, vest over a three-year period and are assessed by reference to two equally weighted performance hurdles: Relative Total Shareholder Return (rTSR) and Return on Equity (ROE). The percentages detailed in the table above relevant to each date are for the rTSR hurdle assessed at 3 years from the date of grant and for the ROE hurdle measured against the annual three-year average ROE as at 30 June of each respective year.

2.1. Fixed Annual Remuneration (FAR) Approach and Outcomes

The FAR strategy is designed to attract and retain high-calibre leaders with the skill and experience to deliver on short-term performance while delivering on the business strategies that will grow and develop the organisation to its potential.

FAR comprises cash salary, employer contributions to superannuation (or pension contributions for overseas KMPs), vehicle allowance, and salary sacrifice benefits.

Virtus' approach is to set executives' FAR at a level reflecting their skills and experience, allowing for progressive increases to apply as the executive becomes more experienced in the role. There are no guaranteed increases to fixed remuneration in employment contracts of executive KMP.

Virtus benchmarks FAR to the median against its comparator group. Generally, Virtus seeks to offer FAR within 15% below and 15% above the market median (i.e. 85% to 115% compa-ratio) depending on the level of experience, skills and performance of the incumbent in the role.

Virtus has realigned its annual remuneration review process with the financial year. During FY2021, Glenn Powers, CFO, received 2% increase in FAR. No increases in FAR were given to any other executive KMP.

Matthew Prior, who joined Virtus as its CFO on 28 June 2021, was the only new executive KMP to join Virtus during FY2021. His remuneration package has been set at the market level required to attract candidates of the requisite skill and experience.

Comparator Group

Virtus has determined that the talent pool from which it employs high-calibre senior executives is drawn from a broad range of organisations, within and outside the health sector. It seeks leaders who have experience working in large, complex organisations, who can deliver on its growth strategy and transform Virtus to its future state. Virtus has adopted the view that a revenue-based comparator group is appropriate, as revenue is a good indication of the level of operational complexity of an organisation.

Accordingly, executive KMP's remuneration is assessed against Australian Securities Exchange (ASX) listed organisations with revenues between \$200m and \$500m and cross-referenced against organisations within the ASX 250-300 ranking as a secondary benchmarking source (as referenced in the *Aon and Governance Institute - Board & Executive Remuneration Report 2020*).

2.2. STI approach and outcomes

The Virtus STI plan puts a significant portion of the executive's remuneration at risk based on overall financial and non-financial objectives. The plan's structure is designed as an integral part of the Virtus' remuneration framework and intends to incentivise executive KMP and other plan participants through the application of the following principles:

- Reward for annual performance and over-performance;
- Support the implementation of Virtus' strategic initiatives;
- Drive a strong sense of group and individual accountability;
- Measure against simple and clearly understood key performance indicators; and
- Set realistic and achievable threshold measures and ambitious over-performance targets.

Financial and non-financial KPIs are reviewed and amended annually by the Nomination and Remuneration Committee.

The STI plan provides for cash settlement where successful performance against KPIs is achieved. For the CEO & Managing Director, performance is assessed by the Nomination and Remuneration Committee and recommended to the Board for approval after completion of the external audit of the Group financial statements. For other executive KMP and senior executives, the CEO & Managing Director assesses their performance after completion of the external audit of the Group financial statements and the Nomination and Remuneration Committee reviews and recommends outcomes to the Board for approval.

The Board has discretion to determine whether any performance conditions have been met and may determine to include or exclude any items from its calculation assessment, based on any reasonable matters the Board considers relevant, such as market conditions or if the Board deems that a STI participant has not demonstrated behaviours in accordance with the company's values or has breached the Virtus Code of Conduct.

The following table summarises the performance of each KMP against their respective FY2021 STI targets:

Weighting at Target for CEO	Weighting at Target for CSO & European Managing Director ^{1,2}	Performance Measure	Outcome in relation to Target for FY2021	Performance Outcome
Financial				
70%	44%	FY21 Group EBITDA	110%	Financial performance measured by reference to Group EBITDA exceeded the STI maximum target.
	22%	FY21 EBITDA - Consolidated European entities	110%	Financial performance measured by reference to consolidated European EBITDA exceeded the STI maximum target.
Non-Financial				
15%	11%	Net Promotor Score	0%	While there were improvements in the NPS scores within some of the Virtus businesses, the group result reduced by 4% from the FY20 NPS results. This was primarily a result of the high volume of activity Virtus clinics have experienced over the past year. This will remain an area of focus for Virtus in FY22 and beyond.
15%	11%	COVID-19 Infection Control	100%	Virtus Health implemented strict COVID safety measures for staff and patients at all its sites. Strict hygiene measures were implemented, including the engagement of temperature checking staff and patients upon arrival at sites. This objective was fully achieved because no Virtus facility was required to close because of an unavoidable COVID -19 outbreak.
	11%	Employee Engagement - Europe ¹	85.4%	The European operations increased their Employee Engagement score by 3.5% from the baseline score identified in 2020. This results in a partial achievement of this objective.

The above table includes all STI measures for the eligible executive KMP. The performance measures for the CFO are not included in the table above because the former CFO was not eligible for the STI due to his resignation during FY2021.

1 Of the participating executive KMP, only the CSO and European Managing Director was measured on Employee Engagement as an STI KPI for the European entities.

2 The CSO & European Managing Director's weighting was revised during the FY2021. The One Lab performance measure was removed and the weighting was redistributed across the other measures as detailed in Section 2.3.2.

The STI outcomes for executive KMPs are detailed in the table below showing the proportion of the cash bonus paid/payable or forfeited by reference to maximum possible achievement:

	Cash Bonus Paid/Payable		Cash bonus forfeited	
	2021	2020	2021	2020
Executive Directors:				
<i>Current</i>				
K Munnings	85%	-	15%	-
<i>Former</i>				
Sue Channon ¹	-	-	-	100%
Other Key Management:				
<i>Current</i>				
M Prior ²	-	-	-	-
R Banks	87%	-	13%	100%
<i>Former</i>				
G Powers ³	-	-	-	100%

1 Sue Channon ceased employment in FY2020.

2 Matthew Prior was appointed CFO and became executive KMP on 28 June, 2021 and hence was not eligible for the FY2021 STI plan.

3 Due to Glenn Powers' cessation of employment in May 2021, he is no longer eligible for a FY2021 STI award.

2.3. FY2021 STI Scorecards for Individual KMP

The Board has discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes.

The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance. As such, all STI award outcomes are assessed on how results were achieved including alignment to values, risk, compliance and leadership which can result in the application of discretion as the Board deems appropriate.

2.3.1 CEO Scorecard

Executives have STI scorecards which establish the performance expectations across each metric. KPIs are set by the Board for the CEO. For FY2021, the Board set the CEO's KPIs to be focused on financial performance in the context of COVID-19, patient experience (measured through Net Promoter Scores) and infection control in the context of COVID-19 as short-term areas of focus that are also important for the medium to longer term.

The CEO's FY2021 financial KPI was set to measure results against prior year performance. This decision reflected the fact that at the time of setting these targets, there was significant uncertainty due to the impacts of the first wave of COVID-19 in Australia. There had been significant disruption to the revenues and cash flow of the business and the focus was very much on securing the survival of the business and meeting the covenants that had been agreed with our finance providers. Achieving an equivalent or better EBITDA result than the prior year was considered an appropriate target.

The financial metrics used for FY2021 and the equivalent measures for the prior year exclude non-trading expenses and, in particular exclude the impact of government assistance received in the form of the Job Keeper Scheme.

For FY2021, the CEO was measured against the following financial and non-financial STI Scorecard. In addition, the board assessed the CEO on how results were achieved including alignment to values, risk, compliance, and leadership. The resulting outcome was 85% of the maximum potential outcome.

Weighting	Metric	Measure
FINANCIAL		
70%	FY21 Group EBITDA	For each financial KPI the calculation method will be as follows: o if FY21 EBITDA is less than the prior comparative period ('pcp'), no STI will be paid; or o if FY21 EBITDA is greater than or equal to FY20 EBITDA then 50% of the STI will vest; or o if FY21 EBITDA is 105% or more of the FY20 EBITDA then 100% of the STI will vest; or o if FY21 EBITDA is 110% or more of the FY20 EBITDA then 110% of the STI will vest.
NON-FINANCIAL		
15%	Net Promotor Score	o If FY21 result is greater than or equal to FY20 then 50% of the at-risk STI will vest; or o If FY21 result is 105% of FY20 then 100% of the at-risk STI will vest; or o If FY21 result is 110% of FY20 then 110% of the at-risk STI will vest.
15%	COVID-19 Infection Control	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.

2.3.2 CSO & European Managing Director Scorecard

As the CSO & European Managing Director holds a group level responsibility as well as a European operational remit, the STI scorecard includes two financial targets: Group EBITDA and a financial target measuring the achievement of the Consolidated European entities EBITDA.

The financial metrics used for FY2021 and the equivalent measures for the prior year exclude non-trading expenses and in particular exclude the impact of government assistance received in the form of the Job Keeper Scheme.

The CSO & European Managing Director also had four non-financial FY2021 STI objectives, one of which was to implement One Lab protocols within the European operations.

Throughout FY2021, the strategy for One Lab has expanded to enable the capital light Virtus as a Service Strategy, therefore the implementation of new work instructions and protocols is now only one component of the broader deliverables of One Lab. The One Lab strategy has evolved to consist of *One Lab Principle Project Requirements* (PPR), One Lab process redesign and work instruction development, One Lab optimisation and One Lab innovation.

The PPR provides an end-to-end ideal design template for the One Lab infrastructure, which can be easily adapted to suit the architectural and structural differences for different laboratory environments.

Due to Virtus' modification and redirection of the One Lab strategy, the Committee approved the redistribution of the weighting for this metric equally across all the other STI objectives for the CSO & European Managing Director.

Below is a summary of the CSO & European Managing Director's STI Scorecard for FY2021 including the revised weighting:

Original Weighting	Revised Weighting ¹	Metric	Scope	Measure
FINANCIAL				
40%	44%	FY21 Group EBITDA	Group	o if FY21 EBITDA is less than the prior comparative period ('pcp'), no STI will be paid; or o if FY21 EBITDA is greater than or equal to FY20 EBITDA then 50% of the STI will vest; or o if FY21 EBITDA is equal to the FY21 Board approved budget EBITDA then 100% of the STI will vest; or o if FY21 EBITDA is 110% or more of the FY21 Board approved budget EBITDA then 110% of the STI will vest.
20%	22%	FY21 EBITDA for relevant area of responsibility	Europe	
NON-FINANCIAL				
10%	11%	Net Promotor Score	Group	o If FY21 result is greater than or equal to FY20 then 50% of the at risk STI will vest; or o If FY21 result is 105% of FY20 then 100% of the at-risk STI will vest; or o If FY21 result is 110% of FY20 then 110% of the at-risk STI will vest.
10%	11%	COVID-19 Infection Control	Europe	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.
10%	11%	Staff Engagement Score	Europe	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 (up to 5%) on subsequent surveys during the year.
10%		One Lab Compliance	Europe	Compliance to Virtus Health One Lab program with 50% vesting for 80% compliance and 100% vesting for 100% compliance.

¹ Weighting is rounded to the nearest percentage point.

2.4 Changes to FY2022 STI

Plan Structure and KPIs

The STI plan for FY2022, established by the Nomination and Remuneration Committee, applicable to the executive KMP (excluding Lyndon Hale)¹, is set out below. The same structure is applicable to other senior executives in the company who are not considered KMP.

The FY2022 STI financial target for Kate Munnings (Group CEO and Managing Director) and Matthew Prior (Group CFO) will be based on reported statutory Group NPAT attributable to Virtus shareholders.

Richard Banks (CSO and European Managing Director) will be measured equally against two financial targets consisting of the Group EBITDA and the consolidated European EBITDA.

"One-offs" or abnormal items of income or expenditure, including but not limited to such items as the impact from mergers, acquisitions, divestments, or impairments, will be excluded from the calculation of the achievement of STI financial measures at Board discretion.

All STI participants will also be measured against three non-financial targets, remaining consistent with the principle of measuring success with Patient Experience (NPS measure), Employee Experience (Employee Engagement survey measure) and assigning one KPI to the delivery of Virtus Strategic initiatives. For FY2022, this KPI is focussed on the effective delivery of the Precision Fertility Digital Strategy.

For any non-financial KPIs to be achieved, the executive must first achieve the threshold for one of their financial KPIs. This approach serves as a natural hurdle for non-financial targets.

Below is the FY2022 STI component weighting at maximum achievement and the relevant metrics for the executive KMP.

¹ Dr Lyndon Hale remuneration does not include eligibility to STI or LTI and is 100% Fixed Annual Remuneration.

Level	Component Weighting at Maximum & Metrics				
	Financial		Non-Financial		
CEO & Managing Director	71% (Group NPAT)		10% (Net Promoter Score)	10% (Employee Engagement)	9% (Digital Strategy)
CFO	61% (Group NPAT)		14% (Net Promoter Score)	13% (Employee Engagement)	12% (Digital Strategy)
CSO & European Managing Director	41% (Group EBITDA)	20% (EBITDA for relevant area of responsibility)	14% (Net Promoter Score)	13% (Employee Engagement)	12% (Digital Strategy)
Functional Executives	41% (Group EBITDA)		20% (Net Promoter Score)	20% (Employee Engagement)	19% (Digital Strategy)

All calculations of STI achievements and the payment of any STI are at Board discretion.

KPI Measures and Target Setting

The FY2022 STI KPIs are measured against Threshold, Target, and Maximum values, which are based on the degree of difficulty the Committee believes is inherent in each respective KPI. This provides the Committee with the scope to set STI outcomes that are challenging and which will deliver value for shareholders.

The achievement of Threshold value triggers a partial payment for each measure, increasing on a linear pro-rata basis to nominal 100% payment value for 100% achievement at Target performance. In addition, for most metrics, there is an over-performance, Maximum target, which enables the participant to achieve up to 110% of the weighted percentage for the respective KPI.

The financial metrics and all the non-financial metrics (other than the Precision Fertility Digital Strategy KPI) include an over-performance target and are measured as follows:

- If the result reaches the Threshold value, the objective pays 50% of the weighted percentage amount of the KPI.
- If the result is between the Threshold value and the Target value, the KPI pays on a linear pro-rata basis between 50% and 100% of the weighted percentage for the KPI.
- If the result is between the Target value and the Maximum value, the objective pays on a linear pro-rata basis an amount between 100% and 110% of the weighted percentage for the objective.
- If the result exceeds the Maximum value, the objective pays at 110% of the weighted percentage for the objective.

Precision Fertility Digital Strategy KPI

The Committee have set cost and schedule targets at tolerance levels that ensure that while the project budget and schedule are adhered to, quality is not compromised. Measurement of the achievement of the Precision Fertility Digital Strategy will be based on indices that assess performance against budget and schedule.

Achievement of these project indices will be assessed by an independent assessor, ensuring the integrity of the measures for this objective.

Summary of FY2022 STI Plan for KMP

The below table summarises the FY2022 metrics and method of calculation:

CEO & MD	CFO	CSO & European Managing Director			
Weighting at maximum			Metric	Scope	Measure
FINANCIAL					
71%	61%		FY22 Group NPAT	Group	- If the result reaches the threshold value, this objective pays 50% of the weighted percentage amount. - If the result is between the threshold and the target value, this objective pays on a linear pro-rata basis between 50% and 100% of the weighted percentage for this objective.
		41%	FY22 Group EBITDA	Group	- If the result is between the target value and the maximum value, this objective pays on a linear pro-rata basis between 100% and 110% of the weighted percentage for this objective. - If the result exceeds the maximum value, this objective pays 110% of the weighted percentage for this objective.
		20%	FY22 EBITDA - European Entities	Europe	- If the result exceeds the maximum value, this objective pays 110% of the weighted percentage for this objective.
NON-FINANCIAL					
10%	14%	14%	Net Promotor Score	Group for CEO and CFO / Europe for CSO & European MD	The threshold value is set by reference to the FY2021 value for these objectives: - If the result reaches the threshold, each objective pays 50% of the weighted percentage amount. - If the result is between the threshold value and the target value, each objective pays on a linear pro-rata basis between 50% and 100% of the weighted percentage for the objective.
10%	13%	13%	Employee Engagement	Group for CEO and CFO / Europe for CSO & European MD	- If the result is between the target value and the maximum value, each objective pays on a linear pro-rata basis between 100% and 110% of the weighted percentage for the objective. - If the result exceeds the maximum target value, the objective pays 110% of the weighted percentage for each objective.
9%	12%	12%	Digital Strategy	Group	Completion of the Design and Configuration of the Precision Fertility Digital Platform : As a hurdle for this KPI to be met, the project costs must be within a prescribed budget. If the hurdle is met: - If the project is within the threshold Schedule level, this objective pays 50% of the weighted percentage amount. - If the project is within the threshold and target delivery schedule, this objective pays on a linear pro-rata basis between 50% and 100% of the weighted percentage of this objective. - If the project is ahead of the target delivery schedule, this objective pays 100% of the weighted percentage for this objective.

The financial targets are set by reference to the Board approved financial budget for FY 2022.

2.5 Long Term Incentive (LTI)

The company has adopted a performance rights plan ('LTI Plan') for its senior executives to balance the following key factors in its remuneration strategy:

- 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.

Opportunity

The LTI award opportunity is based on a percentage of the participant's FAR as at the grant date. The number of performance rights granted is the LTI award opportunity divided by the volume weighted average share price (VWAP) over the fifteen-trading day period commencing on the date on which Virtus releases its financial year results.

Performance Period

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

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 granting and vesting of LTI awards. All outstanding unvested performance rights or options automatically lapse upon the senior executive ceasing to be employed by Virtus unless otherwise determined by the Board. The Board has discretion to adjust LTI outcomes, such as lapse or vest awards, based on achievements which are consistent with the Group's strategic priorities or for material misstatements of the company's financials or in the case of significant reputational damage.

Below is a summary of the four senior executive performance grants in operation during FY2021:

LTI Plan	FY2021 ¹		FY2020 ¹		FY2019 ^{1,2}		FY2018 ³	
Grant Date	19 November 2020		20 November 2019		21 November 2018		10 November 2017	
Performance Period	3 Years: rTSR: 19 Nov 2020 - 19 Nov 2023 ROE: 1 July 2020 - 30 June 2023		3 Years: rTSR: 20 Nov 2019 - 20 Nov 2022 ROE: 1 July 2019 - 30 June 2022		3 Years: rTSR: 21 Nov 2018 - 21 Nov 2021 ROE: 1 July 2018 - 30 June 2021		3 Years: rTSR: 10 Nov 2017 - 22 Nov 2020 ROE: 1 July 2017 - 30 June 2020	
Relative TSR Component (External Performance Measures)								
Comparator Group	S&P/ASX 300				50%: S&P/ASX 300 50%: S&P/ASX 300 Health		50%: S&P/ASX 200 50%: S&P/ASX 200 Health	
TSR Base share price	\$3.43		\$4.11		\$5.70		\$5.58	
Vesting Schedule	Relative TSR				% of rights vesting			
	At 50th %tile				25%			
	Above 50th %tile to 75th %tile				Progressive linear pro-rata vesting between 25%-50%			
	At or above the 75th%tile				50%			
ROE Component (Internal Performance Measures)								
ROE measured as 3 Year Weighted Average	3 Year Average ROE	% of rights vesting	3 Year Average ROE	% of rights vesting	3 Year Average ROE	% of rights vesting	3 Year Average ROE	% of rights vesting
	ROE below 7.85%	0%	ROE below 12%	0%	ROE below 12%	0%	ROE below 15%	0%
	ROE between 7.85% and 9.22%	Progressive linear pro-rata vesting between 25%-50%	ROE between 12% and 14%	Progressive linear pro-rata vesting between 25%-50%	ROE between 12% and 14%	Progressive linear pro-rata vesting between 25%-50%	ROE between 15% and 17.5%	Progressive linear pro-rata vesting between 25%-50%
	ROE at or above 9.22%	50%	ROE at or above 14%	50%	ROE at or above 14%	50%	ROE at or above 17.5%	50%
Current Status	Calculations of the company's rTSR and ROE will be determined at the end of the three-year vesting period by the Board (2023) with verification performed by an external party.		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 ROE performance hurdle tested on 30 June 2021 was not met and all rights associated with this performance hurdle lapsed during FY2021. The rTSR performance hurdle will be tested in November 2021.		The rTSR performance hurdles were tested on 22 November 2020 and were not met. Also the ROE performance hurdle tested on 30 June 2020 was not met.	
Awards on Issue	467,130		29,678		22,249		0	
Annual AASB 2 accounting charge	\$482,179		\$51		(\$23,223)		(\$11,914)	
Maximum earnings dilution to existing shareholders	0.6%		0.04%		0.03%		-	

- Richard Banks retains performance rights for the 2019, 2020 and 2021 LTI plans and Kate Munnings retains performance grants for the 2021 LTI plan.
- 22,249 of the performance rights granted on 21 November 2018 were tested against the ROE performance hurdle on 30 June 2021, did not vest and have lapsed. A further 60,147 rights were forfeited by executives who left employment. The remaining 50% of the performance rights are to be tested against the relative TSR performance hurdle on 21 November 2021.
- 51,509 of the performance rights granted on 10 November 2017 were tested against the relative TSR performance hurdle on 22 November 2020 did not vest and have lapsed. A further 10,048 rights were forfeited by executives who left employment. The other 50% of these performance rights were tested by reference to the average ROE performance hurdle on 30 June 2020, did not vest and accordingly lapsed.

2.6 Senior Executives – FY2022 LTI Plan

The Nomination and Remuneration Committee resolved to continue to apply a consistent approach for the FY2022 LTI Plan as was applied in FY2021.

The FY2022 LTI Plan will retain 50% of the LTI grant to be linked to the rTSR measured over a three-year period against constituents of a single comparator group, the S&P/ASX 300 Index.

Virtus will also retain the measure of 50% of the LTI grant assessed by reference to average annual Return on Equity (ROE) and continue to measure the ROE hurdle as a margin over the Virtus Health Weighted Average Cost of Capital (WACC). The hurdle target for the Average ROE for FY2022 to FY2024 will be 1.15 x WACC, and the maximum target will be 1.35 x WACC, as agreed with the Audit Committee.

2.7 KMP – Foregone Incentives Awards

2.7.1 CEO – Foregone Incentive Award

In recognition of incentives foregone by Kate Munnings upon joining Virtus on 18 March 2020, a one-off Foregone Incentive Award ('FIA') valued at \$700,000, granted as performance rights was awarded to Ms Munnings under the LTI Plan. The award vests equally over 3 years on the anniversary of the commencement of her employment. Vesting of the performance rights is subject to the Board's assessment of Ms Munnings' performance over each year of the 3-year vesting period.

The Board, in its assessment of the performance condition of the FIA, formed a view by considering a broad set of factors aligned with the group's long-term strategy, when measuring Ms Munnings' performance for the purpose of this FIA and approved the vesting of the first of the three tranches of this award for the period up to 18 March 2021.

2.7.2 CFO – Foregone Incentive Award

In recognition of incentives foregone by Matthew Prior as a result of leaving his former employment, a FIA was implemented consisting of two elements:

- A one-off cash payment of \$100,000;
- Performance rights valued at \$65,000.

The cash payment has been accrued for in the FY2021 financial accounts and will be paid in FY2022. The performance rights are to be granted in FY2022. Vesting will be subject to Mr Prior continuing to be employed and not serving a notice period, at the first anniversary date of his commencement with Virtus.

2.8 Terms of Executive Service Agreements (ESA)

Remuneration and other terms of employment for executive KMP are formalised in service agreements that detail the components of remuneration paid but do not prescribe any changes to remuneration from year to year. While none of the agreements provide for a fixed term, they include provisions for terminating the agreements under specified notice periods. Apart from Dr Hale, other KMP and senior executives are subject to restraint of trade provisions.

Below is a summary of the termination provisions for executive KMP:

Executive KMP	Commencement Date	Notice Period		Restraint of Trade Restricted Period	Conditions
		Given by Executive	Given by Company		
Executive Director and Medical Director TasIVF	11-June-2013	3 months	3 months	N/A	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.
Chief Executive Officer	18-March-2020	6 months	6 months	6 months	The employment contract may be terminated by either the Executive or the Company by giving notice in writing. The company may terminate by giving notice in writing or by making a payment in lieu of notice.
Chief Financial Officer	28-June-2021	3 months	3 months	12 months	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.
Chief Strategy Officer and European Managing Director	29-May-2017	3 months	3 months	6 months	Upon the termination of the employment contract, the Executive will be subject to a restraint of trade period. The company may elect to reduce the restraint of trade period or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

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

3 Non-Executive Directors' Arrangements

3.1 Non-Executive Directors' Remuneration Policy and Structure

Non-Executive Director (NED) fees are intended to align NEDs with the interests of public investors and should be set in order for NEDs to retain their independence. The quantum of NED fees should attract and retain highly competent NEDs who will define the direction of Virtus and ensure the organisation's governance and compliance. NEDs are not eligible for performance based or at-risk remuneration.

NED fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Committee may consider feedback from stakeholders and may seek advice from independent remuneration consultants to ensure NED fees are appropriate and in line with market and shareholder expectations. The Virtus Chair is not present at any discussions relating to the determination of her own remuneration.

In FY2021, after considering feedback from stakeholders, the Committee redesigned the remuneration structure for NEDs. The Committee benchmarked the Virtus NED fees against equivalent roles within the ASX 250 to 300 and within ASX listed organisations with revenues ranging from \$200m and \$500m (as referenced in the *Aon and Governance Institute - Board & Executive Remuneration Report 2020*). The Committee determined to utilise ASX companies in the \$200m and \$500m revenue range as the primary reference group as this large comparator group reduces the impact of outliers in the data. The Committee also considers revenue to be a less volatile indicator than market capitalisation as well as it being an effective proxy for the complexity of an organisation.

The Committee received advice from independent advisors, Aon Executive Remuneration, who endorsed this approach. This review highlighted that the Virtus NED Board and committee fees (and in particular the Board Chair fees) were significantly misaligned with the comparator group. The below increases implemented with effect from 1 April 2021 will realign Board member, committee chair and committee member fees to market practice. Despite these fee structure corrections, the Board Chair remuneration continues to position the Virtus Chair at a level below the comparator group. The Committee has decided to implement a partial correction in

FY2021 and will consider a further correction to the Board Chair fee in July 2022 to further realign with the market median.

Based on the advice from the independent advisors the Committee increased the following NED fees with effect from 1 April 2021:

- Board Chair fee increased from \$139,300 to \$181,090 per annum;
- Board member fees increased from \$83,500 to \$93,520 per annum;
- Committee Chair fees increased as follows:

- Risk Committee and Audit Committee Chair fees: increased from \$15,000 to \$20,000;
- Nomination and Remuneration Committee Chair fees: increased from \$10,000 to \$20,000;
- Committee member fees increased as follows:
 - Risk Committee and Audit Committee member fees: increased from \$7,500 to \$10,000;
 - Nomination and Remuneration Committee member fees: increased from \$5,000 to \$10,000.

All fees above are inclusive of superannuation.

Pursuant to the ASX Listing Rules the total amount paid to all NEDs must not exceed in aggregate in any financial year the amount approved by shareholders. Aggregate annual directors' fees paid to NEDs for the financial year ended 30 June 2021 were \$461,977 (30 June 2020: \$467,252). The maximum authorised amount payable in aggregate to all NEDs for their services (including superannuation) approved by shareholders at the 2015 Annual General Meeting is \$600,000 per annum (director fee pool).

Subject to Annual General Meeting approval in November 2021, the Board will seek to increase the director fee pool to \$850,000 per annum, to more closely align to equivalent market practice.

Aon Executive Remuneration have declared that its endorsement and recommendations were made free from undue influence by the members of the Board to whom the recommendations relate.

On the basis of this declaration and the protocols and process governing the engagement of Aon Executive Remuneration and receipt of its recommendations, the Board is satisfied that the recommendations and endorsement were free from undue influence by such persons.

In FY2021, Aon Executive Remuneration was paid \$3,182 (exclusive of GST) in relation to remuneration recommendations provided as part of its engagement as a remuneration consultant.

Aon was paid \$92,000 (excluding GST) for other services including insurance brokerage provided across the business during FY2021.

3.2 Non-Executive Directors' Minimum Shareholder Requirement

The Board implemented with effect from 1 April 2021 a minimum shareholder requirement (MSR) for NEDs. Virtus NEDs will be required to hold a minimum shareholding in Virtus approximately equal to the value of one-year's annual Director Board Member's fee.

This shareholding is to be established over a three-year period following a Non-Executive Director's appointment. Further by the first anniversary of the Non-Executive Director's appointment, the Non-Executive Director (or related entity) must have acquired shares equivalent to at least 10% of their Board Member's fee. The remaining 90% can be acquired by the Non-Executive Director (or related entity) anytime within the following two-year period.

Non-Executive Directors will acquire shares by open market share purchase during normal trading windows (as defined in the Virtus Health Securities Trading Policy) or by salary sacrifice of Director Fees.

For Non-Executive Directors already engaged by Virtus, prior to the implementation of this requirement, they will be subject to the same conditions and schedule to establish the MSR as a newly appointed Non-Executive Director.

These MSR conditions will form part of the next revision of the Nomination and Remuneration Committee Charter.

Details of the current shareholdings for NEDs as of 30 June 2021 are provided in section 4.2.

3.3 Other information about Director's 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.

4 Other Statutory Disclosures

4.1 KMP Remuneration

The tables below set out the remuneration of KMP of the consolidated entity determined in accordance with Australian Accounting Standard AASB 2 on an accruals basis and therefore include movements in leave accruals and provisions.

Table 1: Statutory Remuneration Disclosure for Key Management Personnel: Financial Year 2021

2021	Short -term Benefits		Post- employment benefits	Long-term benefits	Share Based Payments	Total
	Salary, leave and fees	STI ⁷	Superannuation or pension	Long Service Leave ⁶	Equity settled ⁶	
Non-Executive Directors	\$	\$	\$	\$	\$	\$
<i>Current</i>						
S Petering	149,884		14,315			164,199
G Coultas	109,556		10,462			120,018
S Solomon	100,804		9,623			110,427
<i>Former</i>						
M Stanford ¹	61,492		5,842			67,333
Total NED Remuneration	421,734		40,243			461,977
Executive Directors						
<i>Current</i>						
K Munnings ²	688,002	322,000	25,523	727	575,148	1,611,400
L Hale ³	160,615		7,276			167,891
Other Key Management Personnel						
M Prior ⁴	104,731		449			105,180
R Banks	365,462	102,385	23,484		81,955	573,287
<i>Former</i>						
G Powers ⁵	408,354		23,558	(57,501)	(23,621)	350,790
Total KMP Remuneration	2,148,899	424,385	120,534	(56,773)	633,482	3,270,526

- 1 Michael Stanford ceased to be a Non-Executive Director with effect from 19 February 2021, his director's fees are shown up to the date of his resignation.
- 2 Kate Munnings' equity settled remuneration includes \$364,491 of expense relating to her incentives foregone (Foregone Incentive Award). The remaining \$210,657 relates to her FY2021 LTI grant.
- 3 Dr Lyndon Hale's remuneration is in relation to his role as an Executive Director and as Medical Director for Tasmania and for part of the year as Medical Director for Victoria.
- 4 Matthew Prior commenced employment as Group Chief Financial Officer on 28 June 2021 and became a KMP on that date. The remuneration reflected represents his remuneration from his commencement date and the cash portion of his Foregone Incentive Arrangement.
- 5 Glenn Powers resigned and stepped down from his CFO duties on 14 May 2021 and ceased his employment on 31 May 2021. Negative adjustments under long service leave and equity settled remuneration represent the reversal of accounting accruals for leave and the write back of amounts accrued in respect of unvested performance rights following the cessation of Mr Powers employment.
- 6 The value of equity settled amounts 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.
- 7 STI represents the accrual in respect of a KMP's performance in the financial year and this is generally paid in the month following the publication of the consolidated entity's audited financial statements.

Table 2: Statutory Remuneration Disclosure for Key Management Personnel: Financial Year 2020

2020	Short -term Benefits		Post- employment benefits	Long-term benefits	Share Based Payments	Total ¹
	Salary, leave and fees	STI	Superannuation or pension	Long Service Leave	Equity settled	
Non-Executive Directors	\$	\$	\$	\$	\$	\$
P Macourt ³	53,362		5,069			58,431
S Petering ²	113,832		10,814			124,646
G Coultas ²	96,301		9,149			105,450
S Solomon ²	91,963		8,737			100,700
M Stanford ^{2,5}	71,256		6,769			78,025
Total NED Remuneration	426,714		40,538			467,252
Executive Directors						
K Munnings ^{2,6}	161,056		5,874		116,028	282,958
S Channon ^{3,4}	877,072		37,669	12,728	(70,553)	856,916
L Hale ²	160,011		6,882			166,893
Other Key Management Personnel						
G Powers ²	360,965		21,003	(6,895)	29,631	404,704
R Banks ⁷	63,655		4,013		2,098	69,766
Total KMP Remuneration	2,049,473		115,979	5,833	77,204	2,248,489

- 1 Negative adjustments in this table reflect reductions in accruals.
- 2 In view of the impact of the COVID-19 pandemic, Kate Munnings and Glenn Powers voluntarily reduced their fixed remuneration by 20% and the Board reduced their fees by 20% for the final quarter of the financial year.
- 3 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.
- 4 Sue Channon's salary, leave and fees includes payments in lieu of notice of \$531,658.
- 5 Michael Stanford joined the Board in September 2019 so the total benefit in FY2020 did not represent a full year of fees.
- 6 Kate Munnings joined the Board in March 2020 so the total benefit in FY2020 did not represent a full year of remuneration.

7 Richard Banks became a KMP on assumption of the role of Chief Strategy Officer in May 2020 so the total benefit in FY2020 did not represent a full year remuneration.

4.2 KMP Shareholding

Below are additional disclosures relating to KMP in relation to their shareholding in the company as at 30 June 2021:

The number of ordinary shares in the company held during the financial year by each director and other members of KMP 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
Sonia Petering	45,000	-	-	-	45,000
Greg Couttas	5,000	-	5,000	-	10,000
Shane Solomon	-	-	-	-	-
Michael Stanford ¹	20,000	-	-	20,000	-
Lyndon Hale	826,572	-	-	-	826,572
Kate Munnings	-	54,013	-	-	54,013
Matt Prior	-	-	-	-	-
Glenn Powers ²	114,150	-	-	-	114,150
Richard Banks	-	-	-	-	-
	1,010,722	54,013	5,000	20,000	1,049,735

1. Dr Michael Stanford ceased to be a Non-Executive Director when he resigned from the Board with effect from 19 February 2021.
2. Glenn Powers resigned and stepped down from his CFO duties on 14 May 2021 and ceased to be a KMP at that time.

4.3 KMP 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 KMP 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
Kate Munnings	162,037	204,082	(54,013)	-	312,106
Matt Prior	-	-	-	-	-
Glenn Powers ¹	116,694	69,264	-	(185,958)	-
Richard Banks	61,112	63,443	(20,944)	-	103,611
	339,843	336,789	(74,957)	(185,958)	415,717

1. Glenn Powers resigned and stepped down from his CFO duties on 14 May 2021 and ceased to be a KMP at that time.

4.4 Share Based Compensation

4.4.1 Issue of shares

Lyndon Hale did not receive any shares as part of compensation during the year ended 30 June 2021 under the terms of the Fertility Specialist Loyalty Scheme (refer Note 33 to the financial statements). This scheme is designed as an incentive to reward, retain and motivate Virtus' fertility specialists and to recognise the sustained contribution of approximately the top quartile of Australian specialists on an annual basis by granting them shares based on the number of fertility cycles they deliver over the year.

4.4.2 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 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	22 March 2022	27 April 2030	\$0.00	\$4.32
27 April 2020	23 March 2023	27 April 2030	\$0.00	\$4.32
19 November 2020	19 November 2023	19 November 2030	\$0.00	\$3.51

The grants dated 27 April 2020 represent the two remaining tranches granted to Kate Munnings upon her commencement with Virtus in recognition of incentives foregone.

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 executive KMP as part of compensation during the years ended 30 June 2021 and 30 June 2020 are set out below:

		Number of rights granted	Number of rights vested	Number of rights lapsed during the year
Kate Munnings	FY2021	204,082	54,013	-
	FY2020	162,037	-	-
Matt Prior	FY2021	-	-	-
Glenn Powers	FY2021	69,264	-	185,959
	FY2020	56,671	-	33,800
Richard Banks	FY2021	63,443	-	20,944
	FY2020	29,678	-	10,454

Fair values of options and performance rights over ordinary shares granted, exercised and lapsed for executive KMP as part of compensation during the year ended 30 June 2021 are set out below:

	Fair Value of rights granted	Net market value of rights exercised	Number of rights lapsed ¹
Kate Munnings	\$715,307	\$318,676	-
Matt Prior	-	-	-
Glenn Powers	\$242,770	-	185,959
Richard Banks	\$222,368	-	20,944

¹ Of the options lapsing, 30,417 were granted on 22 November 2017 and 50,551 were granted on 21 November 2018. In addition, 125,935 grants were forfeited by Glenn Powers when he ceased his employment in May 2021.

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 September 2016*	21 September 2026	\$8.05	26,832
21 September 2016*	21 September 2026	\$8.05	10,063
24 October 2017*	24 October 2027	\$0.00	48,386
24 October 2017*	24 October 2027	\$0.00	77,418
24 October 2017*	24 October 2027	\$0.00	33,871
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	22,248
20 November 2019	20 November 2029	\$0.00	29,678
09 December 2019*	09 December 2029	\$0.00	59,124
09 December 2019*	09 December 2029	\$0.00	19,708
27 April 2020	27 April 2030	\$0.00	108,025
20 October 2020*	20 October 2030	\$0.00	165,305
19 November 2020	19 November 2030	\$0.00	467,130
			1,369,495

* 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 no shares were issued on the exercise of options except for those issued under the Fertility and Executive Option plans (refer to note 23)

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

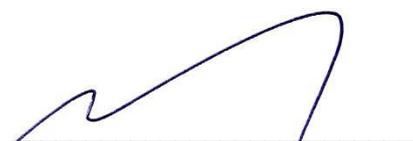
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument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

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

23 August 2021
Sydney



Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Mark Dow', with a long horizontal flourish extending to the right.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
23 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Virtus Health Limited
Statement of comprehensive income
For the year ended 30 June 2021



	Note	Consolidated 2021 \$'000	2020 \$'000
Revenue	4	324,602	258,932
Share of profits of associates accounted for using the equity method		1,060	403
Other income	4	10,915	15,040
Expenses			
Fertility specialists, consumables and associated costs		(89,552)	(70,754)
Employee benefits expense		(117,328)	(100,177)
Depreciation and amortisation expense	5	(24,086)	(25,017)
Impairment of goodwill	5	-	(24,587)
Impairment of brand	5	-	(388)
Occupancy expense		(6,576)	(6,026)
Advertising and marketing		(4,214)	(3,970)
Practice equipment expenses		(3,349)	(2,645)
Professional and consulting fees		(4,452)	(4,839)
Other expenses		(17,668)	(14,748)
Finance costs	5	<u>(8,954)</u>	<u>(10,792)</u>
Profit before income tax expense		60,398	10,432
Income tax expense	6	<u>(16,596)</u>	<u>(9,486)</u>
Profit after income tax expense for the year		43,802	946
Other comprehensive income/(loss)			
<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	25	774	(862)
Foreign currency translation		<u>(3,169)</u>	<u>1,394</u>
Other comprehensive income/(loss) for the year, net of tax		<u>(2,395)</u>	<u>532</u>
Total comprehensive income for the year		<u>41,407</u>	<u>1,478</u>
Profit for the year is attributable to:			
Non-controlling interest		667	477
Owners of Virtus Health Limited	26	<u>43,135</u>	<u>469</u>
		<u>43,802</u>	<u>946</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		729	524
Owners of Virtus Health Limited		<u>40,678</u>	<u>954</u>
		<u>41,407</u>	<u>1,478</u>
		Cents	Cents
Basic earnings per share	3	53.86	0.59
Diluted earnings per share	3	53.17	0.59

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 2021



	Note	Consolidated 2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	37,008	38,047
Trade and other receivables	8	12,086	13,372
Inventories		1,313	1,399
Prepayments		4,563	3,149
Total current assets		<u>54,970</u>	<u>55,967</u>
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment	11	39,914	34,913
Right-of-use assets	13	69,082	89,719
Intangibles	10	428,357	433,694
Deferred tax	6	11,188	10,329
Other	40	312	306
Total non-current assets		<u>550,342</u>	<u>570,450</u>
Total assets		<u>605,312</u>	<u>626,417</u>
Liabilities			
Current liabilities			
Trade and other payables	9	31,626	41,538
Lease liabilities	14	12,076	10,661
Derivative financial instruments	19	1,166	1,148
Income tax	6	7,603	9,662
Provisions	16	4,886	4,396
Other financial liabilities	21	823	2,374
Unearned income		21,098	20,032
Total current liabilities		<u>79,278</u>	<u>89,811</u>
Non-current liabilities			
Borrowings	18	144,090	164,087
Lease liabilities	15	71,442	92,137
Derivative financial instruments	20	1,462	2,586
Deferred tax	6	599	799
Provisions	17	7,429	7,510
Other financial liabilities	22	399	1,284
Total non-current liabilities		<u>225,421</u>	<u>268,403</u>
Total liabilities		<u>304,699</u>	<u>358,214</u>
Net assets		<u>300,613</u>	<u>268,203</u>

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

Virtus Health Limited
Statement of financial position
As at 30 June 2021



	Note	Consolidated	
		2021	2020
		\$'000	\$'000
Equity			
Issued capital	23	242,342	240,785
Reserves	25	12,745	16,004
Retained profits	26	44,000	10,617
Equity attributable to the owners of Virtus Health Limited		<u>299,087</u>	<u>267,406</u>
Non-controlling interest	27	1,526	797
Total equity		<u><u>300,613</u></u>	<u><u>268,203</u></u>

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 2021



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	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
<i>Transactions with owners in their capacity as owners:</i>					
Put option exercise	-	9,571	-	(9,571)	-
Dividends payable by subsidiary to non-controlling interest	-	-	-	(609)	(609)
Transfer of shares to participants pursuant to share based payment schemes	463	(463)	-	-	-
Share based payment expense	-	1,252	-	-	1,252
Settlement of partly paid shares (note 23)	416	-	-	-	416
Purchase of treasury shares	(1,984)	-	-	-	(1,984)
Dividends paid	-	-	(19,188)	-	(19,188)
Balance at 30 June 2020	240,785	16,004	10,617	797	268,203

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2020	240,785	16,004	10,617	797	268,203
Profit after income tax expense for the year	-	-	43,135	667	43,802
Other comprehensive income/(loss) for the year, net of tax	-	(2,457)	-	62	(2,395)
Total comprehensive income/(loss) for the year	-	(2,457)	43,135	729	41,407
<i>Transactions with owners in their capacity as owners:</i>					
Transfer of shares to participants pursuant to share based payment schemes (note 23)	2,701	(2,701)	-	-	-
Share based payment expense	-	1,899	-	-	1,899
Settlement of partly paid shares (note 23)	1,135	-	-	-	1,135
Purchase of treasury shares (note 23)	(2,279)	-	-	-	(2,279)
Dividends paid	-	-	(9,752)	-	(9,752)
Balance at 30 June 2021	242,342	12,745	44,000	1,526	300,613

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

Virtus Health Limited
Statement of cash flows
For the year ended 30 June 2021



	Note	Consolidated	
		2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		323,972	262,820
Payments to suppliers (inclusive of GST)		<u>(243,140)</u>	<u>(193,273)</u>
		80,832	69,547
Other revenue		13,317	8,258
Interest and other finance costs paid		(4,784)	(6,132)
Lease interest paid		(3,464)	(3,440)
Income taxes paid		<u>(20,080)</u>	<u>(1,850)</u>
Net cash from operating activities	36	<u>65,821</u>	<u>66,383</u>
Cash flows from investing activities			
Payment of acquisition of non-controlling interest		-	(7,109)
Payments for property, plant and equipment and intangibles		(14,855)	(7,921)
Payment of security deposits		(17)	(19)
Proceeds from disposal of property, plant and equipment and intangibles		30	-
Interest received		39	28
Associate distributions received		<u>750</u>	<u>382</u>
Net cash used in investing activities		<u>(14,053)</u>	<u>(14,639)</u>
Cash flows from financing activities			
Proceeds from partly paid shares	23	1,135	416
Payment of dividends		(19,293)	(9,647)
Dividend paid to non-controlling interest in subsidiaries		-	(609)
Repayment of borrowings		(20,000)	(11,000)
Proceeds from borrowings		-	1,000
Payment of finance facility fees in relation to refinancing		(545)	-
Repayment of lease liabilities		(11,554)	(10,812)
Purchase of treasury shares	23	<u>(2,279)</u>	<u>(1,984)</u>
Net cash used in financing activities		<u>(52,536)</u>	<u>(32,636)</u>
Net increase/(decrease) in cash and cash equivalents		(768)	19,108
Cash and cash equivalents at the beginning of the financial year		38,047	18,831
Effects of exchange rate changes on cash and cash equivalents		<u>(271)</u>	<u>108</u>
Cash and cash equivalents at the end of the financial year	7	<u>37,008</u>	<u>38,047</u>

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

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 Health 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 2021 the consolidated entity's current liabilities exceeded its current assets by \$24,308,000 (June 2020: \$33,844,000). The current liabilities include unearned income of \$21,098,000 as well as employee leave liabilities of \$13,109,000. 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 \$111,802,000 which matures in October 2023.

The Directors continually monitor the group's working capital position, including forecast working capital requirements and have ensured that there are appropriate financing 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 financial assets and liabilities at fair value through profit or loss, 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.

Note 1. Notes to the financial report (continued)

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.

Non-monetary items

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

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.

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 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.

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements

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

Note 1. Notes to the financial report (continued)

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.

Note 2. Operating segments (continued)

Consolidated - 2021	Healthcare Services Australia \$'000	Healthcare Services International \$'000	Unallocated \$'000	Total \$'000
Revenue				
Sales to external customers	257,771	65,134	-	322,905
Other revenue	1,658	-	-	1,658
Interest revenue	39	-	-	39
Total revenue	<u>259,468</u>	<u>65,134</u>	<u>-</u>	<u>324,602</u>
Segment EBITDA	<u>97,652</u>	<u>15,257</u>	<u>-</u>	112,909
Share based payment expense				(1,899)
Corporate costs				(9,801)
Information technology costs*				(9,590)
Fair value adjustments to contingent consideration				1,599
Depreciation and amortisation expense				(24,086)
Foreign exchange				181
Net interest				(8,915)
Profit before income tax expense				<u>60,398</u>
Income tax expense				(16,596)
Profit after income tax expense				<u>43,802</u>
<i>Total assets includes:</i>				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	<u>8,130</u>	<u>6,725</u>	<u>-</u>	<u>14,855</u>

*Increase from prior year is in relation to enhancing existing technologies, improving security and transformative investments in creating our Digital platform

Healthcare Services International sales to external customers, comprised of revenue from Ireland \$32.9m, Denmark \$14.6m, Singapore \$9.3m and UK \$8.3m.

Segment EBITDA for the period included \$7.7m (FY2020: \$7.7m) of COVID-19 related Government assistance that assisted the consolidated entity to preserve employee relationships through the pandemic by minimising employee stand downs and permanent job losses, providing a stable platform to allow the group to meet the deferred pent up patient demand in FY2021

Note 2. Operating segments (continued)

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	<u>208,612</u>	<u>50,318</u>	<u>2</u>	<u>258,932</u>
Segment EBITDA	<u>74,971</u>	<u>9,072</u>	<u>-</u>	84,043
Share based payment expense				(1,252)
Corporate costs				(10,489)
Information technology costs				(6,899)
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				<u>10,432</u>
Income tax expense				(9,486)
Profit after income tax expense				<u>946</u>
<i>Total assets includes:</i>				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	<u>5,184</u>	<u>2,737</u>	<u>-</u>	<u>7,921</u>

Healthcare Services International sales to external customers, comprised of revenue from Ireland \$27.0m, Denmark \$11.0m, Singapore \$6.4m and UK \$5.9m.

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 2021 \$'000	2020 \$'000
Profit after income tax	43,802	946
Non-controlling interest	(667)	(477)
Profit after income tax attributable to the owners of Virtus Health Limited	<u>43,135</u>	<u>469</u>
Add: interest savings on conversion of options	54	-
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	<u>43,189</u>	<u>469</u>

Note 3. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	80,086,597	80,080,891
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares that are dilutive	<u>1,137,039</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,223,636</u>	<u>80,080,891</u>
	Cents	Cents
Basic earnings per share	53.86	0.59
Diluted earnings per share	53.17	0.59

In the prior year the options were not dilutive and hence the diluted EPS was the same as the basic 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	
	2021	2020
	\$'000	\$'000
<i>Revenue from contracts with customers</i>		
Rendering of services	<u>322,905</u>	<u>257,220</u>
<i>Other revenue</i>		
Rent	1,658	1,684
Interest	39	28
	<u>1,697</u>	<u>1,712</u>
Revenue	<u>324,602</u>	<u>258,932</u>
	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Other income</i>		
Fair value gain on put liabilities	-	1,500
Fair value gain on contingent consideration	1,599	4,495
Other income	1,594	1,307
Government grants	<u>7,722</u>	<u>7,738</u>
Other income	<u>10,915</u>	<u>15,040</u>

Note 4. Revenue (continued)

Recognition and measurement

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.

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	
	2021	2020
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	3,370	4,083
Right-of-use assets	11,895	11,826
Furniture and fittings	382	472
Office equipment	2,040	2,088
Medical equipment	3,627	3,459
Total depreciation	<u>21,314</u>	<u>21,928</u>
<i>Amortisation</i>		
Software	1,815	1,954
Brand names	957	1,135
Total amortisation	<u>2,772</u>	<u>3,089</u>
Total depreciation and amortisation	<u>24,086</u>	<u>25,017</u>
<i>Impairment</i>		
Impairment of goodwill	-	24,587
Impairment of brand	-	388
Total impairment	<u>-</u>	<u>24,975</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	4,734	6,382
Interest on lease liabilities	3,464	3,440
Interest on other financial liability - non-cash interest	206	559
Amortisation of bank facility fees	550	411
Finance costs expensed	<u>8,954</u>	<u>10,792</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>7,805</u>	<u>6,471</u>
<i>Research costs</i>		
Research costs	<u>2,140</u>	<u>2,038</u>
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	1,087	1,177
Share-based payments expense - employee benefits	812	75
Total share-based payments expense	<u>1,899</u>	<u>1,252</u>

Note 6. Income tax

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	18,034	9,814
Deferred tax - origination and reversal of temporary differences	(1,391)	(884)
Adjustment recognised for prior periods	(47)	323
Write off of tax losses	-	233
	<u>16,596</u>	<u>9,486</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(1,191)	(725)
Decrease in deferred tax liabilities	(200)	(159)
	<u>(1,391)</u>	<u>(884)</u>
Deferred tax - origination and reversal of temporary differences		
	<u>(1,391)</u>	<u>(884)</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>60,398</u>	<u>10,432</u>
Tax at the statutory tax rate of 30%	18,119	3,130
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	-	7,376
Impairment of brand	-	116
Fair value gain on Put Liabilities and Contingent Consideration	(477)	(1,560)
Other	(264)	441
	<u>17,378</u>	<u>9,503</u>
Difference in overseas tax rates	(735)	(573)
Losses written off	-	233
Adjustment recognised for prior periods	(47)	323
	<u>(47)</u>	<u>323</u>
Income tax expense	<u>16,596</u>	<u>9,486</u>

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets	<u>332</u>	<u>(369)</u>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>675</u>	<u>810</u>
Potential tax benefit at 17%	<u>115</u>	<u>138</u>

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	
	2021	2020
	\$'000	\$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	4,346	3,413
Right-of-use assets	3,902	3,673
Tax losses	115	138
Intangible assets	-	(144)
Other	2,037	2,129
	<u>10,400</u>	<u>9,209</u>
Amounts recognised in equity:		
Other	788	1,120
Deferred tax asset	<u>11,188</u>	<u>10,329</u>
Amount expected to be recovered within 12 months		
	3,208	2,999
Amount expected to be recovered after more than 12 months		
	<u>7,980</u>	<u>7,330</u>
	<u>11,188</u>	<u>10,329</u>
Movements:		
Opening balance	10,329	7,143
Credited to profit or loss	1,191	725
Credited/(charged) to equity	(332)	369
Opening adjustment - on transition of AASB 16 'Leases'	-	2,092
Closing balance	<u>11,188</u>	<u>10,329</u>

Note 6. Income tax (continued)

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Right-of-use assets	(224)	(125)
Intangible assets	754	920
Other	69	4
	<u>599</u>	<u>799</u>
Deferred tax liability	<u>599</u>	<u>799</u>
Amount expected to be settled within 12 months	159	153
Amount expected to be settled after more than 12 months	440	646
	<u>599</u>	<u>799</u>
Movements:		
Opening balance	799	1,065
Credited to profit or loss	(200)	(159)
Opening adjustment - on transition of AASB 16 'Leases'	-	(107)
	<u>599</u>	<u>799</u>
Closing balance	<u>599</u>	<u>799</u>
	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Provision for income tax</i>		
Provision for income tax	<u>7,603</u>	<u>9,662</u>

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	
	2021	2020
	\$'000	\$'000
Cash at bank and on hand	37,008	38,047

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	
	2021	2020
	\$'000	\$'000
Trade receivables	11,026	11,172
Less: Allowance for expected credit losses	(1,561)	(2,226)
	<u>9,465</u>	<u>8,946</u>
Other receivables	<u>2,621</u>	<u>4,426</u>
	<u>12,086</u>	<u>13,372</u>

Allowance for expected credit losses

The consolidated entity has recognised a reversal of \$30,000 (2020: \$466,000 expense) in profit or loss in respect of impairment of receivables for the year ended 30 June 2021.

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

	Consolidated	
	2021	2020
	\$'000	\$'000
3 to 6 months overdue	170	592
Over 6 months overdue	1,391	1,634
	<u>1,561</u>	<u>2,226</u>

The nominal value of the impaired receivables is \$1,731,441 (2020: \$2,818,621).

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

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Opening balance	2,226	1,859
Additional provisions recognised	-	466
Unwinding of excess provision	(30)	-
Receivables written off during the year as uncollectable	(635)	(99)
	<u>1,561</u>	<u>2,226</u>
Closing balance	<u>1,561</u>	<u>2,226</u>

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	
	2021	2020
	\$'000	\$'000
Trade payables	11,073	12,343
Dividends payable	-	9,541
Other payables	20,553	19,654
	<u>31,626</u>	<u>41,538</u>
	<u>31,626</u>	<u>41,538</u>

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

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	
	2021	2020
	\$'000	\$'000
Goodwill - at cost	422,088	424,791
Software - at cost	24,310	23,981
Less: Accumulated amortisation	(22,495)	(20,617)
	<u>1,815</u>	<u>3,364</u>
Brand names - at cost	19,422	19,549
Less: Accumulated amortisation	(14,968)	(13,622)
Less: Impairment	-	(388)
	<u>4,454</u>	<u>5,539</u>
	<u><u>428,357</u></u>	<u><u>433,694</u></u>

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 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)
	<u>424,791</u>	<u>3,364</u>	<u>5,539</u>	<u>433,694</u>
Balance at 30 June 2020	424,791	3,364	5,539	433,694
Additions	-	270	-	270
Exchange differences	(2,703)	(4)	(128)	(2,835)
Amortisation expense	-	(1,815)	(957)	(2,772)
	<u>422,088</u>	<u>1,815</u>	<u>4,454</u>	<u>428,357</u>

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 7 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 its 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	
	2021	2020
	\$'000	\$'000
New South Wales	111,807	111,807
Victoria	122,294	122,294
Queensland	66,626	66,626
Australian Diagnostics	26,721	26,721
Ireland	40,078	41,358
Denmark	45,350	47,025
UK	9,212	8,960
	<u>422,088</u>	<u>424,791</u>

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 overall margins 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.

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

	Terminal Growth Rate		Pre-tax discount rate	
	2021	2020	2021	2020
New South Wales	2.5%	2.5%	10.4%	10.7%
Victoria	2.5%	2.5%	10.4%	10.7%
Queensland	2.5%	2.5%	10.4%	10.7%
Australia Diagnostics	2.5%	2.0%	10.5%	10.7%
Ireland	2.0%	2.0%	9.4%	9.9%
Denmark	2.0%	2.0%	10.2%	10.8%
UK	2.0%	2.0%	10.6%	10.5%

Denmark:

Due to changes in the competitive landscape, delays in doctor resourcing and the impact of COVID-19 an impairment charge was recognised in respect of the Danish CGU in the prior period. Management believes that its post COVID-19 strategic plans and growth initiatives which include expanding the clinics to increase capacity and to attract international patients and leverage the growing wait list in the public system, and a fully resourced doctor group will help the business achieve its revenue and growth targets for FY2022 and beyond. Should these future growth estimates not be achieved, the carrying value of goodwill in relation to Denmark may become impaired. The key sensitivities for the Danish cash-generating unit are as follows:

- If forecast revenue decreases by 2.0%, an impairment charge of \$368,000 would need to be recognised, with all other assumptions remaining constant;
- If the discount rate increases by 0.5%, an impairment charge of \$1,020,000 would need to be recognised, with all other assumptions remaining constant;
- If the terminal growth rate decreases by 0.5%, an impairment charge of \$27,000 would need to be recognised, with all other assumptions remaining constant.

UK:

The economic uncertainties and disruption arising as a result of COVID-19 in 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 that include regional expansion and satellite clinics which will help the business achieve its revenue and EBITDA growth targets for FY2022 and beyond. Should these future growth estimates not be achieved, the carrying value of goodwill in relation to the UK may become impaired. The key sensitivities for the UK cash-generating unit are as follows:

- If forecast revenue decreases by 2.0%, an impairment charge of \$249,000 will need to be recognised, with all other assumptions remaining constant;
- If the discount rate increases by 1.0%, an impairment charge of \$202,000 would need to be recognised, with all other assumptions remaining constant;
- If the terminal growth rate decreases by 1.5%, an impairment charge of \$263,000 would need to be recognised, 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	
	2021	2020
	\$'000	\$'000
Leasehold improvements - at cost	57,976	53,102
Less: Accumulated depreciation	<u>(37,506)</u>	<u>(34,354)</u>
	<u>20,470</u>	<u>18,748</u>
Furniture and fittings - at cost	4,432	4,067
Less: Accumulated depreciation	<u>(3,331)</u>	<u>(2,980)</u>
	<u>1,101</u>	<u>1,087</u>
Office equipment - at cost	23,795	21,744
Less: Accumulated depreciation	<u>(18,689)</u>	<u>(16,715)</u>
	<u>5,106</u>	<u>5,029</u>
Medical equipment - at cost	45,754	39,264
Less: Accumulated depreciation	<u>(32,517)</u>	<u>(29,215)</u>
	<u>13,237</u>	<u>10,049</u>
	<u>39,914</u>	<u>34,913</u>

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 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	<u>(4,083)</u>	<u>(472)</u>	<u>(2,088)</u>	<u>(3,459)</u>	<u>(10,102)</u>
Balance at 30 June 2020	18,748	1,087	5,029	10,049	34,913
Additions	5,255	403	2,136	6,791	14,585
Disposals	-	-	(3)	(7)	(10)
Exchange differences	(163)	(7)	(18)	33	(155)
Depreciation expense	<u>(3,370)</u>	<u>(382)</u>	<u>(2,040)</u>	<u>(3,627)</u>	<u>(9,419)</u>
Balance at 30 June 2021	<u>20,470</u>	<u>1,101</u>	<u>5,104</u>	<u>13,239</u>	<u>39,914</u>

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.

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

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 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.

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) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

Note 12. Leases (continued)

	Consolidated	
	2021	2020
	\$'000	\$'000
Right-of-use assets		
Properties	69,082	89,719
Lease liabilities		
Current	(12,076)	(10,661)
Non-current	(71,442)	(92,137)
Total lease liabilities	(83,518)	(102,798)

Additions to the right-of-use assets in FY2021 were \$2,782,000 (FY2020: \$6,157,000).

(ii) Amounts recognised in the statement of financial performance

The statement of financial performance contains the following amounts relating to leases:

	Consolidated	
	2021	2020
	\$'000	\$'000
Depreciation charge for right-of-use assets	11,895	11,826
Interest expense (included in finance costs)	3,464	3,440
	<u>15,359</u>	<u>15,266</u>

The consolidated entity has recognised \$1,120,000 (FY2020: \$818,000) in the profit and loss in respect of short-term and low-value lease payments for the year ending 30 June 2021.

The consolidated entity has made the decision to relocate a number of its facilities in the next few years and as a result has reassessed the likelihood of renewal of a number of existing property lease options. This has resulted in the remeasurement of the relevant Right of Use Assets and the lease liabilities associated with these assets as follows:

	Consolidated
	2021
	\$'000
Write down of right-of-use assets	1,665
Remeasurement of lease liabilities	(1,210)
Net loss	<u>455</u>

The net loss of \$455,000 above, is included within other expenses in the statement of comprehensive income.

The statement of cash flows for 30 June 2021 includes cash outflows for lease payments of \$11,554,000 (FY20:\$10,812,000) and lease interest of \$3,464,000 (FY20:\$3,440,000) within 'cash flows from financing activities'.

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Right-of-use assets	92,812	101,235
Less: Accumulated depreciation and write down of right-of-use assets	(23,730)	(11,516)
	<u>69,082</u>	<u>89,719</u>

Note 14. Current liabilities - lease liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Lease liabilities	12,076	10,661
	12,076	10,661

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

Note 15. Non-current liabilities - lease liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Lease liabilities	71,442	92,137
	71,442	92,137

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

Note 16. Current liabilities - provisions

	Consolidated	
	2021	2020
	\$'000	\$'000
Employee benefits - long service leave	4,886	4,396
	4,886	4,396

Amounts not expected to be settled within the next 12 months

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

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Long service leave obligation expected to be settled after 12 months	4,397	3,956
	4,397	3,956

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	
	2021	2020
	\$'000	\$'000
Employee benefits - long service leave	1,524	1,635
Lease make good	5,905	5,875
	<u>7,429</u>	<u>7,510</u>

Lease make good

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

Movements in provisions

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

Consolidated - 2021	Lease make good \$'000
Carrying amount at the start of the year	5,875
Additional provisions recognised	55
Provision utilised	(109)
Exchange differences	(51)
Unwinding of discount	135
	<u>5,905</u>
Carrying amount at the end of the year	<u>5,905</u>

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	
	2021	2020
	\$'000	\$'000
Bank loans (net of borrowing costs)	144,090	164,087

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

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

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	
	2021	2020
	\$'000	\$'000
Cash and cash equivalents	24,025	27,492
Receivables	9,039	10,012
Inventories	772	812
Right- of-use assets	48,272	65,264
Other current assets	3,663	2,439
Investments	81,465	81,465
Plant and equipment	26,811	26,132
Intangible assets (excluding goodwill)	1,416	2,834
Deferred tax assets	10,240	9,326
Other financial assets	84	66
	<u>205,787</u>	<u>225,842</u>

Financing arrangements

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Total facilities		
Bank loans (excluding capitalised borrowing costs)	251,825	252,660
Working capital facilities	10,000	10,000
	<u>261,825</u>	<u>262,660</u>
Used at the reporting date		
Bank loans (excluding capitalised borrowing costs)	145,000	165,000
Working capital facilities	5,023	5,312
	<u>150,023</u>	<u>170,312</u>
Unused at the reporting date		
Bank loans (excluding capitalised borrowing costs)	106,825	87,660
Working capital facilities	4,977	4,688
	<u>111,802</u>	<u>92,348</u>

Borrowings-Financial Arrangements

The consolidated entity has total commitments of \$261,825,000 through its syndicated debt facilities. At 30 June 2021, total facilities drawn were \$145,000,000 (FY20: \$165,000,000) in borrowings and \$5,023,000 (FY20: \$5,311,000) in guarantees. Unused and available facilities amounted to \$111,802,000. The consolidated entity complied with the financial covenants of its borrowing facilities during the financial year ended 30 June 2021. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and the total facility of \$261,825,000 expires in October 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.

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

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	
	2021	2020
	\$'000	\$'000
Interest rate swap contracts - cash flow hedges	1,166	1,148

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

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

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	
	2021	2020
	\$'000	\$'000
Interest rate swap contracts - cash flow hedges	1,462	2,586

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	
	2021	2020
	\$'000	\$'000
Other financial liability	-	1,546
Loan note	823	828
	<u>823</u>	<u>828</u>
	<u>823</u>	<u>2,374</u>

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

Note 22. Non-current liabilities - Other financial liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Loan note	399	1,284
	<u>399</u>	<u>1,284</u>

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			
	2021	2020	2021	2020
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	80,389,938	80,389,938	244,027	242,892
Treasury Shares	(276,484)	(470,141)	(1,685)	(2,107)
	<u>80,113,454</u>	<u>79,919,797</u>	<u>242,342</u>	<u>240,785</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 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
		<u>80,389,938</u>		<u>242,892</u>
Balance	30 June 2020	80,389,938		242,892
Settlement of partly paid shares	24 November 2020	-	\$0.00	97
Settlement of partly paid shares	20 December 2020	-	\$0.00	43
Settlement of partly paid shares	27 January 2021	-	\$0.00	405
Settlement of partly paid shares	05 March 2021	-	\$0.00	405
Settlement of partly paid shares	05 March 2021	-	\$0.00	113
Settlement of partly paid shares	30 April 2021	-	\$0.00	63
Settlement of partly paid shares	11 May 2021	-	\$0.00	9
		<u>80,389,938</u>		<u>244,027</u>
Balance	30 June 2021	<u>80,389,938</u>		<u>244,027</u>

Note 23. Equity - issued capital (continued)

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 1,268,309 shares which are partly paid. The 1,268,309 shares were issued at \$4.71 per share and are unpaid up to the extent of \$2.40 per share at 30 June 2021

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.

	Number of Shares	\$
Balance at 01 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 and executives	<u>(116,089)</u>	<u>(463,610)</u>
Balance at 1 July 2020	470,141	2,106,705
On market acquisitions during the period	377,857	2,279,093
Distribution of shares during the period to fertility specialists and executives	<u>(571,514)</u>	<u>(2,701,099)</u>
Balance at 30 June 2021	<u>276,484</u>	<u>1,684,699</u>

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
2020 Interim	12.0	100%	9,647	30/11/2020
2021 Interim	12.0	100%	9,647	15/04/2021

Recognition and measurement

Dividends are recognised when declared during the financial year.

	Consolidated	
	2021	2020
	\$'000	\$'000
Franking account balance	27,216	29,672

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	
	2021	2020
	\$'000	\$'000
Foreign currency translation reserve	4,334	7,565
Cash flow hedges reserve	(1,843)	(2,617)
Share-based payments reserve	14,491	15,293
Business combination reserve	(4,237)	(4,237)
	<u>12,745</u>	<u>16,004</u>

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.

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 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
Revaluation - net	-	774	-	-	774
Foreign currency translation	(3,231)	-	-	-	(3,231)
Option expense	-	-	1,899	-	1,899
Issue of shares pursuant to share based payment schemes	-	-	(2,701)	-	(2,701)
Balance at 30 June 2021	<u>4,334</u>	<u>(1,843)</u>	<u>14,491</u>	<u>(4,237)</u>	<u>12,745</u>

Note 26. Equity - retained profits

	Consolidated	
	2021	2020
	\$'000	\$'000
Retained profits at the beginning of the financial year	10,617	37,111
Profit after income tax expense for the year	43,135	469
Dividends paid	(9,752)	(19,188)
Adjustment on adoption of AASB 16 - net of tax	-	(7,775)
Retained profits at the end of the financial year	<u>44,000</u>	<u>10,617</u>

Note 27. Equity - non-controlling interest

	Consolidated	
	2021	2020
	\$'000	\$'000
Issued capital	1,842	1,842
Reserves	(4,144)	(4,207)
Retained profits	<u>3,828</u>	<u>3,162</u>
	<u>1,526</u>	<u>797</u>

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:

Consolidated	2021		2020	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	1.70%	145,000	2.76%	165,000
Interest rate swaps (notional principal amount)	-	<u>(60,000)</u>	-	<u>(60,000)</u>
Net exposure to cash flow interest rate risk		<u>85,000</u>		<u>105,000</u>

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

Note 28. Financial risk management (continued)

The interest rate sensitivities on the bank loans are as follows:

Consolidated - 2021	Basis points increase			Basis points decrease		
	Basis points change	Profit after tax \$'000	Equity \$'000	Basis points change	Profit after tax \$'000	Equity \$'000
Bank loans	100	(595)	(595)	(100)	595	595

Consolidated - 2020	Basis points increase			Basis points decrease		
	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

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	
	2021 \$'000	2020 \$'000
Bank loans (excluding capitalised borrowing costs)	107,735	88,573
Working capital facilities	4,977	4,688
	<u>112,712</u>	<u>93,261</u>

The consolidated entity has borrowing facilities totalling \$261,825,000. The total facility expires in October 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 - 2021	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						
<i>Non-interest bearing</i>						
Trade payables	-	11,073	-	-	-	11,073
Other payables	-	20,553	-	-	-	20,553
<i>Interest-bearing - variable</i>						
Bank loans	1.70%	2,459	2,459	145,647	-	150,565
Lease liabilities	-	15,320	14,061	34,001	36,368	99,750
Loan note	4.00%	839	407	-	-	1,246
Total non-derivatives		<u>50,244</u>	<u>16,927</u>	<u>179,648</u>	<u>36,368</u>	<u>283,187</u>
Derivatives						
Derivative financial instruments	-	1,166	1,166	296	-	2,628
Total derivatives		<u>1,166</u>	<u>1,166</u>	<u>296</u>	<u>-</u>	<u>2,628</u>

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						
<i>Non-interest bearing</i>						
Trade payables	-	12,343	-	-	-	12,343
Other payables	-	29,195	-	-	-	29,195
<i>Interest-bearing - variable</i>						
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		<u>62,518</u>	<u>68,668</u>	<u>166,799</u>	<u>56,568</u>	<u>354,553</u>
Derivatives						
Derivative financial instruments	-	1,148	1,148	1,438	-	3,734
Total derivatives		<u>1,148</u>	<u>1,148</u>	<u>1,438</u>	<u>-</u>	<u>3,734</u>

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 - 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	2,628	-	2,628
Total liabilities	-	2,628	-	2,628
Consolidated - 2020				
Consolidated - 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	3,734	-	3,734
Other financial liabilities	-	-	1,546	1,546
Total liabilities	-	3,734	1,546	5,280

There were no transfers between levels during the financial year.

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

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

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

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

Level 3 assets and liabilities

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

Consolidated	Contingent Consideration \$'000	Put Option \$'000	Total \$'000
Balance at 1 July 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
Foreign exchange impact	38	-	38
Interest on unwinding	15	-	15
Fair value adjustment	(1,599)	-	(1,599)
Balance at 30 June 2021	-	-	-

Note 29. Fair value measurement (continued)

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	
		2021 %	2020 %
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%	100.00%
Xentra Pharm Limited	Ireland	100.00%	100.00%
IVF Sunshine Coast Limited	Australia	100.00%	100.00%
Human Assisted Reproduction Ireland (HARI) Limited	Ireland	100.00%	100.00%
TAS IVF Pty Limited	Australia	100.00%	100.00%
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 Fertilitetsklunik Aps	Denmark	100.00%	100.00%
Complete Fertility Limited	United Kingdom	90.00%	90.00%
Fertilitetsklunikken 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%	100.00%
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:

Name	Principal place of business / Country of incorporation	Principal activities	Parent		Non-controlling interest	
			Ownership interest 2021 %	Ownership interest 2020 %	Ownership interest 2021 %	Ownership interest 2020 %
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' reports 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'.

	2021	2020
	\$'000	\$'000
Statement of comprehensive income		
Revenue	148,734	118,989
Share of profits of associates accounted for using the equity method	1,060	403
Trust distributions received	29,182	23,430
Other income	6,702	7,079
Fertility specialists, consumables and associated costs	(38,972)	(29,965)
Employee benefits expense	(60,967)	(52,448)
Depreciation and amortisation expense	(13,040)	(13,634)
Occupancy expense	(1,003)	(796)
Advertising and marketing	(3,144)	(2,944)
Practice equipment expenses	(1,548)	(1,050)
Professional and consulting fees	(1,902)	(2,626)
Other expenses	(9,713)	(7,162)
Finance costs	(7,158)	(8,951)
Impairment charge	-	(15,049)
	<u>48,231</u>	<u>15,276</u>
Profit before income tax expense	48,231	15,276
Income tax expense	(14,220)	(7,291)
	<u>34,011</u>	<u>7,985</u>
Profit after income tax expense	34,011	7,985
Other comprehensive income/(loss)		
Net change in the fair value of cash flow hedges taken to equity, net of tax	764	(862)
	<u>764</u>	<u>(862)</u>
Other comprehensive income/(loss) for the year, net of tax	764	(862)
	<u>34,775</u>	<u>7,123</u>
Total comprehensive income for the year	<u>34,775</u>	<u>7,123</u>
	2021	2020
	\$'000	\$'000
Equity - retained profits		
Retained profits at the beginning of the financial year	11,588	28,418
Profit after income tax expense	34,011	7,985
Dividends paid	(9,751)	(19,188)
Adjustment on adoption of AASB 16 - net of tax	-	(5,627)
	<u>35,848</u>	<u>11,588</u>
Retained profits at the end of the financial year	<u>35,848</u>	<u>11,588</u>

Note 31. Deed of cross guarantee (continued)

Statement of financial position	2021 \$'000	2020 \$'000
Current assets		
Cash and cash equivalents	16,978	21,151
Trade and other receivables	10,349	20,124
Prepayments	3,342	2,244
	<u>30,669</u>	<u>43,519</u>
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Other financial assets	203,935	200,596
Property, plant and equipment	18,371	16,294
Right-of-use assets	36,926	51,720
Intangibles	202,575	203,990
Deferred tax	7,582	7,397
Other	113	153
	<u>470,991</u>	<u>481,639</u>
Total assets	<u>501,660</u>	<u>525,158</u>
Current liabilities		
Trade and other payables	12,655	20,811
Lease liabilities	6,649	6,065
Derivative financial instruments	1,166	1,148
Income tax	5,030	9,562
Provisions	2,826	2,765
Unearned income	7,239	6,926
	<u>35,565</u>	<u>47,277</u>
Non-current liabilities		
Borrowings	144,128	164,161
Lease liabilities	39,169	54,583
Derivative financial instruments	1,462	2,586
Provisions	3,718	3,699
	<u>188,477</u>	<u>225,029</u>
Total liabilities	<u>224,042</u>	<u>272,306</u>
Net assets	<u>277,618</u>	<u>252,852</u>
Equity		
Issued capital	242,342	240,786
Reserves	(572)	478
Retained profits	35,848	11,588
	<u>277,618</u>	<u>252,852</u>
Total equity	<u>277,618</u>	<u>252,852</u>

Note 32. Parent entity information

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

Statement of comprehensive income

	Parent	
	2021 \$'000	2020 \$'000
Profit after income tax	21,941	1,149
Total comprehensive income	<u>21,941</u>	<u>1,149</u>

Statement of financial position

	Parent	
	2021 \$'000	2020 \$'000
Total current assets	<u>49,120</u>	<u>55,131</u>
Total assets	<u>299,395</u>	<u>299,973</u>
Total current liabilities	<u>10,902</u>	<u>23,173</u>
Total liabilities	<u>11,165</u>	<u>23,442</u>
Net assets	<u><u>288,230</u></u>	<u><u>276,531</u></u>
Equity		
Issued capital	242,343	240,785
Share-based payments reserve	5,076	7,124
Retained profits	<u>40,811</u>	<u>28,622</u>
Total equity	<u><u>288,230</u></u>	<u><u>276,531</u></u>

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020 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 2021 and 30 June 2020.

Capital commitments - property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

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 ('Plan') was adopted by the Board on 11 June 2013. The Plan was established to reward, retain and motivate fertility specialists and senior executives. Participation in the Plan is at the Board's discretion and no individual has a contracted right to participate in the 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:

2021

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
21/08/2015	21/08/2025	\$5.67	5,856	-	-	(5,856)	-
28/10/2015	28/10/2025	\$5.01	2,205	-	-	(2,205)	-
16/12/2015	16/12/2025	\$6.17	2,410	-	-	(2,410)	-
21/09/2016	21/09/2026	\$8.05	53,664	-	(26,832)	-	26,832
21/09/2016	21/09/2026	\$8.05	23,479	-	(10,062)	(3,354)	10,063
24/10/2017	24/10/2027	\$0.00	61,556	-	-	(61,556)	-
24/10/2017	24/10/2027	\$0.00	72,580	-	(19,355)	(4,839)	48,386
24/10/2017	24/10/2027	\$0.00	116,128	-	(29,032)	(9,677)	77,419
24/10/2017	24/10/2027	\$0.00	43,548	-	(4,839)	(4,839)	33,870
22/11/2017	22/11/2027	\$0.00	243,728	-	(164,875)	(78,853)	-
22/11/2017	22/11/2027	\$0.00	45,503	-	(45,503)	-	-
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	104,644	-	-	(82,396)	22,248
20/11/2019	20/11/2029	\$0.00	118,075	-	-	(88,397)	29,678
09/12/2019	09/12/2029	\$0.00	78,832	-	-	(19,708)	59,124
09/12/2019	09/12/2029	\$0.00	19,708	-	-	-	19,708
27/04/2020	27/04/2030	\$0.00	162,037	-	(54,012)	-	108,025
20/10/2020	20/10/2030	\$0.00	-	165,305	-	-	165,305
19/11/2020	19/11/2030	\$0.00	-	536,394	-	(69,264)	467,130
			<u>1,455,660</u>	<u>701,699</u>	<u>(354,510)</u>	<u>(433,354)</u>	<u>1,369,495</u>

The weighted average exercise price is \$0.22 (2020: \$0.47).

The weighted average remaining contractual life of options and performance rights outstanding at the end of the financial year was 8.3 years (2020: 8.2 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:

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
20/10/2020	20/10/2030	\$4.56	\$0.00	40.00%	5.50%	0.18%	\$3.72
19/11/2020	19/11/2030	\$5.26	\$0.00	40.00%	5.50%	0.11%	\$3.51

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.

Note 33. Share-based payments (continued)

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 in FY2020 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 FY20 and FY21 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 2021 the potential number of unvested initial and performance rights subject to these grants is estimated to be nil.

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.

Note 33. Share-based payments (continued)

At 30 June 2021 the potential number of unvested performance rights subject to these grants is estimated to be 710,835.

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 2021 the potential number of unvested performance rights subject to these grants is estimated to be 31,579.

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;
- Awards are payable in shares; conversion from award dollar value to the number of shares 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 period 30 June.

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.

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.

Note 34. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2021	2020
	\$	\$
Other revenue:		
Rental income	47,520	47,520
Other transactions:		
Provider fees	1,089,539	968,454
Share based payments	15,180	15,565

Receivable from and payable to related parties

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

	Consolidated	
	2021	2020
	\$	\$
Current receivables:		
Trade receivables from associates	847,229	537,431
Other receivables	4,356	4,356
Current payables:		
Other payables for provider fees	173,783	437,404

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	
	2021	2020
	\$	\$
Short-term employee benefits	2,573,283	2,049,473
Post-employment benefits	120,534	115,979
Long-term benefits	(56,773)	5,833
Share-based payments	633,482	77,204
Total KMP compensation	<u>3,270,526</u>	<u>2,248,489</u>

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Profit after income tax expense for the year	43,802	946
Adjustments for:		
Depreciation and amortisation	24,086	25,017
Impairment of intangibles	-	24,975
Share-based payments	1,899	1,252
Amortisation of bank facility fees	550	411
Net fair value gain on other financial liabilities	(1,599)	(5,995)
Other non-cash items	748	(263)
Net (gain)/loss in disposal of non-current assets	(20)	-
Interest on other financial liabilities - non-cash interest	206	559
Change in operating assets and liabilities:		
Increase in trade and other receivables	(917)	(1,915)
Decrease/(increase) in inventories	86	(143)
Increase in deferred tax assets	(1,059)	(907)
Increase/(decrease) in trade and other payables	(543)	10,339
Increase/(decrease) in provision for income tax	(2,425)	8,543
Increase in other provisions	409	542
Increase in other operating liabilities	598	3,022
Net cash from operating activities	<u>65,821</u>	<u>66,383</u>

Note 37. Events after the reporting period

An outbreak of the Delta variant of COVID-19 has put most of the Australian States into lockdowns of different magnitudes since 26 June 2021. Whilst COVID-19 case numbers have been the largest in New South Wales, other states in Australia have also been affected by the Delta variant outbreak.

As evidenced from the above, the impact of the Coronavirus (COVID-19) pandemic is ongoing and while in the year to 30 June 2021 the consolidated entity experienced strong rebound in activity post the first wave of the virus in Q4 of FY2020, the potential impact, positive or negative, after the reporting date will be a function of a number of factors including consumer sentiment, availability of international travel, the length of the current lockdowns, future pandemic lockdowns, vaccination rollout effectiveness and any economic stimulus that may be provided.

Note 37. Events after the reporting period (continued)

Acquisition of Adora Fertility and Day Hospitals

On 22 August 2021 the consolidated entity (Virtus) signed a Share Sale Agreement to acquire 100% of the issued share capital of Adora Fertility Pty Limited, Craigie Day Hospital Pty Ltd, Darlinghurst Day Hospital Pty Ltd and Greensborough Day Hospital Pty Ltd (“Adora Businesses”) for a cash consideration of \$45,000,000.

The Adora Businesses are complementary to Virtus’s existing ARS clinics and Day Hospitals in Australia, with four clinics in WA, NSW, QLD, VIC (with Western Australia a new market for Virtus), and three day hospitals in WA, NSW and VIC. This acquisition supports Virtus’s ambition to increase consumer choice by offering diverse models of care across new locations.

The acquisition will be funded through the combination of a fully underwritten \$35,000,000 institutional placement and existing cash reserves.

Institutional Placement

The fully underwritten Institutional Placement will comprise the issue of approximately 5.1 million new fully paid Virtus Health Limited ordinary shares to certain eligible institutional investors to raise \$35,000,000 at a fixed price of \$6.80 per share. The Institutional Placement price represents a 5.4% discount to the last traded price of the Virtus shares of \$7.19 on Friday, 20 August 2021, and a 6.5% discount to the 5-day volume weighted average price (‘VWAP’) of \$7.27 based on the last trading day of Friday, 20 August 2021.

No other matter or circumstance has arisen since 30 June 2021 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 \$1,750,000 (FY20:\$4,604,000) in capital commitments for property, plant and equipment as at 30 June 2021.

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 range 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 largely by the consolidated entity’s insurance policies.

Guarantees

Drawdowns of \$5,023,0000 (2020:\$5,311,000) 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 2.3 years (2020:2 years).

Note 40. Non-current assets - other

	Consolidated	
	2021	2020
	\$'000	\$'000
Security deposits	312	306

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	
	2021	2020
	\$	\$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	<u>491,014</u>	<u>493,000</u>
<i>Other services - PricewaterhouseCoopers</i>		
Tax compliance services	<u>12,500</u>	<u>12,500</u>
	<u>503,514</u>	<u>505,500</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	<u>127,445</u>	<u>147,729</u>
<i>Other services - network firms</i>		
Tax services	<u>78,474</u>	<u>53,722</u>
	<u>205,919</u>	<u>201,451</u>

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.

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.

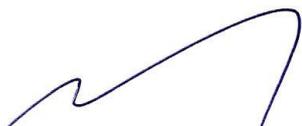
In the directors' opinion:

- 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 2021 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

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

Sonia Petering
Chairperson

23 August 2021
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:

1. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended
2. 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 2021
- 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 significant accounting policies and other explanatory information
- 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.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

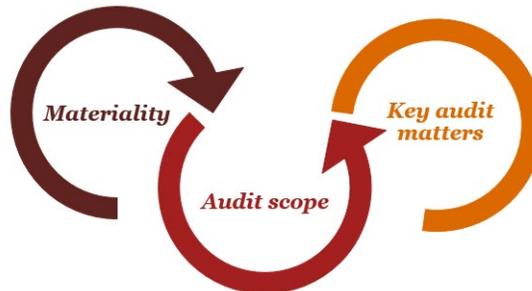
Independence

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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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 \$3.0 million, which represents approximately 5% of the Group's profit before tax. 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
 - 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. We communicated the key audit matters to the Audit Committee.



Key audit matter

Estimated recoverable amount of goodwill assets

(Refer to note 10) \$422m

Goodwill of \$422 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 recoverable amount of goodwill was a key audit matter given the:

- financial significance of goodwill to the statement of financial position; and
- judgement applied by the Group in completing and concluding upon the impairment assessment.

How our audit addressed the key audit matter

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 with reference to historical earnings and Board approved forecasts;
- testing the mathematical calculations within the models;
- 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; and
- assessing the related financial statement disclosures for consistency with Australian Accounting Standards requirements.



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p data-bbox="261 506 860 590">Revenue from contracts with customers <i>(Refer to note 4) \$323m</i></p> <p data-bbox="261 604 860 709">Revenue from contracts with customers of \$323 million is recognised on the consolidated statement of comprehensive income.</p> <p data-bbox="261 724 860 892">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.</p>	<p data-bbox="860 506 1521 569">In obtaining sufficient, appropriate audit evidence, our procedures included, amongst others:</p> <ul data-bbox="941 590 1521 1564" style="list-style-type: none"> <li data-bbox="941 590 1521 724">• consideration and assessment of the Group’s accounting policy in line with the requirements of <i>AASB 15 Revenue from Contracts with Customers</i> <li data-bbox="941 724 1521 1449">• 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: <ul data-bbox="1039 934 1521 1449" style="list-style-type: none"> <li data-bbox="1039 934 1521 1039">• evidence of an underlying arrangement with the customer existed; <li data-bbox="1039 1039 1521 1144">• appropriate performance obligations and consideration had been identified; <li data-bbox="1039 1144 1521 1312">• amounts allocated to the performance obligations were made with reference to their standalone selling prices , where relevant; and <li data-bbox="1039 1312 1521 1449">• the timing of revenue recognition had been appropriately considered and recognised at the appropriate time. <li data-bbox="941 1449 1521 1564">• 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 2021, 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 Operating and Financial Review, Corporate directory and Directors' report. 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 9 to 30 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2021 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.

A large, stylized handwritten signature of 'PricewaterhouseCoopers' in black ink, with a long horizontal line extending from the end of the word 'Coopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Mark Dow', with a long horizontal line extending from the end.

Mark Dow
Partner

Sydney
23 August 2021