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# Directors' Report

Your Directors submit their report for the year ended 30 June 2014.

## DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows:

Peter Terence Kempen  
F.C.A, F.A.I.C.D  
(Chairman)

Peter Kempen joined Pro Medicus as a Director on 12 March 2008. He is Chairman of Ivanhoe Grammar School and Chairman of Australasian Leukaemia and Lymphoma Group. He is also a Director of the Yara Pilbara group of companies.

Peter has previously been Chairman of Patties Food Limited, Chairman of Danks Holdings Limited and Managing Partner of Ernst & Young Corporate Finance Australia.

Peter is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors.

Peter became Chairman in August 2010 before which he served as a Non-Executive Director of the company.

Peter is also Chairman of the audit committee.

Dr Sam Aaron Hupert  
M.B.B.S. (Managing  
Director and Chief  
Executive Officer)

Co-founder of Pro Medicus Limited in 1983, Sam Hupert is a Monash University Medical School graduate who commenced General Practice in 1980. Realising the significant potential for computers in medicine he left general practice in late 1984 to devote himself full time to managing the Group.

Sam served as CEO from the time he co-founded the company until October 2007 at which time he stepped down to become an executive director. Sam resumed full time CEO activities in October of 2010.

Anthony Barry Hall  
B.Sc. (Hons), M.Sc.  
(Executive Director and  
Technology Director)

Co-founder of Pro Medicus Limited in 1983, Anthony Hall has been principal architect and developer of the core software systems. His current focus is the transition to and development of the company's next generation RIS systems.

Roderick Lyle  
LL.B., B.Com, LL.M (Lond),  
MBA (Melb) (Non-Executive  
Director)

Roderick joined Pro Medicus Limited as a Director on 23 November 2010. He is a Senior Partner of Clayton Utz and is former Managing Partner of the Melbourne office.

Roderick is a member of the Law Institute of Victoria, a member of the Law Society of New South Wales and a member of the Law Society London.

Roderick is recognised as one of Australia's leading commercial lawyers. He has been a key advisor in a large number of significant mergers and acquisitions and equity capital markets transactions.

Roderick also serves on the audit committee.

## Company Secretary

Clayton James Hatch  
CPA

Clayton was appointed Company Secretary on 1 July 2009.

Clayton has strong experience in financial and management accounting having worked in a Finance role for several years. Clayton joined Pro Medicus in June 2008 and has progressed through the company to his current position of Chief Financial Officer which he assumed on the 1<sup>st</sup> July 2012.

# Directors' Report continued

## Interests in the shares and options of the company

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

	Ordinary Shares	Options over Ordinary Shares
A. B. Hall	30,068,500	NIL
S. A. Hupert	30,107,660	NIL
P. T. Kempen	458,082	200,000
R. Lyle	140,000	200,000

## Earnings per share

	Cents
Basic earnings per share	1.51
Diluted earnings per share	1.51

## Dividends

Ordinary Shares	Cents	\$'000
Final dividends recommended:		
Normal dividend plan	1.0	1,002
Dividends paid in the year:		
Interim for the year	1.0	1,002
Final dividend for 2013 shown as recommended in the 2013 report:		
Normal dividend plan	1.0	1,002

# Directors' Report continued

## OPERATING AND FINANCIAL REVIEW

### Corporate Structure

Pro Medicus Limited is a company limited by shares that is incorporated and domiciled in Australia.

### Nature of operations and principal activities

The principal activities of the Group during the year were the supply of product and services to diagnostic imaging groups and a range of other entities predominately within the private medical market. These products and services include:

### **Radiology Information Systems (RIS)**

- Innovative proprietary medical software for practice management (RIS);
- Training, installation and professional services;
- After sale support and service products;
- Promedius.net secure email; and
- Digital radiology integration products

### **Visage PACS**

- Innovative clinical software that provides radiologist with advanced visualisation capability for viewing 3-D and 4-D images;
- PACS/Digital imaging software that is sold directly and to original equipment manufacturers (OEM).
- Training, installation and professional services;
- Support and service products;

The Company undertakes R&D in Australia for its Practice Management (RIS) and promedius.net products including R&D for Visage RIS, its new technology platform.

The R&D for the Visage Imaging product set is carried out in Europe. The Company has continued development of the Visage 7 product line throughout the period.

## REVIEW AND RESULTS OF OPERATIONS

### Investment Activities

Surplus funds which are held in several currencies are invested by the Group in a cash management account and terms deposits to maximise the interest return.

### Performance Indicators

Management and the Board monitor overall performance, from the strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor these KPIs on a regular basis and Directors receive appropriately structured board reports for review prior to each monthly Board meeting allowing them to actively monitor the Group's performance.

### Dynamics of the Business

#### Australia

The Group employs 26 people in Australia who undertake research and development of Pro Medicus products (RIS) as well as sales and service/support functions.

The Group's Australian revenue was 12.2% above last year' as a result of new sales of both the Visage PACS and Visage RIS products with many sales being for the combined product offering. A growing percentage of these sales are being based on the company's transaction revenue model.

Promedius.net, the company's e-health offering, continued to hold its strong market position despite increasing competition.

#### North America

The Group employs 11 people in North America to fulfil the sales marketing and professional services roles. Revenue from North America increased by 85.1% compared to the previous year. This was largely attributable to new sales and an increase in transaction based revenue from sales of Visage technology as more contracts came on stream.

# Directors' Report continued

## Europe

The Group employs 32 employees in its Berlin office who undertake research and development of Visage Imaging products worldwide as well as sales, marketing and service/support functions for the Group's European operations. Revenue from our European operations was in line with the previous year increasing by 0.14%.

## Financials

Reported profit after tax for the period was \$1.51m a decrease of \$3.62m (70.6%) from the previous year.

Full year revenue of the Group from continuing operations, increased from \$11.37m to \$14.45m, an increase of 27.1%.

The result from the underlying operations for the year was a profit of \$1.58m compared to an underlying loss of \$0.65m from the previous year. The underlying profit is made up of reported profit after-tax of \$1.51m and adding back the after-tax net currency loss of \$0.07m.

Last year's underlying loss was made up of reported profit after-tax of \$5.13m, less the after-tax profit of \$8.61m from the sale of the Amira business and after-tax net currency gain of \$0.39m, and adding back the after-tax impairment expense of \$3.22m.

The key driver of the underlying profit increase was the significant improvement in the performance of the North American operations supplemented by the increase in Australian sales.

## Investments for Future Performance

The Company will continue to direct resources into the development of new products and is committed to the continued development of Visage RIS, its new RIS technology platform as well as the ongoing development of the Visage Imaging PACS product.

It is anticipated that this strategy of ongoing development will continue to position Pro Medicus as a market leader and enable the Group to further leverage its expanded product portfolio and geographical spread.

The Group remains committed to providing staff with access to appropriate training and development programs, together with the resources to complete their duties.

The Directors express their gratitude for the efforts of the management team and all employees in achieving this year's result.

## REVIEW OF FINANCIAL CONDITION

### Capital Structure

The Company has a sound capital structure with a strong financial position, with no debt.

### Treasury Policy

With the increase in overseas operations there is an increased currency risk as a consequence of contracts written in and cash being held in foreign currencies. Whilst this is offset to a degree by having operations in North America and Europe, this change in risk profile has been noted by the Board and action is being taken to manage this risk.

The treasury function, co-ordinated within Pro Medicus Limited, is limited to maximising interest return on surplus funds and managing currency risk. The treasury operates within policies set by the Board, which is responsible for ensuring that management's actions are in line with Board policy.

### Cash from Operations

Net cash flows from operating activities for the current period was a positive \$4.23m, with receipts from customers totalling \$13.50m compared with payments of \$8.56m to suppliers and employees. During the year the Company paid out a total of \$2.01m in dividends, the net result being total cash assets of \$15.26m; a decrease of 15.3% from last year.

### Liquidity and Funding

The Group is cash flow positive, has adequate cash reserves and has no overdraft facility. Sufficient funds are held to finance operations.

### Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

# Directors' Report continued

The Company believes that it is crucial for all Board members to participate in this process, as such the Board has not established separate committees for areas such as risk management, environmental issues, occupational health and safety or treasury.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of strategic plans, which encompass the Company's vision, mission and strategy statements, designed to meet stakeholder needs and manage business risk;
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs;
- Overseeing of appropriate backup procedures for important company data; and
- Routine review by key executives of its established Quality Assurance program and corrective action recommendations stemming from it.

## Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Pro Medicus Limited support and have adhered to the principles of good corporate governance. Please refer to the separate "Corporate Governance" section for more details of specific policies.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Shareholders' equity decreased by 1.2% from \$20.96m to \$20.71m. This movement was largely the result of profit during the year, offset by dividends paid out during the year.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 1.0 cents per share has been declared post 1 July. Please refer Note 10.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors anticipate that the 2015 financial year will see more opportunity crystallise for the company due to improved prospects in North America and the continued commercialisation and roll out of Visage RIS, the company's new technology RIS platform.

Key components that are likely to affect the performance of the company are:

- Increased revenue being generated from recently won transaction based contracts which are scheduled to come on stream in the first half of the 2015 financial year.
- Strong interest in the Visage suite of products in the North American market has resulted in a number of sales opportunities that the Company is actively pursuing.
- The ability of the expanded Visage product set to address key market segments such as large Health Systems and Hospitals in addition to the private radiology and teleradiology markets.
- The continued adoption of advanced visualisation and 3-D capability throughout the radiology profession.
- Improved sales prospects for Visage RIS, the company's New Technology RIS platform as the rollout of this new platform continues.

As a result, it is anticipated that the 2015 financial year will show a continuing improvement in operational results, however this is dependent upon many market factors over which the Directors have limited or no control.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has no identified risk with regard to environmental regulations currently in force. There have been no known breaches by the Group of any regulations.

## SHARE OPTIONS

### Un-issued Shares

As at the date of this report, there were 1,675,000 un-issued ordinary shares under options refer to Note 19 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

### Shares Issued as a Result of the Exercise of Options

During the financial year, no share options were exercised by current employees. During the financial year no share options expired. No directors or key management personnel in the current year have exercised any option to acquire fully paid ordinary shares in Pro Medicus Limited.

# Directors' Report continued

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, Pro Medicus Limited indemnified Clayton Utz and each one or more of the past, present or future partners of Clayton Utz (other than Mr. Lyle) against any liability (including a liability incurred by Clayton Utz to pay legal costs) arising out of Mr. Lyle's activities as a Director of Pro Medicus Limited.

During or since the financial year, the Company has paid premiums in respect of a contract for Directors' & Officers'/Company Re-Imbursement Liability insurance for directors, officers and Pro Medicus Limited for costs incurred in defending proceedings against them.

Disclosure of the amount of insurance and the terms of this cover is prohibited by the insurance policy.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## REMUNERATION REPORT (audited)

This remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

For the purposes of this report, the term 'executive' includes the Chief Executive Officer (CEO), executive directors and other senior executives of the Group.

### (i) Non –executive directors

Peter Terence Kempen	Chairman
Roderick Lyle	Director (non-executive)

### (ii) Executive directors

Dr Sam Aaron Hupert	Managing Director and CEO
Anthony Barry Hall	Technology Director

### (iii) Other Executives

Danny Tauber	General Manager – Pro Medicus Limited
Malte Westerhoff	Managing Director – Visage Imaging GmbH
Brad Levin	General Manager – Visage Imaging Inc

### Remuneration committee

Remuneration and nomination issues are handled at the full Board level. Due to the small number of Directors no Committee has been established for this purpose.

Board members, as per groupings detailed below, are responsible for determining and reviewing compensation arrangements.

In order to maintain good corporate governance the Non-Executive Directors assume responsibility for determining and reviewing compensation arrangements for the Executive Directors of the Group. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non-Executive Directors. The CEO, in conjunction with the full Board reviews the terms of employment for all executives.

The assessment considers the appropriateness of the nature and amount of remuneration of such executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

### Remuneration philosophy

The performance of the group depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the Company provides competitive rewards to attract high calibre Executives.

# Directors' Report continued

## REMUNERATION REPORT (audited) (continued)

### Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive's remuneration is separate and distinct.

### Non-Executive Director remuneration

#### Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

#### Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 4 November 2005 when shareholders approved an aggregate remuneration of \$500,000 per year.

The amount of the aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee for being a Director of the Company. No additional fee is paid for time spent on Audit Committee business.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the Director on market). It is considered good governance for the Directors to have a stake in the Company on whose board they sit. The Non-Executive Directors of the Company participate in the Employee Share Incentive Scheme [Option based] which was established in 2000 to provide incentive for participants.

The remuneration of Non-Executive Directors for the period ended 30 June 2014 is detailed in Table 1 of this report.

### Executives (including Executive Directors remuneration)

#### Objective

The Group aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- align the interests of Executives with those of shareholders;
- ensure total remuneration is competitive by market standards.

#### Structure

Employment Contracts have been entered into with all Executives of the Group. Details of these contracts are provided on page 9.

Remuneration consists predominately of fixed remuneration. Variable remuneration is provided occasionally at the Board's discretion including both short term incentives (STI) and long term incentives (LTI).

The Company does not have a policy regarding Executives entering into contracts to hedge their exposure to share options granted as part of their remuneration package.

The Board has not used any external consultants to undertake a review of the remuneration of Executives.

### Fixed Remuneration

#### Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually and the process consists of a review of Group wide, business and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the company conducting the review has access to external advice independent of management.

Executives, including Executive Directors are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the group.

The fixed remuneration is detailed in Table 1 of this report.



# Directors' Report continued

## REMUNERATION REPORT (audited) (continued)

### Variable Remuneration – Long Term Incentive (LTI)

Roderick Lyle was granted options in 2011-12 under the Employee Share Option Scheme with a 5 year vesting period.

A long term incentive plan was established during 2011-12 whereby Senior Executives of Group were offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, are offered over a 5 year period and vest 3 years after granting date on completion of service. This long term incentive plan includes performance hurdles related to profitability (EBIT – 75%) which is set on an annualised basis by the Board and individual performance (25%). These measures have been selected and set to align to Company performance and to reflect individual contribution to the Company.

The table below outlines the proportion of LTI that were granted since the plan was established.

	2014	2013	2012
75% EBIT targets met	90%*	0%	60%
25% Individual targets met	75-100%*	96%	60%

\* subject to Board approval

### Variable Pay – Short Term Incentive (STI)

Short term incentives in the form of cash bonuses were paid to key staff based on a mix of Company based and personal performance targets.

#### STI bonus for 2014

For the 2014 financial year, the total amount of STI cash bonus either paid or accrued at year end was \$276,225. The maximum amount payable under STI was \$276,225.

#### Key Performance Indicators

Actual STI payments granted to key staff depended on the extent to which specific targets set at the time of employment were met. The targets consist of a number of Key Performance Indicators (KPIs) covering both financial (Sales Targets) and non-financial measures of performance.

### Shareholder Returns

The Directors are confident that the holdings of reserve cash is sufficient to underpin the development and expansion needs of the Company as the business looks to increase its penetration of existing markets.

The return on net assets and equity are shown in the table below.

	2014	2013	2012	2011	2010
Basic earnings per share – reported (cents)	1.5	5.1	1.8	0.5	3.9
Return on assets (%)	8.4	25.6	11.3	3.0	23.8
Return on equity (%)	7.3	24.2	11.2	3.3	23.5
Dividend payout ratio (%) – normal dividend plan	132.8	39.7	84.0	0.0	51.2
Dividend payout ratio (%) – total dividend	132.8	39.7	84.0	0.0	51.2
Available franking credits (\$'000)	782	1,641	2,638	2,921	4,821

### Employment Contracts

#### Executive Directors

Executive Service Contracts, on similar terms and conditions, have been prepared for all Executive Directors of the Company.

These agreements provide the following major terms:

- Each Executive will receive a remuneration package per annum which is to be reviewed annually;
- The agreements protect the Company and Group's confidential information and provide that any inventions or discoveries of an Executive become the property of the Group;
- Non-competition during employment and for a period of 12 months thereafter; and
- Termination by the Company on six months notice or payment of six months remuneration in lieu of notice or a combination of both (or without notice or payment in lieu in the event of misconduct or other specified circumstances). The agreements may be terminated by the Executives on the giving of six months notice.

# Directors' Report continued

## REMUNERATION REPORT (audited) (continued)

### Executives (excluding Executive Directors)

All Executives have rolling contracts. The Group may terminate the Executive's employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

### Remuneration of key management personnel of the Company and the Group

Table 1: Remuneration of key management personnel for the year ended 30 June 2014

	Short-Term			Post Employment	Long Term	Share-Based Payment		Total	Total Performance Related %
30 June 2014	Salary & Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Long Service Leave	Performance Rights	Options		
<b>Directors</b>									
P T Kempen	41,716	-	8,284	30,000	-	-	-	80,000	-
S A Hupert	255,000	-	-	25,000	4,897	-	-	284,897	-
A B Hall	255,000	-	-	25,000	4,897	-	-	284,897	-
R. Lyle	45,767	-	-	4,233	-	-	6,040	56,040	-
<b>Executives</b>									
D Tauber	301,871	-	-	13,129	5,240	12,229	2,374	334,843	4.4%
M Westerhoff	423,196	221,745	13,355	2,590	-	15,021	510	676,417	35.1%
B Levin	207,024	54,480	-	-	-	833	-	262,337	21.1%
	1,529,574	276,225	21,639	99,952	15,034	28,083	8,924	1,979,431	

### Compensation options granted, vested and exercised during the year as part of remuneration

54,250 shares with a fair value of \$13,563 (\$0.25 per performance right) were granted as performance rights to Malte Westerhoff with a grant date of 15 September 2013. The performance rights have a 3 year vesting period and are automatically exercised upon completion of the vesting period.

38,750 shares with a fair value of \$9,688 (\$0.25 per performance right) were granted as performance rights to Danny Tauber with a grant date of 15 September 2013. The performance rights have a 3 year vesting period and are automatically exercised upon completion of the vesting period.

Table 2: Remuneration of key management personnel for the year ended 30 June 2013

	Short-Term			Post Employment	Long Term	Share-Based Payment		Total	Total Performance Related %
30 June 2013	Salary & Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Long Service Leave	Performance Rights	Options		
<b>Directors</b>									
P T Kempen	47,720	-	8,280	24,000	-	-	-	80,000	-
S A Hupert	255,000	-	-	25,000	4,897	-	-	284,897	-
A B Hall	255,000	-	-	25,000	4,897	-	-	284,897	-
R. Lyle	45,872	-	-	4,128	-	-	11,270	61,270	-
<b>Executives</b>									
D Tauber	301,871	35,000	-	13,129	5,511	9,000	4,606	369,117	13.2%
M Westerhoff	295,323	138,666	-	2,209	-	10,500	1,415	448,113	33.6%
B Levin	185,136	29,232	-	-	-	-	-	214,368	13.6%
	1,385,922	202,898	8,280	93,466	15,305	19,500	17,291	1,742,662	

### Compensation options granted, vested and exercised during the year as part of remuneration

126,000 shares with a fair value of \$31,500 (\$0.25 per performance right) were granted as performance rights to Malte Westerhoff with a grant date of 24 September 2012. The performance rights have a 3 year vesting period and are automatically exercised upon completion of the vesting period.

108,000 shares with a fair value of \$27,000 (\$0.25 per performance right) were granted as performance rights to Danny Tauber with a grant date of 24 September 2012. The performance rights have a 3 year vesting period and are automatically exercised upon completion of the vesting period.

For details of the valuation of options, including models and assumptions used please refer to Note 19.

# Directors' Report continued

## REMUNERATION REPORT (audited) (continued)

Table 3: Option holdings of Key Management Personnel

30 June 2014	Balance at beginning of year 1 July 2013	Granted as Remuneration	Options Exercised	Balance at end of year 30 June 2014	Not vested	Vested/ Exercisable	Total
<b>Directors</b>							
P T Kempen	200,000	-	-	200,000	-	200,000	200,000
S A Hupert	-	-	-	-	-	-	-
A B Hall	-	-	-	-	-	-	-
R Lyle	200,000	-	-	200,000	120,000	80,000	200,000
<b>Executives</b>							
D Tauber	350,000	-	-	350,000	140,000	210,000	350,000
M Westerhoff	350,000	-	-	350,000	70,000	280,000	350,000
B Levin	-	-	-	-	-	-	-
<b>Total</b>	<b>1,100,000</b>	<b>-</b>	<b>-</b>	<b>1,100,000</b>	<b>330,000</b>	<b>770,000</b>	<b>1,100,000</b>

# Includes forfeitures

Table 4: Shareholdings of Key Management Personnel

Shares held in Pro Medicus Limited (number)	Balance 1 July 2013	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2014
30 June 2014	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
<b>Directors</b>					
P T Kempen	378,082	-	-	80,000*	458,082
S A Hupert	30,072,660	-	-	35,000*	30,107,660
A B Hall	30,068,500	-	-	-	30,068,500
R Lyle	140,000	-	-	-	140,000
<b>Executives</b>					
D Tauber	150,000	-	-	-	150,000
M Westerhoff	-	-	-	-	-
B Levin	-	-	-	-	-
<b>Total</b>	<b>60,809,242</b>	<b>-</b>	<b>-</b>	<b>115,000</b>	<b>60,924,242</b>

\* Peter Kempen purchased 80,000 shares throughout the year at the prevailing market share price and Sam Hupert purchased 35,000 shares throughout the year at the prevailing market share price.

Table 5: Performance Rights of Key Management Personnel

30 June 2014	Balance at beginning of year 1 July 2013	Granted as Remuneration	Performance rights Exercised	Balance at end of year 30 June 2014	Not vested	Vested/ Exercisable	Total
<b>Directors</b>							
P T Kempen	-	-	-	-	-	-	-
S A Hupert	-	-	-	-	-	-	-
A B Hall	-	-	-	-	-	-	-
R Lyle	-	-	-	-	-	-	-
<b>Executives</b>							
D Tauber	108,000	38,750	-	146,750	146,750	-	146,750
M Westerhoff	126,000	54,250	-	180,250	180,250	-	180,250
B Levin	-	10,000	-	10,000	10,000	-	10,000
<b>Total</b>	<b>234,000</b>	<b>103,000</b>	<b>-</b>	<b>337,000</b>	<b>337,000</b>	<b>-</b>	<b>337,000</b>

# Includes forfeitures

# Directors' Report continued

## REMUNERATION REPORT (audited) (continued)

A long term incentive plan was established during 2011-12 whereby Senior Executives of Group were offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, are offered over a 5 year period and vest 3 years after granting date on completion of service. This long term incentive plan includes performance hurdles related to the company and vesting conditions relating to the employee's period of service. Refer to Note 19.

### **Loans to Key Management Personnel**

No loans are made to Key Management Personnel or staff.

### **Other transactions and balances with Key Management Personnel**

#### *Purchases*

During the year lease payments of \$169,476 (2013: \$169,476) in respect of the Group's operating premises at 450 Swan Street Richmond were paid to Champagne Properties Pty. Ltd., an entity controlled by S. Hupert and A. Hall. Commercial arrangements on an 'arm's length basis' have been determined by an independent assessment of rental and lease terms.

# Directors' Report continued

## DIRECTORS' MEETINGS

The numbers of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Eligible to attend	Audit Committee	Eligible to attend
Number of meetings held:	<b>11</b>		<b>2</b>	
Number of meetings attended:				
P. T. Kempen	11	11	2	2
R. Lyle	11	11	2	2
A. B. Hall	11	11	2	2
S. A. Hupert	11	11	2	2

### Committee membership

As at the 30 June 2014, the company had an Audit Committee comprising the 2 Non-Executive Directors and 2 Executive Directors.

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received a declaration from the auditor of Pro Medicus Limited (refer page 14).

### NON-AUDIT SERVICES

The following non-audit services were provided by the company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for the auditors imposed by the Corporations Act. The nature and scope of the non-audit service provided means that auditor independence is not compromised.

Ernst & Young received the following amount for the provision of non-audit services:

Professional services rendered in respect to taxation matters	\$28,650
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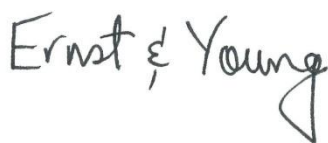
Signed in accordance with a resolution of the Directors.



P T Kempen  
Director  
Melbourne, 22 August 2014

## Auditor's Independence Declaration to the Directors of Pro Medicus Limited

In relation to our audit of the financial report of Pro Medicus Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Paul Gower  
Partner  
Melbourne  
22 August 2014

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014	Notes	Consolidated	
		2014	2013
		\$'000	\$'000
<b>Continuing operations</b>			
Revenue	5	14,268	11,154
Finance Revenue		179	220
<b>Revenue</b>		<b>14,447</b>	11,374
Cost of Sales		(281)	(473)
<b>Gross Profit</b>		<b>14,166</b>	10,901
Other Income/(Expenses)	6(a)	(94)	686
Accounting and Secretarial Fees		(399)	(440)
Advertising and Public Relations		(607)	(670)
Depreciation and Amortisation	6(b)	(3,266)	(2,948)
Insurance		(485)	(362)
Legal Costs		(169)	(108)
Operating Lease Expense - minimum lease payments		(370)	(338)
Impairment Expense	15 (iii)	-	(4,600)
Other Expense		(441)	(604)
Salaries and Employee Benefits Expense	6(b)	(5,283)	(5,915)
Travel and Accommodation		(600)	(504)
<b>Profit/(loss) for the year from continuing operations before tax</b>		<b>2,452</b>	(4,902)
Income tax benefit/(expense)	7	(943)	1,425
<b>Profit/(loss) for the year from continuing operations</b>		<b>1,509</b>	(3,477)
<b>Discontinued operations</b>			
Profit/(loss) after tax for the year from discontinued operations	8	-	8,608
<b>Profit for the year</b>	18	<b>1,509</b>	5,131
<b>Other Comprehensive Income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Foreign Currency translation		186	1,777
<b>Other comprehensive income for the year</b>		<b>186</b>	1,777
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>1,695</b>	6,908
<b>Earnings per share (cents per share)</b>			
	9		
- Basic for net profit for the year		1.5¢	5.1¢
- Diluted for net profit for the year		1.5¢	5.1¢
<b>Earnings per share for continuing operations (cents per share)</b>			
	9		
- Basic for net profit for the year from continued operations		1.5¢	(3.5¢)
- Diluted for net profit for the year from continued operations		1.5¢	(3.5¢)

# Consolidated Statement of Financial Position

AS AT 30 JUNE 2014	Notes	Consolidated	
		2014	2013
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	11	15,259	18,023
Trade and other receivables	12	3,299	2,648
Accrued Revenue		135	-
Inventories	13	100	113
Prepayments		358	101
<b>Total Current Assets</b>		<b>19,151</b>	<b>20,885</b>
<b>Non-current Assets</b>			
Deferred tax asset	7	625	1,089
Plant and equipment	14	302	334
Intangible assets	15	9,145	7,110
<b>Total Non-current Assets</b>		<b>10,072</b>	<b>8,533</b>
<b>TOTAL ASSETS</b>		<b>29,223</b>	<b>29,418</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	16	1,251	1,046
Income tax payable		3,748	4,176
Provisions	17	1,340	1,310
<b>Total Current Liabilities</b>		<b>6,339</b>	<b>6,532</b>
<b>Non-current Liabilities</b>			
Deferred tax liabilities	7	2,118	1,903
Provisions	17	59	24
<b>Total Non-current Liabilities</b>		<b>2,177</b>	<b>1,927</b>
<b>TOTAL LIABILITIES</b>		<b>8,516</b>	<b>8,459</b>
<b>NET ASSETS</b>		<b>20,707</b>	<b>20,959</b>
<b>EQUITY</b>			
Contributed equity	18	327	327
Share Reserve	18	284	226
Foreign Currency Translation Reserve	18	282	96
Retained earnings	18	19,814	20,310
<b>TOTAL EQUITY</b>		<b>20,707</b>	<b>20,959</b>



# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	Issued Capital	Share Reserve	Consolidated Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2012</b>	<b>327</b>	<b>172</b>	<b>(1,681)</b>	<b>17,184</b>	<b>16,002</b>
Profit for the year	-	-	-	5,131	5,131
Other comprehensive income	-	-	1,777	-	1,777
Total comprehensive income for the period	-	-	1,777	5,131	6,908
<b>Transaction with owners in their capacity as owners</b>					
Share Based Payment	-	54	-	-	54
Dividends	-	-	-	(2,005)	(2,005)
<b>At 30 June 2013</b>	<b>327</b>	<b>226</b>	<b>96</b>	<b>20,310</b>	<b>20,959</b>
<b>At 1 July 2013</b>	<b>327</b>	<b>226</b>	<b>96</b>	<b>20,310</b>	<b>20,959</b>
Profit for the year	-	-	-	1,509	1,509
Other comprehensive income	-	-	186	-	186
Total comprehensive income for the period	-	-	186	1,509	1,695
<b>Transaction with owners in their capacity as owners</b>					
Share Based Payment	-	58	-	-	58
Dividends	-	-	-	(2,005)	(2,005)
<b>At 30 June 2014</b>	<b>327</b>	<b>284</b>	<b>282</b>	<b>19,814</b>	<b>20,707</b>

# Consolidated Statement of Cash Flows

		Consolidated	
FOR THE YEAR ENDED 30 JUNE 2014		2014	2013
	Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		13,489	11,681
Payments to suppliers and employees		(8,564)	(8,260)
Income tax (paid)/refunded		(692)	392
<b>Net cash flows from operating activities</b>	11	<b>4,233</b>	3,813
<b>Cash flows from investing activities</b>			
Capitalised Development Costs	15	(5,162)	(3,239)
Interest received		179	220
Net inflow from sale of Amira, net of cash disposed	8	-	13,883
Purchase of plant and equipment	14	(110)	(137)
Proceeds from disposal of plant & equipment	14	2	7
<b>Net cash flows used in investing activities</b>		<b>(5,091)</b>	10,734
<b>Cash flows from financing activities</b>			
Payment of dividends on ordinary shares	10	(2,005)	(2,005)
<b>Net cash flows used in financing activities</b>		<b>(2,005)</b>	(2,005)
Net increase/(decrease) in cash and cash equivalents		(2,863)	12,542
Net foreign exchange differences		99	288
Cash and cash equivalents at beginning of period		18,023	5,193
<b>Cash and cash equivalents at end of period</b>	11	<b>15,259</b>	18,023

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 1. CORPORATE INFORMATION

The financial report of Pro Medicus Limited (the Company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of directors on 22 August 2014.

Pro Medicus Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

### (b) Statement of compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (c) New accounting standards and interpretations

#### (i) *Changes in Accounting policy and disclosures*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013. Adoption of these standards did not have any effect on the financial position or performance of the Group. The necessary disclosures have been updated to reflect amended accounting standards.

**AASB 10 – Consolidated Financial Statements** - This standard establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

**AASB 12 – Disclosure of Interests in Other Entities** - AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

**AASB 13 – Fair Value Measurement** - AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

**AASB 119 – Employee Benefits** - The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

**AASB 2011-4 – Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)** - This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## (ii) Accounting Standards and Interpretation issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2014. These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	No impact	1 July 2014
Interpretation 21	Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	No impact	1 July 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i> . The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	The Group will amend the future financial reports to comply with AASB 2013-3	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (AASB 139)	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	No impact	1 July 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	<p>These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 <i>Business Combinations</i> when it obtains control of another entity.</p> <p>These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.</p> <p>These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.</p>	1 January 2014	No impact	1 July 2014

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	<p>AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) <i>Annual Improvements to IFRSs 2010–2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011–2013 Cycle</i>.</p> <p>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:</p> <ul style="list-style-type: none"> <li>▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</li> <li>▶ AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.</li> <li>▶ AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.</li> <li>▶ AASB 116 &amp; AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.</li> <li>▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</li> </ul>	1 July 2014	The Group will amend the future financial reports to comply with Annual Improvements	1 July 2014

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2011–2013 Cycle	<p>Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:</p> <ul style="list-style-type: none"> <li>▶ AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.</li> <li>▶ AASB40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.</li> </ul>	1 July 2014	No impact	1 July 2014
AASB 1031	Materiality	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.</p> <p>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.</p> <p>AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*.</p>	1 January 2014	No impact	1 July 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	<p>The Standard contains three main parts and makes amendments to a number Standards and Interpretations.</p> <p>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.</p> <p>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.</p> <p>Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i>.</p>	1 January 2014	No impact	1 July 2014

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 14 ^^	Regulatory deferral accounts	<p>AASB 14 permits first-time adopters to continue to account for amounts related to rate regulation in accordance with their previous GAAP when they adopt Australian Accounting Standards. However, to enhance comparability with entities that already apply Australian Accounting Standards and do not recognise such amounts, AASB 14 requires that the effect of rate regulation must be presented separately from other items. An entity that is not a first-time adopter of Australian Accounting Standards will not be able to apply AASB 14.</p> <p>AASB 2014-1 Part D makes amendments to AASB 1 <i>First-time Adoption of Australian Accounting Standards</i>, which arise from the issuance of AASB 14 <i>Regulatory Deferral Accounts</i> in June 2014.</p>	1 January 2016	No impact	1 July 2016
Amendments to IAS 16 and IAS 38*****	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	No impact	1 July 2016

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
IFRS 15 *****	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>)</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>Early application of this standard is permitted.</p>	1 January 2017	The Group will amend the future financial reports to comply with IFRS 15	1 July 2017



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9/IFRS 9	Financial Instruments	<p>On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ol style="list-style-type: none"> <li>Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</li> <li>Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ol style="list-style-type: none"> <li>The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>The remaining change is presented in profit or loss</li> </ol> </li> </ol> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p>	1 January 2018	No impact	1 July 2018

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro Medicus Limited and its subsidiaries as at 30 June each year (the Group). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains a control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

### (e) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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 conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 Financial Instruments: Recognition and Measurement either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services
- Type or class of customer for the products and services
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

### (g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Rendering of services*

Revenue from the installation and ongoing support of software applications and services is recognised by reference to the stage of completion of a contract or contracts in progress. Stage of completion is measured by completion of identifiable service segments as a percentage of the total services to be provided for each contract, which is determined by a quotation with the customer.

Service Revenue is recognised over the term of the contract. Where revenue is received in advance, revenue is recognised in the period during which the service is provided.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

#### *Licences*

License revenue is recognised when control of the right to be compensated for the license can be reliably measured. License revenue is recognised when ownership of the goods have passed to the buyer, which is usually after the software application has been installed and is ready for use by the buyer.

#### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

### (h) 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 dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes of value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

### (j) Trade and other receivables

Trade and intercompany receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for any uncollectible amounts.

A provision for impairment is made when there is objective evidence that Pro Medicus will not be able to collect the debts. Financial difficulty of the debtors is considered objective evidence by the Group. Bad debts are written off when identified.

### (k) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of finished goods represents the purchase cost.

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

### (l) Derivative financial instruments and hedging

The Group has not transacted any derivative financial instruments to hedge its risk associated foreign currency and interest rate fluctuations.

### (m) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### *Recognition and derecognition*

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

#### *Subsequent measurement*

##### *(i) Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

##### *(ii) Loans and receivables*

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

### (n) Foreign currency translation

#### *(i) Functional and presentation currency*

Both the functional and presentation currency of Pro Medicus Limited and its Australian subsidiaries are Australian dollars (\$). The United States subsidiaries' functional currency is United States Dollars. The subsidiary in Germany has a functional currency of Euro. Foreign subsidiaries are translated to presentation currency (see below for consolidated reporting).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *(ii) Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### *(iii) Translation of Group Companies' functional currency to presentation currency*

The results of the United States and German subsidiaries are translated into Australian dollars (presentation currency) using an average exchange rate for the trading period. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investments in foreign subsidiaries are taken to the foreign currency translation reserve. If a foreign subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in profit or loss.

### **(o) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

### **Tax consolidation legislation**

Pro Medicus Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2009.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The head entity, Pro Medicus Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach to determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Pro Medicus also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Pro Medicus Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 January 2009. Pro Medicus Limited is the head entity of the tax consolidated group. An allocation of income tax liabilities between the entities of the tax consolidated group will be made should the head entity default on its tax payment obligations. No such amounts have been recognised in the financial statements on the basis that the possibility of default is remote.

### (p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

### (q) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

### (r) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	2014	2013
Property Improvements	2 to 7 years	2 to 7 years
Motor Vehicles	4 to 5 years	4 to 5 years
Office Equipment	2 to 7 years	2 to 7 years
Furniture and Fittings	5 years	5 years
Research and Development Equipment	3 to 4 years	3 to 4 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **(s) Intangible assets**

Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at date of acquisition. Following initial recognition, intangible assets with a finite life are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight-line basis over the estimated useful life of the asset.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, either individually or at the cash generating unit level. The recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

The amortisation period and method is renewed at each financial year end and adjustments, where applicable, are made on a prospective basis.

### *Research and development costs*

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for sale or use, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised on a straight line basis over the period of expected benefit from the related project (5 years).

Development expenditure includes costs of materials and services and salaries and wages and other employee related costs arising from the generation of the intangible asset.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

### *Intellectual Property – Software*

Three separately identifiable intangible assets, in the form of software intellectual property, have previously been identified in the business acquisition of Visage Imaging;

- Visage CS
- Visage PACS and
- Amira

Following initial recognition, Intellectual property is measured at cost less any accumulated amortisation. A useful life of 5 years has been determined.

### *Software Licenses*

The Group identified a separate intangible asset in the form of software licenses, in the business acquisition of Visage Imaging.

Following initial recognition, software licenses are measured at cost less any accumulated amortisation. A useful life of 4 years has been determined.

### *Customer List*

The Group identified a separate intangible asset in the form of a customer list, in the business acquisition of Visage Imaging.

Following initial recognition, the customer list is measured at cost less any accumulated amortisation. A useful life of 4 years has been determined.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### (u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

Dividends payable are recognised when a legal or constructive obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

### (v) Employee leave benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date.

#### (i) Annual leave and sick leave

The liability for annual leave is recognised and 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 national government bonds with terms to maturity and currencies that match, as closely as possible the estimated future cash outflows.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid.

#### (ii) Long Service Leave

The liability for long service leave is recognised and 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 national government bonds with terms to maturity and currencies that match, as closely as possible the estimated future cash outflows.

### (w) Share based payment transactions

#### (i) Equity settled transactions:

The Group provides benefits to its employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.
- The Long Term Incentive Plan (LTIP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees (for awards granted after 7 November 2002 that were unvested at 1 January 2005) is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model, further details of which are given in note 19.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Pro Medicus Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- (i) The grant date fair value of the award;
- (ii) For options with non-market vesting conditions, the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) The expired portion of the vesting period.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 9).

### (x) Contributed equity

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.

### (y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Group adjusted for

- Costs of servicing equity (other than dividends)
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares and
- Dilutive potential ordinary shares adjusted for any bonus element.

and then divided by the weighted average number of ordinary shares.

### (z) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

### (aa) Government Grants

Research and Development tax credits are recognized in accordance with AASB 120: *Accounting for Government Grants and Government Assistance*. The Research and development tax credit is recognised when there is reasonable assurance that the grant will be received and all conditions have been complied with. The Grant is recognised as a reduction to the cost base of the intangible and released to income as a reduction in amortization expense over the expected useful life of the related asset. The amount recognised for the period to 30 June 2014 is \$642,403 (2013:\$654,439).

## 3. SIGNIFICANT 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 and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### *(i) Significant accounting judgements*

Recovery of deferred tax assets:

Deferred tax assets are recognised for un-recouped tax losses and deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Capitalisation of Development costs:

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Impairment of non-financial assets

The Group assesses impairment of all 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. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

Net investment in Foreign Operations

The Group maintains inter-company loans it assesses to represent a part of its net investment in its foreign operations. The judgements made in assessing these loans to represent net investments are on the basis the loans are neither planned nor likely to be settled within the foreseeable future, the loans do not include trade receivables or trade payable and the loans represent a return of funds from their investment in the respective subsidiaries.

### *(ii) Significant accounting estimates and assumptions*

Capitalisation of development costs

The capitalisation of development costs includes an overhead rate which has been estimated from total costs. The estimated development overheads rate has been calculated by dividing the development labour costs over total labour costs to give a percentage of development labour rate. The development labour rate is then applied against the total overheads of the company, to give an estimate of the amount of overheads that relates to development.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option/performance rights, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value of share-based payment transactions are disclosed in Note 19.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are cash and short-term deposits.

The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest risk and credit risk. The Board manages each of these risks as detailed below.

### *Foreign currency risk*

The Group has transactional currency exposure, which arise from sales made in currencies other than the Group's functional currency.

Approximately 57% (2013: 51%) of the Group's sales are denominated in currencies other than the functional currency, and these sales would be predominately offset by currency exposure on costs. Foreign bank accounts have also been established, to create a natural hedge and reduce the need for regular transfers from the functional currency (AUD) cash holdings.

At 30 June the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges or recorded in the subsidiary currency

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$000</b>	\$000
<b>Financial assets</b>		
Cash and cash equivalents	<b>329</b>	25
	<b>329</b>	25
<b>Financial liabilities</b>		
Trade and other payables	-	-
Net exposure	<b>329</b>	25

At 30 June the Group had the following exposure to CAD\$ foreign currency that is not designated in cash flow hedges or recorded in the subsidiary currency

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$000</b>	\$000
<b>Financial assets</b>		
Cash and cash equivalents	<b>917</b>	1,145
	<b>917</b>	1,145
<b>Financial liabilities</b>		
Trade and other payables	-	-
Net exposure	<b>917</b>	1,145

At 30 June the Group had the following exposure to GBP£ foreign currency that is not designated in cash flow hedges or recorded in the subsidiary currency

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$000</b>	\$000
<b>Financial assets</b>		
Cash and cash equivalents	<b>720</b>	566
	<b>720</b>	566
<b>Financial liabilities</b>		
Trade and other payables	-	-
Net exposure	<b>720</b>	566

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

At 30 June the Group had the following exposure to EUR€ foreign currency that is not designated in cash flow hedges or recorded in the subsidiary currency

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	<b>8,694</b>	<b>9,295</b>
	<b>8,694</b>	<b>9,295</b>
<b>Financial liabilities</b>		
Trade and other payables	-	-
Net exposure	<b>8,694</b>	<b>9,295</b>

At 30 June, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity (excluding retained profits) would have been affected as follows:

Judgements of reasonably possible movements:	<b>Post Tax Profit Higher/(Lower)</b>		<b>Other comprehensive income Higher/(Lower)</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
AUD/USD +10%	<b>(33)</b>	<b>(2)</b>	<b>(18)</b>	<b>(24)</b>
AUD/USD – 5%	<b>16</b>	<b>1</b>	<b>9</b>	<b>12</b>
AUD/CAD +10%	<b>(92)</b>	<b>(114)</b>	<b>-</b>	<b>-</b>
AUD/CAD – 5%	<b>46</b>	<b>57</b>	<b>-</b>	<b>-</b>
AUD/GBP +10%	<b>(72)</b>	<b>(57)</b>	<b>-</b>	<b>-</b>
AUD/GBP – 5%	<b>36</b>	<b>28</b>	<b>-</b>	<b>-</b>
AUD/EUR +10%	<b>(869)</b>	<b>(930)</b>	<b>(127)</b>	<b>(107)</b>
AUD/EUR – 5%	<b>435</b>	<b>465</b>	<b>64</b>	<b>54</b>

Management believe the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

### *Credit risk*

Credit risk arises from the financial instruments of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential defaults of the counter-party, with a maximum exposure equal to the carrying amount of the financial assets.

The Group trades only with recognised, credit worthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit assessment.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

As the Group trades predominantly within the Diagnostic Imaging market there is a concentration of credit risk. Given the underlying Government funding support for Radiology in Hospital settings and the Imaging Centre and Diagnostic Imaging market, and the commercial successes achieved by the Group to date, credit risk is considered to be minimal.

Cash and cash equivalents are held with several financial institutions, with the majority held with the Westpac Banking Corporation, a AA rated bank.

### *Interest risk*

The Group exposure to market interest rates relates primarily to the company's cash and cash equivalents.

At reporting date, the Group had the following financial assets exposed to Australian Variable interest rate risk that are not designated in cash flow hedges:

Cash and Cash equivalents in the Group (\$'000's) \$15,259 (2013: \$18,023).

The Group's policy is to place cash balances in either 30 day term deposits or commercial bills that earn higher interest rates.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity (excluding retained profits) would have been affected as follows:

<b>Consolidated</b>				
Judgements of reasonably possible movements:	<b>Post Tax Profit Higher/(Lower)</b>		<b>Other comprehensive income Higher/(Lower)</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
+1% (100 basis points)	<b>153</b>	180	-	-
- 0.5% (50 basis points)	<b>(76)</b>	(90)	-	-

### *Liquidity risk*

The Group has minimal liquidity risk as it has cash reserves of \$15.3m, with no borrowings.

These cash reserves are deemed to be adequate and the Board believes they will underpin the ongoing growth of the business.

The table below reflects all contractually fixed pay-offs for settlement and repayments resulting from recognised financial liabilities. Cash flows for financial liabilities without fixed amount of timing are based on the conditions existing at 30 June 2014.

**The remaining contractual maturities of the Group's financial liabilities are:**

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
<30 days	<b>572</b>	407
31-60 days	<b>81</b>	18
61-90 days	<b>26</b>	33
Over 90 days	<b>572</b>	588
<b>TOTAL</b>	<b>1,251</b>	1,046

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 5. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on country of origin. Discrete financial information is reported to the executive management team on at least a monthly basis.

Impairment is not monitored at segment level.

### Types of products and services

The Group produces integrated software applications for the health care industry. In addition, the Group provides services in the form of installation and support.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 2 to the financial statements and in the prior periods except as detailed below:

#### Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. The price aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

#### Operating Segments

	Australia		Europe		North America		Total Operations	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>								
Sales to external customers	6,147	5,479	2,811	2,807	5,310	2,868	14,268	11,154
Inter-segment Sales	2,615	1,750	4,504	3,519	-	-	7,119	5,269
Total segment revenue	8,762	7,229	7,315	6,326	5,310	2,868	21,387	16,423
Inter-segment elimination							(7,119)	(5,269)
Total consolidation revenue							14,268	11,154
<b>Results</b>								
Segment Result	1,182	(744)	734	342	357	(120)	2,273	(522)
Interest Revenue							179	220
Non segment expenses								
Impairment Expense							-	(4,600)
Income Tax Expense							(943)	1,425
Net Profit							1,509	(3,477)
<b>Assets</b>								
Non-Current Assets	13,133	11,052	178	185	37	42	13,348	11,279
Deferred Tax Asset	491	822	-	-	134	267	625	1,089
Current Assets	29,798	26,386	23,128	22,688	6,413	2,503	59,339	51,577
Segment Assets	43,422	38,260	23,306	22,873	6,584	2,812	73,312	63,945
Inter-segment elimination							(44,089)	(34,527)
Total Assets							29,223	29,418
<b>Liabilities</b>								
Segment Liabilities	37,906	31,545	4,683	5,045	5,825	2,379	48,414	38,969
Inter-segment elimination							(39,898)	(30,510)
Total Liabilities							8,516	8,459
<b>Other segment information</b>								
Capital expenditure	4,803	2,999	442	346	26	23	5,271	3,368
Depreciation and amortisation	2,788	2,498	449	413	29	37	3,266	2,948
<b>Cash flow information</b>								
Net cash flow from operating activities	5,268	3,458	(2,871)	(1,567)	1,836	1,922	4,233	3,813
Net cash flow from investing activities	(4,624)	(2,885)	(442)	11,713	(25)	1,906	(5,091)	10,734
Net cash flow from financing activities	(2,005)	(2,005)	-	-	-	-	(2,005)	(2,005)

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 5. OPERATING SEGMENTS (cont'd)

### Product information

*Revenue from external customers*

	Notes	Consolidated	
		2014	2013
		\$'000	\$'000
Radiology Information Systems (RIS)		5,939	5,817
Picture Archiving Communications Systems (Visage 7/PACS)		8,311	5,272
Other income		18	65
<b>Total revenue per statement of comprehensive income</b>		<b>14,268</b>	<b>11,154</b>

*Revenue from major customers*

Included in revenue are revenues of 11.4% (2013: 11.2%) from one party. No other customer contributed 10% or more to the Group's revenue for 2014 (2013: nil)

## 6. INCOME AND EXPENSES

### (a) Other Income

Net Currency Gains	1,681	1,590
Net Currency (Loss)	(1,782)	(1,034)
Other	7	130
<b>Total Other Income</b>	<b>(94)</b>	<b>686</b>

### (b) Expenses

#### Depreciation and Amortisation

Motor Vehicles	14	3	3
Office Equipment	14	126	135
Furniture and Fittings and Property Improvements	14	11	13
Research & Development Equipment	14	-	1
Amortisation on capitalised development costs	15	2,905	2,419
Intangible assets	15	221	377
<b>Total Depreciation and Amortisation Expense</b>		<b>3,266</b>	<b>2,948</b>

#### Salaries and Employee Benefits Expense

Wages & Salaries	4,302	5,054
Long service leave provision	60	27
Share-based payment	58	54
Defined contribution plan expense	863	780
<b>Total Salaries and Employee Benefits Expense</b>	<b>5,283</b>	<b>5,915</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated	
	2014	2013
	\$'000	\$'000
<b>7. INCOME TAX</b>		
The major components of income tax expense are:		
<b>Statement of Comprehensive Income</b>		
<i>Current income tax</i>		
Current income tax charge/(benefit)	330	(324)
Prior year adjustment	(66)	(276)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	679	(825)
Income tax expense/(benefit) reported in the statement of comprehensive income	943	(1,425)
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before tax	2,452	7,547
At the applicable statutory income tax rate in each country		
- Australia	354	(2,352)
- United States of America	122	690
- Germany	170	4,027
Prior year adjustment	(66)	(276)
Discontinued operations	-	(3,841)
Expenditure not allowable for income tax purposes	168	139
Other	195	188
<b>Income tax (benefit)/expense reported in the statement of comprehensive income</b>	<b>943</b>	<b>(1,425)</b>

## Deferred income tax

Deferred income tax at 30 June relates to the following:

### Deferred Tax liabilities

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Foreign Currency Exchange Gain	545	561	16	126
Intellectual Property expenses	(364)	(318)	46	(203)
Capitalised development expenses	1,935	1,658	(277)	(1,936)
Liabilities directly associated with the assets classified as held for sale	-	-	-	681
Other	2	2	-	-
	2,118	1,903	(215)	(1,332)

### Deferred tax assets

Employee Entitlements	295	283	12	17
Tax Losses in Subsidiaries	299	786	(487)	488
Audit Fee Accrual	27	16	11	2
Other	4	4	-	-
Deferred income tax assets	625	1,089	(464)	507

## Unrecognised temporary differences

At 30 June 2014, there are no temporary differences associated with the Group's investments in subsidiaries being recognised as the parent is able to control the timing of the reversal of any temporary differences and it is not probable any temporary difference will reverse in the foreseeable future.

## Tax Consolidation

Pro Medicus Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 January 2009. Pro Medicus Limited is the head entity of the tax consolidated group.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 8. DISCONTINUED OPERATIONS

On 2 July 2012, the Group publicly announced the decision of its Board of Directors to sell its life sciences division of Visage Imaging, Amira. The business division of Amira is considered non-core to the operations of the Group and an offer to purchase the business was made from a French IT company, Visualization Sciences Group (VSG). The disposal of Amira was completed on 31 July 2012 for \$14,144,000 in cash resulting in a pre-tax gain of \$12,216,800.

The results of Amira for the period are presented below:

	2014	2013
	\$'000	\$'000
Revenue	-	327
Cost of Goods Sold	-	(4)
Gross Profit	-	323
Operating Expenses	-	(91)
Profit/(loss) before tax from a discontinued operation	-	232
Income tax expense	-	(71)
Profit/(loss) for the year from a discontinued operation	-	161
Gain on disposal of the discontinued operations	-	12,217
Attributable tax expense	-	(3,770)
Profit/(loss) after tax on disposal of the discontinued operation	-	8,447
Total profit after tax for the period from a discontinued operation	-	8,608
<b>Cash inflow on sale:</b>		
Consideration received	-	14,144
Net cash disposed of with the discontinued operations	-	(261)
Net cash inflow	-	13,883

The net cash inflows/(outflows) incurred by Amira are as follows:

	2014	2013
	\$'000	\$'000
Operating	-	276
Investing	-	-
Financing	-	-
<b>Net cash (outflow)/inflow</b>	-	276

### Earnings per share

	Cents	Cents
Basic, from discontinued operations	-	8.6
Diluted, from discontinued operations	-	8.6

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 9. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Net Profit attributable to ordinary equity holders of the parent from continuing operations	<b>1,509,443</b>	(3,477,399)
Profit/(loss) attributable to ordinary equity holders of the parent from discontinuing operations	-	8,608,352
Net Profit attributable to ordinary equity holders	<b>1,509,443</b>	<b>5,130,953</b>

	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for basic earnings per share	100,263,406	100,263,406
Effect of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>100,263,406</b>	100,263,406

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>

## 10. DIVIDENDS PAID AND PROPOSED

*Declared and paid during the year:*

Dividends on ordinary shares		
Final franked dividend for 2013: 1.0 cent (2012: 1.0 cent)	<b>1,003</b>	1,003
Interim franked dividend for 2014: 1.0 cent (2013: 1.0 cent)	<b>1,002</b>	1,002
	<b>2,005</b>	<b>2,005</b>

*Proposed for approval by directors (not recognised as a liability as at 30 June):*

Dividends on ordinary shares:		
Final franked dividend for 2014: 1.0 cents (2013: 1.0 cents)	<b>1,002</b>	1,002
Total dividends proposed	<b>1,002</b>	<b>1,002</b>

## Franking credit balance

- franking account balance as at the end of the financial year at 30% (2013: 30%)	<b>782</b>	1,641
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
- franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
- franking credits that the entity may be prevented from distributing in the subsequent financial year	-	-
	<b>782</b>	<b>1,641</b>

The amount of franking credits available for future reporting periods:

- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	<b>(430)</b>	(430)
	<b>352</b>	<b>1,211</b>

The tax rate at which paid dividends have been franked is 30% (2013: 30%).  
Dividends proposed will be fully franked.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
<b>11. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	13,152	16,002
Short-term deposits	2,107	2,021
	<b>15,259</b>	<b>18,023</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short term deposits are made for varying periods of between 30 days and 120 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is their carrying value.

Reconciliation of net profit after tax to net cash flows from operations

Net profit	1,509	5,131
<i>Adjustments for:</i>		
Depreciation of Property Plant and Equipment	140	152
Amortisation of Intangible Assets	3,126	2,796
Interest Received classified in Investing Activities	(179)	(220)
Foreign currency (gain)/loss	101	(566)
Accrued revenue	(135)	-
Share option expense	58	54
Net inflow from sale of Amira, net of cash disposed	-	(13,883)
Impairment expense	-	4,600
Write back of discontinued intangible asset	-	2,269
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(651)	1,479
(Increase)/decrease in inventory	13	(13)
(Increase)/decrease in deferred tax asset	464	507
(Increase)/decrease in prepayments	(257)	56
(Decrease)/increase in deferred income	100	(570)
(Decrease)/increase in trade and other payables	92	(357)
(Decrease)/increase in tax provision	(428)	4,312
(Decrease)/increase in deferred income tax liability	215	(2,013)
(Decrease)/increase in employee entitlements	65	79
Net cash flow from operations	<b>4,233</b>	<b>3,813</b>

## 12. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables	2,513	1,830
Provision for impairment	(97)	(65)
	<b>2,416</b>	<b>1,765</b>
Research & development tax receivable	642	654
Other receivables	241	229
	<b>3,299</b>	<b>2,648</b>

Fair value approximates carrying value due to the short term nature of receivables.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 12. TRADE AND OTHER RECEIVABLES CURRENT) (cont'd))

### a) Allowance for impairment loss

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
Movements in the provision for impairment loss were as follows:			
At 1 July		65	86
Charge to/(write back of) provision for the year		32	(29)
Foreign exchange translation		-	8
At 30 June		<u>97</u>	<u>65</u>

At June 30, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days PDNI*	61-90 days PDNI*	+91 days PDNI*	+91 days CI**
2014 Consolidated	2,513	2,013	81	192	227	97
2013 Consolidated	1,830	811	158	194	667	65

\* Past due not impaired ('PDNI')

\*\* Considered Impaired ('CI')

Payment terms on \$60,795 (2013: nil) of trade receivables have been renegotiated. The Company has been in direct contact with these debtors and is satisfied that payment will be received in full.

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
<b>13. INVENTORIES (CURRENT)</b>			
Finished goods		<u>100</u>	<u>113</u>

Inventory write downs recognised as an expense total nil (2013: nil)

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 14 PLANT & EQUIPMENT

Notes	Consolidated					Total
	Property Improvements	Motor Vehicles	Office Equipment	Furniture & Fittings	Research & Development Equipment	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2014</b>						
At 1 July 2013 net of accumulated depreciation	29	11	259	35	-	334
Additions	-	-	104	-	-	104
Disposals	-	-	(2)	-	-	(2)
Exchange differences	-	-	5	1	-	6
Depreciation charge for the year	(4)	(3)	(126)	(7)	-	(140)
At 30 June 2014 net of accumulated depreciation	25	8	240	29	-	302
<b>At 30 June 2014</b>						
Cost	328	480	1,861	344	209	3,222
Accumulated depreciation and impairment	(303)	(472)	(1,621)	(315)	(209)	(2,920)
Net carrying amount	25	8	240	29	-	302

Notes	Consolidated					Total
	Property Improvements	Motor Vehicles	Office Equipment	Furniture & Fittings	Research & Development Equipment	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2013</b>						
At 1 July 2012 net of accumulated depreciation	22	14	274	45	1	356
Additions	9	-	85	5	-	99
Disposals	-	-	(3)	(4)	-	(7)
Exchange differences	2	-	38	(2)	-	38
Depreciation charge for the year	(4)	(3)	(135)	(9)	(1)	(152)
At 30 June 2013 net of accumulated depreciation	29	11	259	35	-	334
<b>At 30 June 2013</b>						
Cost	326	560	1,739	342	209	3,176
Accumulated depreciation and impairment	(297)	(549)	(1,480)	(307)	(209)	(2,842)
Net carrying amount	29	11	259	35	-	334

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 15 INTANGIBLE ASSETS

Notes	Intellectual Property i) \$'000	Customer List ii) \$'000	Consolidated Development Costs iii) \$'000	Software Licenses iv) \$'000	Total \$'000
<b>Year ended 30 June 2014</b>					
At 1 July 2013 net of accumulated amortisation and impairment	216	-	6,882	12	7,110
Additions - internal development	-	-	5,162	-	5,162
Disposals	-	-	-	-	-
Exchange differences	-	-	-	(1)	(1)
Amortisation charge for the year	(216)	-	(2,905)	(5)	(3,126)
At 30 June 2014 net of accumulated amortisation and impairment	-	-	9,139	6	9,145
<b>At 30 June 2014</b>					
Cost	1,848	213	21,684	288	24,033
Accumulated amortisation and impairment	(1,848)	(213)	(12,545)	(282)	(18,888)
Net carrying amount	-	-	9,139	6	9,145
<b>Year ended 30 June 2013</b>					
At 1 July 2012 net of accumulated amortisation and impairment	585	21	10,642	19	11,267
Additions - internal development	-	-	3,259	-	3,259
Disposals	-	(21)	-	-	(21)
Exchange differences	-	-	-	1	1
Impairment	-	-	(4,600)	-	(4,600)
Amortisation charge for the year	(369)	-	(2,419)	(8)	(2,796)
At 30 June 2012 net of accumulated amortisation and impairment	216	-	6,882	12	7,110
<b>At 30 June 2013</b>					
Cost	1,848	213	16,522	282	18,865
Accumulated amortisation and impairment	(1,632)	(213)	(9,640)	(270)	(11,755)
Net carrying amount	216	-	6,882	12	7,110

i) Intellectual Property was acquired in 2009 through the Visage Imaging business combination and is carried at cost less accumulated amortisation. Three separately identifiable intangible assets, in the form of software intellectual property, have been identified in the business acquisition of Visage Imaging; Visage CS, Visage PACS and Amira. These intangible assets have been assessed as having a finite life and have been fully amortised using the straight line method over a period of 5 years, commencing February 2009. Amira was sold in July 2012 (refer Note 8)

ii) A Customer List was acquired in 2009 through the Visage Imaging business combination and has since been sold with the Amira sale (refer Note 8).

iii) Development costs have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. As at 30 June 2014 the carrying values of capitalised development costs are Visage CS (\$5,311,388) RIS (\$3,249,097) and Visage PACS (\$578,352), all sits within the Australian operating segment.

The Group undertook an impairment assessment of the capitalised development costs as at 30 June 2014. The recoverable amount of development costs have been determined based on a value in use calculation using cash flow projections from financial budgets approved by the Board of Directors covering a five-year period. The projected cash flows were updated to reflect the change in forecast revenues and a post-tax discount rate of 18% (30 June 2013:20%) was applied. Cash flows beyond a 5 year period have been extrapolated using a 2.5% growth rate (30 June 2013:2.5%). All other assumptions remained consistent with those disclosed in Note 2(s). The Groups recoverable value was in excess of the carrying value using the value in use calculation and as such no impairment charges were recorded at 30 June 2014.

### Key assumptions used in value in use calculations

The calculation of value in use for development costs is most sensitive to the following assumptions:

- Revenue forecasts
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

*Revenue forecasts* – Revenue forecasts are based on current year consolidated budgets for each geographical segment. Estimated growth rates are then used to forecast the following four years revenue for each product used in each geographical segment. Total forecast segment growth rates range from (15%) to 25% across the 4 year period.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 15. INTANGIBLE ASSETS (Cont'd)

*Discount rates* – Discount rates represent the current market assessment of risks specific to each cash generating unit (CGU), taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average return on assets (WARA). The WARA takes into account the cost of equity from expected return on investments by the Groups investors, whilst there is no debt for the group to take into account. Specific risk is associated with the intangible asset nature and is incorporated by applying individual beta factors, which are evaluated annually.

*Growth rate estimates* – rates are based on industry based customer price index (CPI) forecasts. The long term rate of 2.5% was used in the current assessment.

### Sensitivity to changes in assumptions

With regard to the assessment of value in use of development costs, the estimated recoverable amount is in excess of its carrying value for each product, however adverse changes in assumptions could result in an impairment loss. Management has considered the possible change in each of the key assumptions applied to the respective capitalised development costs recoverable amount assessments. A reasonably possible adverse change in the revenue forecasts for the RIS product could have the potential to give rise to circumstance where the recoverable amount may be lower than the carrying amount. To illustrate the sensitivity of this assumption, if forecast cash flows were to decrease materially, that is in the range of 5 – 10%, across the five year forecast period without the implementation of mitigation plans, cost reductions or restructure which management would look to do if such decreases were to arise, this could lead to a future impairment write-down of approximately \$0.5 - \$2.2 million.

iv) Software Licences have been assessed as having a finite life and are amortised using the straight line method over a period of 4 years.

## 16 TRADE AND OTHER PAYABLES (CURRENT)

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Trade payables		177	199
Other payables and accruals		757	629
		<b>934</b>	828
Deferred Income		317	218
		<b>1,251</b>	1,046

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

(ii) Other payables, other than inter-company payables are non-interest bearing and have an average term of 30 days.

Fair value approximates carrying value due to the short term nature of trade and other payables.

## 17 PROVISIONS

	Consolidated	
	2014 \$'000	2013 \$'000
<b>Current</b>		
Long service leave	513	487
Annual leave	827	823
	<b>1,340</b>	1,310
<b>Non Current</b>		
Long service leave	59	24
	<b>59</b>	24

(i) Long Service Leave

Refer to note 2 (v)(ii) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$'000</b>	<b>\$'000</b>
<b>18. CONTRIBUTED EQUITY AND RESERVES</b>		
<i>(i) Ordinary shares</i>	<b>327</b>	327
Issued and fully paid	<b>327</b>	327

Fully paid ordinary shares carry one vote per share and carry the right to dividends

*(ii) Movements in shares on issue*

	<b>Number of Shares</b>	<b>2014 \$'000</b>
At 1 July 2013	<b>100,263,406</b>	<b>327</b>
Cancellation for share buy-back	-	-
Issued for cash on exercise of options	-	-
At 30 June 2014	<b>100,263,406</b>	<b>327</b>

	<b>Number of Shares</b>	<b>2013 \$'000</b>
At 1 July 2012	100,263,406	327
Cancellation for share buy-back	-	-
Issued for cash on exercise of options	-	-
At 30 June 2013	100,263,406	327

	<b>Consolidated</b>	
	<b>2014</b>	2013
	<b>\$'000</b>	<b>\$'000</b>
<b>Share Reserve (i)</b>		
Balance at 1 July	<b>226</b>	172
Share options expensed	<b>58</b>	54
Balance at 30 June	<b>284</b>	226
<b>Foreign Currency Translation Reserve (ii)</b>		
Balance at 1 July	<b>96</b>	(1,681)
Foreign Currency Movement	<b>186</b>	1,777
Balance at 30 June	<b>282</b>	96
<b>Retained Earnings</b>		
Balance at 1 July	<b>20,310</b>	17,184
Net profit for the year	<b>1,509</b>	5,131
Dividends	<b>(2,005)</b>	(2,005)
Balance at 30 June	<b>19,814</b>	20,310

*(i) Share Reserve*

The share reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 19 for further details of these plans.

*(ii) Foreign Currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and for exchange differences arising from long term loan accounts resulting from net investment in subsidiaries.

## Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management review the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares.

During the year, the company paid dividends of \$2,005,268 (2013: \$2,005,268).



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 19. SHARE BASED PAYMENT PLAN

### Employee Share Option Scheme

An employee share incentive scheme was established on 25th August 2000 whereby directors and staff of the Company were issued with options over the ordinary shares of Pro Medicus Limited. The options, issued for nil consideration, had an exercise price of \$1.15 and 2,100,000 share options expired under the scheme on 25 August 2010. Options vested at 20% per annum commencing on the first anniversary of issue. The options cannot be transferred and will not be quoted on the ASX.

200,000 shares were granted as options to Peter Kempen on becoming a Director of the company in 2008 under a separate agreement. The options had a grant date of 12 March 2008 and an exercise price of \$1.25. The fair value of the options at grant date was \$40,852 (\$0.13 - \$0.29 per option). The options have a first exercise date of 12 March 2009 and can be exercised at anytime through to expiry date of 12 March 2018. The options vest over a 5 year period on completion of service. At reporting date all options had vested. No options were exercised during the year.

900,000 shares were granted as options to key Visage Imaging employees under a separate agreement. The options had a grant date of 1 April 2010 and an exercise price of \$1.00. The fair value of the options at grant date was \$67,278 (\$0.07 per option). The options have a first exercise date of 1 April 2011 and can be exercised at anytime through to expiry date of 1 April 2020. The options vest over a 5 year period on completion of service. At reporting date 580,000 (64%) options had vested and 175,000 (19%) options had expired. No options were exercised during the year.

550,000 shares were granted as options to Key Executives under a separate agreement. The options had a grant date of 25 August 2010 and an exercise price of \$1.00. The fair value of the options at grant date was \$54,109 (\$0.10 per option). The options have a first exercise date of 25 August 2011 and can be exercised at anytime through to expiry date of 25 August 2020. The options vest over a 5 year period on completion of service. At reporting date 330,000 (60%) options had vested. No options were exercised during the year.

200,000 shares were granted as options to Roderick Lyle on becoming a Director of the company in 2011 under a separate agreement. The options had a grant date of 18 November 2011 and an exercise price of \$0.55. The fair value of the options at grant date was \$45,116 (\$0.23 per option). The options have a first exercise date of 18 November 2012 and can be exercised at anytime through to expiry date of 18 November 2021. The options vest over a 5 year period on completion of service. At reporting date 80,000 (40%) options had vested. No options were exercised during the year.

Information with respect to the number of options granted under the employee share option scheme is as follows:

	2014 Number of Options	Weighted average exercise price	2013 Number of Options	Weighted average exercise price
Outstanding at the beginning of the year	1,675,000	\$0.98	1,675,000	\$0.98
- granted	-	-	-	-
- forfeited	-	-	-	-
- exercised	-	-	-	-
- expired	-	-	-	-
Outstanding at the end of the year	1,675,000	\$0.98	1,675,000	\$0.98
Exercisable at end of year	1,190,000	\$0.98	895,000	\$0.98

All options above have been recognised in accordance with AASB 2 as the options were granted after 7 November 2002.

The outstanding balance as at 30 June 2014 is represented by:

- 200,000 options over ordinary shares with an exercise price of \$1.25 each, exercisable until 12 March 2018
- 725,000 options over ordinary share with an exercise price of \$1.00 each, exercisable until 1 April 2020
- 550,000 options over ordinary share with an exercise price of \$1.00 each, exercisable until 25 August 2020
- 200,000 options over ordinary shares with an exercise price of \$0.55 each, exercisable until 18 November 2021

### Weighted average remaining contractual life

The weighted average remaining contractual life for share options outstanding at 30 June 2014 is 5.94 years (2013: 6.94 Years)

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 19. SHARE BASED PAYMENT PLAN (cont'd)

### Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.55 - \$1.25 (2013: \$0.55 - \$1.25).

### Weighted average fair value

The weighted average fair value of options granted during the year was nil (2013: nil).

### Option pricing model

The fair value of the equity-settled share options granted is estimated as at the date of the grant using a Black Scholes Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used for the year ended 30 June 2014

	<u>2014</u>	<u>2013</u>
Dividend yield	nil	nil
Expected volatility*	nil	nil
Risk-free interest rate	nil	nil
Expected life of options	nil	nil
Option exercise price	nil	nil
Weighted average share price at measurement date	nil	nil

\*The expected volatility rate was calculated measuring the standard deviation between the historical share price movements for the past 12 months.

### Performance Rights

A long term incentive plan was established on 18<sup>th</sup> November 2011 whereby Senior Executives of Group were offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, are offered for a 5 year period and vest 3 years after granting date on completion of service. The performance rights cannot be transferred and will not be quoted on the ASX. This long term incentive plan includes performance hurdles related to the company and vesting conditions relating to the employee's period of service.

At reporting date 176,375 performance rights had been granted during the year. The performance rights had a grant date of 15 September 2013 and vest over 3 years on completion of service. The fair value of the performance rights at grant date was \$44,094 (\$0.25 per performance right).

387,000 performance rights were granted during the 2012-13 financial year. The performance rights had a grant date of 1 July 2012 and vest over 3 years on completion of service. The fair value of the performance rights at grant date was \$96,750 (\$0.25 per performance right).

Information with respect to the number of performance rights granted under the long term incentive scheme is as follows:

	<b>2014</b>	2013
	<b>Number of Performance Rights</b>	Number of Performance Rights
Outstanding at the beginning of the year	<b>387,000</b>	-
- granted	<b>176,375</b>	387,000
- forfeited	-	-
- exercised	-	-
- expired	-	-
Outstanding at the end of the year	<b>563,375</b>	387,000
Exercisable at end of year	-	-

### Weighted average remaining contractual life

The weighted average remaining contractual life for performance rights at 30 June 2014 is 2.3 years (2013: 3 Years)

### Performance rights pricing model

The fair value of the equity-settled performance rights granted is estimated as at the date of the grant using a Black Scholes Model taking into account the terms and conditions upon which the performance rights were granted.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 19. SHARE BASED PAYMENT PLAN (cont'd)

The following table lists the inputs to the models used for the year ended 30 June 2014

	<u>2014</u>	<u>2013</u>
Dividend yield	5.66%	5.66%
Expected volatility*	70%	70%
Risk-free interest rate	5%	5%
Expected life of performance rights	3 years	3 years
Performance rights exercise price	\$0.00	\$0.00
Weighted average share price at measurement date	\$0.25	\$0.25

\*The expected volatility rate was calculated measuring the standard deviation between the historical share price movements for the past 12 months.

## 20 COMMITMENTS

### a) Operating lease commitments – Group as lessee

The Parent has entered into a commercial property lease for office premises. This lease has a life of 5 years with an option for a further 5 year period. There is no restriction placed upon the lessee by entering into this lease. The US operations have entered into a commercial property lease for office premises from 1 May 2010 for a 5 year period. The German operations have entered into a commercial property lease for office premises and can give notice to vacate 3 months prior to 30 April each year, whereby they sign into another 12 months. The German operations also have several motor vehicles leases which expire at various stages between October 2014 and September 2015.

	<b>Consolidated</b>	
	<b>2014</b>	2013
Future minimum rentals payable under non-cancellable operating lease as at 30 June are as follows:		
– Within one year	368	372
– After one year and not more than five years	729	777
– After more than five years	-	-
	<u>1,097</u>	<u>1,149</u>

## 21 EVENTS AFTER THE BALANCE SHEET DATE

On 22 August 2014, the directors of Pro Medicus Limited declared a final dividend on ordinary shares in respect of the 2014 financial year. This dividend comprises a normal dividend of 1.0 cents per share. The total amount of the dividend is \$1,002,634 which represents a fully franked dividend of a total of 1.0 cents per share. The dividend has not been provided for in the 30 June 2014 financial statements.

## 22. AUDITOR'S REMUNERATION

	<b>Consolidated</b>	
	<b>2014</b>	2013
Amounts received or due and receivable by Ernst & Young (Australia) for:	\$	\$
– an audit or review of the financial report of the Company and any other entity in the Consolidated Group	136,150	135,300
– other services in relation to the Company or Group	28,650	64,080
Amounts received or due and receivable by related practices of Ernst & Young (Australia):	164,800	199,380
– audit of the financial report of Visage Imaging GmbH	74,376	63,410
	<u>239,176</u>	<u>262,790</u>

## 23. KEY MANAGEMENT PERSONNEL

### (a) Compensation for key management personnel

	<b>Consolidated</b>	
	<b>2014</b>	2013
Short-term employee benefits	1,827,438	1,597,100
Post-employment benefits	99,952	93,466
Other long-term benefits	15,034	15,305
Share-based payment	37,007	36,791
Total compensation	<u>1,979,431</u>	<u>1,742,662</u>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 23. KEY MANAGEMENT PERSONNEL (cont'd)

### (b) Loans to Key Management Personnel

No loans are made to Key Management Personnel or staff.

### (c) Other transactions and balances with Key Management Personnel

#### *Purchases*

During the year lease payments of \$169,476 (2013: \$169,476) in respect of the Group's operating premises at 450 Swan Street Richmond were paid to Champagne Properties Pty. Ltd., an entity controlled by S. Hupert and A. Hall. Commercial arrangements on an 'arm's length basis' have been determined by an independent assessment of rental and lease terms.

## 24. RELATED PARTY DISCLOSURE

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Pro Medicus Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest		Investment \$000	
		2014	2013	2014	2013
Promed (USA) Pty Ltd	Australia	100	100	-	-
PME IP Australia Pty Ltd	Australia	100	100	-	-
Visage Imaging (Aust) Pty Ltd	Australia	100	100	-	-
Pro Medicus (USA) LLC	United States	100	100	-	-
Visage Imaging Inc	United States	100	100	2,389	2,389
Visage Imaging GmbH	Germany	100	100	3,638	3,638
				<b>6,027</b>	<b>6,027</b>

### (b) Ultimate parent

Pro Medicus Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

### (c) Key management personnel

Details relating to KMPs, including remuneration paid, are included in note 23.

### (d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

		Sales to related parties \$000	Purchases from related parties \$000	Other transactions with related parties \$000
Related party				
Consolidated				
Champagne Properties Pty Ltd – Rental lease	2014	-	169	-
Champagne Properties Pty Ltd – Rental lease	2013	-	169	-

#### *Terms and conditions of transactions with related parties*

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured, interest free and payable on demand.

Entities within the Group that own the Intellectual Property earn a 50% royalty from the sales made by other entities within the Group.

Development costs undertaken by the German operations are reimbursed by the parent on commercial terms.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 25. CONTINGENCIES

### Tax related contingencies

#### *Amended assessments from the Australian Taxation Office (ATO)*

As a result of the ATO's program of routine and regular tax audit, the Group anticipates that ATO audits may occur in the future. The Group is similarly subject to routine tax audits in certain overseas jurisdictions. The ultimate outcome of any future tax audits cannot be determined with an acceptable degree of reliability at this time. Nevertheless, the Group believes that it is making adequate provision for its taxation liabilities (including amounts shown as deferred and current tax liabilities) and is taking reasonable steps to address potentially contentious issues with the ATO. However, there may be an impact to the Group of any of the revenue authority investigations results in an adjustment that increases the Group's taxation liabilities.

#### *Ongoing transactions – transfer pricing*

The Group has offshore operations in the United States and Germany (note 24). As disclosed in note 24, there are extra Group transactions, which include the Company and its US and German based subsidiaries Visage Imaging Inc and Visage Imaging GmbH and Pro Medicus Limited. These transactions are on an arm's length basis and are conducted at normal market prices and on normal commercial terms.

Whilst there are no investigations currently in progress, such transactions are not subject to any statutory limit in Australia.

## 26. PARENT ENTITY INFORMATION

Information relating to Pro Medicus Limited	2014 \$000	2013 \$000
Current assets	29,798	26,386
Total assets	38,111	34,236
Current Liabilities	25,611	20,207
Total Liabilities	26,404	21,145
Issued capital	327	327
Retained Earnings	11,902	13,855
Foreign Currency Translation Reserve	(1,448)	(1,317)
Share Reserve	284	226
Total shareholders' equity	11,065	13,091
Profit/(loss) of the parent entity	642	(1,689)
Total comprehensive income of parent entity	642	(1,689)

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries. There are no contingent liabilities held against the parent entity. The parent entity does not have any contractual commitments for the acquisition of property, plant and equipment.

# Directors Declaration

In accordance with a resolution of the directors of Pro Medicus Limited, I state that:

- (1) In the opinion of the directors:
  - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of the performance for the year ended on that date; and
    - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
  - (c) the financial statements and notes comply with International Financial Reporting Standards (IFRS) as disclosed in Note 2(b).
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'P T Kempen', with a large, stylized loop at the beginning.

P T Kempen  
Chairman

Melbourne, 22 August 2014

## Independent auditor's report to the members of Pro Medicus Limited

### Report on the financial report

We have audited the accompanying financial report of Pro Medicus Limited which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

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

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows in the directors' report.

## Opinion

In our opinion:

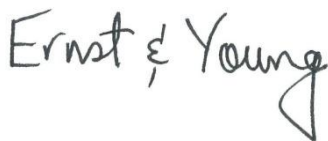
- a. the financial report of Pro Medicus Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 7 - 12 of the directors' report for the year ended 30 June 2014. 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.

## Opinion

In our opinion, the Remuneration Report of Pro Medicus Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Paul Gower  
Partner  
Melbourne  
22 August 2014



# ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

			Ordinary shares	
			Number of holders	Number of shares
1	–	1,000	133	84,668
1,001	–	5,000	313	934,663
5,001	–	10,000	193	1,555,888
10,001	–	100,000	270	8,203,859
100,001	and Over		50	89,484,328
			959	100,263,406
The number of shareholders holding less than a marketable parcel are:			55	12,521

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Dr S Hupert (multiple shareholdings)	30,107,660	30.03%
2	Mr A Hall (multiple shareholdings)	30,068,500	29.99%
3	RBC Dexia Investor Services Australia Nominees P/L <PIIC a/c>	7,834,214	7.81%
4	Citicorp Nominees Pty Ltd	6,323,158	6.31%
5	Equitas Nominees Pty Ltd	1,553,572	1.55%
6	Mr Bram Vander Jagt & Mrs Maaikje Vander Jagt	1,000,000	1.00%
7	BNP Paribas Nominees Pty Ltd	924,199	0.92%
8	J P Morgan Nominees Australia Limited	894,285	0.89%
9	Brazil Farming Pty Ltd	710,000	0.71%
10	Grain Exporters (Australia) Pty Ltd	686,575	0.68%
11	Dr Russell Kay Hancock	650,000	0.65%
12	Mr Peter Terence Kempen & Mrs Elaine Margaret Kempen	458,082	0.46%
13	Mr Alan Graham Rochford	458,052	0.46%
14	Mr Ralph Ronald Stadus & Ms Denise Leslie Stadus	455,556	0.45%
15	Mr Evan Philip Clucas & Ms Leanne Jane Weston	368,217	0.37%
16	Mr John Charles Plummer	365,000	0.36%
17	National Nominees Limited	342,474	0.34%
18	Mr Stephen Geoffrey Wilson & Ms Denise Adele Prandi	337,537	0.34%
19	Mr Kenneth John Vander Jagt & Mrs Tanya Vander Jagt	317,000	0.32%
20	Mr Timothy John Hannigan & Mrs Kerrie Helen Hannigan	300,000	0.30%
		84,154,081	83.94%

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Law are:

	Number of shares
<b>S. Hupert</b>	<b>30,107,660</b>
<b>A Hall</b>	<b>30,068,500</b>
<b>Perpetual Limited RBC Dexia Investor Services Australia Nominees P/L</b>	<b>7,834,214</b>
<b>Commonwealth Bank of Australia</b>	<b>6,323,158</b>

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors of Pro Medicus Limited is responsible for the corporate governance of the entity having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of Pro Medicus Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summaries the Group's compliance with the CGC's recommendations.

				ASX Listing
		Comply	Reference/	Rule/CGC
	Recommendation	Yes/No	explanation	recommendations
<b>Principle 1 - Lay solid foundations for management and oversight</b>				
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	Yes	Page 62	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 60	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		ASX CGC 1.3
<b>Principle 2 - Structure the board to add value</b>				
2.1	A majority of the board should be independent directors.	Yes	Page 60	ASX CGC 2.1
2.2	The chair should be an independent director.	Yes	Page 60	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 60	ASX CGC 2.3
2.4	The board should establish a nomination committee.	No	Page 62	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 60	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		ASX CGC 2.6
<b>Principle 3 - Promote ethical and responsible decision-making</b>				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>The practices necessary to maintain confidence in the company's integrity.</li> <li>The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.</li> <li>The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes	Page 61	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Yes	Page 61	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Yes	Page 61	ASX CGC 3.3
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.	Yes	Page 61	ASX CGC 3.4
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes		ASX CGC 3.5
<b>Principle 4 - Safeguard integrity in financial reporting</b>				
4.1	The board should establish an audit committee.	Yes	Page 62	ASX CGC 4.1

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

				ASX Listing
		Comply	Reference/	Rule/CGC
	Recommendation	Yes/No	explanation	recommendations
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>Consists only of non-executive directors.</li> <li>Consists of a majority of independent directors.</li> <li>Is chaired by an independent chair, who is not chair of the board.</li> <li>Has at least three members.</li> </ul>	No	Page 62	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 62	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes		ASX CGC 4.4
	<b>Principle 5 - Make timely and balanced disclosure</b>			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page 63	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes		ASX CGC 5.2
	<b>Principle 6 - Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 63	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		ASX CGC 6.2
	<b>Principle 7 - Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 63	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Page 63	ASX CGC 7.2
7.3	The board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 63	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		ASX CGC 7.4
	<b>Principle 8 – Remunerate fairly and responsibly</b>			
8.1	The board should establish a remuneration committee.	Yes	Page 62	ASX CGC 8.1
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Refer to Remuneration Report	ASX CGC 8.2
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes		ASX CGC 8.3

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

Pro Medicus Limited's corporate governance practices were in place throughout the year ended 30 June 2014.

## Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report.

The composition of the Board was determined in accordance with the following principles and guidelines:

- The Board should comprise at least four directors and should maintain a majority of non-executive directors, or at least a 50/50 ratio of non-executives and executive directors;
- The Chairperson must be a non-executive director and not occupy the role of CEO;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet monthly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

Directors of Pro Medicus Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Pro Medicus Limited are considered to be independent:

Name	Position
<b>P T Kempen</b>	Chairman, Non-Executive Director, Chairman Audit Committee
<b>R Lyle</b>	Non-Executive Director

The Board wishes to advise that it continues to maintain responsibility for the actions of the chief executive officer and any tasks delegated to the management by the Board.

Directors' Appointment Letters have not been revised in the prescribed format as the board considered this unnecessary given the small number of fairly recently appointed current directors who understand their roles and responsibilities. The board has undertaken that the recommended format should be used for any future director appointments.

Mr. Sam Hupert and Mr. Anthony Hall were directors in Pro Medicus Pty Ltd since incorporation in 1983. Mr. Peter Kempen was appointed in March 2008 and Mr Roderick Lyle was appointed in November 2010.

## Performance

The performance of the board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period the board conducted performance evaluations that involved an assessment of each board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria.

The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Pro Medicus Limited.

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the Chairman annually reviews the performance of all Directors who will be asked to retire from the board if not performing in a satisfactory manner.

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

## Trading policy

Under the group's security trading policy, an executive, director, or any employee of the group, must not trade in any securities of the parent company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must obtain approval of the Chairman.

Only in exceptional circumstances will approval be forthcoming inside of the period which is 30 days after:-

- One day following the announcement of the half-yearly and full year results as the case may be.
- One day following the holding of the annual general meeting.
- One day after any other form of earnings forecast update is given to the market.

As required by the ASX listing rules, the Group notifies the ASX of any transaction conducted by directors in the securities of the parent company.

## Code of Conduct

The board has developed a "Code of Conduct" consistent with the recommendations and details are disclosed on the company website.

## Diversity

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. Pro Medicus believes its diverse workforce is the key to its continued growth, improved productivity and performance.

We actively value and embrace the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. While Pro Medicus is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group.

To this end, the Group supports and complies with the recommendations contained in the ASX *Corporate Governance Principles and Recommendations*. The Group has established a diversity policy outlining the board's measurable objectives for achieving diversity. This is assessed annually to measure the progress towards achieving those objectives.

The table below outlines the diversity objectives established by the board, the steps taken during the year to achieve these objectives and the outcomes.

Objectives	Steps taken/Outcome
Increase the number of women in the workforce, including senior management positions and at board level.	<ul style="list-style-type: none"> <li>• There were no key senior female appointments made during the year as there were no key senior appointments made during the year.</li> <li>• Pro Medicus appointed 2 females in managerial roles</li> <li>• As at 30 June 2014, women represented 19% in the Group's workforce (2013:20%), 20% in key executive positions (2013:20%) and 0% at board level (2013:0%)</li> <li>• Women represented 67% of new hires during the year (2013:20%)</li> </ul> <p>For the upcoming financial year, the Group targets to increase female representation in the Group's workforce to 25-30%</p>
Promote an inclusive culture that treats the workforce with fairness and respect.	<ul style="list-style-type: none"> <li>• Pro Medicus has set a zero tolerance policy against discrimination of employees at all levels. The company also provides avenues for employees to voice their concerns or report any discrimination.</li> <li>• No cases of discrimination were reported during the year (2013: nil).</li> </ul>

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

Objectives	Steps taken/Outcome
Provide career development opportunities for every employee, irrespective of any cultural, gender or other differences.	<ul style="list-style-type: none"> <li>Whilst Pro Medicus place focus on gender diversity, career development opportunities are equal for all employees.</li> </ul> <p>During the year, representation at training and development programs was based on performance of the employees.</p>

The achievement of the measurable objectives in the current financial year was taken into consideration in assessing bonuses for employees. The Group will continue to review and update the measureable objectives to promote diversity for the upcoming year.

## Committees

Due to the small number of Directors, the Board decided it was more appropriate to handle nomination and remuneration issues at full Board level. No Committees for these functions have been established at this time.

In addition the full Board handles any matters as and when they arise concerning environmental issues, occupational health and safety, finance and treasury.

In order to maintain good corporate governance the Non-Executive Directors assume responsibility for determining and reviewing compensation arrangements for the Executive Directors of the Group. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non-Executive Directors. The CEO, in conjunction with the full Board reviews the terms of employment for all executives.

The Board has delegated the responsibility of executive remuneration to the management who will assess the appropriateness of the nature and amount of remuneration of such executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The appointment of appropriately skilled Non-Executive Directors, together with a broadly unchanged business base has meant no new director nominations have been required to date.

Strategic planning has been an important objective of the Board. Meetings are scheduled so that all Board members can attend and are conducted in an informal fashion to allow non-executive directors to gain enhanced industry, customer, product and research knowledge.

## Audit Committee

The board has established an audit committee, which operates under a charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This also includes the safeguarding of assets, the maintenance of proper accounting records, and reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The members of the audit committee are:

P T Kempen Chairman

S A Hupert

A B Hall

R Lyle

The audit committee is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half yearly audit review.

Due to the small number of Directors, all members of the Board serve on the Audit Committee, whilst the Board Chairman is also the Audit Committee Chairman as his area of expertise is in Accounting and Finance.

## Board Functions

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The Board has delegated responsibility for the operation and administration of the group to the Chief Executive Officer and the executive team (as detailed in Note 23). The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Chief Executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committee referred to above, these mechanisms include the following:

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

- approval of strategic plans, which encompass the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- involvement in developing the strategic plan (a dynamic document) and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- overseeing implementation of operating plans and budgets by management and monitoring of progress against budget - this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and
- utilising appropriately skilled professionals to provide advice on relevant discussion topics and procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

## **Monitoring of the Board's Performance and Communication to Shareholders - Continuous Disclosure Policy**

The board has developed a written policy to ensure compliance with the ASX Listing Rules on continuous disclosure and has adopted measures to ensure the market and shareholders are fully informed. The measures in place require all potential market sensitive matters are discussed with the Chief Executive Officer who in conjunction with the Chairman and other relevant directors decide whether to make an appropriate announcement to the market.

Only nominated authorised persons have the authority to release these communications to the ASX. This policy is displayed on the company website.

## **Shareholder Communication**

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders registered to receive copies;
- through the release of information to the market via the ASX
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate;
- an up to date website - [www.promedius.com.au](http://www.promedius.com.au);
- email contact with registered users; and
- special written communications to shareholders distributed with the dividend notifications.

The company is adopting procedures to ensure that any material given to a particular group is available to all interested parties via the company website. This includes any material presented at the Annual General Meeting.

A representative of the external auditors Ernst & Young will continue to attend the Annual General Meeting.

## **Risk Management Policies**

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks are identified on a timely basis and that the Group's objectives and activities are aligned with the risks identified by the Board.

The Company believes that it is crucial for all Board members to participate in this process; as such the Board has not established separate committees for areas such as risk management, environmental issues, occupational health and safety or treasury.

The Company is committed to the identification; monitoring and management of risks associated with its business activities and has included in its management and reporting systems a number of risk management controls, such as:

- Annual budgeting and monthly reporting systems for all operations which enable the monitoring of progress against performance targets and to evaluate trends
- Guidelines and limits on capital expenditure and purchasing authority matrix
- Executive approvals for staffing requirements
- Detailed monthly management reports including cash flow reports, and to identify any foreign currency risks associated with contracts written in and cash being held in foreign currencies

In accordance with ASX Principle 7, the Board has received from the Management an assurance that internal risk management and internal control systems are effective. The Board has also received a declaration from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act founded on the sound system of risk management an internal compliance and control which is operating effectively in respect to financial reporting risks.

# Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

The Company up until late in the financial period was not exposed to any interest rate or significant currency sensitive loans or debts. Given the increase in overseas operations there is now an increased currency risk as a consequence of contracts written in and cash being held in foreign currencies. This change in risk profile has been noted by the board and action is being taken to manage this risk. The Board oversees appropriate backup procedures for important company data. Detailed annual review of insurance policies in force to ensure cover is at appropriate levels to safeguard key executives, Company assets and operations. The Board regularly considers succession planning to ensure staff of appropriate skill and experience are available to the Company.



# Corporate Information

ABN 25 006 194 752

## Directors

The names of the Directors of the Company in office during the year and until the date of this report are:

Peter Terence Kempen	Chairman/Non-Executive Director/Chairman Audit Committee
Dr Sam Aaron Hupert	Chief Executive Officer/Managing Director
Anthony Barry Hall	Technology Director
Roderick Lyle	Non-Executive Director

## Company Secretary

Clayton James Hatch

## Registered Office

450 Swan Street  
Richmond, VIC, 3121  
(03) 9429 8800

## Internet Address

[www.promedicus.com.au](http://www.promedicus.com.au)  
[www.promedicus.com](http://www.promedicus.com)  
[www.visageimaging.com](http://www.visageimaging.com)

## Solicitors

Sci-Law Strategies

## Bankers

Westpac Banking Corporation

## Auditors

Ernst & Young

## Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia

Mailing address:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia

Telephone +612 8280 7111  
Toll free 1300 554 474  
Facsimile +612 9287 0303  
Facsimile (proxy forms only) +612 9287 0309  
E-mail [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

# Corporate Information

You can do so much more online

*Did you know that you can access – and even update – information about your holdings in Pro Medicus Limited via the Internet.*

Visit Link Market Services' website [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and access a wide variety of holding information, make some changes online or download forms. You can:

- Check your current and previous holding balances
- Choose your preferred annual report delivery option
- Update your address details
- Update your bank details
- Lodge, or confirm lodgement of, your Tax File Number (TFN), Australian Business Number (ABN) or exemption
- Check transaction and dividend history
- Enter your email address
- Check the share prices and graphs
- Download a variety of instruction forms
- Subscribe to email announcements

You can access this information via a security login using your Security holder Reference Number (SRN) or Holder Identification Number (HIN) as well as your surname (or company name) and postcode (must be the postcode recorded on your holding record).

## **Don't miss out on your dividends**

Dividend cheques that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act. You are reminded to bank cheques immediately.

## **Better still, why not have us do your banking for you.**

Wouldn't you prefer to have immediate access to your dividend payment? Your dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia as cleared funds on dividend payment date – and we will still mail [(or email if you prefer)] you a dividend advice confirming your payment details.

Not only can we do your banking for you, but payment by direct credit eliminates the risk of cheque fraud.

## **Top 5 tips for Pro Medicus Limited investors visiting Link's (our registry) website**

1. Bookmark [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) – to bookmark, click on 'Favourites' on the menu bar at the top of your browser then select 'Add to Favourites'
2. Create a portfolio for your holding or holdings and you don't have to remember your SRN or HIN every time you visit
3. Lodge your email via the 'Communications Options' and benefit from the online communications options Pro Medicus Limited offers its investors
4. Check out the 'FAQs' page (accessible via the orange menu bar) for answers to frequently asked questions
5. Use the 'Client List' page (accessible via the orange menu bar) to link to Pro Medicus Limited website and the website of the other Link clients in which you invest.

## **Contact Information**

You can also contact the Pro Medicus Limited share registry by calling +61 2 8280 7111 or Toll Free 1300 554 474