

# APPENDIX 4E

## PRELIMINARY FINAL REPORT

### 1. Company details

|                                |                              |
|--------------------------------|------------------------------|
| Name of entity:                | Integral Diagnostics Limited |
| ABN:                           | 55 130 832 816               |
| Reporting period:              | Year ended 30 June 2019      |
| Previous corresponding period: | Year ended 30 June 2018      |

### 2. Results for announcement to the market

|                                                                                                      |    |       |    | \$'000  |
|------------------------------------------------------------------------------------------------------|----|-------|----|---------|
| Revenues from ordinary activities                                                                    | up | 23.3% | to | 233,558 |
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)                                | up | 47.9% | to | 50,524  |
| Earnings Before Interest and Tax (EBIT)                                                              | up | 48.8% | to | 36,540  |
| Profit from ordinary activities after tax attributable to the owners of Integral Diagnostics Limited | up | 39.1% | to | 20,983  |
| Profit for the year attributable to the owners of Integral Diagnostics Limited                       | up | 39.1% | to | 20,983  |

#### Comments

The profit for the Company after providing for income tax amounted to \$20.98 million (2018: \$15.08 million)

Refer to the 'operating and financial review' on pages 30 to 37 for further information and explanation of the Appendix 4E.

Profit after income tax expense reconciles to EBIT and EBITDA as follows:

|                                                                       | Consolidated   |                |
|-----------------------------------------------------------------------|----------------|----------------|
|                                                                       | 2019<br>\$'000 | 2018<br>\$'000 |
| Profit after income tax expense                                       | 20,983         | 15,079         |
| Interest received                                                     | (272)          | (330)          |
| Finance costs                                                         | 6,194          | 2,783          |
| Income tax expense                                                    | 9,635          | 7,028          |
| Earnings Before Interest and Tax (EBIT)                               | 36,540         | 24,560         |
| Depreciation and amortisation expense                                 | 13,509         | 9,610          |
| Loss on disposal of asset                                             | 475            | -              |
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) | 50,524         | 34,170         |

### 3. Net tangible assets

|                                          | Reporting period<br>Cents | Previous period<br>Cents |
|------------------------------------------|---------------------------|--------------------------|
| Net tangible asset per ordinary security | (47.77)                   | (6.98)                   |

#### 4. Dividends

##### *Current period*

|                                                                                                  | Amount per security | Franked amount per security |
|--------------------------------------------------------------------------------------------------|---------------------|-----------------------------|
|                                                                                                  | Cents               | Cents                       |
| Interim dividend for the half year ended 31 December 2018 paid on the 2 <sup>nd</sup> April 2019 | 5                   | 5                           |
| Final dividend for the year ended 30 June 2019 payable on 2 <sup>nd</sup> October 2019           | 5                   | 5                           |

On 23<sup>rd</sup> August 2019 the directors declared a fully franked final dividend of 5 cents per ordinary share with a record date of 2<sup>nd</sup> September 2019 to be paid on 2<sup>nd</sup> October 2019.

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##### *Previous period*

|                                                                                                  | Amount per security | Franked amount per security |
|--------------------------------------------------------------------------------------------------|---------------------|-----------------------------|
|                                                                                                  | Cents               | Cents                       |
| Interim dividend for the half year ended 31 December 2017 paid on the 5 <sup>th</sup> March 2018 | 4                   | 4                           |
| Final dividend for the year ended 30 June 2018 payable on 4 <sup>th</sup> October 2018           | 4                   | 4                           |

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#### 5. Dividend reinvestment plans

The following dividend or distribution plans are in operation: Not applicable

The last date(s) for receipts of election notices for the dividend or distribution plans: Not applicable

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#### 6. Control gained over entities

The following changes in control occurred within the Group during the year:

- Specialist Radiology Group Limited (wholly owned entity acquired 2 July 2018)
- Trinity MRI Limited (wholly owned entity acquired 2 July 2018)
- Cavendish Radiology Limited (wholly owned entity acquired 2 July 2018)
- Integral Diagnostics New Zealand Limited (wholly owned entity established 15 October 2018)

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#### 7. Loss of control over entities

Not applicable

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#### 8. Details of associates and joint venture entities

Not applicable

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#### 9. Audit qualification or review

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

The accounts have been audited and an unqualified opinion has been issued.

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#### 10. Attachments

*Details of attachments (if any):*

The Annual Report of Integral Diagnostics Limited for the year ended 30 June 2019 is attached.

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Good medicine is good business





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## About Us

We pride ourselves in the quality care and service that we deliver, in the trust that our referrers have in us, and in being the preferred provider to our patients. We always put our patients first, and in so doing we also put our shareholders first.

## Our Locations



### Victoria

- / Ballarat (5 sites)
- / Geelong (10 sites)
- / Melbourne metropolitan (1 site)
- / Outer western areas of Melbourne (9 sites)
- / Warrnambool (2 sites)

### Queensland

- / Gold Coast (11 sites)
- / Mackay (1 site)
- / Toowoomba (1 site)

### Western Australia

- / South-west Western Australia (9 sites)

### New Zealand

- / Auckland (4 sites)





## Chairman's Report

Over the 12 months ended 30 June 2019 the Company achieved operating NPAT of \$25.6 million – a 40.7% increase. Operating revenue grew 22.9% to \$231 million with organic revenue growth higher than industry averages for the states in which we operate.



Dear fellow shareholders,

On behalf of the Board, I present to you the 2019 Annual Report for Integral Diagnostics Limited.

Integral Diagnostics is essentially a people and technology company. It is our exceptionally talented radiologists, management and staff, partnered with high-end clinical technology that drives our pathway to achieving our vision to be the leading diagnostic imaging provider – trusted by referrers and preferred by patients.

Our results are the outcome of a clear and consistent strategy underpinned by our lived values of patients first, medical leadership, everyone counts, embrace change and create value.

### Financial results delivered

Over the 12 months ended 30 June 2019 (FY19) the Company achieved operating NPAT of \$25.6 million – a 40.7% increase. Operating revenue grew 22.9% to \$231 million with organic revenue growth higher than industry averages for the states in which we operate. The Company improved further on its already industry leading operating margin from 21.4% to 23%.

Statutory NPAT of \$21.0 million was 35.1% higher than prior year. Operating earnings per share grew 29.4%.

A dividend of 10 cents per share fully franked has been paid or declared to shareholders which is an increase of 25% on the prior year.

### Quality growth

Integral's strategy continues to forge strong market positions. Organic brownfield and greenfield expansion achieved during FY19 included the major re-development of the diagnostic imaging centre at St John of God Hospital Geelong and the major development of a new North Melbourne Specialist and Research Centre which opened in May. Our centre is co-located with the Australian Prostate Centre.

Organic investment and growth have been augmented by quality acquisitions in Auckland, New Zealand and Geelong, Australia which completed on 2 July 2018. Specialist Radiology Group, Trinity MRI, Cavendish Radiology and Geelong Medical Imaging have performed strongly in FY19 and integrated superbly due to their strong strategic, clinical and cultural fit with our doctor led model. We welcomed them as shareholders in Integral Diagnostics.

Today, we are delighted to announce the acquisition of the Imaging Queensland (IQ) Group, expected to be completed on 1 November 2019, subject to satisfaction of a number of conditions precedent. IQ has 16 established diagnostic imaging clinics within the regions of the Sunshine Coast, Central Coast and Moreton Bay. A fully underwritten pro-rata accelerated non-renounceable entitlement offer will be available to shareholders. The proceeds from the entitlement offer will be used to partially fund the proposed acquisition of IQ and allow for further acquisition opportunities.

## Regulatory environment

Advances in diagnostic imaging continue to dramatically improve the diagnosis and treatment of illness and injury and can reduce the need for and the high costs to payors of invasive procedures, including surgery.

We finally saw the introduction of MRI prostate on the Medicare Benefits Schedule (MBS) from July 2018, a non-invasive evaluation of the prostate for those at risk of the most common cancer in Australian men. Integral Diagnostics is now delivering this important prostate MRI service given our high end capability in both specialist radiologists, equipment and technology. Unfortunately, the year also saw the removal of the MBS rebate for GP-referred MRI of the knee for patients over 50, in November 2018, a sub-optimal outcome for patients and referrers. Patients over 50 can benefit tremendously from MRI scans of the knee, and removing the ability for GPs to directly refer these patients,

impedes quality patient care and will likely increase costs through additional consultation and/or more avoidable invasive procedures.

We look forward to the introduction of new breast MRI codes on the MBS in November 2019 which also has the potential to materially improve cancer detection and management. Integral's breast centres of excellence in Geelong, Southport and new breast screening capabilities in Mandurah are well positioned for these advances.

Diagnostic imaging in Australia has operated for 21 years without MBS price increases or CPI indexation. We welcome the long-awaited commitment from the Federal Government to reintroduce annual MBS indexation for approximately 80% of diagnostic imaging services, from July 2020 for a period of three years. Diagnostic imaging contracts in New Zealand are currently indexed annually.

## Clinical and corporate governance

Our medical leadership at Board, executive, trans-Tasman, state and local practice levels fosters the very best of specialist medical governance and improvements in practice. These features differentiate our Company and together we strive to deliver the most optimal results for our patients, referrers, staff and shareholders. One of the Board's sub-committees, the National Clinical Leaders Committee became the Integral Clinical Leadership Committee (ICLC) with the expansion to include the valuable specialist input of our New Zealand radiologists. Dr Vince Mercuri now Chairs the Committee, after nearly five years of exceptional Chairmanship from Dr Chien Ho who remains on the Committee together with fellow Executive Director, Dr Sally Sojan. We have also commenced an expression of interest process as part of our succession planning for our Executive Directors given the eminence and demands of the role.



## Chairman's Report continued

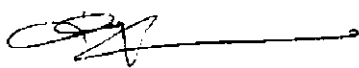
Your Board is committed to maintaining high standards of corporate governance including its environmental, social and governance responsibilities as outlined in our report. In FY19 we partnered with Radiology Across Borders on their Curriculum Project which will assist teaching, training and assessment to assist developing nations in using radiology.

I wish to thank all my Board colleagues for their extraordinary time and commitment including their attendance at site visits, radiologist functions and our clinical conference. To our 900 radiologists, imaging and support staff,

our CEO and talented management team, who ultimately work each day to improve patient diagnosis and treatment across our 53 clinics in Australia and New Zealand – thank you.

I also, thank you, our shareholders, for your continuing support of the Company.

Yours sincerely,



**Helen Kurincic**  
Chairman







## Managing Director and Chief Executive Officer's Report

We consulted to more than 600,000 patients in FY19, a 20% increase on the number of patients seen in the prior financial year. Our exceptional team of radiologists, clinical, technical and administration staff performed 1.2 million exams that were referred by 30,000 doctors and other health professionals.

Dear fellow shareholders,

I am pleased to report that FY19 has been another strong year for your Company. We completed and integrated major acquisitions in Auckland and Geelong, grew the organic business at well above market growth rates, and improved our industry-leading margins.

Integral Diagnostics employs more than 900 radiologists, imaging and support staff in 53 clinics, including 13 hospital sites, in Australia and New Zealand. Our radiologists are leaders in their field, many are subspecialty-trained or dual-qualified as radiologists and nuclear medicine physicians. Our doctors are supported by the industry's finest clinical and administration teams.

We now offer services in two countries and four states and regions, and across a geographic area that spans five time zones, stretching from Mandurah in the west, to Auckland in the east. We service public and private hospitals, specialists, GPs and other health professionals. We employ tele-radiologists across different time zones, so that we can more easily and safely offer services after-hours.

### Delivering results

We consulted to more than 600,000 patients in FY19, a 20% increase on the number of patients seen in the prior financial year. Our exceptional team of radiologists, clinical, technical and administration staff performed 1.2 million exams that were referred by 30,000 doctors and other health professionals. We continued to provide our patients with a more valuable and comprehensive diagnostic service as we utilised proportionately more high-end MRI, CT and nuclear medicine modalities.

In the process, we have increased our bottom line, our operating net profit after tax, by 40.7% relative to the prior year. We increased revenue by 23%, increased operating EBITDA by 39%, and increased EPS by 30%. Importantly, our organic 'same-clinic' revenue growth of 7.4% is materially higher than the industry growth of 6.1% evidenced in the latest Medicare statistics. And our operating margin of 23% is the highest published margin in the industry.

### People and technology driven

The strong performance is evidence that our strategy is working. Our average fee per exam is up 3.3% as our specialist mix has increased. We are trusted by more referrers, and are clearly preferred by more patients. In the digital age, patient choice is more important than it has ever been. Patients are increasingly armed with the knowledge that the internet can provide and 'Dr Google' is fast becoming the family's physician. Artificial intelligence and machine learning will immensely improve the quality and service that the medical professions can deliver – and this is more true in the digitised world of diagnostic imaging than anywhere else. It is incumbent on us in the profession to maximally exploit these digital advances for the good of our patients.

To this end, Integral Diagnostics has invested in leading technologies. We invested in a state-of-the art MRI in North Melbourne, acquired practices with four MRIs in Auckland and Geelong, invested in the fourth Nuclear Medicine PET scanner in the IDX group, and acquired four new high speed cardiac CTs. We also successfully trialled an artificial intelligence application in Western Australia that is FDA and TGA cleared,

# Managing Director and Chief Executive Officer's Report continued

and that identifies critical medical conditions and prioritises these patients for radiologist attention, improving patient care and saving lives. The application has now been integrated into our CT workflow in Western Australia, and we are the first in Australia to do so.

## North Melbourne Specialist and Research centre – major Greenfield site

In May 2019, we opened our Specialist and Research centre in North Melbourne, across the street from the Royal Melbourne Hospital and in the heart of Victoria's premier medical precinct. The practice includes one of the most advanced cardiac CTs in the world, a wide-bore 3T MRI, and leading specialist radiologists and clinical teams. We expect the centre to gradually ramp up over FY20 as we offer advanced oncology, urology, cardiac and other specialist services to patients, referrers and researchers in North Melbourne.

## Completing and integrating acquisitions

Our acquisitions in New Zealand, the Specialist Radiology Group (SRG), Cavendish Radiology and Trinity MRI, integrated well and performed strongly. We continue to learn from their impressive radiologist and clinical teams, specialists in the diagnosis and treatment of MSK and neurovascular conditions. SRG and Cavendish Radiology are co-located with some of the region's leading specialists, and practice some of the most efficient and effective quality radiology in the world. The radiologists at Trinity regularly publish articles on stroke treatment and management in leading international medical journals. We could not be happier with the quality, commitment, dedication and performance of our trans-Tasman partners.

Similarly, our acquisition of Geelong Medical Imaging (GMI) in July 2018 has introduced an outstanding dual-trained radiologist and clinical team, and has

significantly enhanced our MSK and nuclear medicine capabilities. The GMI team also has sports medicine diagnostic specialists and is the preferred medical imaging provider for the Geelong Cats Football team.

## Imaging Queensland

We look forward to completing our acquisition of the Imaging Queensland (IQ) Group in November 2019, and welcoming IQ's quality radiologists into the IDX Group. The IQ vendor radiologists have outstanding reputations, are Queensland-trained, strongly motivated and collegial. IQ is the largest diagnostic imaging provider on Queensland's fast growing Sunshine Coast. Providing diagnostic imaging services to fast growing regions is IDX's strategic sweet spot – similar to South Auckland, Gold Coast, Western Victoria and South-West Western Australia. The IQ group also provides services to the regional centres of Rockhampton and Gladstone, with busy hospital-based practices in both centres.



## IDX values

We continue to invest in our people and our partners, promoting the five IDX values of patients first, medical leadership, everyone counts, embrace change and create value. We held the annual IDX conference on the Gold Coast in March this year and achieved record attendance across the Company. The conference presents an important annual opportunity for IDX doctors and staff to meet and learn from their colleagues across the Company, to view new offerings from our suppliers, and to present new learnings to the Group. This year we presented 'Going the Extra Mile' awards to nine employees who exemplified the IDX values as determined by their colleagues and their local management teams.

## Broadened radiologist ownership

We broadened the IDX radiologist shareholder base over the past year by facilitating share ownership for employed radiologists in Australia and New Zealand. Both radiologist share plans were over-subscribed and this enabled us to prioritise ownership to those radiologists who represent the future leaders of the practice, to offer a 'partnership-track' in much the same way that professional private partnerships do. Twenty-six radiologists participated in the IDX loan share and option plans.

## Quality diagnostic imaging improves patient care and reduces total healthcare costs

Diagnostic imaging plays a vital role in health screening, prevention, diagnosis and treatment. General healthcare expenditure will continue to rise driven by patient demographics, the prevalence of chronic disease, and the advent of new life-saving technologies. Appropriate use of quality diagnostic imaging can and will reduce total healthcare costs by providing the information necessary to diagnose conditions earlier, to track and tailor their management, and to avoid unnecessary referrals and hospital

admissions, thereby lowering costs and improving outcomes. Prostate MRI is a good evidence-based example of this. Clearly diagnostic imaging growth will continue to outpace general healthcare growth as patients, referrers and payors increasingly recognise the benefits that quality imaging provides. MRI and nuclear medicine applications, PET in particular, will continue to broaden and increase as the benefits become more widely known and evidenced. Comprehensive cancer management today requires that patients are able to conveniently access appropriate MRI and PET technology. There are no known side-effects to MRI scans, but MRI utilisation in Australia materially lags the rest of the developed world. As health professionals in the industry, it is incumbent on us to continue to educate patients, referrers and payors of the life-enhancing benefits that these technologies provide.

## FY20

Over the next year we look forward to continuing to invest in the platform that IDX has developed, to consolidate our new sites and acquisitions, and to ensure that we are well placed to continue to deliver on our growth potential. We will be investing in a new digital PET scanner at John Flynn Private Hospital on the Gold Coast (our fifth PET in the Group), will be progressing an MRI super-site at the SJOG Hospital in Ballarat, and will be developing the Specialist Centre in Mandurah to meet the demands of the region's new oncology treatment centre. We will also continue to pursue acquisitions that are a good clinical and cultural fit, strategically aligned and earnings accretive.

## By always putting our patients first, we also put our shareholders first

This level of performance does not just happen. It is the culmination of the hard work, dedication and efforts of our world-class radiologist team, and our excellent clinical, technical

and administration teams, who all ensure that the needs of our patients always come first. And by always putting our patients first, we also put our shareholders first.

Sincere thanks to our referrers, doctors and staff, and to our Chair, Board and management team, for their ongoing dedication and commitment, and to you our shareholders for your support.

Good medicine is good business.

Sincerely,  
Ian



**Dr Ian Kadish**  
Managing Director and  
Chief Executive Officer

# Environmental, Social and Governance

Integral Diagnostics Board and Management recognise the importance of sound Environment, Social and Governance practices as part of their responsibility to our patients, referrers, staff, shareholders, communities and the environment in which Integral Diagnostics operates.

Integral Diagnostics' approach to Environment, Social and Governance practices focuses around areas considered to be material to our business. These focus areas reflect the risks and opportunities identified by the business and the issues of interest to our stakeholders.

Clear dialogue with stakeholders is important to building strong relationships, understanding external dynamics, earning and maintaining trust, enhancing business performance and evolving our Environment, Social and Governance approach. We regularly engage with a broad range of stakeholders including patients, referrers, shareholders, analysts, governments, regulators, employees, suppliers and the wider community.

Our aim is to lead the industry in transparency, set the standard for patient-centred care, attract and retain the best teams, partner with exceptional doctors, and continually improve our operations for strong market results.

We take a sustainable long-term approach to our business by putting our patients at the centre of everything we do.

Our strategy starts with Medical Leadership by improving medical outcomes through evidence-based care, ensuring that everyone counts by providing a safe, inclusive work environment where we respect each other, strive for excellence and have the courage to innovate and deliver sustainable value to all stakeholders.

At the heart of our Sustainability Framework is Our Purpose: We provide better insights into the health of our patients. Through this Framework, we focus on five key values which

support Our Purpose through the delivery of our business: patients first, medical leadership, everyone counts, create value and embrace change. Underpinning these key areas is our commitment to providing better care for our communities and environment.

We are also focused on creating sustainable value for our stakeholders. Managing these diverse relationships requires good two-way communication, clear expectations and high levels of governance. For our stakeholders, value is defined as:

- Patients – quality, safe clinical outcomes and exceptional patient care.
- Doctors and other healthcare professionals – long-term partnerships, professional development, excellent facilities.
- Healthcare funders (government, healthcare insurers) – long-term collaborative relationships working together towards efficiencies and solutions.
- Shareholders and financiers – wealth creation achieved through operational efficiencies and sustainable returns.
- Government – support for industry-wide initiatives and policies that strengthen the private healthcare sector and provide public healthcare services.
- Community – investments in community health initiatives and the regional communities where we operate.
- Employees – a safe, inclusive and rewarding workplace where everyone counts, that enables them to provide the highest quality care to patients.
- Suppliers – fair and transparent procurement activities.

Throughout FY19, we continued to engage with and consult our stakeholders on a variety of issues via our regular Financial Reporting cycle, shareholder meetings, Annual General Meeting, employee briefings, local, state and federal government, involvement in the executive of the Australian Diagnostic Imaging Association and regular meetings.

Issues raised by our stakeholders have helped to inform our sustainability strategy and the key areas outlined in this Report.

## Responsible and ethical business

We are committed to maintaining an open and honest workplace culture with high levels of integrity and ethical standards. We acknowledge that an open, honest and ethical workplace culture can only be achieved through setting clear values, robust frameworks and active leadership to support those values and frameworks.

## Employee relations

The Company's Code of Conduct guides workplace behaviour by setting out the standards of business ethics and integrity we expect of our employees from the Directors to casual employees and contractors.

The Code promotes a high level of professionalism and a healthy, respectful and positive workplace and environment for all employees. The Code also supports our business reputation and corporate image within the wider community, and ensures employees are aware of the consequences should the Code be breached.

We encourage a culture of openness and transparency, in which our personnel and stakeholders are encouraged to report suspected unethical, illegal or improper behaviour. Our Whistleblower Policy provides an avenue to make such reports without being victimised as a consequence.

The Code of Conduct and Whistleblower Policy is accessible to all personnel through our Intranet and is publicly available on our website at <https://www.integraldiagnostics.com.au/page/for-investors/corporate-governance/>.

## Induction and training

Upon commencement at Integral Diagnostics, all employees are required to complete an online induction course. The course not only outlines specifics about the Company and its history



and operations, but it also outlines Our Purpose, Values, the Code of Conduct, the Company policies and expectations.

### Investigation and resolution of workplace grievances

Our Grievance Policy and Procedure covers all employees. The Policy aims to ensure any workplace grievances are resolved as quickly as possible and in a fair and equitable manner. The Procedure details the responsibilities of the parties and outlines the steps for grievance resolution; however, where the matter is unable to be resolved through discussion between the parties, a graded escalation process is provided.

### Bribery and corruption

We do not tolerate bribery or corruption. Our Code of Conduct strictly prohibits bribery, improper payments and similar conduct, including facilitation payments. In addition to the Code we have an Anti-Bribery, Fraud and Corruption Policy which prohibits bribery, fraud and corruption to ensure all aspects of the Company's business is conducted honestly and ethically and in compliance with relevant legislation. The Company also has a clear Gifts, Entertainment and Hospitality Policy that sets out standards in relation to the offering or the receipt of gifts, entertainment and hospitality to ensure that employees don't unwittingly have a conflict of interest and to prevent corrupt conduct. During FY19, there were no confirmed instances of bribery or corruption, money laundering or material instances of fraud.

### Political donations

We do not make direct or indirect contributions to any political party. Our Anti-Bribery, Fraud and Corruption Policy prohibits donations to political parties.

### Governance

Good corporate governance is key to creating, protecting and enhancing value for our stakeholders. Our Board is committed to maintaining high standards of corporate governance and has adopted a system of internal controls, risk management processes and corporate governance policies and practices to support and promote



the responsible management and conduct of our business. Details of our Governance Framework are laid out in our Corporate Governance Statement, which is available on our website at <https://www.integraldiagnostics.com.au/page/for-investors/corporate-governance/>.

### Privacy, information technology and security

We are committed to protecting personal and health information in accordance with the privacy laws of Australia and New Zealand. Our Privacy Policy and Code of Conduct clearly state our obligations, commitments and expectations. All employees are required to complete privacy and Code of Conduct training.

The privacy of our patients is our priority. All patients are provided with a copy of our Privacy Statement (also available online), which covers:

- the personal information we collect and hold;
- how we collect personal information;
- how we use and disclose personal information;
- how we store and secure personal information; and
- how complaints can be made.

As part of our commitment to continuous improvement, a privacy maturity control environment assessment has been completed. To ensure the security of patient information our Information technology (IT) security infrastructure and processes are being enhanced through vulnerability exercises and benchmarking against industry standards such as National Institute of Standards and Technology (NIST) and the Australian Signals Directory.

### Taxation transparency

We are committed to meeting all tax compliance obligations and to providing our stakeholders with information about the taxes we pay and the taxation policies we employ.

Integral Diagnostics has adopted a taxation policy to ensure that all taxes are paid in line with the relevant requirements of the Company's tax jurisdictions. The policy covers both direct and indirect taxes and the use of advisors.

### Everyone counts

Our purpose is to provide better insights into the health of our patients, and our people are central to ensuring we are trusted by referees and preferred by patients to provide better insights into our patients' health. Our focus is on providing a safe, inclusive and rewarding workplace for our people, so in turn they are able to provide the highest quality care to our patients.

### Developing our team

We have a team of over 900 staff and 90 Accredited Medical Practitioners at over 50 sites in Australia and New Zealand.

A safe, inclusive and rewarding workplace provides our people with the opportunity to excel, fulfil their potential and provide the highest quality care to our patients. To create this kind of workplace we:

- ensure we have the right people in place with the right mix of capability to deliver for our patients and doctors;
- enable an inclusive, supportive and productive culture, with attitudes and behaviours centred on care and high performance;

# Environmental, Social and Governance continued

- engage our people and provide them with development opportunities to help them succeed; and
- provide a safe and healthy workplace for our people, patients, contractors and visitors.

## Developing our people

While attracting, recruiting and retaining extraordinary talent – both clinical and non-clinical – is fundamental to sustaining our business, we are also committed to developing our people and building leadership capability. This is a fundamental aspect of our culture. In addition to the development opportunities provided locally within each business unit, each year we hold an Annual Conference where employees from all business units come together for clinical, professional and personal development sessions.

## Employee relations

The relationship we have with our employees is based on mutual respect. We are committed to full compliance with legislative workplace requirements in the jurisdictions in which we operate. In Australia, the terms and conditions of employment for 34% of our workforce are regulated by Enterprise Agreements, with the balance of our people engaged under modern awards or contractual employment arrangements. In New Zealand, we have contractual employment agreements in place which set out the terms and conditions for local employees.

Our Code of Conduct promotes a high level of professionalism and a respectful, positive workplace. The Code outlines how we expect our people to behave and conduct business and includes legal compliance and guidance on appropriate standards.

We have productive and long-standing relationships with our key stakeholders. No protected industrial action was taken in our business in FY19.

## Safety and wellbeing

The safety of our people is a key priority. Our people, patients, contractors and visitors have the right to a safe and healthy workplace. To optimise workplace health, safety and wellbeing, we work together to:

- strengthen our legislative compliance and safe systems of work;
- improve the health and safety knowledge and capability of our people;
- ensure a continual focus on managing risks that have the potential to cause harm;
- maintain our focus on preventative programs; and
- engage with our people, community and stakeholders.

Across the business, our safety performance continues to improve as a result of a focus on hazard identification, risk management, incident reporting and investigation.

In FY20, a new training program designed to reduce the incidence of workplace violence and aggression will be rolled out. A new manual handling program will also be implemented to curb the occurrence of sprains and strains caused by lifting and moving equipment.

We will continue to invest in injury prevention programs targeting our key risks, provide specific training to build knowledge and capability within our workforce, and ensure early intervention programs are in place to deliver sustainable return to work outcomes.

## Diversity and inclusion

Everyone should have the opportunity to thrive in an inclusive and diverse workplace. We encourage our people to proudly bring all of their diverse perspectives and talents to their work. Our systems and processes support fair treatment and we do not tolerate any form of unlawful discrimination, bullying or harassment.

To ensure our workforce represents the communities in which we work, we recruit, develop and promote individuals based on merit. This is supported through a range of supportive policies, practices and employment conditions addressing equal employment opportunity, harassment and discrimination, recruitment and selection, parental leave, carer's leave and domestic violence leave. Our flexible work arrangements support a balance between work and other responsibilities.

Our employees are a very diverse group of individuals from a range of cultural backgrounds and across a broad range of age groups. The average age of our employees is 41.

We have a strong focus on gender diversity and seek to maintain the representation of women at the Board, Executive and senior management level. The Board has set measurable objectives in relation to gender diversity. The Board's target for female representation on the Board, Executive and Senior Management group is 30%. Currently, the Board is comprised of 42% females. 38% of the Executive and Senior Management group are female which is greater than in FY18 when the percentage of females in the group was 33%. The Company also targets that at least 50% of shortlisted candidates for Board, Executive and Senior Management positions should be female. In FY19, 25% of all shortlisted candidates for senior management role, and 50% of actual appointments were female.

In our 2019 Workplace Gender Equality Agency (WGEA) submission, which deals with our Australian workforce, women made up 74% of our total workforce and represented 60% of management roles as defined by the WGEA Reporting Guidelines. We undertook a gender pay equity review for our Australian workforce and consistent with FY18, no gender-based pay gap was identified for those staff under Enterprise Agreements or for those who are contracted

individually. We will continue to monitor gender pay equity and remain focused on implementing measures that will continue to ensure equitable remuneration across the company.

### Community engagement

Integral Diagnostics is committed to making a positive contribution to the people, environment and communities in which it delivers its services. The IDX corporate responsibility program is designed to coordinate efforts to make improvements in people's lives by concentrating on specific programs within our communities (locally, nationally and internationally).

Since 2013, our corporate responsibility expanded internationally with the establishment of the Tonga Radiology Twinning Project. Each year, Integral Diagnostics employees visit Tonga to provide training and education to employees, and in addition Tonga employees visit our Australian facilities to gain valuable insight. In 2014, we donated the first mammography unit to the nation of Tonga. This unit is enhancing diagnostics and improving treatment for local women with breast cancer.

In 2019, we partnered with Radiology Across Borders (RAB) working with doctors in the Asia-Pacific region training them in radiology to detect and treat illnesses and save lives in their local communities. Radiologists have donated their time in developing content for the IDX sponsored RAB Diploma and sonographers, radiographers and nurses have volunteered to assist in training webinars.

Our Corporate Responsibility Program began as a staff initiative to coordinate our Company's charitable fundraising. It has since evolved into a coordinated effort to make real improvements in people's lives by concentrating on more local programs.

The Company also sees it is part of its corporate responsibility to play an active role in industry activities. The Company is involved in membership, leadership and hosting and presenting events for several industry bodies. This includes the Royal Australian and New Zealand College of Radiologists, the Australian Diagnostic Imaging Association and the Australian Sonographers Association.

### Protecting the environment

We are committed to using natural resources responsibly, protecting and respecting our environment, and proactively minimising the impact of our operations. While healthcare is not a significant polluter or energy consumer, we recognise the need to continually minimise our environmental footprint and to explore opportunities that deliver long-term environmental benefits.

Integral Diagnostics recognises the Intergovernmental Panel on Climate Change's finding that warming of the climate system has been significantly influenced by human activity. We understand that the impacts of climate change could present physical, natural and human risks for our operations, our key suppliers, or the availability of resources for products that are integral to our business.

We monitor our exposure to these risks on an ongoing basis and continue to ensure our service offerings are aligned to meet any emerging needs. Our commitment to minimising our environmental impact is monitored by the Audit, Risk and Compliance Committee, which is responsible for providing oversight on our identification and response to key environmental issues. The Board has assessed the impact of environmental issues on key areas of our business and has concluded there are no substantive risks to our operations.

### Waste and resource efficiency

Around the business we encourage the reduction of energy usage and waste, and increased recycling, including education and the provision of recycling facilities. Communication and training in environmental policies and procedures are an important part of these campaigns and initiatives. A few examples of these initiatives are described below.

The disposal of healthcare waste and consumables is undertaken by qualified third-party contractors to ensure compliance with applicable legislation and that the waste is disposed of ethically with minimal impact on the environment.

Over the last several years, we have worked with referring clinicians and patients to replace hard copy film images with quality digital alternatives. Images and reports can now be accessed, streamed, downloaded and archived efficiently in a variety of formats, resulting in a significant decrease in film usage, with environmental benefits accruing from the reduction in manufacturing, transporting, processing, delivering, storing and disposing of the film products.

Integral Diagnostics encourages its shareholders to access all their communications electronically to reduce the energy and water resources associated with paper and print production. More than 95% of Integral Diagnostics shareholders now opt to receive an electronic version of the Annual Report, or have the option to view it online. More than 55% of shareholders also receive notices of meetings electronically.

# Directors' Report

For year ended 30 June 2019

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Integral Diagnostics Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2019.

The information referred to below forms part of, and is to be read in conjunction with, this Directors' Report:

- the Operating and Financial Review (OFR) on pages 30 to 37; and
- the Remuneration Report on pages 19 to 28.

## Directors

The following persons were Directors of Integral Diagnostics Limited during the whole of the financial year and up to the date of this Report, unless otherwise stated:

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Helen Kurincic (Independent Non-Executive Chairman)  
Dr Ian Kadish (Managing Director and Chief Executive Officer)  
John Atkin (Independent Non-Executive Director)  
Rupert Harrington (Independent Non-Executive Director)  
Raelene Murphy (Independent Non-Executive Director)  
Dr Chien Ping Ho (Executive Director)  
Dr Sally Sojan (Executive Director)

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## Principal activities

During the financial year, the principal activity of the Group was the provision of diagnostic imaging services.

## Business strategies, prospects and likely developments

The OFR on pages 30 to 37 of the Annual Report sets out information on the business strategies, prospects and likely development for the future financial years.

## Review and results of operations

A review of the operations of the Group during the financial year, the results of those operations and the financial position of the Group is contained in the OFR on pages 30 to 37.

## Dividends paid in the year ended 30 June 2019

Dividends paid/payable during the financial year were as follows:

|                                                   | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|---------------------------------------------------|------------------------|------------------------|
| Dividend paid 4 cents per share on 4 October 2017 | -                      | 5,801                  |
| Dividend paid 4 cents per share on 5 March 2018   | -                      | 5,802                  |
| Dividend paid 4 cents per share on 4 October 2018 | 6,216                  | -                      |
| Dividend paid 5 cents per share on 2 April 2019   | 7,809                  | -                      |
|                                                   | 14,025                 | 11,603                 |

## Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Group during the financial year.

## Matters subsequent to the end of the financial year

Subsequent to year end a dividend of 5.0 cents per share was declared and will be paid on 2 October 2019.

On 21 August 2019 an issue of shares/options to the value of \$4,500,000 was approved. This issue was made up of:

- \$1,085,334 under the Radiologist Loan Funded Share Plan;
- \$914,666 options under the New Zealand Matching Options plan; and
- \$1,500,000 of self-funded shares contributed by the participating Radiologists.

These shares/options will be issued on 2 September 2019 subject to the radiologists contributing funds for their own shares into the scheme by 30 August 2019. The number of share/options to be issued will be determined by the 30-day VWAP prior to issue date or in the event of the proposed capital raise the price offered in the capital raise.



On 26 August 2019, the Group announced it entered into a binding agreement to acquire the Imaging Queensland Group (IQ). The transaction is expected to complete on 1 November 2019, subject to satisfaction of a number of conditions precedent. On 26 August 2019, the Group announced a fully underwritten pro-rata accelerated non-renounceable entitlement offer. The proceeds from the entitlement offer will be used to partially fund the acquisition of IQ. Further details of the acquisition and entitlement offer are included in the associated market announcement and investor presentation.

No other matter or circumstances has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs until future financial years.

## Environmental regulations

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. During the financial year the Group was not convicted of any breach of environmental regulations.

## Information on Directors



**Helen Kurincic**  
Independent Non-Executive  
Chairman MBA, FAICD, Grad Dip  
Wom Stud, PBC Crit Care, Cert Nsg

Ms Helen Kurincic was appointed as an independent Non-Executive Director and Chairman of the Company in December 2014, preceding listing on the ASX on 21 October 2015 and is the Chairman of the Nomination Committee and a member of the People and Remuneration Committee and the Audit, Risk and Compliance Committee.

Helen has deep Executive and Board-level experience across the healthcare industry. She is currently a Non-Executive Director of Estia Health Limited (ASX:EHE), McMillian Shakespeare Limited (ASX:MMS), HBF Health Limited, and Victorian Clinical Genetics Service, and is a senior advisor in the healthcare sector. Previously, Helen was the Chief Operating Officer and Director of Genesis Care from its earliest inception, creating and developing the first and largest radiation oncology and cardiology business across Australia. Prior to that, Helen held various Executive and Non-Executive healthcare sector roles including Non-Executive Director of DCA Group Ltd (diagnostic imaging services in Australia and the United Kingdom), Non-Executive Director of AMP Capital Investors Domain Principal Group, CEO of Benetas and Non-Executive Director of Melbourne Health and Orygen Research Centre.

Helen has also been actively involved in healthcare government policy reform including appointments by health ministers as Chair of the Professional Programs and Services Committee for the Fourth Community Pharmacy Agreement and Member of the Minister's Implementation Taskforce and Minister's Reference Group for the Long Term Reform of Aged Care.

|                                                   |                                                                                                                             |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Former directorships<br>(in the last three years) | Sirtex Medical Limited (ASX:SRX)                                                                                            |
| Special responsibilities                          | Member of the Audit, Risk and Compliance Committee and People and Remuneration Committee, Chair of the Nomination Committee |
| Interests in shares                               | 420,870 ordinary shares (indirectly)                                                                                        |

# Directors' Report continued

For year ended 30 June 2019



**Dr Ian Kadish**  
Managing Director and  
Chief Executive Officer  
MBBCh, MBA

Dr Ian Kadish was appointed Managing Director and Chief Executive Officer of Integral Diagnostics on 22 May 2017. Ian began his career as a medical doctor in Johannesburg, South Africa.

He subsequently completed an MBA at the Wharton Business School at the University of Pennsylvania (Dean's List, May 1990) and followed this with several roles overseas including McKinsey and Company, CSC Healthcare in New York City, and Netcare, a major hospital group in South Africa and the United Kingdom, where Dr Kadish was an Executive Director from 1997 to 2006. Ian was instrumental in growing the group from five hospitals with a market capitalisation of \$60 million, to 119 hospitals and a market capitalisation of \$3 billion.

Since migrating to Australia in 2006, Dr Kadish's roles have included CEO and MD of Healthcare Australia, CEO and MD of Pulse Health Group (previously ASX-listed hospital group) and CEO of Laverty Pathology.

Ian is also a Non-Executive Director of Teaminvest Private Group Limited (ASX:TIP).

Former directorships  
(in the last three years)

None

Special responsibilities

None

Interests in shares

76,444 ordinary shares, 562,585 rights



**John Atkin**  
Independent Non-Executive Director  
BA, LLB, FAICD

John Atkin is a Non-Executive Director of IPH Limited (ASX:IPH). John is currently the Nomination and Remuneration Committee Chair of IPH Limited and is a member of its Audit and Risk Committee.

In 2018, John was appointed Chair of the Australian Institute of Company Directors. In 2019 he was appointed as Chair of Qantas Superannuation Limited, trustee of the Qantas Superannuation Fund. John is also an independent Director of the Commonwealth Bank Group Superfund trustee. John was a Non-Executive Director of Aurizon Limited (ASX:AZJ) from 2010 to 2016 and Chair of GPT Metro (ASX:GMF) for 2014 to 2016.

John was Chief Executive Officer and Managing Director of The Trust Company Limited from 2009 to 2013 prior to its successful merger with Perpetual Limited. Prior to joining the Trust Company, John was the managing partner and Chief Executive Officer of leading Australasian law firm Blake Dawson (now Ashurst). Before this, John was a senior mergers and acquisitions partner of Mallesons Stephen Jaques (now King & Wood Mallesons). John is Chairman of the Australian Outward Bound Foundation, a Vice Chair of Outward Bound International Inc, and Chair of Hunters Hill Environment Action Group Inc.

Former directorships  
(in the last three years)

Aurizon Holdings Limited (ASX:AZJ), GPT Metro Office (ASX:GMF)

Special responsibilities

Chair of the People and Remuneration Committee and a member of the Audit, Risk and Compliance Committee and the Nomination Committee

Interests in shares

132,945 ordinary shares (indirectly)



**Rupert Harrington**  
Independent Non-Executive Director  
BTech, MSc, CDipAF, MAICD

Rupert Harrington joined the Integral Board on 1 October 2015 as an experienced Director with a wealth of experience in business strategy and M&A.

Mr Harrington's early career was in operational management in the United Kingdom and Australia. His career from 1987 was in private equity where he has an excellent track record of delivering results for investors in sectors including health, technology, services, and manufacturing. This included Advent's healthcare investments in Primary Health Care and Genesis Care.

Mr Harrington is currently Chairman of Clover Corporation (ASX:CLV) and Non-Executive Director of Pro-Packaging (ASX:PPG). At the end of 2017 he resigned as Non-Executive Director of Bradken Limited following its successful acquisition by Hitachi.

Former directorships  
(in the last three years)

Bradken Limited (ASX:BKN)

Special responsibilities

Member of the Audit, Risk and Compliance Committee, the People and Remuneration Committee and the Nomination Committee

Interests in shares

177,356 ordinary shares (directly) and 128,534 ordinary shares (indirectly)



**Raelene Murphy**  
Independent Non-Executive Director  
BBus, FCA, GAICD

Ms Raelene Murphy was appointed as an independent Non-Executive Director of the Company on 1 October 2017, and is the Chairman of the Audit, Risk and Compliance Committee and a member of the People and Remuneration Committee.

Raelene has over 30 years' experience in strategic, financial and operational leadership in both industry and professional advisory after beginning her career in audit. She was formerly a Partner in a national accounting firm, Managing Director of Korda Mentha and CEO of the Delta Group. In her professional advisory career she specialised in operational and financial restructuring with a particular emphasis on merger and acquisition integration across a range of significant public and private companies.

Raelene is a Fellow of Chartered Accountants Australia and New Zealand and has extensive experience as Chair of Audit and Risk Committees for ASX Listed companies.

She is currently a Non-Executive Director of ASX listed Altium Limited (ASX:ALU), Service Stream Limited (ASX:SSM), Bega Limited (ASX:BGA) and Clean Seas Seafood Limited (ASX:CSS).

Former directorships  
(in the last three years)

Tassal Group Limited (ASX:TGR)

Special responsibilities

Chair of the Audit, Risk and Compliance Committee, Member of the People and Remuneration Committee

Interests in shares

21,335 ordinary shares (indirectly)

# Directors' Report continued

For year ended 30 June 2019



**Dr Chien Ping Ho**  
Executive Director  
MBBS, FRANZCR, GAICD

Dr Chien Ping Ho is a fellow of the Royal Australian and New Zealand College of Radiologists and an accredited MRI supervising radiologist.

Upon completion of his radiology training at The Royal Melbourne Hospital, Dr Ho undertook advanced training at three London hospitals: Chelsea and Westminster Hospital, The Royal National Orthopaedic Hospital and University College Hospital. During this time he completed an MRI/musculoskeletal fellowship and also spent time as a staff specialist.

Dr Ho commenced with Lake Imaging in 2004 and is currently a consultant radiologist for Integral Diagnostics in Victoria. Dr Ho has considerable experience across all radiology modalities with a special interest in musculoskeletal imaging, body MRI (including prostate) and Cardiac CT.

Former directorships  
(in the last three years)

None

Special responsibilities

Chair of the Integral Clinical Leadership Committee

Interests in shares

2,281,866 ordinary shares (indirectly)



**Dr Sally Sojan**  
Executive Director  
MBBS, FRANZCR, FAANMS, GAICD

Dr Sally Sojan graduated from the University of Queensland with a medical degree.

Dr Sojan completed her radiology fellowship at the Princess Alexandra Hospital in Brisbane. Dr Sojan then completed her nuclear medicine and PET qualifications at The Royal Brisbane Hospital and The Royal Adelaide Hospital followed by an MRI fellowship at The Mater Private Hospital in Brisbane.

Dr Sojan commenced working at South Coast Radiology, where she established the first PET service on the Gold Coast. Her specialty interests include nuclear medicine and PET and musculoskeletal MRI. Dr Sojan was previously the Chair of the South Coast Radiology Board Meetings and has been a board member of Integral Diagnostics for five years.

Dr Sojan has been appointed to the Diagnostic Imaging Accreditation Scheme Advisory Committee of the Department of Health.

Former directorships  
(in the last three years)

None

Special responsibilities

Member of the Integral Clinical Leadership Committee

Interests in shares

1,046,491 ordinary shares (indirectly)

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

## Company Secretary

Kathryn Davies, (BBus, CPA, GAICD) was Company Secretary until her resignation on 5 July 2019. Kathryn is an experienced executive and company secretary with commercial and corporate governance experience across international capital markets. Her experience includes healthcare, mining, oil and gas, industrial and technology groups.

Kirsty Lally (BEcon, CA) was appointed Company Secretary on 5 July 2019. Kirsty is an experienced Executive with experience across listed small market capitalisation, unlisted and private companies, specialising in governance, compliance and other corporate matters.



## Meetings of Directors

| Director                      | Board |          | Audit, Risk and Compliance Committee |          | People and Remuneration Committee |          | Nomination Committee |          |
|-------------------------------|-------|----------|--------------------------------------|----------|-----------------------------------|----------|----------------------|----------|
|                               | Held  | Attended | Held                                 | Attended | Held                              | Attended | Held                 | Attended |
| Helen Kurincic                | 17    | 17       | 5                                    | 5        | 5                                 | 5        | 2                    | 2        |
| Dr Ian Kadish                 | 17    | 17       | -                                    | -        | -                                 | -        | -                    | -        |
| John Atkin                    | 17    | 17       | 5                                    | 5        | 5                                 | 5        | 2                    | 2        |
| Rupert Harrington             | 17    | 17       | 5                                    | 5        | 5                                 | 5        | 2                    | 2        |
| Raelene Murphy <sup>1</sup>   | 17    | 16       | 5                                    | 5        | 3                                 | 3        | -                    | -        |
| Dr Chien Ping Ho <sup>2</sup> | 14    | 13       | -                                    | -        | -                                 | -        | -                    | -        |
| Dr Sally Sojan <sup>2</sup>   | 14    | 13       | -                                    | -        | -                                 | -        | -                    | -        |

Held: represents the number of meetings held during the time the Director held office and was eligible to attend.

1. Raelene Murphy was appointed to the People and Remuneration Committee on 22 March 2019.
2. Dr Sally Sojan and Dr Chien Ping Ho were ineligible to attend meetings which covered items in which they held a personal interest.

The Board has also established a group wide Clinical Leadership Committee which is made up of Executive Directors Dr Ian Kadish, Dr Chien Ping Ho and Dr Sally Sojan, together with radiologist leaders from across IDX. Its role is to promote and support a collegiate culture across all practices and to provide advice on all clinical governance matters including patient care, clinical standards and quality assurance.

The Committee met 8 times during the year and all Executive Directors were present at every meeting.

## Indemnity and insurance of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, Executives and the Company Secretary of the Company, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the officer as an officer of the Company or of a related body corporate.

In accordance with the Company's Constitution, the Company has entered into a deed of indemnity, insurance and access with each of the Company's Directors. Under the deeds of indemnity, insurance and access, the Company must maintain a Directors' and officers' insurance policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate until seven years after a Director ceases to hold office as a Director or a related body corporate (or the date any relevant proceedings commenced during the seven-year period have been finally resolved). No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

During the financial year, the Company has paid a premium in respect of a contract insuring officers of the Company and its subsidiaries against all liabilities that they may incur as an officer of the Company, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or the policy can be disclosed.

## Indemnity and insurance of the 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.

# Directors' Report continued

For year ended 30 June 2019

## Non-audit services

Details of the amounts paid or payable to the auditor for the non-audit services provided during the financial year by the auditor are outlined in Note 29 to the financial statements.

The non-audit services provided were largely for work performed pertaining to tax advisory and compliance services, due diligence on transactions and advice on employees equity share plans.

The Directors are satisfied that the provision of non-audit services provided 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 29 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 audit partners of PricewaterhouseCoopers.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29.

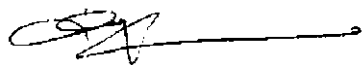
## Auditor

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

## Rounding of amounts

The Company is a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this Report and in the financial statements have been rounded off, except where otherwise stated, in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

This Report is made in accordance with a resolution of Directors.  
On behalf of the Directors



**Helen Kurincic**  
Chairman



**Dr Ian Kadish**  
Managing Director and Chief Executive Officer

26 August 2019  
Melbourne

# Remuneration Report

For year ended 30 June 2019

The Remuneration Report, which has been audited, outlines the Director and Executive remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key Management Personnel (KMP) of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors. The table below lists the KMP for the year ended 30 June 2019 (FY19). All KMP held their position for the duration of FY19, unless otherwise noted.

| Name                           | Position                                      |
|--------------------------------|-----------------------------------------------|
| <b>Non-Executive Directors</b> |                                               |
| Helen Kurincic                 | Independent, Non-Executive Chairman           |
| John Atkin                     | Independent, Non-Executive Director           |
| Rupert Harrington              | Independent, Non-Executive Director           |
| Raelene Murphy                 | Independent, Non-Executive Director           |
| <b>Executive Directors</b>     |                                               |
| Dr Ian Kadish                  | Managing Director and Chief Executive Officer |
| Dr Chien Ping Ho               | Executive Director                            |
| Dr Sally Sojan                 | Executive Director                            |
| <b>Executives</b>              |                                               |
| Anne Lockwood                  | Chief Financial Officer                       |

For the remainder of the Report, the term 'Executive' refers to all Executive KMP except for Dr Chien Ping Ho and Dr Sally Sojan, who are both employed radiologists with the Group.

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Other transactions with KMP and their related parties
- Service agreements
- Minimum Shareholding Policy
- Additional disclosures relating to KMP

## a. Principles used to determine the nature and amount of remuneration

The objective of the Group's Executive reward framework is to align Executive reward with the achievement of strategic objectives, the creation of value for shareholders and ensures the reward for performance is competitive and appropriate for the results delivered. The Board of Directors ('the Board') works to ensure that Executive reward satisfies the following key criteria:

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

The Company's remuneration policy for Non-Executive Directors aims to ensure that the Company can attract and retain suitably qualified and experienced Non-Executive Directors.

# Remuneration Report continued

For year ended 30 June 2019

## People and Remuneration Committee

The People and Remuneration Committee (PRC) is governed by the PRC Charter and is responsible for reviewing and recommending to the Board compensation arrangements for the Non-Executive Directors, Executive Directors, other KMP and Senior Management including:

- Contract terms, annual remuneration and participation in any short and long-term incentive plans.
- Major changes and developments in the Company's remuneration, superannuation, recruitment, retention and termination policies and procedures.
- Remuneration strategy, performance targets and bonus payments for the CEO and the Executives that report to the CEO.
- Remuneration arrangements for the Chairman, Non-Executive and Executive Directors of the Board, including fees, travel and other benefits.

The PRC also reviews and makes recommendations to the Board in regards to 'people' by monitoring and reviewing the Senior Management performance assessment process, reviewing major changes and developments in the personnel practices and industrial relations strategies of the Group, senior leadership succession planning, and overseeing the effectiveness of the Diversity Policy.

The following Non-Executive Directors, all of whom are regarded as independent, were members of the PRC for the entire financial year:

|                       |                                                          |
|-----------------------|----------------------------------------------------------|
| John Atkin – Chairman | Independent, Non-Executive Director                      |
| Helen Kurincic        | Independent, Non-Executive Director                      |
| Rupert Harrington     | Independent, Non-Executive Director                      |
| Raelene Murphy        | Independent, Non-Executive Director (from 22 March 2019) |

Executives do not participate in any remuneration matters under the PRC Charter. The PRC meets quarterly or as often as necessary in order to fulfil its role.

## Use of remuneration consultants

The Board ensures that any recommendations made by consultants in relation to remuneration arrangements of KMP must be made directly to the Board without any influence from management. The arrangements in place ensure any advice is independent of management and includes management not being able to attend Board or Committee meetings where recommendations relating to their remuneration are discussed.

The remuneration consultants engaged by the Board, Guerdon Associates (GA), completed a report for the Board on market benchmarking of Senior Executive remuneration during the 2019 financial year. The total consideration paid to GA for the report was \$33,124 excluding GST.

The scope of the report and all discussions with GA were undertaken by the Chair of the PRC and the Chair of the Board together with Non-Executive Directors of the PRC.

No discussions were held between GA and the Executive KMP. Accordingly, the Board is satisfied that the report provided by GA was free from undue influence by any member of the KMP to whom the recommendations relate.

## Non-Executive Directors' remuneration arrangements

Under the Constitution, the Board determines the remuneration to which each Director is entitled for his or her service as a Director. However, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting. This amount has been fixed at \$1,000,000.

The annual base Non-Executive Director fees currently agreed to be paid by the Company are \$200,000 to the Chairman and \$100,000 to each of the other Non-Executive Directors.

The following additional annual fees are payable to Committee members for their service to their respective Committees, except the Chairman of the Board:

- \$20,000 will be paid to the Chair of the Audit, Risk and Compliance Committee and \$10,000 will be paid to each member of that Committee; and
- \$12,000 will be paid to the Chair of the People and Remuneration Committee and \$6,000 will be paid to each member of that Committee.



All Non-Executive Directors' fees include superannuation. No additional fees are paid to the Nomination Committee Chair or members of the Integral Diagnostic Clinical Leadership Committee (ICLC) or the Mergers and Acquisitions Working Group established by the Board.

The PRC reviewed Directors' fees during the year and determined that there would be no increase for the 2019 financial year.

#### Executive Directors' remuneration arrangements – Dr Chien Ping Ho and Dr Sally Sojan

Dr Chien Ping Ho and Dr Sally Sojan are deemed to be Executive Directors as they are employed as radiologists by the Group. The key terms of their employment contracts are consistent with radiologist shareholders and include a fixed salary at market rate plus allowances where appropriate and in line with market.

An Executive Director Board fee of \$50,000 is paid to each of Dr Chien Ping Ho and Dr Sally Sojan.

Further details are provided on pages 26 and 27.

#### Review of Non-Executive Director and Executive Director Board fees for FY20

The PRC has reviewed fees paid to the Executive Directors, the Non-Executive Directors and the Chair. That review had regard to the significant growth in the size and complexity of the specialist medical business, market benchmarks and the work of the Board and its Committees in practice. The annual fees payable for an Executive Director has been increased to \$62,500, for a Non-Executive Director to \$125,000 (inclusive of all Committee Chair and Committee member roles), and for the Chair to an all inclusive fee of \$250,000.

#### Executive remuneration arrangements

The Executive remuneration and reward framework for the 2019 financial year has three components:

- fixed remuneration (including base salary and superannuation) and non-monetary benefits;
- short-term performance incentives; and
- long-term performance incentives.

The combination of these comprises the Executives' total remuneration.

An Executive's remuneration arrangement is reviewed annually by the PRC, based on individual and business performance, the overall performance of the Group and comparable market data. At risk remuneration consists of the short-term (STI) and long-term (LTI) incentive programs, which have been designed to align Executive remuneration with the creation of shareholder value through achievement of strategic and financial objectives.

#### Remuneration mix

The target remuneration mix for FY 2019 is shown below. It reflects the STI opportunity for the current year that will be available if the performance conditions are satisfied at target, and the face value of the LTI performance rights granted during the year, as determined at grant date.

| Executives    | Fixed Remuneration (%) | STI (%) | LTI (%) |
|---------------|------------------------|---------|---------|
| Dr Ian Kadish | 45%                    | 10%     | 45%     |
| Anne Lockwood | 53%                    | 13%     | 34%     |

#### Fixed remuneration

|                     |                                                                                                                                                                                                                                                          |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delivery mechanism  | <ul style="list-style-type: none"> <li>• 100% cash payment including base salary, other fringe benefits and employer superannuation contributions.</li> </ul>                                                                                            |
| Considerations      | <ul style="list-style-type: none"> <li>• Role scope and complexity</li> <li>• The Executive's skills and experience</li> <li>• Industry benchmarking</li> </ul>                                                                                          |
| Strategic objective | <ul style="list-style-type: none"> <li>• To attract and retain high quality Executives to deliver Company objectives</li> <li>• Reward capability and experience</li> </ul>                                                                              |
| Governance          | <ul style="list-style-type: none"> <li>• Fixed remuneration is reviewed annually by the PRC with regard to market rates and individual performance</li> <li>• There are no guaranteed increases to fixed remuneration in employment contracts</li> </ul> |

# Remuneration Report continued

For year ended 30 June 2019

## Short term incentive (STI)

| Delivery mechanism               | <ul style="list-style-type: none"> <li>100% cash payment</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |           |                     |               |           |               |          |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---------------------|---------------|-----------|---------------|----------|
| Performance period               | <ul style="list-style-type: none"> <li>The FY19 STI targets were set at the commencement of FY19 and assessed by the PRC after the end of the financial year, based on the Company's audited annual results and individual performance against non-financial targets.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |           |                     |               |           |               |          |
| Performance hurdles and measures | <p><b>NPAT growth hurdle</b></p> <ul style="list-style-type: none"> <li>A gateway is in place for all Executives, which means a minimum NPAT target must be achieved before any STI will be paid, unless Board discretion is applied.</li> </ul> <p><b>Financial performance target</b></p> <ul style="list-style-type: none"> <li>50% of STI will be available based on achievement of year-on-year NPAT growth.</li> <li>NPAT growth was selected because it is linked to the creation of shareholder returns.</li> </ul> <p><b>Strategic priority targets</b></p> <ul style="list-style-type: none"> <li>50% of STI will be available on achievement of non-financial strategic objectives and priorities being business development, successful integration of acquisitions, major operational projects and radiologist and referrer engagement, which are all essential areas to positive outcomes for the Company and its stakeholders. The PRC reviews each Executive's performance against these metrics to ensure Executives consider non-financial objectives when making strategic decisions.</li> </ul> |           |                     |               |           |               |          |
| STI opportunity                  | <p>Maximum STI opportunities are outlined below:</p> <table> <tr> <th>Executive</th><th>Maximum opportunity</th></tr> <tr> <td>Dr Ian Kadish</td><td>\$142,500</td></tr> <tr> <td>Anne Lockwood</td><td>\$92,500</td></tr> </table>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Executive | Maximum opportunity | Dr Ian Kadish | \$142,500 | Anne Lockwood | \$92,500 |
| Executive                        | Maximum opportunity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |           |                     |               |           |               |          |
| Dr Ian Kadish                    | \$142,500                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |           |                     |               |           |               |          |
| Anne Lockwood                    | \$92,500                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |           |                     |               |           |               |          |
| Strategic objective              | <ul style="list-style-type: none"> <li>The Financial Performance Target and Strategic Priority Targets were chosen because they are aligned with the short-term objectives of the business whilst consistent with the long-term strategy of the Company.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |           |                     |               |           |               |          |
| Governance                       | <ul style="list-style-type: none"> <li>Performance measures and objectives are clearly defined and measurable.</li> <li>Targets are recommended by the PRC and approved by the Board.</li> <li>Any incentive payment is not an entitlement and provided at the complete discretion of the Board.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           |                     |               |           |               |          |
| FY19 outcome                     | <ul style="list-style-type: none"> <li>The operating NPAT gateway hurdle was not achieved. However, given the Company's strong financial performance and the delivery of strategic measures, the Board exercised its discretion in determining the STI payable. Refer to pages 24 and 25 for further details.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |           |                     |               |           |               |          |

## Long term incentive (LTI)

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic objective         | <ul style="list-style-type: none"> <li>The LTI Plan is designed to encourage Executives to focus on the key performance drivers which underpin sustainable growth in shareholder value. It is also designed to align the interests of Executives with the interests of shareholders by providing an opportunity for Executives to receive an equity interest in the Company.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Participation by Executives | <ul style="list-style-type: none"> <li>The CEO and CFO participated in the FY19 LTI Plan.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| FY19 LTI award              | <ul style="list-style-type: none"> <li>The FY19 LTI award was delivered in the form of zero exercise priced options (Performance Rights).</li> <li>The number of Performance Rights granted to participants was determined by use of a face value methodology. A participant's FY19 LTI award was divided by the volume weighted average price of the Company's shares traded on the ASX over the 30 trading days up to 30 June 2018.</li> <li>Each Performance Right entitles the holder to one ordinary share in the Company (or an equivalent cash payment in lieu of an allocation of shares) subject to the satisfaction of an earnings per share performance condition.</li> <li>Performance Rights are granted by the Company at no cost to the participant and no payment is required to be made on vesting and exercise of the Performance Rights.</li> <li>Performance Rights will automatically be exercised on vesting.</li> <li>Performance Rights do not carry any voting or dividend entitlements prior to vesting and exercise.</li> </ul> |

| Performance Period                             | The FY19 LTI Performance Rights will be tested based on performance over a four year period commencing on 1 July 2018 and ending on 30 June 2022.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------|-------------------|-----|------------------|-----|-------------------------|-----------------------------------------------------|-----------------------------|------|
| Performance condition and measures             | <p>The FY19 Performance Rights will vest subject to the satisfaction of an earnings per share (EPS) performance condition.</p> <p>The EPS performance condition will be measured by reference to the compound annual growth rate (CAGR) of the Company's EPS over the Performance Period.</p> <p>EPS measures the earnings generated by the Company attributable to each share on issue on a fully diluted basis.</p> <p>The EPS performance condition was selected because of its correlation with long-term shareholder return and its lower susceptibility to short-term share price volatility.</p> <p>Calculation of EPS, the CAGR of the EPS and achievement against the performance condition will be determined by the Board in its absolute discretion, having regard to any matters that it considers relevant (including any adjustments for unusual or non-recurring items that the Board consider appropriate).</p> <p>The percentage of Performance Rights that will be eligible for vesting (if any) will be determined as follows:</p> <table> <tr> <th>Company's EPS CAGR over the Performance Period</th><th>% of FY19 Performance Rights that vest</th></tr> <tr> <td>Less than 5% p.a.</td><td>Nil</td></tr> <tr> <td>Equal to 5% p.a.</td><td>20%</td></tr> <tr> <td>Between 5% and 15% p.a.</td><td>Straight line pro-rata vesting between 20% and 100%</td></tr> <tr> <td>Equal to, or above, 15%p.a.</td><td>100%</td></tr> </table> | Company's EPS CAGR over the Performance Period | % of FY19 Performance Rights that vest | Less than 5% p.a. | Nil | Equal to 5% p.a. | 20% | Between 5% and 15% p.a. | Straight line pro-rata vesting between 20% and 100% | Equal to, or above, 15%p.a. | 100% |
| Company's EPS CAGR over the Performance Period | % of FY19 Performance Rights that vest                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Less than 5% p.a.                              | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Equal to 5% p.a.                               | 20%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Between 5% and 15% p.a.                        | Straight line pro-rata vesting between 20% and 100%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Equal to, or above, 15%p.a.                    | 100%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Assessment of performance condition            | <ul style="list-style-type: none"> <li>• EPS growth rate is to be calculated with reference to underlying earnings (operating<sup>1</sup>).</li> <li>• The method of assessing the EPS performance condition has been chosen as the Board believes it is the most appropriate way to assess the true financial performance of the Company and determine remuneration outcomes.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Testing of performance condition               | <ul style="list-style-type: none"> <li>• Testing of the Performance Rights is expected to occur in FY23, shortly after the end of the Performance Period.</li> <li>• Any Performance Rights that vest will be automatically exercised, and participants are not required to pay an exercise price. Any remaining Performance Rights that do not vest will lapse.</li> <li>• If none of the FY19 Performance Rights vest following testing after the end of the Performance Period due to some extreme event or circumstance, the Board may decide to re-test the performance condition at the end of a further one year period ending on 30 June 2023. Any FY19 Performance Rights that do not vest after the re-test will lapse immediately.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Additional restrictions                        | <ul style="list-style-type: none"> <li>• Participants in the LTI Plan must elect to place an additional dealing restriction, by way of a holding lock, foregoing the right to trade on any shares they may receive on vesting and exercise of the Performance Rights.</li> <li>• The minimum additional restriction period applies until 1 July 2023 and the maximum additional restrictions period applies until 1 July 2030 (or 1 July 2031 where the Performance Rights vest following re-testing).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |
| Treatment of cessation <sup>2</sup>            | <ul style="list-style-type: none"> <li>• Where a participant ceases employment for cause or due to resignation (other than due to death, permanent disability or serious illness) all unvested Performance Rights will lapse.</li> <li>• In all other circumstances, a pro-rata portion of Performance Rights (based on the portion of the Performance Period that has elapsed) will remain on foot and be subject to the original performance condition (including that the Performance Rights will be eligible for re-testing), as though the participant had not ceased employment, unless the Board determines otherwise.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                |                                        |                   |     |                  |     |                         |                                                     |                             |      |

# Remuneration Report continued

For year ended 30 June 2019

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Change of control       | <ul style="list-style-type: none"> <li>Where there is a takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change of control of the Company, the Board has the discretion to accelerate vesting of some or all of the Performance Rights (but not less than a pro-rata portion (calculated based on the portion of the Performance Period that has elapsed and tested based on performance against the performance condition to that date)). Where only some of the Performance Rights are vested on a change of control, the remainder of the Performance Rights will immediately lapse.</li> <li>If an actual change of control occurs before the Board exercises its discretion, a pro-rata portion of the Performance Rights (equal to the portion of the relevant Performance Period that has elapsed up to the change of control) will be tested based on performance against the performance condition to that date. The Board retains a discretion to determine whether the remaining unvested Performance Rights will vest or lapse.</li> </ul> |
| Forfeiture and clawback | <ul style="list-style-type: none"> <li>The Board has broad 'clawback' powers to determine that any Performance Rights granted under the LTI Plan may lapse, shares allocated on vesting and exercise be forfeited, or cash payments or dividends be repaid in certain circumstances (e.g. in the case of fraud or gross misconduct). This protects the Company against the payment of benefits where participants have acted inappropriately.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Governance              | <ul style="list-style-type: none"> <li>The performance condition and objectives are clearly defined and measurable.</li> <li>Any grant is not an entitlement and provided at the complete discretion of the Board.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

1. Operating defined as NPAT before one-off costs.

2. For FY18 and FY19, the Board has determined that in the event of the CEO or CFO ceasing employment as a good leaver, their full FY18 and FY19 Performance Rights would stay on foot. In view of the strong performance of the Company over the past two years, the Board has also determined that, absent of malus, if there is a change of control it would exercise discretion to fully accelerate vesting of FY18 and FY19 Performance Rights.

## FY20 Executive Remuneration

The PRC has reviewed the remuneration payable to the CEO and CFO for FY20. That review had regard to the significant growth in the size and complexity of the business and was informed by a report from Guerdon Associates on market benchmarks. In the case of the CFO, the PRC also had regard to the increased scope of the role in the position of Chief Finance and Commercial Officer ("CFCO"). The fixed remuneration for the CEO for FY20 has been increased by 12% to \$638,400 and the CFCO by 21.7% to \$450,340. The STI potential for both remains at 25% of their fixed remuneration. The LTI potential for the CEO remains at 100% of his fixed remuneration and for the CFCO increases to 75% of fixed remuneration.

The Company is currently reviewing its performance conditions for the FY20 grant of Performance Rights and the possible inclusion of a performance condition based on Return on Invested Capital (ROIC) as an addition to the current performance condition based on Earnings Per Share (EPS).

## Company performance

The Company aims to align its Executive remuneration to its strategic and business objectives and the creation of shareholder value. The table below shows measures of the Group's financial performance over the last three years. The Company listed on the ASX in October 2015. As a result, it is not possible to address the statutory requirement that the Company provides a five-year discussion of the link between performance and reward in this Remuneration Report as the Company has not been listed for a sufficient time.

The link between the Company's performance and STI and LTI outcomes is considered in the sections below.

| Key measures of the Group                            | FY2019   | FY2018   | FY2017   |
|------------------------------------------------------|----------|----------|----------|
| Operating EBITDA <sup>1</sup> as a % of revenue      | 23%      | 20.3%    | 18.8%    |
| Operating NPAT <sup>2</sup> as a % of revenue        | 11.1%    | 9.7%     | 8.3%     |
| Operating EPS (cents per share)                      | 16.30cps | 12.60cps | 10.41cps |
| Return on operating assets (based on operating NPAT) | 17.98%   | 14.53%   | 11.6%    |
| Closing share price <sup>3</sup>                     | 3.16     | 3.02     | 1.66     |
| Dividends paid per share                             | 9.0cps   | 8.0cps   | 7.0cps   |
| Declared dividend payout ratio on statutory NPAT     | 74.72%   | 79.59%   | 65.6%    |

1. Operating EBITDA defined as EBITDA before one-off costs.

2. Operating NPAT defined as NPAT before one-off costs.

3. The opening share price on 21 October 2015 was \$1.91.

### Company performance and FY19 STI outcome

The operating NPAT gateway hurdle was not achieved. However, given the Company's strong financial performance and the delivery of strategic measures, the Board exercised its discretion in determining the STI payable. In respect of FY19, 47% of current Executive STIs will be paid reflecting their contribution to the performance of the Group. STI payments will be made on 15 September 2019.

The table below shows the STI payment to each Executive for the current and preceding financial years:

| Executives                  | FY2019         |            |                             | FY2018          |            |                             |
|-----------------------------|----------------|------------|-----------------------------|-----------------|------------|-----------------------------|
|                             | STI Foregone % | STI Paid % | STI Payment \$ <sup>1</sup> | STI Foregone \$ | STI Paid % | STI Payment \$ <sup>1</sup> |
| Dr Ian Kadish               | 55             | 45         | 64,125                      | -               | 100        | 100,000                     |
| Anne Lockwood               | 50             | 50         | 46,250                      | -               | 100        | 70,000                      |
| Gregory Hughes <sup>2</sup> | NA             | NA         | NA                          | 58%             | 42%        | 35,285                      |

1. The minimum STI value possible is zero.

2. Position made redundant and ceased to be KMP on 9 February 2018.

### b. Details of remuneration

#### LTI Performance Rights granted in FY19

The table below shows the LTI details for each Executive for the financial year ended 30 June 2019:

| Executives    | Grant date | Number of Performance Rights granted <sup>1</sup> | Fair value on grant date | Aggregate fair value <sup>1</sup> | Vesting and exercise date <sup>2</sup> | Performance Rights expiry date |
|---------------|------------|---------------------------------------------------|--------------------------|-----------------------------------|----------------------------------------|--------------------------------|
| Dr Ian Kadish | 16/11/2018 | 200,000                                           | 2.39                     | 478,000                           | 30/06/2022                             | 30/06/2023                     |
| Anne Lockwood | 22/08/2018 | 84,386                                            | 2.36                     | 199,151                           | 30/06/2022                             | 30/06/2023                     |

1. The FY19 Performance Rights granted were made with reference to the 30 day VWAP of the Company's shares traded up to, and including 30 June 2018, calculated fair value was made on grant date.

2. The FY19 LTI Performance Rights are zero exercise price options and the Performance Rights are automatically exercised on vesting.

#### LTI Performance Rights granted in FY18

The table below shows the LTI details for each Executive for the financial year ended 30 June 2018:

| Executives    | Grant date | Number of Performance Rights granted <sup>1</sup> | Fair value on grant date | Aggregate fair value <sup>1</sup> | Vesting and exercise date <sup>2</sup> | Performance Rights expiry date |
|---------------|------------|---------------------------------------------------|--------------------------|-----------------------------------|----------------------------------------|--------------------------------|
| Dr Ian Kadish | 22/11/2017 | 362,585                                           | 1.54                     | 558,381                           | 30/06/2021                             | 30/6/22                        |
| Anne Lockwood | 27/04/2018 | 100,154                                           | 1.94                     | 194,299                           | 30/06/2021                             | 30/6/22                        |

1. The FY18 Performance Rights granted were made with reference to the 30 day VWAP of the Company's shares traded up to, and including 30 June 2017, calculated fair value was made on grant date.

2. The FY18 LTI Performance Rights are zero exercise price options and the Performance Rights are automatically exercised on vesting.



# Remuneration Report continued

For year ended 30 June 2019

## Movements in Performance Rights held by Executives

The following table sets out the movement of Performance Rights held by each Executive and their related parties. None of the Performance Rights vested or lapsed during the reporting period and none of the Performance Rights are presently capable of being exercised.

| Name          | Year granted | Balance at start of year | Granted during year <sup>1</sup> |         |  | Rights to deferred shares |   |           |   | Balance at end of year (unvested) | Value yet to be recognised in profit or loss <sup>2</sup> |
|---------------|--------------|--------------------------|----------------------------------|---------|--|---------------------------|---|-----------|---|-----------------------------------|-----------------------------------------------------------|
|               |              | Number                   | Number                           | \$      |  | Vested                    |   | Forfeited |   | Number                            | \$                                                        |
| Dr Ian Kadish | 2019         | 362,585                  | 200,000                          | 478,000 |  | -                         | - | -         | - | 562,585                           | 395,923                                                   |
|               | 2018         | -                        | 362,585                          | 558,381 |  | -                         | - | -         | - | 362,585                           | 309,740                                                   |
| Anne Lockwood | 2019         | 100,154                  | 84,386                           | 199,151 |  | -                         | - | -         | - | 184,540                           | 154,879                                                   |
|               | 2018         | -                        | 100,154                          | 194,299 |  | -                         | - | -         | - | 100,154                           | 122,274                                                   |

1. The value of the LTI Performance Rights granted in each year is the fair value of the Performance Rights calculated at the grant date using the Black Scholes Pricing Model.
2. No grants will vest if the performance conditions are not satisfied, hence, the minimum value of grants yet to vest is nil. The maximum value of grants yet to vest has been estimated based on the fair value per grant at the maximum achievement of the vesting scale less amounts already recognised as an expense.

## Amounts of remuneration

Details of the remuneration received by the Group's KMP for FY19 and the prior financial year are set out in the following tables.

|                                       | Short term benefits  |                | Post-employment benefits | Long term benefits | Value in Share based plans |                    |  | Proportion of total remuneration related to performance |
|---------------------------------------|----------------------|----------------|--------------------------|--------------------|----------------------------|--------------------|--|---------------------------------------------------------|
|                                       | Cash salary and fees | Cash incentive | Superannuation           | Long service leave | Performance Rights granted | Total remuneration |  |                                                         |
| FY2019                                | \$                   | \$             | \$                       | \$                 | \$                         | \$                 |  | %                                                       |
| <b>Non-Executive Directors</b>        |                      |                |                          |                    |                            |                    |  |                                                         |
| Helen Kurincic                        | 182,648              | NA             | 17,352                   | 0                  | NA                         | 200,000            |  | NA                                                      |
| John Atkin                            | 111,416              | NA             | 10,584                   | 0                  | NA                         | 122,000            |  | NA                                                      |
| Rupert Harrington                     | 105,936              | NA             | 10,064                   | 0                  | NA                         | 116,000            |  | NA                                                      |
| Raelene Murphy                        | 121,500              | NA             | 0                        | 0                  | NA                         | 121,500            |  | NA                                                      |
| <b>Executive Directors</b>            |                      |                |                          |                    |                            |                    |  |                                                         |
| Dr Ian Kadish                         | 549,469              | 64,125         | 20,531                   | 5,096              | 236,947                    | 876,168            |  | 34.36%                                                  |
| Dr Chien Ping Ho <sup>1</sup>         | 533,747              | NA             | 20,531                   | 6,893              | NA                         | 561,171            |  | NA                                                      |
| Dr Sally Sojan <sup>1</sup>           | 821,591              | NA             | 25,000                   | 11,134             | NA                         | 857,725            |  | NA                                                      |
|                                       | <b>2,426,307</b>     | <b>64,125</b>  | <b>104,062</b>           | <b>23,123</b>      | <b>236,947</b>             | <b>2,854,564</b>   |  | <b>10.55%</b>                                           |
| <b>Other Key Management Personnel</b> |                      |                |                          |                    |                            |                    |  |                                                         |
| Anne Lockwood                         | 349,469              | 46,250         | 20,531                   | 5,328              | 44,271                     | 465,849            |  | 19.43%                                                  |
|                                       | <b>349,469</b>       | <b>46,250</b>  | <b>20,531</b>            | <b>5,328</b>       | <b>44,271</b>              | <b>465,849</b>     |  | <b>19.43%</b>                                           |

1. Remuneration is as a radiologist of IDX and includes Executive Director fees.

|                                       | Short term benefits  |                | Post-employment benefits | Long term benefits | Value in share based plans |                    |                                                         |
|---------------------------------------|----------------------|----------------|--------------------------|--------------------|----------------------------|--------------------|---------------------------------------------------------|
|                                       | Cash salary and fees | Cash incentive | Superannuation           | Long service leave | Performance Rights granted | Total remuneration | Proportion of total remuneration related to performance |
| FY2018                                | \$                   | \$             | \$                       | \$                 | \$                         | \$                 | %                                                       |
| <b>Non-Executive Directors</b>        |                      |                |                          |                    |                            |                    |                                                         |
| Helen Kurincic                        | 182,648              | NA             | 17,352                   | -                  | NA                         | 200,000            | NA                                                      |
| John Atkin                            | 111,416              | NA             | 10,584                   | -                  | NA                         | 122,000            | NA                                                      |
| Rupert Harrington <sup>1</sup>        | 108,220              | NA             | 10,280                   | -                  | NA                         | 118,500            | NA                                                      |
| Raelene Murphy <sup>2</sup>           | 90,000               | NA             | -                        | -                  | NA                         | 90,000             | NA                                                      |
| <b>Executive Directors</b>            |                      |                |                          |                    |                            |                    |                                                         |
| Dr Ian Kadish <sup>3</sup>            | 488,805              | 100,000        | 20,890                   | 7,397              | 93,771                     | 710,863            | 27.26%                                                  |
| Dr Chien Ping Ho <sup>4</sup>         | 511,218              | NA             | 19,153                   | 5,487              | NA                         | 535,858            | NA                                                      |
| Dr Sally Sojan <sup>4</sup>           | 788,697              | NA             | 25,000                   | 10,253             | NA                         | 823,950            | NA                                                      |
|                                       | <b>2,281,004</b>     | <b>100,000</b> | <b>103,259</b>           | <b>23,137</b>      | <b>93,771</b>              | <b>2,601,171</b>   | <b>7.45%</b>                                            |
| <b>Other key Management Personnel</b> |                      |                |                          |                    |                            |                    |                                                         |
| Anne Lockwood <sup>5</sup>            | 254,291              | 70,000         | 14,458                   | 10,574             | 10,887                     | 360,210            | 22.46%                                                  |
| Craig Bremner <sup>6</sup>            | 107,841              | NA             | 5,964                    | -                  | NA                         | 113,805            | NA                                                      |
| Gregory Hughes <sup>7</sup>           | 304,334              | 35,285         | 25,000                   | -                  | NA                         | 364,619            | 9.68%                                                   |
|                                       | <b>666,466</b>       | <b>105,285</b> | <b>45,422</b>            | <b>10,574</b>      | <b>10,887</b>              | <b>838,634</b>     | <b>13.85%</b>                                           |

1. Chair of ARCC from April to September 2017.

2. Appointed 1 October 2017 and Chair of ARCC from October 2017.

3. Remuneration includes non-recurring relocation allowance of \$20,000.

4. Remuneration is as a radiologist of IDX and includes Executive Director fees.

5. Appointed 1 September 2017 as Interim CFO, permanent appointment from 1 December 2017.

6. Ceased on 31 August 2017.

7. Position made redundant and ceased to be KMP on 9 February 2018.

### c. Other transactions with KMP and their related parties

#### Related party transactions

|                                                                                                   | Consolidated<br>30 June 2019<br>\$ | % interest | \$ interest |
|---------------------------------------------------------------------------------------------------|------------------------------------|------------|-------------|
| Payment for goods and services                                                                    |                                    |            |             |
| Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Dr Chien Ping Ho is related | 359,573                            | 6.25%      | 22,473      |
| Payment for rental of buildings to Kiwi Blue Pty Ltd of which Dr Chien Ping Ho is related         | 258,102                            | 9.09%      | 23,464      |

The above Related Party transactions are historic in nature and relate to leases assumed from previous vendors when the business was privately held. Dr Chien Ho has a 6% interest in Eleven Eleven How Pty Ltd and a 9% interest in Kiwi Blue Pty Ltd. The leases cover four properties located in Ballarat, Ocean Grove and Melton.

All transactions with KMP are made on commercial arm's length terms and conditions, and in the ordinary course of business. The Board has an established Related Party Transaction Policy, that is overseen by the Audit, Risk and Compliance Committee (ARCC), to ensure that related party transactions are managed and disclosed in accordance with the Corporations Act, ASX Listing Rule 10.1, accounting requirements and in accordance with good governance practices, to ensure that a financial benefit is not provided to related parties without approval by the Board, and where required, shareholders. It is the Board's policy that independent reviews will be undertaken on any renewals and these reviews will be overseen by the ARCC.

# Remuneration Report continued

For year ended 30 June 2019

## Loans

No KMP has entered into a loan made, guaranteed or secured, directly or indirectly, with or by the Company or any of its subsidiaries during the reporting period.

## d. Service agreements

Remuneration arrangements for Executive KMP are formalised in employment agreements. Key conditions for Executive KMP are outlined below:

| Name             | Agreement commenced | Agreement expiry  | Notice of termination by Group                      | Employee notice |
|------------------|---------------------|-------------------|-----------------------------------------------------|-----------------|
| Dr Ian Kadish    | 22 May 2017         | No fixed end date | Six months, or 12 months if change of control event | Six months      |
| Dr Chien Ping Ho | 1 August 2014       | No fixed end date | Six months                                          | Six months      |
| Dr Sally Sojan   | 1 August 2014       | No fixed end date | Six months                                          | Six months      |
| Anne Lockwood    | 1 December 2017     | No fixed end date | Six months                                          | Six months      |

## e. Minimum Shareholding Policy

From 1 July 2018, to ensure that Board members and KMP are aligned with the interests of shareholders, the Board has introduced a Minimum Shareholding Policy that requires Non-Executive Directors, Executive Directors and other KMP to build and maintain a minimum shareholding by the later of the fifth anniversary of the policy or the fifth anniversary of the KMP's appointment as a KMP.

KMP and Directors are required to meet a minimum shareholding equivalent as per the prescribed percentage of their total fixed remuneration or fees as outlined below:

|                            |      |
|----------------------------|------|
| Managing Director and CEO: | 100% |
| CFO:                       | 50%  |
| Non-Executive Directors:   | 100% |
| Executive Directors:       | 100% |

## f. Additional disclosures relating to KMP

### Shareholding

The number of shares in the Company held during the financial year by each Director and other members of the KMP of the Group, including their personal related parties, is set out below:

| Ordinary shares   | Balance at 1 July 2018 | Additions     | Disposals/ other | Number of shares held upon ceasing to be KMP | Balance at the end of the year |
|-------------------|------------------------|---------------|------------------|----------------------------------------------|--------------------------------|
| Helen Kurincic    | 420,870                | -             | -                | -                                            | 420,870                        |
| Dr Ian Kadish     | 66,202                 | 10,242        | -                | -                                            | 76,444                         |
| John Atkin        | 132,945                | -             | -                | -                                            | 132,945                        |
| Rupert Harrington | 305,890                | -             | -                | -                                            | 305,890                        |
| Raelene Murphy    | 12,835                 | 8,500         | -                | -                                            | 21,335                         |
| Dr Chien Ping Ho  | 2,343,630              | -             | (61,764)         | -                                            | 2,281,866                      |
| Dr Sally Sojan    | 1,046,491              | -             | -                | -                                            | 1,046,491                      |
|                   | <b>4,328,863</b>       | <b>18,742</b> | <b>(61,764)</b>  | <b>-</b>                                     | <b>4,285,841</b>               |

The Remuneration Report has been audited.

# Auditor's Independence Declaration

For year ended 30 June 2019



## *Auditor's Independence Declaration*

As lead auditor for the audit of Integral Diagnostics Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Integral Diagnostics Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'JP', written over a light grey horizontal line.

Jason Perry  
Partner  
PricewaterhouseCoopers

Melbourne  
26 August 2019

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# Operating and Financial Review

For the year ended 30 June 2019

The purpose of this Operating and Financial Review is to provide shareholders with additional information regarding the Company's operations, financial position, business strategies and prospects. The review complements the Financial Report on pages 38 to 79 and the ASX announcement and full year results presentation dated 26 August 2019.

Integral Diagnostics Limited (ASX: IDX) is an Australian healthcare services company whose main activity is providing diagnostic imaging services to general practitioners, medical specialists and allied health professionals (referrers) and their patients.

IDX has a diversified revenue mix and focuses on providing a full range of imaging diagnostic modalities. Our presence in full-service hospitals leads to higher complexity modalities and greater use of MRI, PET and interventional procedures throughout our business and less reliance on bulk billed services. During the year under review IDX operated in four key markets.

|                                          | Lake Imaging                                                        | South Coast Radiology            | Global Diagnostics           | Specialist Radiology Group<br>Trinity MRI | Total IDX                    |
|------------------------------------------|---------------------------------------------------------------------|----------------------------------|------------------------------|-------------------------------------------|------------------------------|
| <b>Geographic Market</b>                 | Victoria                                                            | Queensland                       | Western Australia            | New Zealand                               |                              |
| <b>Core markets</b>                      | Ballarat, Geelong, Warrnambool and outer western areas of Melbourne | Gold Coast, Toowoomba and Mackay | South West Western Australia | Auckland                                  |                              |
| <b>Sites (includes hospital sites)</b>   | 25                                                                  | 13                               | 6                            | 4                                         | <b>48</b>                    |
| <b>Hospital sites</b>                    | 7                                                                   | 2                                | 4                            | -                                         | <b>13</b>                    |
| <b>MRI machines</b>                      | 8                                                                   | 7                                | 2                            | 3                                         | <b>20</b>                    |
| <b>MRI Licences</b>                      | 4 full<br>0 partial                                                 | 4 full<br>2 partial              | 2 full<br>0 partial          | N/A                                       | <b>10 full<br/>2 partial</b> |
| <b>Employed Radiologists<sup>1</sup></b> | 35                                                                  | 32                               | 14                           | 11                                        | <b>92</b>                    |
| <b>Employees</b>                         | 355                                                                 | 346                              | 150                          | 67                                        | <b>918</b>                   |

Note: Reflects current data as at June 2019.

1. Relates to employed radiologists only. In addition, IDX has a number of contractor radiologists (~35 currently).

Diagnostic imaging involves a set of techniques that non-invasively produces images of the human body for clinical analysis and medical intervention. Images can be produced using a variety of modalities, including:

- nuclear medicine (which includes positron emission tomography (PET));
- magnetic resonance imaging (MRI);
- computed tomography (CT);
- mammography;
- EOS low dose Imaging System (EOS);
- interventional radiology (IR);
- ultrasound (US); and
- radiography (X-ray).

The images produced by diagnostic imaging are a critical tool for referrers in diagnosing and deciding on the most effective and efficient form of treatment for patients. In this way, appropriate use of diagnostic imaging can significantly enhance medical outcomes for patients while at the same time reduce the overall cost of healthcare.



## Year in Review

### Financial performance

A summary income statement providing details of non-operating transactions and reconciling to the statutory income statement is outlined in the following table:<sup>1</sup>

| Summary income statement (\$m)                          | 30 June 2019<br>Actual | 30 June 2018<br>Actual |
|---------------------------------------------------------|------------------------|------------------------|
| Operating revenue                                       | 231.0                  | 188.0                  |
| Other revenue                                           | 1.4                    | 1.4                    |
| <b>Total revenue</b>                                    | <b>232.4</b>           | <b>189.4</b>           |
| EBITDA prior to non-operating transactions              | 53.0                   | 38.1                   |
| EBIT prior to non-operating transactions                | 42.0                   | 28.5                   |
| <b>NPAT prior to non-operating transactions</b>         | <b>25.6</b>            | <b>18.2</b>            |
| <i>Non-operating transactions net of tax</i>            |                        |                        |
| Transaction and takeover response costs                 | (1.9)                  | (3.0)                  |
| Share based payments                                    | (0.6)                  | (0.1)                  |
| Amortisation of customer contracts in NZ                | (2.5)                  | -                      |
| Business development costs                              | (0.4)                  | -                      |
| Forex gain on conversion of Debt to equity in NZ        | 0.8                    | -                      |
| <b>Statutory NPAT</b>                                   | <b>21.0</b>            | <b>15.1</b>            |
| <b>Operating EBITDA as a % of operating revenue</b>     | <b>23.0%</b>           | <b>20.3%</b>           |
| <b>Operating NPAT as a % of operating revenue</b>       | <b>11.1%</b>           | <b>9.7%</b>            |
| <b>Operating basic EPS (earnings per share)</b>         | <b>16.30</b>           | <b>12.55</b>           |
| <b>Statutory basic EPS (earnings per share)</b>         | <b>13.36</b>           | <b>10.40</b>           |
| <b>Return on operating assets (operating NPAT)</b>      | <b>17.98%</b>          | <b>14.53%</b>          |
| <b>Declared dividend payout ratio on statutory NPAT</b> | <b>74.72%</b>          | <b>79.59%</b>          |

1. The operating and financial review includes references to pro-forma results to exclude the impact of the adjustments detailed above. The Directors believe the presentation of non-IFRS financial measures are useful for the users of this financial report as they provide additional and relevant information that reflect the underlying financial performance of the business. Non-IFRS financial measures contained within this report are not subject to audit or review.

The Operating performance of IDX, including the New Zealand and Geelong acquisitions, resulted in significant growth of \$7.4m (40.7%) in operating NPAT. The financial performance was driven by solid organic revenue growth and the successful integration of the acquisitions. IDX continued to deliver an industry leading operating margin of 23% in FY19 despite some cost pressures which commenced from 2HFY19 from investments in technology and recruitment and retention of radiologists.

The statutory performance of \$21.0m NPAT improved by 39.1%. Non-operating costs relating to transaction costs include costs for finalizing and transitioning the New Zealand and Geelong acquisitions as well as costs of due diligence for potential transactions.

### Financial overview

- Operating revenue of \$231.0m increased by 22.9%;
- Organic examination volume increased by 5%, and organic revenue grew by 7.4% – (industry averages for the states in which we operate 3.3% and 6.1% respectively);
- The solid organic growth was driven by a continued move to high end modalities including the new PET service at St John of God Hospital in Geelong (SJOG Geelong), installation of high-end CTs in Bunbury and Mandurah, the upgrade to a full MRI licence at Pindara hospital on the Gold Coast and the introduction of prostate MRI to the MBS schedule. There was no material impact from the removal of GP referred MRI of the knee for patients over 50;
- Average fees per exam increased by 3.3% in FY19;
- The New Zealand acquisition contributed \$AUD25.2m of operating revenue, which was within our expectations; and
- Organic operating margin remained relatively stable with acquisitions contributing to overall margin improvement to 23.0%
  - Improved EBITDA operating margin to 23.0% (FY18: 20.3%);
  - Industry leading margins across Australia and New Zealand;

# Operating and Financial Review continued

For the year ended 30 June 2019

- Expenses declined as a % of revenue across labor, consumables, equipment and occupancy;
- 0.4% margin decline in 2HFY19 from 1HFY19 (23.4%) due to cost increases from investment in technology and radiologist recruitment and retention; and
- Declared a fully franked dividend of 5.0cps, totalling dividends of 10.0cps for FY19 (FY18: 8.0cps) – increase of 25%.

## Operating performance overview

### *Drove organic growth and further efficiency gains*

- Minimised the impact of new competitor MRI licence allocations as well as removal of GP referred knee MRI for over 50's by implementing focussed marketing and pricing strategies, leveraging off our business model of delivering best in class radiology services;
- Completed re-development of St John of God Hospital in Geelong (SJOG Geelong), including installation of a new PET service;
- Replaced 2 CTs in WA with high end machines to meet demand and improve workflow and image quality;
- Opened Miami Beach Clinic on the Gold Coast (August 2018); and
- Invested in developing the Peel Health Specialist Centre in Mandurah to meet patient and clinical demand as a result of new specialist oncology referrers in the region.

### *Used digital technology to improve the patient and referrer experience*

- First to market in Australia for FDA and TGA cleared, proven Artificial Intelligence (AI) software developed by AIDoc to improve clinical workflows and ensure better patient outcomes;
- Began implementing a Patient APP to improve access, knowledge and flexibility of service for the patient and referrer;
- Began leveraging the radiologist reporting platform to facilitate sub specialty referrals for high end complex cases and to deliver best in class consolidated reports to patients and referrers; and
- Invested in cyber security and controls and protection of patient data.

### *North Melbourne Specialist and Research Centre co-located with the Australian Prostate Centre*

- Construction completed and operational May 2019, ramp up of site to occur over first 18 months of operations;
- Best in class equipment including wide-bore 3T MRI and advanced cardiac CT offering an expanded range of high-end imaging services; and
- Engaged with specialist referrers in Victoria's premier medical precinct around the Royal Melbourne Hospital.

### *Implemented new radiologist recruitment, retention and incentive structures*

- Revised and implemented Radiologist Loan Funded Share Plan (Australia) and Option Plan (NZ) which has broadened and diversified the radiologist shareholder base with the FY19 plan implemented February 2019 and FY 20 plan in August 2019, both plans oversubscribed with \$9.0m worth of shares issued (\$3.0m contributed from 26 radiologists);
- Developed a new incentive plan for SCR and Lake business units, implemented from 1 July 2019, designed to incentivise radiologists to drive revenue growth and productivity; and
- Agreed full escrow release of currently employed radiologists subject to the October 2015 IPO Restriction Deed by September 2020.

### *Evaluated further strategic acquisitions that are a clinical fit, strategically aligned and earnings accretive*

- Successfully integrated the NZ and Geelong acquisitions into the IDX Group. Both acquisitions performed within our expectations to deliver sustainable value to IDX stakeholders;
- Invested in a thorough due diligence process in the Imaging Queensland Group (IQ) so that a Share Purchase agreement could be executed. IQ is a strong clinical fit with IDX, is strategically aligned and will be earnings accretive from FY20. Completion is expected 1 November 2019, subject to satisfaction of a number of conditions precedent; and
- Reviewed and assessed potential acquisitions in line with our strategy.

## Capital expenditure

Total expenditure on tangible assets was \$20.4m (FY18: \$14.0m) of which \$10.7m related to replacement, and \$9.7m related to growth opportunities. The growth capital expenditure included completion of the North Melbourne Specialist and Research Centre, completion of the re-development of SJOG Geelong, completion of the Miami Beach Clinic construction and fit out and development of Peel Specialist Centre in Mandurah.

## Taxation

The effective tax rate on operating earnings is 29% (FY18: 31.79%), the decline in effective tax rate is largely due to the lower corporate tax rate of 28% in New Zealand.

## Cash flows

Increase in free cash flows by 31.6% to \$40.4m (FY18: \$30.7m) free cash flow conversion net of replacement capex was 97% (FY18: 104%). The growth of free cash flows is in line with growth in overall earnings due to nominal non-cash items in EBITDA and minimal working capital movements.

## Capital Management

Net debt increased by \$74.1m to \$119.0m (FY18: \$44.9m), this was due to the draw-down of additional debt to partially fund the acquisitions in NZ and Geelong. The increase of net debt is in proportion to our increase in equity to \$127.2m (FY18: \$93.4m).

Net Debt/EBITDA ratio of 2.2X at 30 June 2019. This is slightly higher than expectations (2.0X) due to the increased spend in growth capex and slightly lower than expected FY19 earnings.

The Company re-financed to a cash advance facility in December 2018 and has now maintained the average cost of debt at circa 3.64%.

## Earnings per share

On a statutory basis, Basic Earnings per Share increased by 28.5% to 13.36 cents per share (FY18: 10.40 cents per share). Diluted Earnings per Share in FY19 considering the FY18 and FY19 performance rights issues was 13.29 cents per share (FY18: 10.38 cents per share).

On an Operating NPAT performance, Basic Earnings per Share increased 29.9% to 16.30 cents per share (FY18: 12.55 cents per share).

## Dividend

Dividend payments of 10.00 cents per share (\$15.7m) fully franked has been paid or declared for FY19. This represents 74.72% of Statutory NPAT (FY18: 79.59%). A dividend of 5.00 cents per share fully franked will be paid on 2 October 2019 to shareholders on the register at 2 September 2019.

## Company outlook

The long-term industry fundamentals in Australia and New Zealand are strong and continue to underpin attractive on-going growth opportunities. Australia and New Zealand have growing and ageing populations requiring greater healthcare support. At the same time, community expectations for higher quality healthcare and diagnosis continue to rise, while new imaging technologies improve efficiency and aid diagnosis and early recognition of diseases.

Increasing the use of diagnostic imaging as an early detector of disease leads to better preventative care via less invasive treatments which will ultimately lower overall healthcare costs.

Over FY20 IDX will continue to invest in the platform that we have developed to support further growth.

The Company's focus in FY20 will be to:

### *Capitalise on capital investments to drive organic growth*

- Complete the re-development of the John Flynn Private Hospital on the Gold Coast including a new PET facility;
- Install a second CT at Pindara Private Hospital to support expanded throughput;
- Complete installation of a best in class cardiac CT at SJOG Geelong;
- Install a CT at the Bacchus Marsh Hospital to provide a comprehensive service in a fast-growing regional corridor;
- Complete the re-location of the MRI at Ballarat Base hospital to SJOG Ballarat creating a centralised MRI super-site in Ballarat improving clinical outcomes and patient experience;
- Complete development of the Peel Health Specialist Centre in Mandurah to meet clinical demand as a result of new specialist oncology referrers in the region; and
- Install Phillips "compressed sense" technology in NZ improving image quality and increasing machine efficiency.

# Operating and Financial Review continued

For the year ended 30 June 2019

## *Use digital technology to improve the patient and referrer experience*

- Continue to invest in proven AI software to improve clinical workflows and efficiency, and to ensure better patient outcomes;
- Implement eReferral, on line appointment technology and patient and doctor portals to improve ease of access and reliability of service;
- Leverage the consolidated reporting platform to develop sub specialty workflows for high end complex cases; and
- Continually invest in enhanced security to counteract cyber threats.

## *Ramp up the North Melbourne Specialist and Research Centre*

- Ramp up the North Melbourne Specialist and Research Centre to ensure it meets referrer expectations and delivers exceptional specialist care, service and research;
- Offer advanced cardiac CT and wide-bore 3T MRI services to Melbourne's leading specialists; and
- Engage with specialist referrers in Victoria's premier medical precinct around the Royal Melbourne Hospital.

## *Invest in recruitment of highly skilled radiologists, clinical and administrative staff*

- Continue to promote the radiologist equity scheme to current and potential radiologists;
- Continue to develop recruitment strategies to continue to attract ANZ's premier radiologists;
- Manage clinical risk to provide the highest quality service to our patients and referrers; and
- Promote the IDX values – Patients First; Medical Leadership; Everyone Counts; Embrace Change and Create Value.

## *Integrate acquisitions and evaluate further strategic acquisitions*

- Integrate the IQ acquisition into the IDX group to deliver sustainable value to IDX stakeholders;
- Continue to integrate NZ and GMI to ensure all available synergies are realised; and
- Evaluate potential acquisitions in line with our strategy.

## *Develop our key relationships and increase sector participation*

- Continue to develop strong relationships with our patients, referrers, hospitals and other key stakeholders; and
- Promote the benefits of MRI and PET so they are widely understood and recognised.

IDX remains committed to getting on with the business of executing on our attractive prospects and growth strategy supported by a medically led and diversified business model.

## **Regulatory outlook**

The regulatory environment is generally positive across Australia and New Zealand.

In Australia we continue to work closely and monitor and assess the regulatory landscape through participation in the executive of the Australian Diagnostic Imaging Association (ADIA).

In FY19 the industry achieved, after 21 years, a commitment for annual indexation of 80% of the MBS items for three years from 1 July 2020.

Since the introduction of MRI of the Prostate on the Medicare Benefits Schedule (MBS) from 1 July 2018, IDX has seen a positive result for patients and referrers which has been a contributor to IDX growth in FY19 which we expect to continue.

The removal of GP referred MRI of the knee for patients greater than 50 years old from the MBS from 1 November 2018, which is a negative cost and quality outcome for patients and GPs, has had minimal revenue impact on IDX as a result of increased referrals from GPs to alternative modalities and an increase in specialist referrals of knee MRIs.

IDX received a full license upgrade from a partial at Pindara Private Hospital which was operational from 1 November 2018, this has resulted in a positive impact on volumes and revenue. Licenses have also been provided to our competitors in both Mandurah and Geelong both of which were operational 1 March 2019. To date, IDX has seen minimal impact in Geelong and responded to increased competition in Mandurah by moving to bulk billing in late FY19 which saw a return of volumes resulting in a minimal impact on volumes but increased pressure on margins.

The introduction of new MBS codes for Breast MRI will commence from 1 November 2019 (item numbers still to be defined), as such IDX has not been able to measure the quantum of the expected positive impact.

A key focus of the industry in FY20 includes digital health, radiologist workforce shortages, implementation of the MBS review findings and indexation of the remaining 20% of MBS items for Nuclear Medicine and MRI.

The key focus of the diagnostic imaging industry in New Zealand is similar to Australia. To date, there have been no material regulatory announcements. Annual indexation is currently provided for in all contracts. The Auckland DI market has grown volumes at around 7%pa, driven by strong net migration, aging demographics and adoption of new technologies that improves patient outcomes.

## Balance Sheet

A summary of the balance sheet as at 30 June 2019 and a comparison, to the prior year is outlined in the following table.

|                                      | 30 June 2019<br>Actual<br>\$'m | 30 June 2018<br>Actual<br>\$'m |
|--------------------------------------|--------------------------------|--------------------------------|
| <b>Balance sheet</b>                 |                                |                                |
| Cash and cash equivalents            | 21.0                           | 20.8                           |
| Trade and other receivables          | 9.0                            | 5.6                            |
| Other current assets                 | 3.8                            | 3.9                            |
| <b>Total current assets</b>          | <b>33.8</b>                    | 30.3                           |
| Property, plant and equipment        | 70.8                           | 54.1                           |
| Intangible assets                    | 202.3                          | 103.6                          |
| Deferred tax asset                   | 7.8                            | 7.5                            |
| <b>Total non-current assets</b>      | <b>280.9</b>                   | 165.2                          |
| <b>Total assets</b>                  | <b>314.7</b>                   | 195.5                          |
| Trade and other payables             | 16.0                           | 12.1                           |
| Current tax liabilities              | 1.7                            | 0.3                            |
| Borrowings                           | 9.0                            | 12.8                           |
| Provisions                           | 12.2                           | 10.7                           |
| Other current liabilities            | -                              | -                              |
| <b>Total current liabilities</b>     | <b>38.9</b>                    | 35.9                           |
| Other payables                       | 1.5                            | -                              |
| Borrowings                           | 130.1                          | 52.6                           |
| Provisions                           | 9.0                            | 8.9                            |
| Deferred tax liability               | 8.0                            | 4.7                            |
| <b>Total non-current liabilities</b> | <b>148.6</b>                   | 66.2                           |
| <b>Total liabilities</b>             | <b>187.5</b>                   | 102.1                          |
| <b>Net assets</b>                    | <b>127.2</b>                   | 93.4                           |

- Working capital of (\$5.1m) is driven by an increase in trade payables due to payables on capex, which will be financed once the projects are completed, transaction cost as well as an increase in current employee provisions due to the increased number of employees from the acquisitions.
- Property, plant and equipment increased by \$16.7m due to \$20.4m of purchases plus acquisitions offset by depreciation charges.
- Intangible asset increases of \$98.7m is reflective of the acquisitions.
- Provisions (excluding tax) have increased \$1.6m. This increase is due to increased employees (employee provisions) and sites (straight line lease accounting) from the acquisitions.
- The increase in net debt to \$119.0m (30 June 2018: \$44.9m) was a result of draw-down of debt to fund the acquisitions, resulting in a leverage level of net debt/EBITDA of 2.2x.
- The Company re-financed to a cash advance facility in December 2018 and has now maintained the average cost of debt on cash advance facilities at circa 3.64%.



# Operating and Financial Review continued

For the year ended 30 June 2019

## Cash flow

A summary of the cash flows as at 30 June 2019 are presented below.

|                                             | 30 June 2019<br>Actual<br>\$'m | 30 June 2018<br>Actual<br>\$'m |
|---------------------------------------------|--------------------------------|--------------------------------|
| <b>Summary of cash flow (\$m)</b>           |                                |                                |
| Free cash flow                              | 40.4                           | 30.7                           |
| Growth capital expenditure                  | (7.7)                          | (5.2)                          |
| Net cash flow before financing and taxation | 32.7                           | 25.5                           |
| Tax paid                                    | (9.2)                          | (7.0)                          |
| Interest and other costs paid on borrowings | (6.0)                          | (2.5)                          |
| Net change in borrowings                    | 74.0                           | (7.5)                          |
| Payments for acquisitions                   | (76.8)                         | -                              |
| Working capital acquired                    | (0.8)                          | -                              |
| Proceeds from the issue of equity           | 1.6                            | -                              |
| Deferred consideration paid                 | (0.5)                          | (0.01)                         |
| Foreign exchange impacts on cash            | (0.4)                          | -                              |
| Dividends paid                              | (14.0)                         | (11.6)                         |
| Transaction costs in equity                 | (0.1)                          | (0.3)                          |
| <b>Net cash flows</b>                       | <b>0.5</b>                     | <b>(3.4)</b>                   |

- Free cash flows of \$40.4m are \$9.7m or 31.6% higher than FY18.
- Growth capital expenditure was \$7.7m for the year and included completion of the North Melbourne Specialist and Research Centre, completion of the re-development of SJOG Geelong, completion of the Miami Beach Clinic construction and fit out and development of Peel Specialist Centre in Mandurah.
- Dividends of \$14.0m (9 cents per share fully franked) were paid in FY19.

## Business risks

The IDX risk management framework identified the IDX risk profile, setting out the way key risks are assessed, managed, monitored, measured and reported. IDX's core risks are described below, and these risks are continuously assessed and reported on monthly. This is not a comprehensive list of all the risks involved that may impact IDX's financial and operating result in future periods:

### Strategic Growth

- Mergers and acquisitions. It is the Company's strategy to drive growth organically and through mergers and acquisitions. This strategy may place significant demands on management, resources, internal controls and systems resulting in the failure to realise anticipated benefits or effectively integrate acquisitions.
- Maintaining strong referrer relationships. The risk of a material loss of or lack of growth in referrals to IDX would impact the Company affecting the financial and operational performance of the Company.

### Regulation and Compliance

- Regulatory change to revenue stream. Changes to government policies and regulations may have a material adverse impact on the financial and operational performance of the Company.
- Regulatory compliance. Not meeting industry or regulatory compliance requirements may lead to the loss of licenses and accreditation and the inability to provide services or offer rebates which will reduce the provision of services.
- Contracts and service agreements. Contracts and service agreements may be breached, terminated or not renewed resulting in loss of capacity and revenue.

### Quality and Safety

- Clinical risk management. The risk of patient harm due to human error or a lack of effective clinical governance and processes.
- Health and safety. The risk of harm to employees due to a lack of effectiveness in workplace health and safety systems.
- Privacy and confidentiality. The Company relies on secure processing, transmission and storage of confidential, proprietary and other information in its IT infrastructure. The loss or misuse of personal information, or inadequate and insecure data protection and privacy protocols may result in a breach of a patient or referrer privacy and confidentiality.

### Technology and Security

- Contemporary technology and innovation. The failure to adapt or respond to contemporary disruptive innovations and technologies will see an increase in competition and a decline in referrals.
- Cyber security. The risk of a material cyber security event or attack on the Company affecting its operations and involving significant remediation resources.
- Disaster recovery and crisis management. The risk of an ineffective response to a business continuity or disaster recovery event impacting on operations, patients and other stakeholders.

### Recruitment and Retention

- The risk of an inability to attract and retain quality radiologists, management and staff due to competition across the market, geographical location of some sites or other factors.

### Risk management

The Company's risk management framework is overseen by the Audit Risk and Compliance Committee and is actively managed by the Senior Management Group with input from the Integral Clinical and Leadership Committee (ICLC). The framework is consistent with *ISO 31000:2018 Risk Management – Guidelines* and is subject to regular review. The framework is used to enable a consistent and rigorous approach to identifying, analysing and evaluating risks.

Fundamental to the Company's robust risk management framework is its risk appetite statement. The Board's risk appetite is aligned to the risk culture of the company; vision and values; strategic plan and goals; service commitment and patient and referrer demographic; and the financial and budget environment in which the Company is operating.

During FY19 we continued to review and assess our procedures over our processes and controls in relation to health and safety, privacy and confidentiality and cyber security, to ensure we are adopting best practices, in line with our industry profile, to ensure we are managing these risks appropriately to ensure the best outcomes for all stakeholders. We will continue this review in FY20 as well as implement identified improvements.

A key component of the Company's risk management is clinical governance which is managed through the ICLC and State and NZ Clinical Leadership Committees (State and NZ CLCs), under the ICLC Charter which is available in the Corporate Governance section of the Company's website.

The Charter provides a framework for the ICLC and State and NZ CLCs to work together to develop and implement policies and work practices to enable clinical best practice. The responsibilities of the ICLC include reviewing any recommendations arising from any adverse incidents from the State and NZ CLCs and to share learnings to prevent recurrence.

The ICLC works within the Clinical Governance and Quality Framework which is the overarching framework directing the delivery of safe and high-quality diagnostic imaging services across the Group whilst maximising outcomes for patients and referrers through quality of care, continuous improvement, risk mitigation and fostering an environment of excellence in care.

The Clinical Governance and Quality Framework is supported through the elements of: governance and leadership; systems and structures; roles and responsibilities; culture and transparency; and performance review and reporting. The principles of the framework meet the requirements of *ISO 9001:2015 Quality Management Systems – Requirements* and *ISO 31000:2018 Risk Management – Guidelines*.

The Company's Audit Risk and Compliance Committee Charter is also available in the Corporate Governance section of its website.

# Consolidated Statement of Profit or Loss

For the year ended 30 June 2019

|                                                                                      | Note | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|--------------------------------------------------------------------------------------|------|------------------------|------------------------|
| <b>Revenue</b>                                                                       |      |                        |                        |
| Revenue                                                                              | 5    | 232,393                | 189,399                |
| Interest and other income                                                            | 5    | 1,437                  | 330                    |
| <b>Total revenue and other income</b>                                                |      | <b>233,830</b>         | <b>189,729</b>         |
| <b>Expenses</b>                                                                      |      |                        |                        |
| Consumables                                                                          |      | (10,425)               | (8,649)                |
| Employee benefits expense                                                            | 6    | (130,990)              | (109,513)              |
| Depreciation and amortisation expense                                                | 6    | (13,509)               | (9,610)                |
| Transaction and takeover response expenses                                           | 6    | (2,498)                | (3,902)                |
| Share based payment expense                                                          | 24   | (558)                  | (120)                  |
| Equipment related expenses                                                           |      | (8,392)                | (7,691)                |
| Occupancy expenses                                                                   |      | (14,573)               | (13,120)               |
| Other expenses                                                                       |      | (16,073)               | (12,234)               |
| Finance costs                                                                        | 6    | (6,194)                | (2,783)                |
| <b>Total expenses</b>                                                                |      | <b>(203,212)</b>       | <b>(167,622)</b>       |
| Profit before income tax expense                                                     |      | 30,618                 | 22,107                 |
| Income tax expense                                                                   | 7    | (9,635)                | (7,028)                |
| <b>Profit for the year from continuing operations</b>                                |      | <b>20,983</b>          | <b>15,079</b>          |
| Profit is attributable to:                                                           |      |                        |                        |
| Owners of Integral Diagnostics Limited                                               |      | 20,983                 | 15,079                 |
|                                                                                      |      | <b>20,983</b>          | <b>15,079</b>          |
| <b>Earnings per share attributable to the owners of Integral Diagnostics Limited</b> |      | <b>Cents</b>           | <b>Cents</b>           |
| Basic earnings per share                                                             | 38   | 13.36                  | 10.40                  |
| Diluted earnings per share                                                           | 38   | 13.29                  | 10.38                  |

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

|                                                                       | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|-----------------------------------------------------------------------|------------------------|------------------------|
| <b>Profit for the year</b>                                            | <b>20,983</b>          | 15,079                 |
| <b>Other comprehensive income</b>                                     |                        |                        |
| <i>Items that may be reclassified to profit or loss</i>               |                        |                        |
| Exchange differences on translation of foreign operations, net of tax | 133                    | -                      |
| Net (loss)/gain on cash flow hedges                                   | 102                    | (85)                   |
| <b>Other comprehensive income for the year, net of tax</b>            | <b>235</b>             | 14,994                 |
| <b>Total comprehensive income for the year</b>                        | <b>21,218</b>          | 14,994                 |
| Total comprehensive income is attributable to:                        |                        |                        |
| Owners of Integral Diagnostics Limited                                | 21,218                 | 14,994                 |

The above Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

As at 30 June 2019

|                                      | Note | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|--------------------------------------|------|------------------------|------------------------|
| <b>Assets</b>                        |      |                        |                        |
| Current assets                       |      |                        |                        |
| Cash and cash equivalents            | 8    | 20,967                 | 20,844                 |
| Trade and other receivables          | 9    | 9,025                  | 5,622                  |
| Other assets                         | 10   | 3,452                  | 3,516                  |
| Inventory                            | 11   | 390                    | 346                    |
| <b>Total current assets</b>          |      | <b>33,834</b>          | 30,328                 |
| <b>Non-current assets</b>            |      |                        |                        |
| Property, plant and equipment        | 12   | 70,782                 | 54,084                 |
| Intangibles                          | 13   | 202,253                | 103,542                |
| Deferred tax asset                   | 14   | 7,798                  | 7,578                  |
| <b>Total non-current assets</b>      |      | <b>280,833</b>         | 165,204                |
| <b>Total assets</b>                  |      | <b>314,667</b>         | 195,532                |
| <b>Liabilities</b>                   |      |                        |                        |
| <b>Current liabilities</b>           |      |                        |                        |
| Trade and other payables             | 15   | 15,962                 | 12,112                 |
| Borrowings                           | 16   | 8,929                  | 12,820                 |
| Income tax payable                   |      | 1,724                  | 318                    |
| Provisions                           | 17   | 12,193                 | 10,644                 |
| Derivative financial instruments     | 18   | 20                     | -                      |
| <b>Total current liabilities</b>     |      | <b>38,828</b>          | 35,894                 |
| <b>Non-current liabilities</b>       |      |                        |                        |
| Other payables                       | 19   | 1,519                  | -                      |
| Borrowings                           | 20   | 130,120                | 52,503                 |
| Derivative financial instruments     | 21   | -                      | 122                    |
| Deferred tax liability               | 14   | 7,952                  | 4,740                  |
| Provisions                           | 22   | 9,029                  | 8,851                  |
| <b>Total non-current liabilities</b> |      | <b>148,620</b>         | 66,216                 |
| <b>Total liabilities</b>             |      | <b>187,448</b>         | 102,110                |
| <b>Net assets</b>                    |      | <b>127,219</b>         | 93,422                 |
| <b>Equity</b>                        |      |                        |                        |
| Contributed capital                  | 23   | 109,507                | 83,425                 |
| Reserves                             | 24   | (11,070)               | (11,827)               |
| Retained profits                     | 25   | 28,782                 | 21,824                 |
| <b>Total equity</b>                  |      | <b>127,219</b>         | 93,422                 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



# Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

|                                                              | Contributed<br>capital<br>\$'000 | Reserves<br>\$'000 | Retained<br>profits<br>\$'000 | Total equity<br>\$'000 |
|--------------------------------------------------------------|----------------------------------|--------------------|-------------------------------|------------------------|
| <b>Balance at 1 July 2017</b>                                | 83,866                           | (11,862)           | 18,348                        | 90,352                 |
| Profit after income tax expense                              | -                                | -                  | 15,079                        | 15,079                 |
| Movement in FV of derivative financial instrument            | -                                | (85)               | -                             | (85)                   |
| Total comprehensive income                                   | 83,866                           | (11,947)           | 33,427                        | 105,346                |
| <b>Transactions with owners in their capacity as owners:</b> |                                  |                    |                               |                        |
| Unwinding of DTA in equity (Note 14)                         | (162)                            | -                  | -                             | (162)                  |
| Transaction costs recognised in equity                       | (279)                            | -                  | -                             | (279)                  |
| Share based payments (Note 24)                               | -                                | 120                | -                             | 120                    |
| Dividends paid (Note 26)                                     | -                                | -                  | (11,603)                      | (11,603)               |
| Balance at 30 June 2018                                      | 83,425                           | (11,827)           | 21,824                        | 93,422                 |

|                                                                                                                  | Contributed<br>capital<br>\$'000 | Reserves<br>\$'000 | Retained<br>profits<br>\$'000 | Total equity<br>\$'000 |
|------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------|-------------------------------|------------------------|
| <b>Balance at 1 July 2018</b>                                                                                    | 83,425                           | (11,827)           | 21,824                        | 93,422                 |
| Profit after income tax expense                                                                                  | -                                | -                  | 20,983                        | 20,983                 |
| Movement in FV of derivative financial instrument                                                                | -                                | 102                | -                             | 102                    |
| Movement in translation of foreign operations                                                                    | -                                | 133                | -                             | 133                    |
| Total comprehensive income                                                                                       | 83,425                           | (11,592)           | 42,807                        | 114,640                |
| <b>Transactions with owners in their capacity as owners:</b>                                                     |                                  |                    |                               |                        |
| Unwinding of DTA in equity (Note 14)                                                                             | (168)                            | (36)               | -                             | (204)                  |
| Transaction costs recognised in equity (Note 23)                                                                 | (52)                             | -                  | -                             | (52)                   |
| Issue of ordinary shares under radiologist incentive scheme (Note 23)                                            | 19                               | -                  | -                             | 19                     |
| Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax (Note 23) | 24,783                           | -                  | -                             | 24,783                 |
| Share based payments (Note 24)                                                                                   | -                                | 558                | -                             | 558                    |
| Issue of ordinary shares under loan funded share plan (Note 23)                                                  | 1,500                            | -                  | -                             | 1,500                  |
| Dividends paid (Note 26)                                                                                         | -                                | -                  | (14,025)                      | (14,025)               |
| Balance at 30 June 2019                                                                                          | 109,507                          | (11,070)           | 28,782                        | 127,219                |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2019

|                                                                  | Note | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|------------------------------------------------------------------|------|------------------------|------------------------|
| <b>Cash flows from operating activities</b>                      |      |                        |                        |
| Receipts from customers                                          |      | 230,359                | 189,703                |
| Payments to suppliers and employees                              |      | (127,729)              | (149,807)              |
| Transaction and takeover response costs                          |      | (2,498)                | (3,902)                |
| Interest and other finance costs paid                            |      | (6,316)                | (2,842)                |
| Interest received                                                |      | 272                    | 330                    |
| Income taxes paid                                                |      | (9,165)                | (6,965)                |
| Net cash from operating activities                               | 37   | 33,923                 | 26,517                 |
| <b>Cash flows from investing activities</b>                      |      |                        |                        |
| Payments for purchase of subsidiary, net of cash acquired        | 34   | (76,841)               | -                      |
| Payments for property, plant and equipment                       |      | (18,669)               | (11,578)               |
| Proceeds from disposal of property, plant and equipment          |      | 538                    | 1,144                  |
| Net cash used in investing activities                            |      | (94,972)               | (10,434)               |
| <b>Cash flows from financing activities</b>                      |      |                        |                        |
| Proceeds from borrowings                                         |      | 131,056                | 4,641                  |
| Repayment of borrowings                                          |      | (57,029)               | (12,209)               |
| Proceeds from issue of shares                                    |      | 1,585                  | -                      |
| Dividends paid to Company shareholders                           |      | (14,025)               | (11,603)               |
| Transaction costs                                                |      | (52)                   | (278)                  |
| Net cash (used in)/from financing activities                     |      | 61,535                 | (19,449)               |
| Net increase/(decrease) in cash and cash equivalents             |      | 486                    | (3,366)                |
| Cash and cash equivalents at the beginning of the financial year |      | 20,844                 | 24,210                 |
| Effects of exchange rate changes on cash and cash equivalents    |      | (363)                  | -                      |
| Cash and cash equivalents at the end of the financial year       | 8    | 20,967                 | 20,844                 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## Note 1. General information

The Financial Report covers Integral Diagnostics Limited as a Group consisting of Integral Diagnostics Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Integral Diagnostics Limited's functional and presentation currency and are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

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

Level 8/14 – 20 Blackwood Street  
North Melbourne VIC 3051

A description of the nature of the consolidated entity's operations and its principal activities is 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 26 August 2019. The Directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below.

### New, revised or amending accounting standards and interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending accounting standards or interpretations that are not yet mandatory have not been early adopted.

### Basis of preparation

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

### Historical cost convention

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value.

### Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 33.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Integral Diagnostics Limited as at 30 June 2019 and the results of all subsidiaries for the year then ended.

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

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

# Notes to the Consolidated Financial Statements continued

## Note 2. Significant accounting policies continued

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

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree if applicable. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### Current and non-current classification

Assets and liabilities are presented in the Consolidated 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 a 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 expected to be settled in a 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.

## Leases

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

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

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

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

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

## Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

### *i. Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

### *ii. Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

# Notes to the Consolidated Financial Statements continued

## Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful lives 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 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.

## Share-based payments

Employees (including senior management) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

### *i. Equity-settled transactions*

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in expense, together with a corresponding increase in equity (share based payment reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding performance rights is reflected as additional share dilution in the computation of diluted earnings per share.

The loan associated with loan funded shares is held off balance sheet and no corresponding amounts held in equity for the issued shares. The value is recognised in equity when the holder of the loan funded shares repays the loan in full which is at their election in years 5 to year 10 from grant date.

## Rounding of amounts

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



### New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group is set out below.

#### AASB 16 Leases

The Group has set up a project team which has reviewed all of its leasing arrangements over the last year in light of the new lease accounting rules in AASB 16. The standard will affect the accounting for the Group's property operating leases, for which we have 53.

As at the most recent reporting date and based on the current lease profiles, the group has non-cancellable operating lease commitments of approximately \$30m excluding options. On this basis from 1 July 2019, the Group expects to recognise right-of-use assets between \$48m-\$52m and lease liabilities of between \$54m-\$59m (after adjustments for straight line lease accounting). Overall net assets will be approximately \$6m-\$7m lower, and net current assets will be \$6m-\$8m lower due to the presentation of a portion of the liability as current.

The Group expects that net profit after tax will decrease by <\$500k for FY20 as a result of adopting the new rules. Adjusted EBITDA is expected to increase between \$8m-\$11m, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Cashflows will be unchanged, however operating cashflows will increase and financing cash flows decrease between \$6m-\$8m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date of 1 July 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied.

### New accounting standards adopted during the year

#### AASB 9 Financial Instruments

'AASB 9 Financial Instruments' has been adopted in the current period. AASB 9 Financial Instruments, the AASB equivalent of IFRS 9 Financial Instruments, introduces a new model for classification and measurement of financial assets and liabilities, an 'expected credit loss' ('ECL') impairment model and reformed approach to hedge accounting.

Trade receivables are now presented as a percentage of the expected credit loss. This has not had a material financial impact, as the level of bad debts has historically not been material.

The methodology for testing hedge effectiveness has changed in AASB 9. The Group has made the assessment that all hedging instruments are 100% effective. Any ineffectiveness is considered immaterial and will be recognised in the Consolidated Statement of Profit or Loss or the Consolidated Statement of Other Comprehensive Income and effectiveness will be recognised in the Statement of Changes in Equity.

**The accounting policy for impairment of financial assets and hedge accounting has been updated and is applicable from 1 July 2018.**

### Investments and other financial assets

#### Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

# Notes to the Consolidated Financial Statements continued

## Financial assets at amortised cost

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any allowance under the expected credit loss (ECL) model.

All loans and receivables with maturities greater than 12 months after the balance date are classified as non-current assets.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement when determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL. The Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, current market conditions as well as forward looking estimates at the end of each reporting period.

Debts that are known to be uncollectable are written off when identified.

## Derivatives and hedge accounting

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. Fair value is determined with reference to quoted market prices. The method of recognising the resulting gain or loss depends on whether the derivative is designated and effective as a hedging instrument, and if so, the nature of the item being hedged.

## Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised in the Consolidated Statement of Profit or Loss in other income or other expenses. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

## AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining the quantum and timing of revenue recognition. The AASB equivalent of IFRS 15 Revenue from Contract with Customers replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Group has adopted AASB 15 from 1 July 2018, which resulted in changes to accounting policies.

The principles in AASB 15 must be applied using the following five-step model:

Step 1: Identify the contract

Step 2: Identify separate performance obligations

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations

Step 5: Recognise revenue when the entity satisfies a performance obligation

On adoption of the new standard the Group reviewed the potential performance obligations that may arise under revenue contracts and has identified that there was not a material impact on transition.

**The accounting policy for the recognition of revenue has been updated and is applicable from 1 July 2018.**

## Revenue

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control requires judgement. The Group recognises revenue when:

- the amount of revenue can be reliably measured;
- it is probable the economic benefit will flow to the Group; and
- the criteria for revenue recognition for each revenue stream has been satisfied.

The adoption of AASB 15 has not had an impact on how revenue has been recognised.

### Rendering of services

Rendering of services revenue is recognised when the service is rendered for the provision of medical imaging services as described below.

### Patient fee income

The patient fee income performance obligation is satisfied at a point in time when the medical image is taken and report generated by our radiologist.

### Service fee income

The service fee income performance obligation is satisfied at a point in time when the medical image is reviewed and report generated by our radiologist.

### Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established. Other revenue largely includes compensation payments received under equipment and leasehold contracts as well as labour cost charges to hospitals and Government (trainees and paid parental leave).

## Note 3. Critical accounting judgements, estimates and assumptions

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

### Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event.

The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 13.

The recoverable amounts of cash-generating units have been determined based on value-in-use (VIU) calculations. These calculations require the use of assumptions, including anticipated sales growth, long-term growth rate and the post-tax discount rate.

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

The Group assessed impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use (VIU) calculations, in conjunction with the goodwill impairment testing, which incorporates a number of key estimates and assumptions.

### Provision for make good

The Group records a provision for make good costs of lease properties. Make Good costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the make good liability. The unwinding of the make good is expensed as incurred and recognised in the statement of profit or loss. The estimated future costs of the make good are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

# Notes to the Consolidated Financial Statements continued

## Note 4. Operating segments

### Identification of reportable operating segments

The Group comprises the single reportable operating segment of the operation of diagnostic imaging services.

### Major customers

During the year ended 30 June 2019, there was no external revenue greater than 10% to any one customer (2018: nil).

### 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) which includes the KMP of the Company. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

### Operating segment information

Revenue is attributable to the country where the service was transacted. The consolidated entity operates in two main geographical areas, being Australia and New Zealand.

|                                                                  | Consolidated           |                        |
|------------------------------------------------------------------|------------------------|------------------------|
|                                                                  | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Total revenue and other income from continuing operations</b> |                        |                        |
| Australia                                                        | 207,459                | 189,729                |
| New Zealand                                                      | 26,371                 | -                      |
|                                                                  | <b>233,830</b>         | 189,729                |
| <b>Total non-current assets</b>                                  |                        |                        |
| Australia                                                        | 181,290                | 165,204                |
| New Zealand                                                      | 99,543                 | -                      |
|                                                                  | <b>280,833</b>         | 165,204                |

## Note 5. Revenue

|                                       | Consolidated           |                        |
|---------------------------------------|------------------------|------------------------|
|                                       | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Sales revenue</b>                  |                        |                        |
| Services revenue                      | 230,987                | 188,002                |
| <b>Other revenue</b>                  |                        |                        |
| Other revenue                         | 1,406                  | 1,397                  |
| <b>Revenue</b>                        | <b>232,393</b>         | 189,399                |
| <b>Interest and other income</b>      |                        |                        |
| Interest income                       | 272                    | 330                    |
| Realised FX gain                      | 1,165                  | -                      |
| <b>Interest and other income</b>      | <b>1,437</b>           | 330                    |
| <b>Total revenue and other income</b> | <b>233,830</b>         | <b>189,729</b>         |

### Accounting policy for revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and all revenue recognised is at a point in time.

### Rendering of services

Rendering of services revenue is recognised when the service is rendered for the provision of medical imaging services. The point of sale is deemed to be at the time the image is taken.

## Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established. Other revenue largely includes compensation payments received under equipment and leasehold contracts as well as labour cost charges to hospitals and Government (trainees and paid parental leave).

## Note 6. Expenses

|                                                                           | Consolidated           |                        |
|---------------------------------------------------------------------------|------------------------|------------------------|
|                                                                           | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Profit before income tax includes the following specific expenses:</b> |                        |                        |
| <b>Depreciation</b>                                                       |                        |                        |
| Leasehold improvements                                                    | 1,465                  | 1,096                  |
| Plant and equipment                                                       | 7,292                  | 6,292                  |
| Motor vehicles                                                            | 17                     | 28                     |
| Office furniture and equipment                                            | 1,742                  | 1,815                  |
| <b>Total depreciation</b>                                                 | <b>10,516</b>          | 9,231                  |
| <b>Amortisation</b>                                                       |                        |                        |
| Customer contracts                                                        | 2,993                  | 379                    |
| <b>Total depreciation and amortisation</b>                                | <b>13,509</b>          | 9,610                  |
| Net loss on disposal of property, plant and equipment                     | 475                    | -                      |
| <b>Transaction, takeover response and share based payment</b>             |                        |                        |
| Professional fees and other costs                                         | 2,498                  | 1,468                  |
| Takeover defence costs                                                    | -                      | 2,434                  |
| <b>Total transaction costs</b>                                            | <b>2,498</b>           | 3,902                  |
| <b>Finance costs</b>                                                      |                        |                        |
| Interest and finance charges paid/payable                                 | 5,892                  | 2,627                  |
| Funding/establishment costs                                               | 302                    | 156                    |
| <b>Finance costs expensed</b>                                             | <b>6,194</b>           | 2,783                  |
| <b>Employee benefits expense</b>                                          |                        |                        |
| Employee benefits                                                         | 106,682                | 89,552                 |
| Superannuation contributions                                              | 6,931                  | 6,160                  |
| Labour supply                                                             | 17,377                 | 13,801                 |
| <b>Total employee benefits expense</b>                                    | <b>130,990</b>         | 109,513                |

Minimum lease payments recognised as operating lease expense were \$10.7m (2018: \$9.6m). Costs of inventories recognised as expense were \$10.4m (2018: \$8.6m).

## Accounting policy for finance costs

All other finance costs are expensed in the period in which they are incurred.

# Notes to the Consolidated Financial Statements continued

## Note 7. Income tax expense

|                                                                                     | Consolidated           |                        |
|-------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                     | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Income tax expense</b>                                                           |                        |                        |
| Current tax                                                                         | 10,475                 | 7,078                  |
| Deferred tax – origination and reversal of temporary differences                    | (839)                  | (164)                  |
| Adjustment recognised for prior periods                                             | -                      | 114                    |
| Aggregate income tax expense                                                        | 9,635                  | 7,028                  |
| Deferred tax included in income tax expense comprises:                              |                        |                        |
| Decrease/(Increase) in deferred tax assets (Note 14)                                | 425                    | 403                    |
| (Decrease)/increase in deferred tax liabilities (Note 14)                           | 414                    | (238)                  |
|                                                                                     | 839                    | (163)                  |
| <b>Numerical reconciliation of income tax expense and tax at the statutory rate</b> |                        |                        |
| Profit before income tax expense                                                    | 30,618                 | 22,107                 |
| Tax at the statutory rate of 30%                                                    | 9,185                  | 6,632                  |
| Tax effect amounts that are not deductible/(taxable) in calculating taxable income: |                        |                        |
| Entertainment costs                                                                 | 29                     | 23                     |
| Transaction and takeover defence costs                                              | 434                    | 241                    |
| Fair value gain/loss                                                                | -                      | 37                     |
| Share based payments                                                                | 168                    | -                      |
| Fixed asset variance                                                                | -                      | 114                    |
| Transactions costs deducted in equity                                               | (204)                  | (133)                  |
|                                                                                     | 9,612                  | 6,914                  |
| Adjustment recognised for prior periods                                             | 135                    | 114                    |
| Impact of lower tax rate in New Zealand                                             | (112)                  | -                      |
| Income tax expense                                                                  | 9,635                  | 7,028                  |

### Accounting policy for income tax

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

## Note 8. Current assets – cash and cash equivalents

|              | Consolidated           |                        |
|--------------|------------------------|------------------------|
|              | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Cash on hand | 15                     | 15                     |
| Cash at bank | 20,952                 | 20,829                 |
|              | 20,967                 | 20,844                 |

### Accounting policy for cash and cash equivalents

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



## Note 9. Current assets – trade and other receivables

|                                               | Consolidated           |                        |
|-----------------------------------------------|------------------------|------------------------|
|                                               | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Trade receivables                             | 8,529                  | 5,570                  |
| Less: Provision for impairment of receivables | (81)                   | (90)                   |
|                                               | 8,448                  | 5,480                  |
| Other receivables                             | 577                    | 142                    |
|                                               | 9,025                  | 5,622                  |

### Impairment of receivables

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

|                                                          | Consolidated           |                        |
|----------------------------------------------------------|------------------------|------------------------|
|                                                          | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Opening balance                                          | 90                     | 137                    |
| Additional provisions recognised                         | 27                     | 7                      |
| Receivables written off during the year as uncollectable | (36)                   | (54)                   |
| Closing balance                                          | 81                     | 90                     |

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$1.6m as at 30 June 2019 (\$0.9m as at 30 June 2018).

The Group did not consider there was a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

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

|                            | Consolidated           |                        |
|----------------------------|------------------------|------------------------|
|                            | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Past due 31 to 60 days     | 528                    | 328                    |
| Past due 61 to 90 days     | 595                    | 135                    |
| Past due more than 91 days | 500                    | 450                    |
|                            | 1,623                  | 913                    |

### Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 to 60 days. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate fair value.

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

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

# Notes to the Consolidated Financial Statements continued

## Note 10. Current assets – other

|                      | Consolidated           |                        |
|----------------------|------------------------|------------------------|
|                      | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Accrued revenue      | 1,243                  | 1,296                  |
| Prepayments          | 1,901                  | 2,154                  |
| Security deposits    | 296                    | 55                     |
| Other current assets | 12                     | 11                     |
|                      | <b>3,452</b>           | <b>3,516</b>           |

## Note 11. Inventory

|                                   | Consolidated           |                        |
|-----------------------------------|------------------------|------------------------|
|                                   | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Film, contrast, drugs and needles | 390                    | 346                    |

### Accounting policy for inventory

Inventory is valued at the lower of cost and net realisable value. Inventory has been recognised based on categories of high-value items used in the production of medical images that the Company holds in large volumes including film, contrast, drugs and needles. Costs of inventories recognised as an expense was \$10.4m (2018: \$8.6m).

## Note 12. Non-current assets – property, plant and equipment

|                                          | Consolidated           |                        |
|------------------------------------------|------------------------|------------------------|
|                                          | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Work in progress – at cost               | 9,864                  | 5,266                  |
| Leasehold improvements – at cost         | 19,944                 | 16,190                 |
| Less: Accumulated depreciation           | (7,075)                | (5,877)                |
|                                          | <b>12,869</b>          | <b>10,313</b>          |
| Plant and equipment – at cost            | 76,002                 | 62,014                 |
| Less: Accumulated depreciation           | (32,608)               | (28,281)               |
|                                          | <b>43,394</b>          | <b>33,733</b>          |
| Motor vehicles – at cost                 | 485                    | 466                    |
| Less: Accumulated depreciation           | (416)                  | (400)                  |
|                                          | <b>69</b>              | <b>66</b>              |
| Office furniture and equipment – at cost | 12,205                 | 11,028                 |
| Less: Accumulated depreciation           | (7,619)                | (6,322)                |
|                                          | <b>4,586</b>           | <b>4,706</b>           |
|                                          | <b>70,782</b>          | <b>54,084</b>          |

## Reconciliations

- a. Reconciliations of the written down values of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

| <b>Consolidated</b>     | <b>Work in progress<br/>\$'000</b> | <b>Leasehold improvements<br/>\$'000</b> | <b>Plant and equipment<br/>\$'000</b> | <b>Motor vehicles<br/>\$'000</b> | <b>Office furniture and equipment<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-------------------------|------------------------------------|------------------------------------------|---------------------------------------|----------------------------------|--------------------------------------------------|-------------------------|
| Balance at 1 July 2017  | 449                                | 10,510                                   | 34,667                                | 94                               | 4,803                                            | 50,523                  |
| Additions               | 13,512                             | -                                        | -                                     | -                                | -                                                | 13,512                  |
| Transfers               | (8,695)                            | 899                                      | 6,078                                 | -                                | 1,718                                            | -                       |
| Disposals               | -                                  | -                                        | (720)                                 | -                                | -                                                | (720)                   |
| Depreciation expense    | -                                  | (1,096)                                  | (6,292)                               | (28)                             | (1,815)                                          | (9,231)                 |
| Balance at 30 June 2018 | 5,266                              | 10,313                                   | 33,733                                | 66                               | 4,706                                            | 54,084                  |
| Business acquisitions   | -                                  | 2,342                                    | 4,452                                 | -                                | 391                                              | 7,185                   |
| Additions               | 20,821                             | -                                        | -                                     | -                                | -                                                | 20,821                  |
| Transfers               | (16,223)                           | 1,692                                    | 13,261                                | 19                               | 1,251                                            | -                       |
| Disposals/write offs    | -                                  | (106)                                    | (872)                                 | -                                | (36)                                             | (1,014)                 |
| Depreciation expense    | -                                  | (1,465)                                  | (7,292)                               | (17)                             | (1,742)                                          | (10,516)                |
| Exchange differences    | -                                  | 93                                       | 112                                   | 1                                | 16                                               | 222                     |
| Balance at 30 June 2019 | 9,864                              | 12,869                                   | 43,394                                | 69                               | 4,586                                            | 70,782                  |

- b. Property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease at the beginning and end of the current and previous financial year are set out below:

|                                | <b>Leasehold improvements<br/>\$'000</b> | <b>Plant and equipment<br/>\$'000</b> | <b>Motor vehicles<br/>\$'000</b> | <b>Office furniture and equipment<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|--------------------------------|------------------------------------------|---------------------------------------|----------------------------------|--------------------------------------------------|-------------------------|
| Net book value at 30 June 2018 | 3,823                                    | 20,814                                | 5                                | 721                                              | 25,363                  |
| Net book value at 30 June 2019 | 883                                      | 15,954                                | -                                | 318                                              | 17,155                  |

## Property, plant and equipment secured under finance leases

Refer to Note 20 for further information on property, plant and equipment secured under finance leases.

## Accounting policy for property, plant and equipment

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 (excluding land) over their expected useful lives as follows:

|                                |              |
|--------------------------------|--------------|
| Leasehold improvements         | 5 – 20 years |
| Plant and equipment            | 4 – 15 years |
| Motor vehicles                 | 5 – 8 years  |
| Office furniture and equipment | 3 – 15 years |

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Costs that are necessarily incurred whilst commissioning new asset, in the period before they are capable of operating in the manner intended by management, are capitalised as Work in Progress. Upon completion of the asset and all associated costs being recognised, the Work in Progress is transferred to the correct property, plant and equipment classification at which point it is accounted for in accordance with AASB 116.

# Notes to the Consolidated Financial Statements continued

## Note 13. Non-current assets – intangibles

|                                | Consolidated           |                        |
|--------------------------------|------------------------|------------------------|
|                                | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Goodwill – at cost             | 184,112                | 96,387                 |
| Brand names – at cost          | 17,246                 | 7,155                  |
| Customer contracts – at cost   | 6,359                  | 2,456                  |
| Less: Accumulated amortisation | (5,464)                | (2,456)                |
|                                | 895                    | -                      |
|                                | 202,253                | 103,542                |

### 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<br>\$'000 | Brand<br>names <sup>1</sup><br>\$'000 | Customer<br>contracts<br>\$'000 | Total<br>\$'000 |
|---------------------------|--------------------|---------------------------------------|---------------------------------|-----------------|
| Balances at 1 July 2017   | 96,387             | 7,155                                 | 379                             | 103,921         |
| Amortisation expense      | -                  | -                                     | (379)                           | (379)           |
| Balance at 30 June 2018   | 96,387             | 7,155                                 | -                               | 103,542         |
| Acquisitions (Note 34)    | 86,789             | 9,987                                 | 3,853                           | 100,629         |
| Amortisation expense      | -                  | -                                     | (2,993)                         | (2,993)         |
| Foreign currency exchange | 936                | 104                                   | 35                              | 1,075           |
| Balance at 30 June 2019   | 184,112            | 17,246                                | 895                             | 202,253         |

1. Brand names of \$7.0m are included within the SCR CGU, \$0.325m included within the Lake Imaging CGU and \$9.921m within the NZ CGU.

Reconciliations of the carrying values by geographic segment are set out below:

| Consolidated            | Australia<br>\$'000 | New Zealand<br>\$'000 | Total<br>\$'000 |
|-------------------------|---------------------|-----------------------|-----------------|
| Goodwill                | 102,474             | 81,638                | 184,112         |
| Brand names             | 7,325               | 9,921                 | 17,246          |
| Customer contracts      | -                   | 895                   | 895             |
| Balance at 30 June 2019 | 109,799             | 92,454                | 202,253         |

### Impairment test for goodwill and intangibles

Goodwill and brand names are tested for impairment annually (as at 30 June) and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value in use calculations.

An assessment of identifiable cash generating units and a review of allocations of goodwill to identified cash generating units is conducted annually. The New Zealand acquisitions completed in July 2018 results in two cash generating units for impairment testing, one for each geographic segment, which is in line with the operating segment identified in Note 4.

Management have concluded that given the current structure of operations in Australia and given the synergies being delivered and the opportunities available to the Australian operations since initial acquisition, goodwill continues to form one cash-generating unit in Australia for impairment testing purposes.

### Key assumptions for value-in-use calculations

The recoverable amount is determined based on value-in-use calculations, which require the use of assumptions.

The calculations use cash flow projections based on financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the average growth rates for the industry in which the Group operates.

The following table sets out the key assumptions for impairment testing for each geographic segment:

|                              | %    |
|------------------------------|------|
| 2019 – Long-term growth rate | 3.0  |
| 2019 – Pre-tax discount rate | 15.4 |
| 2018 – Long-term growth rate | 3.0  |
| 2018 – Pre-tax discount rate | 15.4 |

### Australia

Within the value-in-use calculation for the five-year forecast period revenues have been forecast to grow between 6% – 8.5% (2018: 4.2% – 8.3%) and 3% (2018: 3%) into perpetuity. The forecast cash flows also includes ongoing investment in property, plant and equipment to maintain the existing base and in 2019 to invest in further technology and expansion.

The pre-tax discount rate would need to increase by more than 11% or the growth rate decline by more than 1.5% in the five year forecast period and into perpetuity for there to be any impairment of the goodwill balances.

### New Zealand

Within the value-in-use calculation for the five-year forecast period revenues have been forecast to grow between 6.0% – 7.5% and 3% into perpetuity. The forecast cash flows also includes ongoing investment in property, plant and equipment to maintain the existing base and in 2019 to invest in further technology and expansion.

The pre-tax discount rate would need to increase by more than 3% or the growth rate decline by more than 1.5% in the five year forecast period and into perpetuity for there to be any impairment of the goodwill balances.

### Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less an impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

### Goodwill

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

### Brand names

Significant costs associated with brand names are not amortised, but are tested for impairment annually on the same basis and within the same VIU calculation as outlined above and are carried at cost.

### Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between one and two years. The customer contracts consist of contracts held with the New Zealand Accident Corporation Commission and Southern Cross Healthcare by Specialist Radiology Group Limited and Trinity MRI Limited, 100% wholly owned subsidiaries of the Company, providing radiology services to the Auckland region in New Zealand.

# Notes to the Consolidated Financial Statements continued

## Note 14. Non-current assets – deferred tax

|                                                                         | Consolidated           |                        |
|-------------------------------------------------------------------------|------------------------|------------------------|
|                                                                         | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Deferred tax assets</b>                                              |                        |                        |
| Deferred tax asset comprises temporary differences attributable to:     |                        |                        |
| Amounts recognised in profit or loss                                    |                        |                        |
| Employee benefits and other provisions                                  | 6,183                  | 5,108                  |
| Provisions for lease make good                                          | 771                    | 721                    |
| Transaction costs in equity                                             | 116                    | 284                    |
| Transaction costs                                                       | 674                    | 1,405                  |
| Tax losses available                                                    | 54                     | 54                     |
| Operating lease borrowings                                              | -                      | 6                      |
| <b>Total deferred tax asset</b>                                         | <b>7,798</b>           | <b>7,578</b>           |
| Amount expected to be recovered within 12 months                        | 2,052                  | 2,446                  |
| Amount expected to be recovered after more than 12 months               | 5,746                  | 5,132                  |
|                                                                         | <b>7,798</b>           | <b>7,578</b>           |
| Movements:                                                              |                        |                        |
| Opening balance                                                         | 7,578                  | 7,291                  |
| Credited to profit or loss (Note 7)                                     | 425                    | 402                    |
| Credited to equity                                                      | (205)                  | (133)                  |
| Fixed asset variance                                                    | -                      | 114                    |
| Adjustments recognised for prior periods                                | -                      | (96)                   |
| <b>Closing balance</b>                                                  | <b>7,798</b>           | <b>7,578</b>           |
| <b>Deferred tax liabilities</b>                                         |                        |                        |
| Deferred tax liability comprises temporary differences attributable to: |                        |                        |
| Amounts recognised in profit or loss                                    |                        |                        |
| Property, plant and equipment                                           | (2,725)                | (2,594)                |
| Brand Names                                                             | (5,227)                | (2,146)                |
| <b>Total deferred tax liability</b>                                     | <b>(7,952)</b>         | <b>(4,740)</b>         |
| Amount expected to be settled within 12 months                          | (250)                  | (393)                  |
| Amount expected to be settled after more than 12 months                 | (7,702)                | (4,347)                |
|                                                                         | <b>(7,952)</b>         | <b>(4,740)</b>         |
| Movements:                                                              |                        |                        |
| Opening balance                                                         | (4,740)                | (4,616)                |
| Credited to profit or loss (Note 7)                                     | 414                    | (238)                  |
| Adjustments recognised for prior periods                                | (159)                  | 114                    |
| Additions through business combinations (Note 34)                       | (3,467)                | -                      |
| <b>Closing balance</b>                                                  | <b>(7,952)</b>         | <b>(4,740)</b>         |

### Accounting policy for deferred tax

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

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

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

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

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

Integral Diagnostics Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax-consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax-consolidated Group continue to account for their own current and deferred tax amounts. The tax-consolidated Group has applied the 'separate taxpayer within Group' approach in determining the appropriate amount of taxes to allocate to members of the tax-consolidated Group. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax-consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax-consolidated Group. The tax-consolidated Group has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated Group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the head entity to meet its payment obligations.

#### Note 15. Current liabilities – trade and other payables

|                                          | Consolidated           |                        |
|------------------------------------------|------------------------|------------------------|
|                                          | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Trade payables                           | 4,758                  | 4,417                  |
| Other payables and accruals <sup>1</sup> | 11,204                 | 7,695                  |
|                                          | 15,962                 | 12,112                 |

1. For year ended 30 June 2019, accruals includes increased amounts for capital works in progress, equipment and transaction costs.

Refer to Note 27 for further information on financial instruments.

#### Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and that are unpaid. They are recognised at their fair value. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short-term nature of these payables, their carrying amount is assumed to approximate fair value.

#### Note 16. Current liabilities – borrowings

|                 | Consolidated           |                        |
|-----------------|------------------------|------------------------|
|                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Lease liability | 8,929                  | 12,820                 |

Refer to Note 20 for further information on assets pledged as security and financing arrangements.

Refer to Note 27 for further information on financial instruments.



# Notes to the Consolidated Financial Statements continued

## Note 17. Current liabilities – provisions

|                    | Consolidated           |                        |
|--------------------|------------------------|------------------------|
|                    | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Annual leave       | 6,795                  | 5,757                  |
| Long service leave | 5,161                  | 4,702                  |
| Employee benefits  | 237                    | 185                    |
|                    | 12,193                 | 10,644                 |

### Accounting policy for employee benefits

#### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

The leave obligations cover the Group's liability for long service leave, annual leave and rostered days off. The current provision of this liability includes all accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

## Note 18. Current liabilities – derivative financial instruments

|                                 | Consolidated           |                        |
|---------------------------------|------------------------|------------------------|
|                                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Derivative financial instrument | 20                     | -                      |

## Note 19. Non-current liabilities – other payables

|                        | Consolidated           |                        |
|------------------------|------------------------|------------------------|
|                        | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Deferred consideration | 1,519                  | -                      |

## Note 20. Non-current liabilities – borrowings

|                 | Consolidated           |                        |
|-----------------|------------------------|------------------------|
|                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Borrowings      | 122,881                | 43,750                 |
| Lease liability | 7,239                  | 8,753                  |
|                 | 130,120                | 52,503                 |

Refer to Note 27 for further information on financial instruments.

### Total secured liabilities

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

|                 | Consolidated           |                        |
|-----------------|------------------------|------------------------|
|                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Borrowings      | 122,881                | 43,750                 |
| Lease liability | 16,168                 | 21,573                 |
|                 | 139,049                | 65,323                 |

### Refinancing of existing bank debt facilities

On 14 December 2018 the Group restructured its debt facilities with a consortium of major banks to provide increased facilities, flexible access to debt draw downs and improved terms that will lower the cost of capital and provide greater flexibility around M&A activity.

The new debt facilities made available are:

- cash advance facility limit of up to \$240.0m. This increases the facility from the previous \$100.0m;
- asset finance facility of \$65.0m including \$15.0m committed facility and \$50.0m uncommitted facility; and
- bank guarantee facility of \$7.0m;

Current cash reserves, ongoing operating cash flows and the extended facility will provide the Group with certainty in relation to its funding for the next three years to allow the Group to:

- maintain cash reserves for working capital and debt servicing;
- fund forecast maintenance and growth capital expenditure; and
- contribute to funding of acquisitions.

In accordance with Australian Accounting Standards, loan establishment fees have been capitalised and will be amortised over the life of the debt facilities.

### Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the Consolidated Statement of Financial Position, revert to the lessor in the event of default.

### Financial arrangements

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

|                                                | Consolidated           |                        |
|------------------------------------------------|------------------------|------------------------|
|                                                | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Total facilities                               |                        |                        |
| Equipment finance facility                     | 65,000                 | 38,096                 |
| Cash advance facility                          | 180,000                | 80,000                 |
| Cash advance facility NZD                      | 60,000                 | -                      |
| Standby letter of credit or guarantee facility | 7,000                  | 2,000                  |
| Commercial cards facility                      | 300                    | 300                    |
| Electronic payaway facility                    | 3,075                  | 3,075                  |
|                                                | 315,375                | 123,471                |
| Used at the reporting date                     |                        |                        |
| Equipment finance facility                     | 16,168                 | 21,574                 |
| Cash advance facility                          | 70,000                 | 43,750                 |
| Cash advance facility NZD                      | 52,881                 | -                      |
| Standby letter of credit or guarantee facility | 2,064                  | 1,469                  |
| Commercial cards facility                      | 115                    | 79                     |
| Electronic payaway facility                    | -                      | -                      |
|                                                | 141,228                | 66,872                 |
| Unused at the reporting date                   |                        |                        |
| Equipment finance facility                     | 48,832                 | 16,522                 |
| Cash advance facility                          | 110,000                | 36,250                 |
| Cash advance facility NZD                      | 7,119                  | -                      |
| Standby letter of credit or guarantee facility | 4,936                  | 531                    |
| Commercial cards facility                      | 185                    | 221                    |
| Electronic payaway facility                    | 3,075                  | 3,075                  |
|                                                | 174,147                | 56,599                 |

# Notes to the Consolidated Financial Statements continued

## Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Under the current lending arrangement the cash advance facilities expire in December 2021.

## Note 21. Non-current liabilities – derivative financial instrument

|                                 | Consolidated           |                        |
|---------------------------------|------------------------|------------------------|
|                                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Derivative financial instrument | -                      | 122                    |

## Note 22. Non-current liabilities – provisions

|                         | Consolidated           |                        |
|-------------------------|------------------------|------------------------|
|                         | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Long service leave      | 2,038                  | 2,114                  |
| Deferred rent liability | 2,655                  | 2,387                  |
| Lease make good         | 4,336                  | 4,350                  |
|                         | 9,029                  | 8,851                  |

### Deferred rent liability

Deferred rent liabilities relate to property leases where rent increases prescribed in leases are based on fixed percentage increases, and/or where leases include a rent-free period or other lease incentives. The liability represents the difference between actual rental costs incurred per terms of leases, and calculated expense if the total estimated rental expense over the period of the lease was expensed evenly over the expected term of the lease. The liability reflects that as of the date of this Report, the calculated expense (if the total estimated rental expense was expensed evenly over the expected term of the lease) is greater than actual costs incurred to date. The total liability is expected to fluctuate over time reflecting the cumulative calculations of individual leases. For individual leases, any liability will unwind over the period of the lease.

### Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms. Property lease agreements include various obligations at the end of the respective lease terms, such as removal of tenant installations and making good any damage caused by installation or removal, removing signage, and other general maintenance obligations (e.g. painting, cleaning). These costs have been estimated for each location, based on specific terms of individual leases, size of the individual sites, and historical experience of costs incurred when vacating a site.

### Movements in provisions

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

|                                          | Deferred rent liability<br>\$'000 | Lease make good<br>\$'000 |
|------------------------------------------|-----------------------------------|---------------------------|
| <b>Consolidated – 2019</b>               |                                   |                           |
| Carrying amount at the start of the year | 2,387                             | 4,350                     |
| Additional provisions                    | 536                               | 619                       |
| Amounts used                             | (268)                             | (633)                     |
| Carrying amount at the end of the year   | 2,655                             | 4,336                     |

### Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### Note 23. Equity – contributed capital

|                              | Consolidated           |                        | Consolidated           |                        |
|------------------------------|------------------------|------------------------|------------------------|------------------------|
|                              | 30 June 2019<br>Shares | 30 June 2018<br>Shares | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Ordinary shares – fully paid | 157,065,810            | 145,044,157            | 109,599                | 83,425                 |

|                                                                                   | Date         | Number<br>of Shares | Issue<br>price | Total<br>\$'000 |
|-----------------------------------------------------------------------------------|--------------|---------------------|----------------|-----------------|
| <b>Movement in ordinary share capital</b>                                         |              |                     |                |                 |
| Balances at 1 July 2017                                                           |              | 145,044,157         | -              | 83,866          |
| Reversal of DTA on transaction costs of equity                                    |              | -                   | -              | (162)           |
| Transaction costs on acquisitions in equity                                       |              | -                   | -              | (279)           |
| Balance at 30 June 2018                                                           |              | 145,044,157         | -              | 83,425          |
| Shares issued as part of New Zealand acquisition (Note 34)                        | 2 July 2018  | 9,971,928           | \$2.38         | 23,733          |
| Shares issued as part of GMI acquisition (Note 34)                                | 2 July 2018  | 376,682             | \$2.79         | 1,050           |
| Shares issued as part of regional incentive scheme                                | 22 Dec 2018  | 6,758               | \$2.78         | 19              |
| Shares issued as part of radiologist loan share scheme – self funded <sup>1</sup> | 1 March 2019 | 555,427             | \$2.70         | 1,500           |
| Shares issued as part of radiologist loan share scheme – loan shares <sup>1</sup> | 1 March 2019 | 1,110,858           | -              | -               |
| Reversal of DTA on transaction costs of equity                                    |              | -                   | -              | 168             |
| Transaction costs on acquisitions in equity                                       |              | -                   | -              | (52)            |
| Balance at 30 June 2019                                                           |              | 157,065,810         |                | 109,507         |

1. Eligible radiologists were invited to participate in a Loan funded share scheme where participants will be granted fully paid ordinary shares in the Company. Participants are required to make a cash contribution towards the purchase of shares (self-funded shares), the value is not attributable to the shares until the loan is fully repaid at the holder's option. Employees are then granted a limited recourse loan from the company which will be used to fund the acquisition of the additional shares. The number of Loan Shares employees are granted is twice the number of self-funded shares.

### Ordinary shares

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

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

### Share buy-back

On the 21 February 2019 the Company announced an on-market buy-back in relation to the Company's ordinary securities for capital management purposes. The Buy-back commenced on 8 March 2019 and will end on 7 March 2020. The buy-back will be conducted within 10/12 limit as defined in the Corporations Act 2001. No shares have been bought back under this buy back to date.

# Notes to the Consolidated Financial Statements continued

## Capital risk management

The Group's objectives when managing capital is 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 Consolidated 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, adjustments may be made to the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The Group is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- net debt to EBITDA not greater than 3.25; and
- fixed charge cover greater than 1.75.

The Group has complied with the covenants throughout the reporting period.

## Accounting policy for contributed capital

Ordinary shares are classified as equity.

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

## Note 24. Equity – reserves

|                                            | Consolidated           |                        |
|--------------------------------------------|------------------------|------------------------|
|                                            | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Share-based payments reserve               | 678                    | 120                    |
| Capital reorganisation reserve             | (3,849)                | (3,849)                |
| Transactions with non-controlling interest | (8,013)                | (8,013)                |
| Foreign currency translation reserve       | 133                    | -                      |
| Cash flow hedge reserve                    | (19)                   | (85)                   |
|                                            | (11,070)               | (11,827)               |

### 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 as part of their compensation for services.

### Capital reorganisation reserve

The reserve is used to account for historical capital reorganisation of Lake Imaging Pty Ltd whereby the assets and liabilities of the acquired party are recorded at their previous book values and no goodwill is recognised. Any difference between the cost of the transaction and the carrying amount of the assets and liabilities are recorded directly in this reserve.

### Transactions with non-controlling interest

Transactions with non-controlling interest reserve is used to record the differences arising as a result of transactions with non-controlling interests that do not result in a loss of control.

### Cash flow hedge reserve

The reserve is used to recognise the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income (expenses).

### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 2. The reserve is recognised in profit and loss when the net investment is disposed of.

### Movements in reserves

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

| Consolidated                                      | Share-based payment reserve<br>\$'000 | Capital re-organisation reserve<br>\$'000 | Transaction with non-controlling interest<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Cash flow hedge reserve<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------------------------|------------------------------------------------|-----------------------------------|-----------------|
| Balance at 30 June 2018                           | 120                                   | (3,849)                                   | (8,013)                                             | -                                              | (85)                              | (11,827)        |
| Recognition of share-based payments               | 558                                   | -                                         | -                                                   | -                                              | -                                 | 558             |
| Unwinding of DTA in equity                        | -                                     | -                                         | -                                                   | -                                              | (36)                              | (36)            |
| Movement in FV of derivative financial instrument | -                                     | -                                         | -                                                   | -                                              | 102                               | 102             |
| Movement in translation of foreign operations     | -                                     | -                                         | -                                                   | 133                                            | -                                 | 133             |
| Balance at 30 June 2019                           | 678                                   | (3,849)                                   | (8,013)                                             | 133                                            | (19)                              | (11,070)        |

The expense recognised for share based payments during the year was based on valuations using the Black Scholes model.

|                                                                      | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|----------------------------------------------------------------------|------------------------|------------------------|
| Expense arising from equity-settled share-based payment transactions | 558                    | 120                    |
| Total expense arising from share-based payment transactions          | 558                    | 120                    |

There were no cancellations or modifications to the awards in 2019 or 2018.

### Movements during the year

The following table illustrates the number of, and movements in performance rights issued under long term incentive scheme (LTI) to executives and members of the senior management team during the year. The exercise price of these rights is \$Nil

|                           | 2019<br>Number | 2018<br>Number |
|---------------------------|----------------|----------------|
| Outstanding at 1 July     | 601,807        | -              |
| Granted during the year   | 372,281        | 601,807        |
| Forfeited during the year | -              | -              |
| Exercised during the year | -              | -              |
| Expired during the year   | -              | -              |
| Outstanding at 30 June    | 974,088        | 601,807        |
| Exercisable at 30 June    | -              | -              |

The following table illustrates the number of, and movements in shares issued under the Radiologist Loan Funded Share Plan (LFSP) which was initiated in FY2019 and issued to participating radiologists on 1 March 2019. The value of the shares issued under the plan was \$2.70 and a loan equivalent to the issued shares is due and payable at the radiologists option. This option can be exercised between 4-10 years from the issue date, once the loan is fully paid the loan shares are released from Escrow and will no longer be subject to Escrow restrictions.

# Notes to the Consolidated Financial Statements continued

|                               | 2019<br>Number | 2019<br>WAEP <sup>1</sup> |
|-------------------------------|----------------|---------------------------|
| <b>Outstanding at 1 July</b>  | -              | -                         |
| Granted during the year       | 1,110,858      | \$2.70                    |
| Forfeited during the year     | -              | -                         |
| Exercised during the year     | -              | -                         |
| Expired during the year       | -              | -                         |
| <b>Outstanding at 30 June</b> | 1,110,858      | \$2.70                    |
| Exercisable at 30 June        | -              | -                         |

1. Weighted average exercise price (WAEP).

The following tables list the inputs to the models used for the two plans for the years ended 30 June 2019 and 2018, respectively:

|                                                      | 2019<br>LTI Plan | 2019<br>LFSP  |
|------------------------------------------------------|------------------|---------------|
| Weighted average fair values at the measurement date | \$2.38           | 0.92          |
| Dividend yield (%)                                   | 4.6              | N/A           |
| Expected volatility (%)                              | 2.1-2.5          | 36            |
| Risk-free interest rate (%)                          | 2.18             | 1.71          |
| Expected life of share (years)                       | 4                | 4             |
| Weighted average share price (\$)                    | 2.79             | 2.64          |
| Model used                                           | Black Scholes    | Black Scholes |

In FY18 the LTI was granted to participants on 27 April 2018 and to the CEO on 22 November 2017 resulting in differing valuation metrics applicable to each grant date which are set out respectively below.

|                                                      | 2018<br>Executive<br>LTI Plan |
|------------------------------------------------------|-------------------------------|
| Weighted average fair values at the measurement date | \$1.94/\$1.54                 |
| Dividend yield (%)                                   | 3.5/3.8                       |
| Expected volatility (%)                              | 1.1-3.1                       |
| Risk-free interest rate (%)                          | 2.02/2.35                     |
| Expected life of performance rights                  | 4                             |
| Weighted average share price (\$)                    | \$2.31/\$1.85                 |
| Model used                                           | Black Scholes                 |

## Note 25. Equity – retained profits

|                                                         | Consolidated           |                        |
|---------------------------------------------------------|------------------------|------------------------|
|                                                         | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Retained profits at the beginning of the financial year | 21,824                 | 18,348                 |
| Profit after income tax expense for the year            | 20,983                 | 15,079                 |
| Dividend paid (Note 26)                                 | (14,025)               | (11,603)               |
| Retained profits at the end of the financial year       | 28,782                 | 21,824                 |



## Note 26. Equity – dividends

### Dividends

Full franked dividends paid during the financial year were as follows:

|                                                   | Consolidated           |                        |
|---------------------------------------------------|------------------------|------------------------|
|                                                   | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Dividend paid 4 cents per share on 4 October 2017 | -                      | 5,801                  |
| Dividend paid 4 cents per share on 5 March 2018   | -                      | 5,802                  |
| Dividend paid 4 cents per share on 4 October 2018 | 6,216                  | -                      |
| Dividend paid 5 cents per share on 2 April 2019   | 7,809                  | -                      |
|                                                   | 14,025                 | 11,603                 |

### Franking credits

|                                                                                      | Consolidated           |                        |
|--------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                      | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 21,032                 | 19,972                 |

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

- franking credits that will arise from the payment of the current tax liability; and
- franking debits that will arise from the payment of the dividend as a liability at the reporting date.

The amount recorded above as the franking credit amount is based on the amount of Australian income tax paid in respect of the liability for income tax at the balance date.

### Accounting policy for dividends

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

## Note 27. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

Risk management is carried out by senior financial Executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

### Market risk

#### Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has a fixed rate interest rate hedge of \$20.0m over our \$122.0m of borrowings, management continually assess interest rate exposures and will adjust hedging requirements in line with our risk profile as required.

# Notes to the Consolidated Financial Statements continued

As at the reporting date, the Group had the following interest bearing financial assets and liabilities:

|                                                 | 2019                             |                | 2018                             |                |
|-------------------------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                                                 | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| <b>Consolidated</b>                             |                                  |                |                                  |                |
| Cash at bank and on deposit                     | 1.35                             | 20,967         | 1.50                             | 20,844         |
| Borrowings                                      | 3.61                             | (122,881)      | 3.40                             | (43,750)       |
| Finance leases                                  | 3.76                             | (16,168)       | 5.00                             | (21,573)       |
| Interest rate swaps (notional principal amount) | 2.46                             | (20)           | 2.46                             | (122)          |
| Net exposure to cash flow interest rate risk    |                                  | (118,102)      |                                  | (44,601)       |

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

If interest rates were to increase/decrease by 100 (2018: 100) basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

|                     | Basis points increase effect on |                   |                           | Basis points decrease effect on |                   |                           |
|---------------------|---------------------------------|-------------------|---------------------------|---------------------------------|-------------------|---------------------------|
|                     | Basis points change             | Profit before tax | Effect on equity post tax | Basis points change             | Profit before tax | Effect on equity post tax |
| Consolidated – 2019 |                                 |                   |                           |                                 |                   |                           |
| Impact              | 100                             | 1,395             | 977                       | (100)                           | (1,395)           | (977)                     |
| Consolidated – 2018 |                                 |                   |                           |                                 |                   |                           |
| Impact              | 100                             | 449               | 314                       | (100)                           | (449)             | (314)                     |

## Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows on an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the New Zealand dollar (NZD). The Group hedges its exposure to fluctuations on the translation into Australian dollars of its foreign operations by holding net borrowings in foreign currencies, creating a natural hedging relationship. The Group assessed the remaining risk exposure and given the exchange rate is not expected to fluctuate significantly, has not entered into other hedging relationships. The Group will monitor this risk on an on-going basis.

## Foreign Currency Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in NZD exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in translation rates. The impact on the Group's equity is due to changes in the fair value of the net investment.

|                     | Change in NZD Rate | Effect on profit before tax | Effect on equity |
|---------------------|--------------------|-----------------------------|------------------|
| Consolidated – 2019 | +2.5c              | (171)                       | (1,155)          |
| Impact              | -2.5c              | 171                         | 1,155            |

### Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks. Credit risk for trade receivables is managed by completing credit checks for new customers. Outstanding receivables are regularly monitored for payments in accordance with credit terms. 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 Consolidated Statement of Financial Position and notes to the financial statements. The Group does not hold any collateral.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

The credit risk for derivative financial instruments arises from the potential failure of the counter-party to meet its obligations. The credit risk exposure of forward contracts is the net fair value of these contracts.

### Liquidity risk

Vigilant liquidity risk management requires the Group 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 Group 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.

### Fair value risk

The only item held at fair value in the financial statements is an interest rate derivative which is considered immaterial and as such no further disclosure in relation to fair value has been made.

Subject to the continuance of satisfactory credit ratings and compliance with banking covenants, the bank loan facilities may be drawn at any time and have a maturity of eight months (2018: one years and eight months). The bank loan facilities are interest-only repayments.

### Remaining contractual maturities

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

|                                    | Weighted<br>average<br>interest<br>rate<br>% | 1 year<br>or less<br>\$'000 | Between<br>1 and<br>2 years<br>\$'000 | Between<br>2 and<br>5 years<br>\$'000 | Over 5<br>years<br>\$'000 | Remaining<br>contractual<br>maturities<br>\$'000 |
|------------------------------------|----------------------------------------------|-----------------------------|---------------------------------------|---------------------------------------|---------------------------|--------------------------------------------------|
| <b>Consolidated – 2019</b>         |                                              |                             |                                       |                                       |                           |                                                  |
| <b>Non-derivatives</b>             |                                              |                             |                                       |                                       |                           |                                                  |
| <i>Non-interest bearing</i>        |                                              |                             |                                       |                                       |                           |                                                  |
| Trade payables                     | -                                            | 4,758                       | 760                                   | 759                                   | -                         | 6,277                                            |
| Other payables                     | -                                            | 11,204                      | -                                     | -                                     | -                         | 11,204                                           |
| <i>Interest-bearing – variable</i> |                                              |                             |                                       |                                       |                           |                                                  |
| Borrowings                         | 3.61                                         | 4,043                       | 4,043                                 | 125,690                               | -                         | 133,776                                          |
| Lease liability                    | 3.76                                         | 9,178                       | 4,477                                 | 3,105                                 | -                         | 16,760                                           |
| <b>Total non-derivatives</b>       |                                              | 29,183                      | 9,280                                 | 129,554                               | -                         | 168,017                                          |
| <b>Derivatives</b>                 |                                              |                             |                                       |                                       |                           |                                                  |
| Interest rate swaps net settled    | 2.46                                         | 120                         | -                                     | -                                     | -                         | 120                                              |
| <b>Total derivatives</b>           |                                              | 120                         | -                                     | -                                     | -                         | 120                                              |

# Notes to the Consolidated Financial Statements continued

| Consolidated – 2018                | Weighted<br>average<br>interest<br>rate<br>% | 1 year<br>or less<br>\$'000 | Between<br>1 and<br>2 years<br>\$'000 | Between<br>2 and<br>5 years<br>\$'000 | Over 5<br>years<br>\$'000 | Remaining<br>contractual<br>maturities<br>\$'000 |
|------------------------------------|----------------------------------------------|-----------------------------|---------------------------------------|---------------------------------------|---------------------------|--------------------------------------------------|
| <b>Non-derivatives</b>             |                                              |                             |                                       |                                       |                           |                                                  |
| Non-interest bearing               |                                              |                             |                                       |                                       |                           |                                                  |
| Trade payables                     | -                                            | 4,417                       | -                                     | -                                     | -                         | 4,417                                            |
| Other payables                     | -                                            | 7,695                       | -                                     | -                                     | -                         | 7,695                                            |
| <i>Interest-bearing – variable</i> |                                              |                             |                                       |                                       |                           |                                                  |
| Borrowings                         | 3.40                                         | 1,492                       | 1,492                                 | 44,400                                | -                         | 47,384                                           |
| Lease liability                    | 5.00                                         | 13,235                      | 6,871                                 | 2,379                                 | -                         | 22,485                                           |
| <b>Total non-derivatives</b>       |                                              | 26,839                      | 8,863                                 | 46,779                                | -                         | 81,981                                           |
| <b>Derivatives</b>                 |                                              |                             |                                       |                                       |                           |                                                  |
| Interest rate swaps net settled    | 2.46                                         | 122                         | -                                     | -                                     | -                         | 122                                              |
| <b>Total derivatives</b>           |                                              | 122                         | -                                     | -                                     | -                         | 122                                              |

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

## Note 28. Key management personnel disclosures

### Compensation

The aggregate compensation paid to Directors and other members of the Key Management Personnel of the Group is set out below:

|                              | Consolidated           |                        |
|------------------------------|------------------------|------------------------|
|                              | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Short-term employee benefits | 3,039,195              | 3,335,147              |
| Long-term employee benefits  | 281,218                | 104,658                |
|                              | <b>3,320,413</b>       | <b>3,439,805</b>       |

## Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

|                                                    | Consolidated           |                        |
|----------------------------------------------------|------------------------|------------------------|
|                                                    | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Audit services – PricewaterhouseCoopers            |                        |                        |
| Audit and review of the financial statements       | 240,500                | 206,925                |
| Other services – PricewaterhouseCoopers            |                        |                        |
| Tax services – acquisitions and takeover response  | 100,400                | 52,000                 |
| Agreed procedures in relation to takeover response | -                      | 27,800                 |
| Advice re employee shares                          | 136,230                | 5,000                  |
| Tax compliance services                            | 34,500                 | 26,000                 |
|                                                    | <b>511,630</b>         | <b>317,725</b>         |
| Other services – Network firms of PwC Australia    |                        |                        |
| Due diligence and tax advisory services            | 151,423                | 185,804                |

### Note 30. Contingent liabilities

The Group has given bank guarantees as at 30 June 2019 of \$1.9m (2018: \$1.5m) to various landlords.

### Note 31. Commitments

|                                                                         | Consolidated           |                        |
|-------------------------------------------------------------------------|------------------------|------------------------|
|                                                                         | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| <b>Lease commitments – operating</b>                                    |                        |                        |
| Within one year                                                         | 8,203                  | 7,856                  |
| One to five years                                                       | 19,021                 | 11,247                 |
| More than five years                                                    | 2,595                  | 2,443                  |
|                                                                         | <b>29,819</b>          | 21,546                 |
| <b>Lease commitments – finance</b>                                      |                        |                        |
| Committed at the reporting date and recognised as liabilities, payable: |                        |                        |
| Within one year                                                         | 9,178                  | 13,235                 |
| One to five years                                                       | 7,587                  | 9,249                  |
| Total commitment                                                        | 16,765                 | 22,484                 |
| Less: Future finance charges                                            | (597)                  | (911)                  |
| Net commitment recognised as liabilities                                | <b>16,168</b>          | 21,573                 |
| <b>Representing:</b>                                                    |                        |                        |
| Lease liability – current (Note 16)                                     | 8,929                  | 12,820                 |
| Lease liability – non-current (Note 20)                                 | 7,239                  | 8,753                  |
|                                                                         | <b>16,168</b>          | 21,573                 |

Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

As at 30 June 2019, there were outstanding capital commitments for plant and equipment of \$6.3m (2018: \$1.2m).

### Note 32. Related party transactions

#### Parent entity

Integral Diagnostics Limited is the parent entity.

#### Subsidiaries

Interests in subsidiaries are set out in Note 35.

#### Key management personnel

Disclosures relating to Key Management Personnel are set out in Note 28 and the Remuneration Report on pages 19 to 28.

#### Transactions with related parties

The following transactions occurred with related parties:

|                                                                                                    | Consolidated           |                        |
|----------------------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                                    | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Chien Ping Ho is related to. | 359,573                | 368,506                |
| Payment for rental of buildings to Kiwi Blue Pty Ltd of which Chien Ping Ho is related to.         | 258,102                | 210,820                |

# Notes to the Consolidated Financial Statements continued

## Terms and conditions

The Related Party transactions are historic in nature and relate to leases assumed from previous vendors when the business was privately held. Dr Chien Ho has a 6% interest in Eleven Eleven How Pty Ltd and a 9% interest in Kiwi Blue Pty Ltd. The leases cover four properties located in Ballarat, Ocean Grove and Melton.

All transactions with KMP are made on commercial arm's length terms and conditions and in the ordinary course of business. The Board has an established Related Party Transaction Policy, that is overseen by the Audit, Risk and Compliance Committee (ARCC), to ensure that related party transactions are managed and disclosed in accordance with the Corporations Act, ASX Listing Rule 10.1, accounting requirements and in accordance with good governance practices, to ensure that a financial benefit is not provided to related parties without approval by the Board, and where required, shareholders. It is the Board's policy that independent reviews will be undertaken on any renewals and these reviews will be overseen by the ARCC.

## Note 33. Parent entity information

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

### Statement of Profit or Loss and Other Comprehensive Income

|                            | Parent       |              |
|----------------------------|--------------|--------------|
|                            | 30 June 2019 | 30 June 2018 |
|                            | \$           | \$           |
| Profit after income tax    | 7,876        | 6,575        |
| Total comprehensive income | 7,876        | 6,575        |

### Statement of Financial Position

|                              | Parent       |              |
|------------------------------|--------------|--------------|
|                              | 30 June 2019 | 30 June 2018 |
|                              | \$           | \$           |
| Total current assets         | 46,386       | 30,256       |
| Total assets                 | 191,274      | 143,893      |
| Total current liabilities    | 2,627        | 1,567        |
| Total liabilities            | 71,868       | 45,043       |
| Equity                       |              |              |
| Contributed capital          | 109,507      | 83,462       |
| Cash flow hedging reserve    | (20)         | (122)        |
| Share-based payments reserve | 678          | 120          |
| Retained profits             | 9,241        | 15,390       |
| Total equity                 | 119,406      | 98,650       |

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

The parent entity is party to the deed of cross guarantee, as disclosed in Note 36.

### Contingent liabilities

Except as disclosed in Note 30, there are no other contingent liabilities of the parent entity as at 30 June 2019 and 30 June 2018.

### Capital commitments – property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:

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

### Note 34. Business combinations

(a) On 2 July 2018, the Group acquired the assets and liabilities of the Specialist Radiology Group, Trinity MRI, and Cavendish Radiology in Auckland New Zealand (referred to as the New Zealand transaction).

The key terms of the acquisition include:

- a purchase consideration of NZ\$105.0m (A\$98.4m) on a cash and debt free basis, comprising NZ\$80.0m (A\$74.7m) in cash and NZ\$25.0m (A\$23.7m) in IDX equity;
- 80% of the equity will be held in escrow for up to five years; and
- a five year radiologist bonus pool with stepped payout based on earnings outperformance.

This strategic acquisition includes four clinics, employing 14 radiologists working in both the public and private sectors. The clinics are market leaders in providing complex modalities including MRI, CT and nuclear medicine, which are high margin services positioned to experience significant future growth. The clinics are fitted with modern, state of the art equipment.

Details of the acquisition are as follows:

|                                                                    | Recognised on<br>acquisition<br>fair value<br>\$'000 |
|--------------------------------------------------------------------|------------------------------------------------------|
| Plant and equipment                                                | 6,769                                                |
| Brand Intellectual Property (brand names)                          | 9,817                                                |
| Customer contracts                                                 | 3,853                                                |
| Deferred tax                                                       | (3,467)                                              |
| Working capital assets                                             | 2,525                                                |
| Working capital liabilities                                        | (1,767)                                              |
| Net assets acquired                                                | 17,730                                               |
| Goodwill                                                           | 80,702                                               |
| Acquisition-date fair value of the total consideration transferred | 98,432                                               |
| Representing:                                                      |                                                      |
| Cash paid to vendor                                                | 74,699                                               |
| Integral Diagnostics Limited shares issued to vendor               | 23,733                                               |
|                                                                    | 98,432                                               |
| Net cash acquired with subsidiary                                  | 986                                                  |
| Cash paid                                                          | (74,699)                                             |
| Net cash flow on acquisition                                       | (73,713)                                             |



# Notes to the Consolidated Financial Statements continued

(b) On 2 July 2018, the Group acquired the assets and liabilities of Geelong Medical Imaging (GMI), which comprises two radiology clinics in Geelong, Victoria. These clinics comprise a number of modalities, including X-Ray, ultrasound, CT, MRI and nuclear medicine.

The key terms of the acquisition include:

- a purchase consideration of \$3.128m on a cash and debt free basis;
- \$1.05m in IDX equity (subject to voluntary escrow); and
- \$2.50m of deferred and contingent consideration.

The acquisition complements the Group's strengths and further strengthens the Group's position in south west Victoria and has been successfully integrated into the operations of Lake Imaging.

Details of the acquisition are as follows:

|                                                                    | Recognised on<br>acquisition<br>fair value<br>\$'000 |
|--------------------------------------------------------------------|------------------------------------------------------|
| Plant and equipment                                                | 416                                                  |
| Brand Intellectual Property (brand names)                          | 170                                                  |
| Working capital assets                                             | 53                                                   |
| Working capital liabilities                                        | (68)                                                 |
| Deferred tax asset                                                 | 20                                                   |
| Net assets acquired                                                | 591                                                  |
| Goodwill                                                           | 6,087                                                |
| Acquisition-date fair value of the total consideration transferred | 6,678                                                |
| Representing:                                                      |                                                      |
| Cash paid to the vendor                                            | 3,128                                                |
| Deferred consideration                                             | 500                                                  |
| Contingent consideration                                           | 2,000                                                |
| Integral Diagnostics Limited shares issued to vendor               | 1,050                                                |
|                                                                    | 6,678                                                |
| Net cash acquired with subsidiary                                  | -                                                    |
| Cash paid                                                          | (3,128)                                              |
| Net cash flow on acquisition                                       | 3,128                                                |

## Accounting policy for business combinations

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

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

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

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

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

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

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

Business combinations under common control use the principals of corporate reorganisation. The difference between the acquisition-date historical book value of assets acquired, liabilities assumed and any non-controlling interest in the acquired and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as a capital reorganisation in reserves, and not as goodwill.

### Note 35. 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 2:

| Name of entity                           | Principal place of business/<br>country of incorporation | Ownership interest |           |
|------------------------------------------|----------------------------------------------------------|--------------------|-----------|
|                                          |                                                          | 2019<br>%          | 2018<br>% |
| Lake Imaging Pty Ltd                     | Australia                                                | 100.00             | 100.00    |
| Radploy Pty Ltd                          | Australia                                                | 100.00             | 100.00    |
| Radploy 2 Pty Ltd                        | Australia                                                | 100.00             | 100.00    |
| Radploy 3 Pty Ltd                        | Australia                                                | 100.00             | 100.00    |
| Radploy 4 Pty Ltd                        | Australia                                                | 100.00             | 100.00    |
| Global Diagnostics (Australia) Pty Ltd   | Australia                                                | 100.00             | 100.00    |
| SCR Corporate Pty Ltd                    | Australia                                                | 100.00             | 100.00    |
| RAD Corporate Pty Ltd                    | Australia                                                | 100.00             | 100.00    |
| Specialist Radiology Group Limited       | New Zealand                                              | 100.00             | -         |
| Trinity MRI Limited                      | New Zealand                                              | 100.00             | -         |
| Cavendish Radiology Limited              | New Zealand                                              | 100.00             | -         |
| Integral Diagnostics New Zealand Limited | New Zealand                                              | 100.00             | -         |

# Notes to the Consolidated Financial Statements continued

## Note 36. 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:

- Integral Diagnostics Limited (formerly known as Lake Imaging Holdings Pty Ltd)
- Lake Imaging Pty Ltd
- Radploy Pty Ltd
- Radploy 2 Pty Ltd
- Radploy 3 Pty Ltd
- Radploy 4 Pty Ltd
- Global Diagnostics (Australia) Pty Ltd
- SCR Corporate Pty Ltd
- RAD Corporate Pty Ltd

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare financial statements and a Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission (ASIC).

The above companies represent a 'closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Integral Diagnostics Limited, they also represent the 'extended closed Group'.

The consolidated statement of profit or loss, consolidated statement of comprehensive income, summary of movements in consolidated retained earnings and consolidated statement of financial position of the entities that are members of the Closed Group are as follows:

### Consolidated statement of profit or loss and comprehensive income

|                                                                | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|----------------------------------------------------------------|------------------------|------------------------|
| <b>Revenue</b>                                                 |                        |                        |
| Revenue                                                        | 207,201                | 189,399                |
| Interest and management fees eliminated on consolidation       | 1,895                  | -                      |
| Interest and other income                                      | 258                    | 330                    |
| <b>Total revenue and other income</b>                          | <b>209,354</b>         | <b>189,729</b>         |
| <b>Expenses</b>                                                |                        |                        |
| Consumables                                                    | (9,679)                | (8,649)                |
| Employee benefits expense                                      | (121,989)              | (109,513)              |
| Depreciation and amortisation expense                          | (9,598)                | (9,610)                |
| Transaction, takeover response and share based payment expense | (3,021)                | (3,902)                |
| Equipment related expenses                                     | (7,682)                | (7,691)                |
| Occupancy expenses                                             | (13,524)               | (13,120)               |
| Other expenses                                                 | (14,468)               | (12,354)               |
| Finance costs                                                  | (3,780)                | (2,783)                |
| <b>Total expenses</b>                                          | <b>(183,741)</b>       | <b>(167,622)</b>       |
| Profit before income tax expense                               | 25,613                 | 22,107                 |
| Income tax expense                                             | (8,054)                | (7,028)                |
| <b>Profit for the year from continuing operations</b>          | <b>17,559</b>          | <b>15,079</b>          |
| Profit is attributable to:                                     |                        |                        |
| Owners of Integral Diagnostics Limited                         | 17,559                 | 15,079                 |
| <b>Comprehensive income</b>                                    |                        |                        |
| Items that may be reclassified to profit & loss:               |                        |                        |
| Net (loss)/gain on cash flow hedges                            | 102                    | (85)                   |
| <b>Total comprehensive income</b>                              | <b>17,661</b>          | <b>14,994</b>          |

## Consolidated statement of financial position

|                                      | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|--------------------------------------|------------------------|------------------------|
| <b>Assets</b>                        |                        |                        |
| Current assets                       |                        |                        |
| Cash and cash equivalents            | 16,878                 | 20,844                 |
| Trade and other receivables          | 7,901                  | 5,622                  |
| Other assets                         | 3,387                  | 3,516                  |
| Inventory                            | 390                    | 346                    |
| <b>Total current assets</b>          | <b>28,556</b>          | <b>30,328</b>          |
| <b>Non-current assets</b>            |                        |                        |
| Investment                           | 39,681                 | -                      |
| Property, plant and equipment        | 64,147                 | 54,084                 |
| Intangibles                          | 109,799                | 103,542                |
| Deferred tax asset                   | 7,342                  | 7,578                  |
| <b>Total non-current assets</b>      | <b>220,969</b>         | <b>165,204</b>         |
| <b>Total assets</b>                  | <b>249,525</b>         | <b>195,532</b>         |
| <b>Liabilities</b>                   |                        |                        |
| Current liabilities                  |                        |                        |
| Trade and other payables             | 13,688                 | 12,112                 |
| Borrowings                           | 8,929                  | 12,820                 |
| Income tax payable                   | 694                    | 318                    |
| Provisions                           | 11,971                 | 10,644                 |
| Derivative financial instruments     | 20                     | -                      |
| <b>Total current liabilities</b>     | <b>35,302</b>          | <b>35,894</b>          |
| <b>Non-current liabilities</b>       |                        |                        |
| Other payables                       | 1,519                  | -                      |
| Borrowings                           | 76,455                 | 52,503                 |
| Derivative financial instruments     | -                      | 122                    |
| Deferred tax liability               | 4,923                  | 4,740                  |
| Provisions                           | 8,600                  | 8,851                  |
| <b>Total non-current liabilities</b> | <b>91,497</b>          | <b>66,216</b>          |
| <b>Total liabilities</b>             | <b>126,799</b>         | <b>102,110</b>         |
| <b>Net assets</b>                    | <b>122,726</b>         | <b>93,422</b>          |
| <b>Equity</b>                        |                        |                        |
| Contributed capital                  | 109,507                | 83,425                 |
| Reserves                             | (11,289)               | (11,827)               |
| Retained profits                     | 24,508                 | 21,824                 |
| <b>Total equity</b>                  | <b>122,726</b>         | <b>93,422</b>          |

# Notes to the Consolidated Financial Statements continued

## Note 37. Reconciliation of profit after income tax to net cash from operating activities

|                                                                 | Consolidated           |                        |
|-----------------------------------------------------------------|------------------------|------------------------|
|                                                                 | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
| Profit after income tax expense for the year                    | 20,983                 | 15,079                 |
| Adjustments for:                                                |                        |                        |
| Depreciation and amortisation                                   | 13,509                 | 9,610                  |
| Loss on disposal of assets                                      | 475                    | -                      |
| Loan establishment costs amortisation/write-off                 | 326                    | 149                    |
| Share-based payments                                            | 558                    | 120                    |
| Tax included in equity                                          | (204)                  | (126)                  |
| Financial liability fair value movement through profit and loss | (102)                  | (59)                   |
| Bad debts                                                       | 36                     | 65                     |
| FX gain realisation                                             | (1,165)                | -                      |
| Property, plant, and equipment in payables                      | (1,847)                | (2,574)                |
| Change in operating assets and liabilities:                     |                        |                        |
| Increase in trade and other receivables                         | (1,990)                | (473)                  |
| Increase in deferred tax assets                                 | (456)                  | (163)                  |
| Increase in other operating assets and inventory                | 209                    | 47                     |
| Increase/(decrease) in trade and other payables                 | 1,625                  | 3,771                  |
| Increase/(decrease) in provision for income tax                 | 926                    | 352                    |
| Increase/(decrease) in other provisions                         | 1,040                  | 719                    |
| Net cash from operating activities                              | 33,923                 | 26,517                 |

## Reconciliation of liabilities arising from financing activities

|                            | Finance<br>leases due<br>within 1 year<br>\$'000 | Finance<br>leases due<br>after 1 year<br>\$'000 | Borrowings<br>due within<br>1 year<br>\$'000 | Borrowings<br>due after<br>1 year<br>\$'000 | Total<br>\$'000 |
|----------------------------|--------------------------------------------------|-------------------------------------------------|----------------------------------------------|---------------------------------------------|-----------------|
| <b>Consolidated – 2019</b> |                                                  |                                                 |                                              |                                             |                 |
| Balance as at 30/06/2018   | 12,820                                           | 8,753                                           | -                                            | 43,750                                      | 65,323          |
| Cash flows                 | (3,590)                                          | (1,514)                                         | -                                            | 79,131                                      | 73,027          |
| Foreign currency exchange  | (301)                                            | -                                               | -                                            | -                                           | (301)           |
| Balance as at 30/06/2019   | 8,929                                            | 7,239                                           | -                                            | 122,881                                     | 139,049         |

## Net debt reconciliation

|                                                    | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|----------------------------------------------------|------------------------|------------------------|
| Cash and cash equivalents                          | 20,967                 | 20,844                 |
| Borrowings – repayable within one year             | (8,929)                | (12,820)               |
| Borrowings – repayable after one year <sup>1</sup> | (131,079)              | (52,899)               |
| Net Debt                                           | (119,041)              | (44,875)               |
| Cash and liquid investments                        | 20,967                 | 20,844                 |
| Gross debt – variable interest rates               | (140,008)              | (65,719)               |
| Net Debt                                           | (119,041)              | (44,875)               |

1. Non-current borrowings per Note 20 includes \$959k of capitalized funding/establishment costs.

## Note 38. Earnings per share

|                                                                                           | 30 June 2019<br>\$'000 | 30 June 2018<br>\$'000 |
|-------------------------------------------------------------------------------------------|------------------------|------------------------|
| Profit after income tax                                                                   | 20,983                 | 15,079                 |
| Non-controlling interest                                                                  | -                      | -                      |
| Profit after income tax attributable to the owners of Integral Diagnostics Limited        | 20,983                 | 15,079                 |
|                                                                                           | Number                 | Number                 |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 157,065,810            | 145,044,157            |
| Adjustments for calculation of diluted earnings per share:                                |                        |                        |
| Weighted average number of Performance Rights over ordinary shares                        | 873,927                | 262,139                |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 157,939,737            | 145,306,296            |
|                                                                                           | Cents                  | Cents                  |
| Basic earnings per share                                                                  | 13.36                  | 10.40                  |
| Diluted earnings per share                                                                | 13.29                  | 10.38                  |

### Accounting policy for earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Integral Diagnostics Limited, excluding any costs of servicing equity other than ordinary shares, by 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 39. Events after the reporting period

Subsequent to year end a dividend of 5.0 cents per share was declared and will be paid on 2 October 2019.

On 21 August 2019 an issue of shares/options to the value of \$4,500,000 was approved. This issue was made up of:

- \$1,085,334 under the Radiologist Loan Funded Share Plan;
- \$914,666 options under the New Zealand Matching Options plan; and
- \$1,500,000 of self-funded shares contributed by the participating radiologists.

These shares/options will be issued on 2 September 2019 subject to the Radiologists contributing funds for their own shares into the scheme by 30 August 2019. The number of share/options to be issued will be determined by the 30-day VWAP prior to issue date or in the event of the proposed capital raise the price offered in the capital raise.

On 26 August 2019, the Group announced it entered into a binding agreement to acquire the Imaging Queensland Group (IQ). The transaction is expected to complete on 1 November 2019, subject to satisfaction of a number of conditions precedent. On 26 August 2019, the Group announced a fully underwritten pro-rata accelerated non-renounceable entitlement offer. The proceeds from the entitlement offer will be used to partially fund the acquisition of IQ. Further details of the acquisition and entitlement offer are included in the associated market announcement and investor presentation.

No other matter or circumstances has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs until future financial years.

# Directors' Declaration

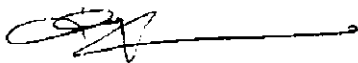
In the Directors' opinion:

- 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 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject to virtue of the deed of cross guarantee described in Note 34 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



**Helen Kurincic**  
Chairman



**Dr Ian Kadish**  
Managing Director and Chief Executive Officer

26 August 2019  
Melbourne

# Independent Audit Report



## *Independent auditor's report*

To the members of Integral Diagnostics Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

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

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

#### ***Independence***

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



# Independent Audit Report continued



## *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.



| <i>Materiality</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <i>Audit scope</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>For the purpose of our audit we used overall Group materiality of \$1.5 million, which represents approximately 5% of the Group's profit before tax.</li><li>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.</li><li>We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</li><li>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li></ul> | <ul style="list-style-type: none"><li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li><li>The Group operates in Australia and New Zealand. The locations in Australia include: Queensland, Victoria and Western Australia. Within New Zealand, the Group operates in Auckland.</li><li>We, as the Group engagement team, performed our audit procedures at the Group's shared service office in Geelong, Victoria.</li></ul> |

## *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 and Risk Committee.



#### Key audit matter

#### How our audit addressed the key audit matter

##### Valuation of Goodwill

Refer to note 13 \$184.1m

The Group's goodwill is recognised in two Cash Generating Units ("CGU's") – Australia and New Zealand. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The Group has a goodwill balance of \$184.1m at 30 June 2019 which represents approximately 59% of the total assets of the Group.

For the year ended 30 June 2019, the Group performed an impairment assessment over the Group's goodwill.

The impairment assessment relied on the calculation of the value-in-use for the Group. This calculation was based on estimated future cash flows discounted to net present value using the Company's weighted average cost of capital (WACC).

We considered the carrying value of goodwill to be a Key Audit Matter as the balance is significant to the consolidated statement of financial position and there is significant judgement involved in estimating future cash flows, particularly with respect to determining appropriate:

- Discount rate
- Five-year cash flow projections (Cash flow forecasts)
- Earnings growth rates applied beyond the initial five-year period (Terminal growth rates)

We assessed whether the division of the Group into CGU's was consistent with our knowledge of the Group's operations and internal Group reporting.

To evaluate the Group's cash flow forecasts and the process by which they were developed, we performed the following procedures, amongst others:

- Assessed the discount rate and terminal growth rates applied in the Group's value-in-use calculations by comparing these rates to historical results, market expectations of investment returns and projected economic growth, and interest rates.
- Considered the historical accuracy of the Group's cash flow forecasts by comparing the forecasts used in the prior year value-in-use calculations to the actual performance of the Group in the year to 30 June 2019.
- Compared the 12 month cash flow forecast used in the value-in-use calculations with the Board approved budget.
- Considered whether the weighted average cost of capital and terminal growth rates used in the value-in-use calculations were subject to oversight from the directors.
- Re-performed selected calculations in the value-in-use calculations.
- Performed a sensitivity analysis by varying the discount rate, cash flow forecasts and terminal growth rates within a reasonably possible range.



| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Borrowings</b><br/><i>Refer to note 16 &amp; 20 \$139m</i></p> <p>At 30 June 2019, the Group had a borrowing liability (current and non-current) of \$139m representing 74% of total liabilities.</p> <p>The Group refinanced the banking facilities during the year. The terms and conditions of the borrowings are detailed in note 20 of the financial report. The borrowing agreements contain financial covenants that the Group must comply with.</p> <p>We considered this a Key Audit Matter given the significant refinancing of the borrowings to fund the current year acquisitions, the amount of borrowings and the importance of the borrowings to the capital structure of the Group.</p>                                                                                                                                               | <ul style="list-style-type: none"> <li>• We obtained confirmations directly from the Group's Financiers for material borrowings to test the amounts recorded in the consolidated statement of financial position.</li> <li>• We read the most up-to-date agreements between the Group and its Financiers to develop an understanding of the terms associated with the facilities and the amount of facilities available for drawdown.</li> <li>• Where borrowings are classified as non-current, we tested the Group's assessment that they had the unconditional right to defer payment at balance date for a period of more than 1 year from balance date.</li> <li>• We assessed the accounting treatment of the capitalised borrowing costs arising from new arrangements and borrowing costs relating to terminated facilities.</li> <li>• We evaluated the disclosures in light of the requirements of Australian Accounting Standards.</li> </ul> |
| <p><b>Accounting for business combinations</b><br/><i>Refer to note 34</i></p> <p>During the year, the Group finalised its acquisition of three New Zealand based entities and one Australian based entity. The details of the acquisitions are disclosed in Note 34 of the financial report.</p> <p>We considered this a Key Audit Matter given the financial significance of the acquisitions and the complex judgements required by the Group in accounting for the acquisitions, including:</p> <ul style="list-style-type: none"> <li>• Identifying all assets and liabilities of the newly acquired business and estimating the fair value of the assets and liabilities for initial recognition by the Group, particularly the brand names and customer contracts. The Group was assisted by an external valuation expert in this process.</li> </ul> | <p>Together with PwC valuation experts we performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluated the Group's accounting against the requirements of Australian Accounting Standards, key transaction agreements, our understanding of the business acquired and its industry and selected minutes of the board directors meetings.</li> <li>• Assessed the fair values of the acquired assets and liabilities recognised, including: <ul style="list-style-type: none"> <li>◦ Considering key aspects used in the valuations of brand names and customer contracts, including the discount rate, royalty rate range, useful life and forecasted results.</li> <li>◦ Considering the valuation methodology used in light of the</li> </ul> </li> </ul>                                                                                                                                                |



| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                         | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Estimating the purchase price consideration, particularly in respect of contingent consideration payable on the achievement of certain operational performance targets.</li> <li>• Identifying whether consideration paid relates to the recipients' role as a shareholder or employee and the associated accounting treatment of the consideration.</li> </ul> | <ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>◦ requirements of Australian Accounting Standards.</li> <li>◦ Assessing the competence and capability of the Group's external expert.</li> </ul> </li> <li>• Assessed if transaction costs were recognised as an expense in the period they were incurred.</li> </ul> <p>In relation to the valuation of the contingent consideration, our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessing if the calculation of the contingent consideration was in accordance with the contractual arrangements and the requirements of Australian Accounting Standards.</li> <li>• Assessing the Group's evaluation of whether the conditions required for the contingent consideration to be paid were likely to be met in the future based upon actual performance since acquisition, current Group forecasts and market forecasts.</li> <li>• Assessing the Group's forecasting accuracy by comparing past forecasts with actual performance and developing an understanding of the causes of differences.</li> </ul> |

### 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 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express 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.

---

### *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: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 19 to 28 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Integral Diagnostics Limited for the year ended 30 June 2019 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 stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A stylized, handwritten signature of 'JP' in a cursive script.

Jason Perry  
Partner

Melbourne  
26 August 2019

# Shareholder Information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report follows.  
This information is current as at 5 August 2019.

## (a) Top 20 shareholders – ordinary shares

| Rank                                                         | Name                                                                               | Number of fully paid ordinary shares | % of issued capital |
|--------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------|---------------------|
| 1                                                            | J P Morgan Nominees Australia Limited                                              | 29,220,781                           | 18.60               |
| 2                                                            | HSBC Custody Nominees (Australia) Limited                                          | 19,009,604                           | 12.10               |
| 3                                                            | National Nominees Limited                                                          | 12,694,807                           | 8.08                |
| 4                                                            | Citicorp Nominees Pty Limited                                                      | 9,606,302                            | 6.12                |
| 5                                                            | BNP Paribas Noms Pty Ltd                                                           | 8,537,590                            | 5.44                |
| 6                                                            | Peter J Ansley + St Leger M Reeves + Stephen Eichsteadt + Thomas Q St Leger Reeves | 4,638,357                            | 2.95                |
| 7                                                            | BNP Paribas Nominees Pty Ltd                                                       | 4,402,891                            | 2.80                |
| 8                                                            | Anacacia Pty Ltd + Wattle Fund A/C                                                 | 3,053,197                            | 1.94                |
| 9                                                            | Visionary Imaging Pty Ltd                                                          | 2,889,180                            | 1.84                |
| 10                                                           | Mittal Holdings Pty Ltd                                                            | 2,778,410                            | 1.77                |
| 11                                                           | UBS Nominees Pty Ltd                                                               | 2,635,258                            | 1.68                |
| 12                                                           | Mr Vincent Michael O'Sullivan                                                      | 2,583,000                            | 1.64                |
| 13                                                           | Lethean Holdings Pty Ltd                                                           | 2,467,230                            | 1.57                |
| 14                                                           | Wyndham Salter Pty Ltd                                                             | 2,467,230                            | 1.57                |
| 15                                                           | Firbar Pty Ltd                                                                     | 2,357,230                            | 1.50                |
| 16                                                           | NW3 Pty Ltd                                                                        | 2,281,866                            | 1.45                |
| 17                                                           | Lockwood Ridge Pty Ltd                                                             | 2,000,000                            | 1.27                |
| 18                                                           | Willowbay Rise Pty Ltd                                                             | 1,617,402                            | 1.03                |
| 19                                                           | John Livingston Pty Ltd                                                            | 1,553,440                            | 0.99                |
| 20                                                           | Adelphi 7 Pty Ltd                                                                  | 1,462,709                            | 0.93                |
| Totals: Top 20 holders of ordinary fully paid shares (total) |                                                                                    | 118,256,484                          | 75.29               |

## (b) Register of substantial shareholdings

| Shareholder                               | Number of fully paid ordinary shares | % of issued capital |
|-------------------------------------------|--------------------------------------|---------------------|
| Integral Diagnostics Limited <sup>1</sup> | 29,510,585                           | 18.79%              |
| IOOF Holdings Limited                     | 16,556,520                           | 10.541%             |
| Investors Mutual Limited                  | 12,971,501                           | 8.26%               |
| Viburnum Funds Pty Ltd                    | 11,666,348                           | 7.34%               |

1. Restriction on disposal of shares under voluntary escrow arrangements disclosed in Integral Diagnostics Limited's Prospectus dated 9 October 2015 and announcements to ASX on 27 October 2015, 1 July 2016, 16 February 2018, 2 July 2018, 21 December 2018 and 1 March 2019 (and as set out in the IPO Restriction Deed, WDR Restriction Deed, NZ1 Restriction Deed, NZ Boyer Restriction Deed, NZ Gee Restriction Deed, GMI Restriction Deed, Regional Incentive Plan and the Radiologist Loan Share Scheme) gives Integral Diagnostics a relevant interest in its own shares under section 608(1)(c) of the Corporations Act. Integral Diagnostics has no right to acquire these shares or to control the voting rights attached to these shares.

## (c) Distribution of shareholders – ordinary shares

| Range              | Total holders | Shares      | % Issued capital |
|--------------------|---------------|-------------|------------------|
| 1 to 1,000         | 253           | 100,929     | 0.06             |
| 1,001 to 5,000     | 421           | 1,186,444   | 0.76             |
| 5,001 to 10,000    | 165           | 1,237,468   | 0.79             |
| 10,001 to 100,000  | 189           | 5,330,766   | 3.39             |
| 100,001 to 500,000 | 95            | 149,210,203 | 95.00            |
| Rounding           |               |             | 0.00             |
| Total              | 1,123         | 157,065,810 | 100.00           |

## (d) Less than marketable parcels of ordinary shares

There are 84 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than \$500 per parcel of shares).



## Shareholder Information continued

### (e) Distribution of unquoted securities – performance rights

| Range                         | Performance rights of ordinary shares | %      | Number of holders of performance rights | %      |
|-------------------------------|---------------------------------------|--------|-----------------------------------------|--------|
| 1 to 1,000                    | -                                     | -      | -                                       | -      |
| 1,001 to 5,000                | -                                     | -      | -                                       | -      |
| 5,001 to 10,000               | -                                     | -      | -                                       | -      |
| 10,001 to 100,000             | 226,963                               | 23.30  | 3                                       | 60.00  |
| 100,001 and over <sup>1</sup> | 747,125                               | 76.70  | 2                                       | 40.00  |
| Total                         | 974,088                               | 100.00 | 5                                       | 100.00 |

1. Dr Ian Kadish holds greater than 20% of the performance rights; 562,585.

### (f) Voting rights

In accordance with the Company's Constitution, each member present at a meeting, whether in person, by proxy, by power of attorney or by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands and one vote for each fully paid ordinary share on a poll.

Holders of performance rights do not have voting rights.

### (g) On-market buy-backs

On the 21 February 2019 the Company announced an on-market buy-back in relation to the Company's ordinary securities for capital management purposes. The Buy-back commenced on 8 March 2019 and will end on 7 March 2020. The buy-back will be conducted within 10/12 limit as defined in the Corporations Act 2001. No shares have been bought back under this buy back to date.

## (h) Securities subject to voluntary escrow

| Date of expected release from escrow <sup>1</sup>        | Subject to service conditions being met <sup>2</sup> | Number of securities   |               |                                       |                                                          |                                                                    |
|----------------------------------------------------------|------------------------------------------------------|------------------------|---------------|---------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------|
|                                                          |                                                      | Subject to non-compete | Unconditional | Conditional upon continued employment | Conditional upon continued employment and loan repayment | Subject to long term non-compete permanent retirement <sup>3</sup> |
| 21-Aug-19                                                | -                                                    | -                      | 889,057       | -                                     | -                                                        | -                                                                  |
| 27-Aug-19                                                | -                                                    | -                      | 50,448        | -                                     | -                                                        | -                                                                  |
| 31-Aug-19                                                | -                                                    | 731,030                | -             | -                                     | -                                                        | -                                                                  |
| 01-Nov-19                                                | 124,272                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 23-Dec-19                                                | -                                                    | 776,720                | -             | -                                     | -                                                        | -                                                                  |
| 31-Dec-19                                                | -                                                    | 685,340                | -             | -                                     | -                                                        | -                                                                  |
| 06-Jan-20                                                | 889,057                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 24-Feb-20                                                | -                                                    | 776,720                | -             | -                                     | -                                                        | -                                                                  |
| 01-Mar-20                                                | -                                                    | -                      | -             | 138,861                               | -                                                        | -                                                                  |
| 28-Mar-20                                                | -                                                    | 106,830                | -             | -                                     | -                                                        | -                                                                  |
| 02-Jul-20                                                | -                                                    | -                      | 18,834        | -                                     | -                                                        | -                                                                  |
| 31-Jul-20                                                | -                                                    | 776,720                | -             | -                                     | -                                                        | -                                                                  |
| 30-Aug-20                                                | -                                                    | 731,030                | -             | -                                     | -                                                        | -                                                                  |
| 31-Dec-20                                                | -                                                    | 685,340                | -             | -                                     | -                                                        | -                                                                  |
| 01-Mar-21                                                | -                                                    | -                      | -             | 138,856                               | -                                                        | -                                                                  |
| 30-Jun-21                                                | 6,758 <sup>4</sup>                                   | -                      | -             | -                                     | -                                                        | -                                                                  |
| 02-Jul-21                                                | -                                                    | -                      | 207,176       | -                                     | -                                                        | -                                                                  |
| 03-Jul-21                                                | -                                                    | -                      | 2,659,182     | -                                     | -                                                        | -                                                                  |
| 08-Jul-21                                                | 124,272                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 10-Sep-21                                                | 146,864                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 01-Mar-22                                                | -                                                    | -                      | -             | 138,855                               | -                                                        | -                                                                  |
| 02-Mar-22                                                | 149,274                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 12-Mar-22                                                | 73,432                                               | -                      | -             | -                                     | -                                                        | -                                                                  |
| 02-Jul-22                                                | -                                                    | -                      | 43,946        | -                                     | -                                                        | -                                                                  |
| 03-Jul-22                                                | -                                                    | -                      | 2,659,178     | -                                     | -                                                        | -                                                                  |
| 28-Feb-23                                                | -                                                    | -                      | -             | -                                     | 1,110,858                                                | -                                                                  |
| 01-Mar-23                                                | -                                                    | -                      | -             | 138,855                               | -                                                        | -                                                                  |
| 30-Mar-23                                                | 889,057                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 02-Jul-23                                                | -                                                    | -                      | 43,946        | -                                     | -                                                        | -                                                                  |
| 03-Jul-23                                                | -                                                    | -                      | 2,659,183     | -                                     | -                                                        | -                                                                  |
| 18-Nov-23                                                | 146,867                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 05-Feb-24                                                | 108,574                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 02-Jul-24                                                | -                                                    | -                      | 43,946        | -                                     | -                                                        | -                                                                  |
| Aug-25 <sup>5</sup>                                      | -                                                    | -                      | 2,039,056     | -                                     | -                                                        | -                                                                  |
| 07-Apr-31                                                | 470,999                                              | -                      | -             | -                                     | -                                                        | -                                                                  |
| 2034                                                     | 1,072,121                                            | -                      | -             | -                                     | -                                                        | -                                                                  |
| Undated                                                  | -                                                    | -                      | -             | -                                     | -                                                        | 5,956,781                                                          |
|                                                          | 4,201,547                                            | 5,269,730              | 11,313,952    | 555,427                               | 1,110,858                                                | 5,956,781                                                          |
| <b>Total shares on issue subject to voluntary escrow</b> |                                                      |                        |               |                                       |                                                          | <b>28,408,295</b>                                                  |

1. Shares are released from escrow on or around this date.

2. Conditions include a minimum of years service.

3. Minimum values are \$1,000,000 or \$500,000 and are calculated in accordance with the relevant Restriction Deed.

4. This service condition also includes an EBIT hurdle.

5. Actual date dependent on ASX annual results release.

On 2 May 2019 a Deed Poll was executed undertaking to release all escrow shares by September 2020 for radiologists who are currently employed by the Company and who are party to the October 2015 IPO Restriction Deed. As at 5 August 2019, 13,347,646 escrow shares remain subject to this Deed Poll. The timing of future releases through to September 2020, under this Deed Poll, are not reflected in the above table.

On the 26 August 2019 the Board approved a release under the Deed Poll of 4,387,412 shares to be released from escrow on 20 November 2019.

# Corporate Directory

## Directors

Helen Kurincic – Independent Non-Executive Chairman  
Ian Kadish – Managing Director and Chief Executive Officer  
John Atkin – Independent Non-Executive Director  
Rupert Harrington – Independent Non-Executive Director  
Raelene Murphy – Independent Non-Executive Director  
Dr Chien Ping Ho – Executive Director  
Dr Sally Sojan – Executive Director

## Company Secretary

Mrs Kirsty Lally

## Notice of Annual General Meeting

Level 19, 2 Riverside Quay  
Melbourne, Victoria 3006  
Time 9:00am  
Date 19 November 2019

## Registered office

Level 8, 14-20 Blackwood Street  
North Melbourne, Victoria 3051  
T + 61 3 5339 0704

## Share register

Computershare Investor Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford, Victoria 3067  
T 1300 787 272

## Auditor

PricewaterhouseCoopers  
Level 19, 2 Riverside Quay  
Melbourne, Victoria 3006

## Solicitors

Herbert Smith Freehills  
Level 42, 101 Collins Street  
Melbourne, Victoria 3000

## Bankers

Westpac Banking Group  
Commonwealth Bank of Australia

## Stock exchange listing

Integral Diagnostics Limited shares are listed on the  
Australian Securities Exchange (ASX code: IDX)

## Website

[integraldiagnostics.com.au](http://integraldiagnostics.com.au)

## Corporate Governance Statement

The Corporate Governance Statement was approved by the  
Board of Directors on 26 August 2019 and can be found at:

[www.integraldiagnostics.com.au/page/for-investors/corporate-governance](http://www.integraldiagnostics.com.au/page/for-investors/corporate-governance)



