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Directors' Report

Your Directors submit their report for the year ended 30 June 2019 in relation to Pro Medicus Limited (the "Company") and its subsidiaries (the "Group").

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 AM F.C.A, F.A.I.C.D (Chairman)	Peter Kempen joined Pro Medicus Limited as a Director on 12 March 2008. He is Chairman of Australasian Leukaemia and Lymphoma Group and Chairman of Logie-Smith Lanyon. He is also a Trustee of the Barr Family Foundation and a member of the Board of St Hilda's College Ltd, University of Melbourne.
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Peter has previously been Chairman of Patties Food Limited, Chairman of Danks Holdings Limited, Chairman of Ivanhoe Grammar School 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 was appointed a Member in the General Division of the Order of Australia (AM) in the 2018 Queen's Birthday Honours.

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.
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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.
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Anthony holds a Bachelor and Master's degree in Science from La Trobe University.

Anthony James Glenning B.CS, B.EE, M.EE (Non- Executive Director)	Anthony joined Pro Medicus Limited as a Director on 1 May 2016. He is the fund manager of Skalata Ventures, investing in early stage companies to help them scale and grow into significant and sustainable businesses.
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He is a Director of Azure Healthcare Limited (ASX:AZV), an international provider of healthcare communication and clinical workflow management solutions. He is also Chairman of Cyrise Pty Ltd, an accelerator for early stage cyber security start-ups.

Anthony has previously been Investment Director of Starfish Ventures and was the founder and previously the CEO of Tonic Systems and a founding Non-Executive Director of Cameron Systems.

Anthony holds bachelor degrees in Computer Science and Electrical Engineering from University of Melbourne and holds a Master's degree in Electrical Engineering from Stanford University California.

Anthony also serves on the audit committee.

Directors' Report continued

Dr Leigh Farrell
PhD, B.Sc. (Hons), FAICD
(Non-Executive Director)

Leigh joined Pro Medicus Limited as a Director on 8 September 2017. He is Senior Vice President, Commercial of Certara USA, Inc. and prior to his current position he was Chairman and COO of d3 Medicine LLC, which was acquired by Certara USA, Inc.

Leigh holds a PhD in Biochemistry and a Bachelor of Science (Honours) from Monash University and is a Fellow of the Australian Institute of Company Directors.

Leigh 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 1 July 2012.

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	29,067,500	NIL
S. A. Hupert	29,107,660	NIL
P. T. Kempen	678,082	NIL
A. J. Glenning	4,000	NIL
L. Farrell	2,501	NIL

Earnings per share

	Cents
Basic earnings per share	18.46
Diluted earnings per share	18.32

Dividends

Ordinary Shares	Cents	\$'000
Final dividends recommended:		
Normal dividend plan	4.5	4,663
Dividends paid in the year:		
Interim for the year	3.5	3,627
Advance final dividend	2.5	2,590
Final dividend for 2018 shown as recommended in the 2018 report:		
Normal dividend plan	3.5	3,618

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 healthcare imaging software and services to hospitals, diagnostic imaging groups and other health related entities in Australia, North America and Europe. These products and services include:

Radiology Information Systems (RIS)

- Proprietary medical software for practice management (RIS);
- Training, installation and professional services;
- After sale support and service products;
- Promedius.net secure email; and
- Integration products.

Visage 7.0

- Healthcare imaging software that provides radiologist and clinicians with advanced visualisation capability for rapidly viewing 2-D, 3-D and 4-D medical images;
- PACS/Digital imaging software that is sold directly and to original equipment manufacturers (OEM);
- Training, installation and professional services; and
- Service and support products.

The Group has continued development of both the RIS product and the Visage 7.0 product line throughout the period.

The Group undertakes research and development (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.

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 term 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's Australian employees undertake research and development of Pro Medicus products (RIS) as well as sales and service/support functions.

The Group's Australian revenue increased by 30.2% compared to the previous year, with the rollout of the Healius (ex Primary Health) contract and extension of its contract with I-MED being the main contributors to the increased revenue.

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

North America

The North American team fulfil sales, marketing and professional services roles. Revenue from North America increased by 42.2% compared to the previous year. This was attributable to increase in transaction based revenue from sales of Visage technology as more contracts came on stream and the migration and implementation of Visage Open Archive to Mercy Health.

Directors' Report continued

Europe

The Group's employees in its Berlin office 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 for software from our European operations increased by 102.3% from the previous year, after extending its contract with a sale of \$3.049m with the German government.

Financials

Reported profit after tax for the period was \$19.13m an increase of 91.9% (restated) from the previous year.

Full year revenue of the Group increased from \$33.87m (restated) to \$50.11m, an increase of 47.9%. As the Group's costs are relatively fixed, an increase in sales has a significant impact on profitability.

The key drivers of the profit increase were the significant increase in the performance of all geographical segments, with increased transactions in North American and European operations, as well as increased RIS sales in Australia.

The result from the underlying operations for the year was a profit of \$22.74m compared to an underlying profit of \$12.42m from the previous corresponding period, an increase of 83.1%. The underlying profit comprises reported profit after tax of \$19.13m less the after tax net currency gain of \$0.29m and adding back the impact of the new revenue recognition standard of \$3.90m (refer to Note 2(d)(i) in the financial statements for details on the impact of AASB 15 *Revenue from Contracts with Customers*). The underlying profit from 2018, comprises of reported profit after tax of \$9.96m less the after tax currency gain of \$0.32m and adding back the impact of the new revenue recognition standard of \$2.78m.

During the period the Company continued to make strong inroads into the North American market winning a key \$27.0m contract with Partners Healthcare, the largest health system in the state of Massachusetts and one of the largest and most respected health providers in North America. The Company also won a key contract with Duke Health for \$14.0m, the largest health system in North Carolina and one of the most respected health providers in North America.

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 its Visage RIS and Visage 7.0 product sets.

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 and is debt free.

Treasury Policy

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

Cash from Operations

Net cash flows from operating activities for the current period was a positive \$24.66m, with receipts from customers totalling \$47.76m compared with payments of \$15.81m to suppliers and employees. During the year the Company paid out a total of \$9.84m in dividends, the net result being total cash assets of \$32.32m; an increase of 28.0% 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.

Directors' Report continued

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.

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 increased by 40.5% from \$35.07m (restated) to \$49.29m. 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 4.5 cents per share has been declared post 30 June 2019. Please refer to Note 9 of the financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors anticipate that the 2020 financial year will see more opportunities 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 previously won transaction based contracts which are scheduled to come on stream in the 2020 financial year.
- Continued strong interest in the Visage 7.0 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 7.0 product set to address key market segments such as large Health Systems and Hospitals in addition to the private radiology and teleradiology markets.
- Market dynamics that favour the adoption of Visage 7.0 technology such as trend towards modular, best in breed solutions.
- Increased revenue from 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 2020 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 zero un-issued ordinary shares under options. Refer to Note 19 of the financial statements for further details of movement of options throughout the year.

Directors' Report continued

Shares Issued as a Result of the Exercise of Options

During the financial year, zero share options were exercised by current employees to acquire fully paid ordinary shares in Pro Medicus Limited and no share options expired.

PERFORMANCE RIGHTS

Un-issued Shares

As at the date of this report, there were 1,200,390 un-issued ordinary shares under performance rights. Refer to Note 19 of the financial statements for further details of the performance rights outstanding.

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

Shares Issued as a Result of the Exercise of Performance Rights

During the financial year, 120,906 performance rights were exercised by current employees and no performance rights expired. A further 126,563 performance rights were exercised by key management personnel in the current year to acquire fully paid ordinary shares in Pro Medicus Limited.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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 2019 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 whom are considered KMP of the Group.

(i) Non- Executive Directors

Peter Terence Kempen	Chairman
Anthony Glenning	Director (non-executive)
Leigh Farrell	Director (non-executive)

(ii) Executive Directors

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

(iii) Other Senior Executives

Danny Tauber	General Manager – Pro Medicus Limited
Malte Westerhoff	Managing Director – Visage Imaging GmbH
Brad Levin	General Manager – Visage Imaging Inc.
Sean Lambright	Global Head of Sales – Visage Imaging Inc.

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

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

for the Non-Executive Directors. The CEO, in conjunction with the full Board reviews the terms of employment for all executives.

The remuneration 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 Group must attract, motivate and retain highly skilled Directors and Executives.

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

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive 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 Non-Executive 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 Non-Executive Directors is reviewed annually. The Board considers fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Non-Executive 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 Non-Executive Director on market). It is considered good governance for the Non-Executive Directors to have a stake in the Company on whose Board they sit.

The remuneration of Non-Executive Directors for the period ended 30 June 2019 is detailed in Table 1 of this report.

Executives 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; and
- 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 10.

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.

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

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.

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.

Variable Remuneration – Long Term Incentive (LTI)

Performance Rights

Former LTI Plan – Granted until FY2017

A long term incentive plan was established during 2011-12 whereby Senior Executives of the Group were offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, were offered over a 5 year period and vest 4 years after grant date on completion of service. This long term incentive plan includes performance hurdles related to profitability (EBIT – 75%) which was 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 fair value of the equity-settled performance rights is estimated using a Black-Scholes model at grant date taking into account the terms and conditions upon which the performance rights were granted. For further details of valuation of options, models and assumptions used, refer to Note 19 of the financial statements.

The table below outlines the proportion to target of performance rights that were granted based on performance measures since the plan was established. No new grants were awarded during the year ended 30 June 2019 and 2018 under this long term incentive plan.

	2019	2018	2017	2016	2015
75% EBIT targets met	N/A	N/A	125%	85%	25%
25% Individual targets met	N/A	N/A	83%	88%	92%

A share-based payment expense continues to be provided to certain Executives during the year ended 30 June 2019 related to unvested tranches of this long term incentive plan.

Current LTI Plan – Granted from FY2017

A new long term incentive plan was established during 2016-17 whereby Senior Executives of the 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 4 years after grant date on completion of service. This long term incentive plan includes performance hurdles related to profitability - Earnings per Share (EPS) growth (60%) which is set on an annualised basis by the Board and Total Shareholder Returns (TSR) growth (40%). The Company's TSR growth performance hurdle is measured relative to the ASX300 Index and assessed by the Board at the end of the performance period in accordance with the terms of the plan. These measures have been selected and set to align to Company performance and shareholder value.

The fair value of the equity-settled performance rights is estimated using Black Scholes and Monte Carlo Simulation Models at grant date taking into account the terms and conditions upon which the performance rights were granted. For further details of valuation of options, models and assumptions used please refer to Note 19 of the financial statements.

Grants of performance rights under the current LTI Plan have not yet vested.

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

Variable Remuneration – Short Term Incentive (STI)

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

STI bonus for 2019

The table below outlines the proportion to target of STI cash bonuses provided since the new STI plan was established

	2019	2018	2017	2016	2015
75% EBIT targets met	200%	35%	125%	N/A	N/A
25% Individual targets met	100%*	143%	91%	N/A	N/A

* Accrued in the financial statements at 100%, to be determined at a later date by the Board.

Key Performance Indicators

Actual STI payments granted to Executives under the individual target portion, 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, including client satisfaction, patent filings and employee satisfaction.

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.

	2019	2018 (restated)	2017	2016	2015
Basic earnings per share – reported (cents)	18.5	9.7	9.1	6.3	3.2
Return on assets (%)	31.0	25.1	28.6	24.3	17.6
Return on equity (%)	38.8	28.4	26.8	23.3	14.7
Dividend payout ratio (%) – normal dividend plan	57.1	62.1	44.0	47.9	62.3
Dividend payout ratio (%) – total dividend	57.1	62.1	44.0	47.9	62.3
Available franking credits (\$'000)	2,417	820	531	0	0

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.

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.

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

Table 1: Remuneration of key management personnel for the year ended 30 June 2019

	Short-Term			Post-Employment	Long-Term	Share-Based Payment	Total	Total Performance Related (%)
30 June 2019 (\$)	Salary and Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Long Service Leave	Performance Rights		
Directors								
P T Kempen	73,943	-	1,057	25,000	-	-	100,000	-
S A Hupert	475,000	-	-	25,000	7,916	-	507,916	-
A B Hall	349,440	-	-	25,000	5,833	-	380,273	-
A Glenning	91,324	-	-	8,676	-	-	100,000	-
L Farrell	82,192	-	-	7,808	-	-	90,000	-
Executives								
D Tauber	329,469	91,875	-	20,491	11,643	106,936	560,414	35.5%
M Westerhoff	460,642	331,559	19,415	2,794	-	285,186	1,099,596	56.1%
B Levin	307,626	195,631	-	-	-	88,826	592,083	48.0%
S Lambright	237,711	431,893	-	-	-	26,695	696,299	65.9%
	2,407,347	1,050,958	20,472	114,769	25,392	507,643	4,126,581	

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

During the reporting period, 15,384 rights with a fair value of \$45,844 (TSR hurdle - \$1.10, EPS hurdle - \$4.24 per performance right) were granted as performance rights to Danny Tauber with a grant date of 16 August 2018 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 45,306 rights with a fair value of \$135,012 (TSR hurdle - \$1.10, EPS hurdle - \$4.24 per performance right) were granted as performance rights to Malte Westerhoff with a grant date of 16 August 2018 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 13,910 rights with a fair value of \$41,452 (TSR hurdle - \$1.10, EPS hurdle - \$4.24 per performance right) were granted as performance rights to Brad Levin with a grant date of 16 August 2018 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 10,748 rights with a fair value of \$32,029 (TSR hurdle - \$1.10, EPS hurdle - \$4.24 per performance right) were granted as performance rights to Sean Lambright with a grant date of 16 August 2018 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

Table 2: Remuneration of key management personnel for the year ended 30 June 2018

	Short-Term			Post-Employment	Long-Term	Share-Based Payment	Total	Total Performance Related (%)
30 June 2018 (\$)	Salary and Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Long Service Leave	Performance Rights		
Directors								
P T Kempen	73,437	-	1,563	25,000	-	-	100,000	-
S A Hupert	475,000	-	-	25,000	18,339	-	518,339	-
A B Hall	350,000	-	-	25,000	10,106	-	385,106	-
R Lyle	19,026	-	-	1,807	-	-	20,833	-
A Glenning	91,324	-	-	8,676	-	-	100,000	-
L Farrell	68,493	-	-	6,507	-	-	75,000	-
Executives								
D Tauber	315,528	-	-	19,472	2,433	53,426	390,859	13.7%
M Westerhoff	444,834	173,214	17,555	2,698	-	124,500	762,801	39.0%
B Levin	284,247	88,147	-	-	-	82,737	455,131	37.5%
S Lambright	219,645	333,452	-	-	-	18,688	571,785	61.6%
	2,341,534	594,813	19,118	114,160	30,878	279,351	3,379,854	

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

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

During the reporting period, 27,347 rights with a fair value of \$46,794 (TSR hurdle - \$0.72, EPS hurdle - \$2.37 per performance right) were granted as performance rights to Danny Tauber with a grant date of 7 September 2017 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 76,759 rights with a fair value of \$131,344 (TSR hurdle - \$0.72, EPS hurdle - \$2.37 per performance right) were granted as performance rights to Malte Westerhoff with a grant date of 7 September 2017 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 23,324 rights with a fair value of \$39,910 (TSR hurdle - \$0.72, EPS hurdle - \$2.37 per performance right) were granted as performance rights to Brad Levin with a grant date of 7 September 2017 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

During the reporting period, 18,023 rights with a fair value of \$30,840 (TSR hurdle - \$0.72, EPS hurdle - \$2.37 per performance right) were granted as performance rights to Sean Lambright with a grant date of 7 September 2017 under the Current LTI Plan. The performance rights have a 4 year vesting period from grant date and are automatically exercised upon achievement of the vesting conditions.

Table 3: Shareholdings of Key Management Personnel

Ordinary shares held in Pro Medicus Limited (Number)	Balance at 1 July 2018	On exercise of performance rights	Net change other	Balance at 30 June 2019
30 June 2019	Ordinary	Ordinary	Ordinary	Ordinary
Directors				
P T Kempen	678,082	-	-	678,082
S A Hupert	29,107,660	-	-	29,107,660
A B Hall	29,067,500	-	-	29,067,500
A Glenning	4,000	-	-	4,000
L Farrell	2,501	-	-	2,501
Executives				
D Tauber	419,496	33,750	(71,673)*	381,573
M Westerhoff	121,180	72,188	(136,000)**	57,368
B Levin	38,908	20,625	(13,750)***	45,783
S Lambright	180,000	-	-	180,000
Total	59,619,327	126,563	(221,423)	59,524,467

* Danny Tauber sold 71,673 shares throughout the year at the prevailing market share price.

** Malte Westerhoff sold 136,000 shares throughout the year at the prevailing market share price.

*** Brad Levin sold 13,750 shares throughout the year at the prevailing market share price.

Directors' Report continued

REMUNERATION REPORT (audited) (continued)

Table 4: Performance rights of Key Management Personnel

Performance rights held in Pro Medicus Limited (Number)	Balance at 1 July 2018	Granted as remuneration	Performance rights exercised	Balance at 30 June 2019	Not yet vested	Vested and exercisable at 30 June 2019
30 June 2019						
Directors						
P T Kempen	-	-	-	-	-	-
S A Hupert	-	-	-	-	-	-
A B Hall	-	-	-	-	-	-
A Glenning	-	-	-	-	-	-
L Farrell	-	-	-	-	-	-
Executives						
D Tauber	133,647	15,384	(33,750)	115,281	(115,281)	-
M Westerhoff	310,798	45,306	(72,188)	283,916	(283,916)	-
B Levin	121,230	13,910	(20,625)	114,515	(114,515)	-
S Lambright	40,211	10,748	-	50,959	(50,959)	-
Total	605,886	85,348	(126,563)	564,671	(564,671)	-

Loans to Key Management Personnel

No loans are made to Key Management Personnel or other staff.

Other transactions and balances with Key Management Personnel

Purchases

During the year ended 30 June 2019, lease payments of \$200,000 (2018: \$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' 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:	11		2	
Number of meetings attended:				
P. T. Kempen	11	11	2	2
A. Glenning	11	11	2	2
L. Farrell	10	11	1	2
A. B. Hall	11	11	2	2
S. A. Hupert	11	11	2	2

Committee membership

As at 30 June 2019, the company had an Audit Committee comprising the 3 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 Corporations (Rounding in Financial/Directors Reports) instrument 2016/191. The Company is an entity to which the Class Order applies.

Directors' Report continued

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received a declaration from the auditor of Pro Medicus Limited (refer page 15).

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	\$79,270
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Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'P T Kempen'. The signature is stylized with a large, looping initial 'P' and a cursive 'T'.

P T Kempen
Director
Melbourne, 22 August 2019

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

As lead auditor for the audit of the financial report of Pro Medicus Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Pro Medicus Limited and the entities it controlled during the financial year.



Ernst & Young



Tony Morse
Partner
22 August 2019

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019	Notes	Consolidated	
		2019 \$'000	2018 \$'000 Restated (Note 2)
Revenue from contracts with customers	5	50,105	33,872
Interest revenue		244	56
Revenue		50,349	33,928
Cost of sales		(1,409)	(220)
Gross profit		48,940	33,708
Net foreign currency gains	6(a)	411	463
Accounting and secretarial fees		(791)	(678)
Advertising and public relations		(1,570)	(1,035)
Depreciation and amortisation	6(b)	(6,084)	(4,938)
Insurance		(635)	(737)
Legal costs		(368)	(539)
Operating lease expense		(593)	(531)
Other expense		(776)	(1,060)
Salaries and employee benefits expense	6(b)	(11,536)	(8,537)
Travel and accommodation		(875)	(815)
Profit before income tax		26,123	15,301
Income tax expense	7	(6,998)	(5,336)
Profit for the year	18	19,125	9,965
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		(433)	(63)
Other comprehensive income for the year		(433)	(63)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		18,692	9,902
Earnings per share (cents per share)			
8			
- Basic for net profit for the year		18.5¢	9.7¢
- Diluted for net profit for the year		18.3¢	9.5¢

This Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2019	Notes	Consolidated	
		2019	2018
		\$'000	\$'000 (Restated Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents	10	32,315	25,238
Trade and other receivables	11	17,419	4,992
Accrued revenue		1,776	3,229
Contract assets	2, 5	210	184
Inventories	12	31	54
Prepayments		705	707
Total Current Assets		52,456	34,404
Non-Current Assets			
Deferred tax assets	7	12,131	6,466
Plant and equipment	13	503	352
Trade and other receivables	11	504	2,351
Contract assets	2, 5	516	580
Intangible assets	14	18,168	16,854
Prepayments		-	36
Total Non-Current Assets		31,822	26,639
TOTAL ASSETS		84,278	61,043
LIABILITIES			
Current Liabilities			
Trade and other payables	15	3,421	1,999
Income tax payable		766	838
Deferred revenue	16	7,626	5,032
Other current financial liabilities	28	159	193
Provisions	17	1,950	1,838
Total Current Liabilities		13,922	9,900
Non-Current Liabilities			
Deferred tax liabilities	7	5,731	4,883
Deferred revenue	16	15,287	11,096
Provisions	17	50	95
Total Non-Current Liabilities		21,068	16,074
TOTAL LIABILITIES		34,990	25,974
NET ASSETS		49,288	35,069
EQUITY			
Contributed equity	18	1,962	1,962
Share buyback reserve		(73)	(73)
Share reserve	18	10,290	4,920
Foreign currency translation reserve	18	(351)	82
Retained earnings	18	37,460	28,178
TOTAL EQUITY		49,288	35,069

This Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	Issued Capital	Share Buyback Reserve	Share Reserve	Consolidated Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	1,937	(73)	1,717	145	31,108	34,834
Impact of adoption of new accounting standards (i)	-	-	-	-	(7,747)	(7,747)
Balance at 1 July 2017 (Restated Note 2)	1,937	(73)	1,717	145	23,361	27,087
Profit for the year	-	-	-	-	9,965	9,965
Other comprehensive income	-	-	-	(63)	-	(63)
Total comprehensive income for the period	-	-	-	(63)	9,965	9,902
Transaction with owners in their capacity as owners						
Share based payment	-	-	564	-	-	564
Tax effect of share based payments	-	-	2,639	-	-	2,639
Exercise of share options	25	-	-	-	-	25
Dividends	-	-	-	-	(5,150)	(5,150)
At 30 June 2018	1,962	(73)	4,920	82	28,178	35,069
At 1 July 2018	1,962	(73)	4,920	82	28,178	35,069
Profit for the year	-	-	-	-	19,125	19,125
Other comprehensive income	-	-	-	(433)	-	(433)
Total comprehensive income for the period	-	-	-	(433)	19,125	18,692
Transaction with owners in their capacity as owners						
Share based payment	-	-	781	-	-	781
Tax effect of share based payments	-	-	4,589	-	-	4,589
Dividends	-	-	-	-	(9,843)	(9,843)
At 30 June 2019	1,962	(73)	10,290	(351)	37,460	49,288

- (i) The Group has adopted AASB 15 *Revenue from Contracts with Customers* on a full retrospective basis. This resulted in a decrease of \$7,747,000 to retained earnings as at 1 July 2017, being the cumulative effect on initial application of the standard (refer to Note 2).

This Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2019	Notes	Consolidated	
		2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		47,763	32,208
Payments to suppliers and employees		(15,807)	(13,387)
Income tax paid		(7,298)	(4,948)
Net cash flows from operating activities	10	24,658	13,873
Cash flows from investing activities			
Payments for capitalised development costs	14	(7,207)	(6,164)
Interest received		244	56
Payments for plant and equipment	13	(342)	(219)
Net cash flows used in investing activities		(7,305)	(6,327)
Cash flows from financing activities			
Payments of dividends on ordinary shares	9	(9,843)	(5,150)
Proceeds from issuing shares		-	25
Net cash flows used in financing activities		(9,843)	(5,125)
Net increase in cash and cash equivalents		7,510	2,421
Net foreign exchange differences		(433)	42
Cash and cash equivalents at beginning of period		25,238	22,775
Cash and cash equivalents at end of period	10	32,315	25,238

This Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

1. CORPORATE INFORMATION

The financial report of Pro Medicus Limited (the Company) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of Directors on 22 August 2019.

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) 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 would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

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 9 *Financial Instruments* either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(d) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the adoption of new standards effective as of 1 July 2018. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(i) AASB 15 *Revenue from Contracts with Customers*

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The Group has applied the full retrospective approach by restating the comparative period and recording the cumulative impact of the adoption in retained earnings as at 1 July 2017.

The Group's contracts with customers comprise multiple goods and services, typically with specific fixed or variable consideration receivable, including:

- Installation and professional services;
- Product licences;
- Transactional services, including image viewing and image archiving; and
- Support services, including updates and upgrades to the product licence.

The Group's contracts with customers comprise multiple activities in order to provide customers with the specified product. The nature of the Group's products requires significant integration of various goods and services promised in contracts that represent a combined output – being the offered product. The multiple goods or services in the contract are highly interrelated and are integral in combination to the performance of the product.

The Group has determined that within its contracts with customers there is one performance obligation of delivering a specified product given:

- The Group provides a significant service of integrating the goods or services with other goods or services promised in the contract. The combined output – being the offered product – represents a bundle of the Group's various goods or services;
- Goods or services (i.e. installation, product licence, transaction services and support services) are highly interrelated and integral to the performance of the product. The Group could not fulfil its performance obligation of delivering a specified product by transferring each of the goods or services independently; and
- Only the Group can provide product installation, transactional services and support (including significant updates/upgrades) services to customers of product licences, given the associated intellectual property of the product owned by the Group.

Revenue from multi-element contracts is recognised over the term of the contract, commencing when the product is ready for use following the installation and establishment of the product licence on the basis that:

- Product updates/upgrades received by the customer over the contract period are frequent and significant to the performance and compliance of the products with relevant regulatory authorities;
- Customers have no alternate use for the Group's products outside of the contract period; and
- The Group has an enforceable right to payment for performance completed to date during the period of the contract.

Revenue is recognised by reference to the satisfaction of the one performance obligation using the input method. The input method is applied based on the elapsed term of the contract in comparison to the length of the total contract term from when the product is ready for use by the customer until the licence and support periods end.

The Group receives consideration for certain elements of product contracts that is based on transaction volumes and dependent upon customer activity. Such consideration is recognised as revenue as the customer activity occurs over the term of the contract and the Group becomes entitled to payment.

Directly attributable commissions paid to employees of the Group for obtaining contracts are initially capitalised as a contract asset and recognised within salaries and employee benefits expense over time as revenue from the related contract is recognised. The carrying value of contract assets are assessed for impairment at each reporting date.

Under AASB 118, the recognition of each good or service within customer contracts was predominantly separate.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

On the adoption of AASB 15, the determination of each contract containing a single performance obligation and satisfaction of that performance obligation over-time has resulted in an impact to the timing of revenue recognition for the following:

- Installation and professional services fees that were recognised under AASB 118 based on the stage of completion of the service, measured as a percentage of the total expected services to be provided for each contract prior to the product becoming ready for use; and
- Upfront licence fees for a contractual term with an unlimited transactional services element were recognised at a point in time when the product was ready for use as subsequent support provided to customers was considered a separate service.

The adoption of AASB 15 has had the following impact on the Group after applying the full retrospective approach:

Impact on the consolidated statement of financial position (increase/(decrease)) as at 30 June 2019:

The following outlines the impact on the consolidated statement of financial position (increase / (decrease)) at the transition date on 1 July 2017, and had AASB 15 been applied at 30 June 2019 and 30 June 2018:

	Consolidated		
	30 Jun 2019	30 Jun 2018	1 Jul 2017
	\$'000	\$'000	\$'000
	(B)	(B)	(A)
Current assets			
Contract assets	210	184	155
Total current assets	210	184	155
Non-current assets			
Contract assets	516	580	590
Deferred tax assets	5,451	3,972	4,742
Total non-current assets	5,967	4,552	5,332
TOTAL ASSETS	6,177	4,736	5,487
Current liabilities			
Deferred revenue	5,676	4,040	3,110
Total current liabilities	5,676	4,040	3,110
Non-current liabilities			
Deferred revenue	15,287	11,096	9,842
Deferred tax liabilities	184	194	282
Total non-current liabilities	15,471	11,290	10,124
TOTAL LIABILITIES	21,147	15,330	13,234
NET ASSETS	(14,970)	(10,594)	(7,747)
Equity			
Foreign currency translation reserve	(476)	(70)	-
Retained earnings	(14,494)	(10,524)	(7,747)
TOTAL EQUITY	(14,970)	(10,594)	(7,747)

(A) Impact on transition to AASB 15 at 1 July 2017 applying the full retrospective method.

(B) Impact of AASB 15 at 30 June 2018 and 30 June 2019, having previously applied AASB 118.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

The adoption of AASB 15 has had the following impact on the Group after applying the full retrospective approach:

Impact on the consolidated statement of comprehensive income (increase/(decrease)) for the year ended 30 June 2019:

The following outlines the impact on the consolidated statement of comprehensive income (increase/(decrease)) of applying AASB 15 for the year ended 30 June 2019 and 30 June 2018:

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Revenues from contracts with customers	(5,116)	(2,089)
Salaries and employee benefits expense	107	19
Income tax expense ^(A)	(1,323)	709
Profit for the period	(3,900)	(2,779)
<i>Other comprehensive income</i>		
Foreign currency translation	(476)	(70)
Other comprehensive income for the period	(476)	(70)
Total comprehensive income for the period	(4,376)	(2,849)

(A) The impact on income tax expense for the year ended 30 June 2018 includes the deferred tax impact for a change in legislative income tax rates in the USA.

The impact on basic and diluted earnings per share is, as follows:

- Basic earnings per share	(3.77¢)	(2.69¢)
- Diluted earnings per share	(3.73¢)	(2.69¢)

There is no impact on the consolidated statement of cash flows.

(ii) AASB 9 Financial Instruments

The Group has adopted AASB 9 *Financial Instruments* retrospectively from 1 July 2018, with no changes to comparatives. AASB 9 introduces new requirements for:

- Classification and measurement of financial assets and financial liabilities
- Impairment of financial assets
- Hedge accounting

► Classification and measurement of financial assets and financial liabilities

Under AASB 9, the Group has determined that there is no change to classification and measurement to financial assets and financial liabilities.

The table below outlines the accounting treatment for financial assets and financial liabilities under AASB 139 as compared to AASB 9:

Financial Asset / Liability	Previous AASB 139	Current AASB 9
Cash and cash equivalents	Amortised cost	Amortised cost
Trade and other receivables	Amortised cost	Amortised cost
Foreign currency forward contracts	Fair value through profit or loss	Fair value through profit or loss

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

► **Impairment of financial assets**

The adoption of AASB 9 has changed the Group's accounting for impairment losses for trade and other receivables by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss

("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

The Group has applied the simplified approach to trade receivables in AASB 9 and has calculated ECLs based on lifetime expected credit losses. A provision for ECLs is determined based on historic credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position and statement of comprehensive income for the year ended 30 June 2019 and the comparative period.

► **Hedge accounting**

The Group did not apply hedge accounting during the year ended 30 June 2019 and in the comparative period.

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.

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, estimates and assumptions

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.

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.

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. Management has tested certain assets for impairment in this financial period. Refer to Note 14 of the financial statements for significant assumptions applied in assessing for impairment on non-financial assets.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

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.

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

Income taxes:

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

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.

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.

Revenue recognition

Refer to Note 2(d)(i) for significant judgements with respect to revenue recognition.

4. 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

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

4. OPERATING SEGMENTS (cont'd)

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".

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		(Restated)		(Restated)		(Restated)		(Restated)
Revenue								
Sales to external customers – software	9,182	7,051	5,306	2,623	34,412	24,198	48,900	33,872
Sales to external customers - hardware	-	-	1,205	-	-	-	1,205	-
Inter-segment sales	31,923	20,691	7,189	7,451	-	-	39,112	28,142
Total segment revenue	41,105	27,742	13,700	10,074	34,412	24,198	89,217	62,014
Inter-segment elimination							(39,112)	(28,142)
Total consolidated revenue							50,105	33,872
Results								
Segment result	22,027	13,557	2,959	1,058	893	630	25,879	15,245
Interest revenue							244	56
Non-segment expenses								
Income tax expense							(6,998)	(5,336)
Net profit							19,125	9,965
Assets								
Non-current assets	22,543	21,010	119	120	614	3,020	23,276	24,150
Deferred tax asset	7,211	2,962	146	242	4,774	3,262	12,131	6,466
Current assets	16,664	23,830	16,697	13,221	22,864	10,759	56,225	47,810
Segment assets	46,418	47,802	16,962	13,583	28,252	17,041	91,632	78,426
Inter-segment elimination							(7,354)	(17,383)
Total assets							84,278	61,043
Liabilities								
Segment liabilities	2,141	15,428	3,360	2,396	38,578	23,820	44,079	41,644
Inter-segment elimination							(9,089)	(15,670)
Total liabilities							34,990	25,974
Other segment information								
Capital expenditure	7,420	6,235	61	64	69	84	7,550	6,383
Depreciation and amortisation	5,962	4,823	62	65	60	50	6,084	4,938

Cash flow information

Net cash flow from operating activities	668	3,097	(1,111)	(3,050)	25,101	13,826	24,658	13,873
Net cash flow from investing activities	(7,175)	(6,179)	(61)	(64)	(69)	(84)	(7,305)	(6,327)
Net cash flow from financing activities	(9,843)	(5,125)	-	-	-	-	(9,843)	(5,125)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Year ended 30 June 2019 (\$'000)	Consolidated			
	Australia	Europe	North America	Total
Types of goods and services				
Radiology Information System (RIS)	8,080	-	-	8,080
Picture Archiving Communications System (Visage 7/Open Archive)	1,102	6,482	34,412	41,996
Other	-	29	-	29
Total revenue per statement of comprehensive income	9,182	6,511	34,412	50,105
Timing of revenue recognition				
Point in time	-	4,255	-	4,255
Over time	9,182	2,256	34,412	45,850
Total revenue per statement of comprehensive income	9,182	6,511	34,412	50,105

Year ended 30 June 2018 (Restated) (\$'000)	Consolidated			
	Australia	Europe	North America	Total
Types of goods and services				
Radiology Information System (RIS)	6,029	-	-	6,029
Picture Archiving Communications System (Visage 7/Open Archive)	1,022	2,583	24,198	27,803
Other	-	40	-	40
Total revenue per statement of comprehensive income	7,051	2,623	24,198	33,872
Timing of revenue recognition				
Point in time	-	-	-	-
Over time	7,051	2,623	24,198	33,872
Total revenue per statement of comprehensive income	7,051	2,623	24,198	33,872

Revenue from multi-element contracts is recognised over the term of the contract, commencing when the product is ready for use following the installation and establishment of the product licence.

Revenue received in advance of the commencement of the term of the contract is initially deferred as contract liabilities (refer to Note 16). Some contracts contain minimum annual volume amounts for transactional services that are recognised as revenue in advance of billing and disclosed as accrued revenue.

During the year ended 30 June 2019, the Group entered into a bespoke contract to provide a certain customer with a perpetual licence to use a product, irrespective of the customer's transactional activity. Support services are sold to the customer, at the customer's discretion, in separate short-term contracts. The pricing for these support services contracts are at normal commercial terms.

Directly attributable commissions paid to employees of the Group for obtaining contracts are initially capitalised as a contract asset and recognised within salaries and employee benefits expense over time as revenue from the related contract is recognised.

Set out below is the amount of revenue from contracts with customers recognised from:

	Consolidated	
	2019	2018
	\$'000	\$'000
		(Restated)
Amounts included in deferred revenue at the beginning of the year	5,032	4,035

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (cont'd)

Set out below is the amount of salaries and employee benefits expense recognised from:

	Consolidated	
	2019	2018
	\$'000	\$'000
		(Restated)
Amounts included in contract assets at the beginning of the year	184	155

Revenue from major customers

Included in the North American segment are customers that contributed to the total consolidated Group revenue by 13.8% (2018: 17.3% restated) from one party and nil (2018: 12.4% restated) from another party. No other customer contributed 10% or more to the Group's revenue for the year ended 30 June 2019.

6. INCOME AND EXPENSES

	Notes	Consolidated	
		2019	2018
		\$'000	\$'000
			(Restated)
(a) Net foreign currency gains/(losses)			
Currency gains		3,387	3,959
Currency loss		(2,817)	(3,303)
Fair value loss on financial instruments – forward exchange contracts		(159)	(193)
Total net foreign currency gains		411	463
(b) Expenses			
Depreciation and amortisation			
Property improvements	13	3	3
Motor vehicles	13	7	7
Office equipment	13	169	122
Furniture and fittings	13	12	18
Capitalised development costs	14	5,893	4,788
Computer software	14	-	-
Total depreciation and amortisation expense		6,084	4,938
Salaries and employee benefits expense			
Gross wages and salaries		15,197	11,971
Capitalised wages and salaries**		(5,624)	(5,026)
Long service leave provision		80	63
Share-based payments expense***		781	564
Defined contribution plan expense		1,102	965
Total salaries and employee benefits expense		11,536	8,537

**The Group's total wages and salaries incurred was \$15,197,000 (2018: \$11,971,000 restated) of which \$5,624,000 (2018: \$5,026,000) of these costs have been capitalised as development costs within intangible assets.

***241,250 performance rights were granted on 16 August 2018 under the Group's long-term incentive plan. The performance rights vest in accordance with performance conditions related to earnings per share ("EPS") and total shareholder returns ("TSR") after completion of a service condition being 4 years from the grant date. The fair value of the performance rights at grant date were TSR hurdle - \$1.10 and EPS hurdle - \$4.24 per performance. The amount of share-based payment expense for the year ended 30 June 2019 takes into consideration the probability of certain performance conditions vesting.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

7. 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.

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

Unrecognised temporary differences

At 30 June 2019, 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 legislation

Pro Medicus Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2009. Members of the tax consolidated group have entered into a tax funding agreement.

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 under the tax funding agreement. The Group applies the Group allocation approach to determining the appropriate amount of current taxes and deferred taxes to allocate to members 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.

In addition to its own current and deferred tax amounts, Pro Medicus Limited 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

7. INCOME TAX (cont'd)

Consolidated	
2019	2018
\$'000	\$'000
	(Restated)

The major components of income tax expense are:

Statement of comprehensive income

Current income tax

Current income tax charge	8,576	5,126
Prior year adjustment	(659)	(1)

Deferred income tax

Relating to origination and reversal of temporary differences	(919)	211
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Income tax expense reported in profit or loss	6,998	5,336
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Statement of changes in equity

Current income tax

Impact of the Employee Share Trust – vested share-based payments	(691)	(1,283)
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Deferred income tax

Relating to origination and reversal of temporary differences due to the Employee Share Trust – unvested share-based payments	(3,898)	(1,356)
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Income tax benefit reported directly in the statement of changes in equity	(4,589)	(2,639)
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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	26,123	15,301
At the applicable statutory income tax rate in each country		
- Australia	6,681	4,065
- United States of America (USA)	226	161
- Germany	892	297
Prior year adjustment	(659)	(1)
Expenditure not allowable for income tax purposes	(267)	(503)
Benefit from vested share-based payments	(61)	(171)
Impact of change in USA income tax rates on deferred tax balances	-	1,351
Other	186	137
Income tax expense reported in profit or loss	6,998	5,336

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

7. INCOME TAX (cont'd)

Deferred income tax	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income		Direct to Equity	
	2019	2018	2019	2018	2019	2018
Deferred income tax at 30 June relates to the following:	\$'000	\$'000 (Restated)	\$'000	\$'000	\$'000	\$'000
<i>Deferred tax liabilities</i>						
Foreign currency exchange gain	51	120	69	612	-	-
Capitalised development expenses	5,439	4,525	(914)	(261)	-	-
Depreciation expenses	57	44	(13)	5	-	-
Contract assets	184	194	10	88	-	-
Deferred tax liabilities	5,731	4,883	(848)	444	-	-
<i>Deferred tax assets</i>						
Employee entitlements	619	466	153	(224)	-	-
Intellectual property expenses	271	290	(19)	(18)	-	-
Accruals	37	20	17	(2)	-	-
Deferred revenue	5,451	3,972	1,479	(770)	-	-
Employee Share Trust – unvested share-based payments	5,749	1,715	136	359	3,898	1,356
Other	4	3	1	-	-	-
Deferred tax assets	12,131	6,466	1,767	(655)	3,898	1,356
Deferred tax movement (charged) or credited to profit or loss			919	(211)	-	-
Deferred tax movement (charged) or credited directly to equity			-	-	3,898	1,356

8. 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
- Other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares
- Dilutive potential ordinary shares adjusted for any bonus element

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

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

	Consolidated	
	2019 \$	2018 (Restated) \$
Net profit attributable to ordinary equity holders	19,125,398	9,964,880
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	103,574,482	103,190,471
Effect of dilution:		
Share options	-	17,534
Performance rights	853,010	1,083,201
Weighted average number of ordinary shares adjusted for the effect of dilution	104,427,492	104,291,206

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

9. DIVIDENDS PAID AND PROPOSED

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Declared and paid during the year:</i>		
Dividends on ordinary shares		
Final franked dividend for 2018: 3.5 cents (2017: 2.5 cents franked)	3,626	2,566
Interim franked dividend for 2019: 3.5 cents (2018: 2.5 cents unfranked)	3,627	2,584
Advance final franked dividend for 2019: 2.5 cents (2018: nil)	2,590	-
	9,843	5,150
<i>Proposed for approval by directors (not recognised as a liability as at 30 June):</i>		
Dividends on ordinary shares:		
Final franked dividend for 2019: 4.5 cents (2018: 3.5 cents franked)	4,663	3,618
Total dividends proposed	4,663	3,618

Franking credit balance

	Consolidated	
	2019	2018
	\$'000	\$'000
– franking account balance as at the end of the financial year at 30% (2018: 30%)	2,417	820
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	434	954
– 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	-	-
– prior period adjustment	-	-
	2,851	1,774
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	(1,998)	(1,372)
	853	402

The tax rate at which paid dividends have been franked is between 27.5% and 30% (2018: 30%). Dividends proposed will be fully franked.

10. CASH AND CASH EQUIVALENTS

	Consolidated	
	2019	2018
	\$'000	\$'000
Cash at bank and in hand*	24,315	11,228
Short-term deposits	8,000	14,010
	32,315	25,238

*\$450,000 (2018: \$300,000) of the cash at bank balance is held as a deposit for foreign exchange forward contracts. The deposit matures and becomes available following the settlement of the foreign exchange forward contracts within three months of the reporting date.

Cash and cash equivalents in the Statement of Financial Position and Statement of Cash Flow 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.

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 90 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

10. CASH AND CASH EQUIVALENTS (cont'd)

	Consolidated	
	2019	2018
	\$'000	\$'000
Reconciliation of net profit after tax to net cash flows from operations		(Restated)
Net profit	19,125	9,965
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	191	150
Amortisation of intangible assets	5,893	4,788
Interest received classified in investing activities	(244)	(56)
Current income tax impact of vested share-based payments recognised directly in equity	691	1,283
Fair value loss on financial instruments	(34)	193
Share-based payment expense	781	564
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(10,580)	(3,854)
(Increase)/decrease in inventory	23	-
(Increase)/decrease in deferred tax asset	(1,768)	(115)
(Increase)/decrease in prepayments	38	97
(Increase)/decrease in accrued revenue	1,453	35
(Increase)/decrease in contract assets	38	(19)
(Decrease)/increase in trade and other payables	1,423	1,059
(Decrease)/increase in income tax payable	(72)	(1,134)
(Decrease)/increase in deferred income	6,785	1,324
(Decrease)/increase in deferred tax liability	848	(443)
(Decrease)/increase in employee entitlements	67	36
Net cash flow from operations	24,658	13,873

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for any impairment.

	Consolidated	
	2019	2018
	\$'000	\$'000
Current		
Trade receivables	17,861	4,790
Less: Allowance for expected credit losses	(647)	-
	17,214	4,790
Other receivables	205	202
	17,419	4,992
Non-current		
Trade receivables	504	2,351
	504	2,351

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

11. TRADE AND OTHER RECEIVABLES (cont'd)

Following the adoption of AASB 9 *Financial Instruments* from 1 July 2019, a provision for impairment is made based on applying a simplified approach in calculating the expected credit losses ("ECL") for debtors and other receivables (including accrued revenue). Therefore, the Group does not track changes in credit risk, but instead recognises an ECL allowance based on lifetime ECL at each reporting date. The Group's provisioning methodology is based on its historical credit loss experience, adjusted for forward-looking factors specific to individual debtors and the economic environment. Debtors and other receivables (including accrued revenue) are written off when there is no reasonable expectation of recovering the contractual cash flows.

As permitted by AASB 9, comparatives have not been restated. In the prior year, the impairment of trade receivables was assessed based on the incurred loss model and a provision raised when there was objective evidence that the Group will not be able to collect its debts.

	Consolidated	
	2019	2018
	\$'000	\$'000
a) Allowance for expected credit losses		
Movements in the allowance for expected credit losses were as follows:		
At 1 July	-	-
Charge to / (write back of) allowance for the year	647	-
Utilised during the year	-	-
Foreign exchange translation	-	-
At 30 June	647	-

The charge to the allowance for expected credit losses during the year ended 30 June 2019 reflects a change in expected losses for a specific debtor arising during the year that did not exist in the prior year or at date of transition to AASB 9.

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

	Consolidated			
	Trade receivables		Allowance for expected credit losses	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
0 – 30 days	9,993	5,862	-	-
31 – 60 days	1,582	359	-	-
61 – 90 days	1,367	254	-	-
91+ days	5,423	666	(647)	-
Total trade receivables	18,365	7,141	(647)	-

The allowance for expected credit losses at 30 June 2019 relates to a certain debtor. Further Information about the credit risk exposure on the Group's other trade receivables using the provisioning methodology have not been disclosed due to the immaterial amount of expected credit losses as at 30 June 2019.

Payment terms on \$4,434,798 (2018: \$3,499,656) of trade receivables have pre-contracted extended trading terms. Of the \$4,434,798, an amount of \$503,654 is due after 12 months and the remainder within 12 months.

12. INVENTORY

	Consolidated	
	2019	2018
	\$'000	\$'000
Finished goods (at lower of cost and net realisable value)	31	54

Inventory write downs recognised as an expense during the year ended 30 June 2019 total nil (2018: nil)

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

13. PLANT & 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:

	2019	2018
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.

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.

	Property Improvements	Motor Vehicles	Office Equipment	Furniture & Fittings	Research & Development Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2019						
At 1 July 2018 net of accumulated depreciation	14	27	292	19	-	352
Additions	-	-	330	5	-	335
Disposals	-	-	-	-	-	-
Exchange differences	-	-	8	(1)	-	7
Depreciation charge for the year	(3)	(7)	(169)	(12)	-	(191)
At 30 June 2019 net of accumulated depreciation	11	20	461	11	-	503
At 30 June 2019						
Cost	334	488	2,872	420	209	4,323
Accumulated depreciation and impairment	(323)	(468)	(2,411)	(409)	(209)	(3,820)
Net carrying amount	11	20	461	11	-	503

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

13. PLANT & EQUIPMENT (cont'd)

	Property Improvements	Motor Vehicles	Consolidated Office Equipment	Furniture & Fittings	Research & Development Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2018						
At 1 July 2017 net of accumulated depreciation	17	34	196	36	-	283
Additions	-	-	211	-	-	211
Disposals	-	-	-	-	-	-
Exchange differences	-	-	7	1	-	8
Depreciation charge for the year	(3)	(7)	(122)	(18)	-	(150)
At 30 June 2018 net of accumulated depreciation	14	27	292	19	-	352
At 30 June 2018						
Cost	333	488	2,480	409	209	3,919
Accumulated depreciation and impairment	(319)	(461)	(2,188)	(390)	(209)	(3,567)
Net carrying amount	14	27	292	19	-	352

14. 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 PACS
- Visage MagicWeb and
- Amira

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

14. INTANGIBLE ASSETS (cont'd)

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.

	Consolidated			Total
	Intellectual Property i) \$'000	Development Costs ii) \$'000	Software Licenses iii) \$'000	\$'000
Year ended 30 June 2019				
At 1 July 2018 net of accumulated amortisation and impairment	-	16,853	1	16,854
Additions - internal development	-	7,207	-	7,207
Disposals	-	-	-	-
Exchange differences	-	-	-	-
Amortisation charge for the year	-	(5,893)	-	(5,893)
At 30 June 2019 net of accumulated amortisation and impairment	-	18,167	1	18,168
At 30 June 2019				
Cost	1,848	46,879	321	49,048
Accumulated amortisation and impairment	(1,848)	(28,712)	(320)	(30,880)
Net carrying amount	-	18,167	1	18,168
Year ended 30 June 2018				
At 1 July 2017 net of accumulated amortisation and impairment	-	15,477	1	15,478
Additions - internal development	-	6,164	-	6,164
Disposals	-	-	-	-
Exchange differences	-	-	-	-
Amortisation charge for the year	-	(4,788)	-	(4,788)
At 30 June 2018 net of accumulated amortisation and impairment	-	16,853	1	16,854
At 30 June 2018				
Cost	1,848	39,673	312	41,833
Accumulated amortisation and impairment	(1,848)	(22,820)	(311)	(24,979)
Net carrying amount	-	16,853	1	16,854

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

14. INTANGIBLE ASSETS (cont'd)

i) Intellectual property was acquired through previous business combinations and is carried at cost less accumulated amortisation. 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.

ii) Development costs have been capitalised. 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 2019 the carrying values of capitalised development costs are Visage PACS (\$12,225,803) RIS (\$5,550,439) and Visage MagicWeb (\$391,236), all sit within the Australian operating segment.

Impairment

The carrying values of intangible assets 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.

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

The recoverable amount of intangible assets 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.

No impairment loss was recognised during the year ended 30 June 2019 (2018: nil impairment loss).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

15. 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.

	Consolidated	
	2019	2018
	\$'000	\$'000
		(Restated)
Current		
Trade payables	705	565
Other payables and accruals	2,716	1,434
	3,421	1,999

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

(ii) Other 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.

16. DEFERRED REVENUE

	Consolidated	
	2019	2018
	\$'000	\$'000
		(Restated)
Current		
Deferred revenue from contracts with customers	7,626	5,032
	7,626	5,032
Non-current		
Deferred revenue from contracts with customers	15,287	11,096
	15,287	11,096

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as at 30 June 2019 was \$22,913,000 (2018: \$16,128,000) and is expected to be recognised as revenue in future reporting periods as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
		(Restated)
Less than one year	7,626	5,032
Between one year and seven years	15,287	11,096
Revenue to be recognised from unsatisfied performance obligations	22,913	16,128

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

17. 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. 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.

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.

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 high quality corporate 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 high quality corporate bonds with terms to maturity and currencies that match, as closely as possible the estimated future cash outflows.

	Consolidated	
	2019	2018
	\$'000	\$'000
Current		
Long service leave	989	865
Annual leave	961	973
	1,950	1,838
Non-current		
Long service leave	50	95
	50	95

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

18. CONTRIBUTED EQUITY AND RESERVES

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.

	Consolidated	
	2019	2018
	\$'000	\$'000
Contributed Equity		
(i) Ordinary shares	1,962	1,962
Issued and fully paid	1,962	1,962

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

(ii) Movements in shares on issue

	Number of Shares	2019 \$'000
At 1 July 2018	103,369,049	1,962
Issued for cash on exercise of options	-	-
Vesting of performance rights	247,469	-
At 30 June 2019	103,616,518	1,962

	Number of Shares	2018 \$'000
At 1 July 2017	102,660,549	1,937
Issued for cash on exercise of options	25,000	25
Vesting of performance rights	683,500	-
At 30 June 2018	103,369,049	1,962

	Consolidated	
	2019	2018
	\$'000	\$'000
Share reserve (i)		
Balance at 1 July	4,920	1,717
Performance rights expensed	781	564
Income tax effect of the Employee Share Trust	4,589	2,639
Balance at 30 June	10,290	4,920

Foreign currency translation reserve (ii)

	82	145
Balance at 1 July	(433)	(63)
Foreign currency movement	(351)	82
Balance at 30 June		

Retained earnings

	28,178	31,108
Balance at 1 July	-	(7,746)
Impact of adoption of new accounting standards at 1 July 2017	19,125	9,965
Net profit for the year	(9,843)	(5,149)
Dividends	37,460	28,178
Balance at 30 June		

(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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

18. CONTRIBUTED EQUITY AND RESERVES (cont'd)

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 \$9,843,585 (2018: \$5,150,121).

19. SHARE BASED PAYMENTS

(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, senior executives and other employees.
- The Long-Term Incentive Plan (LTIP), which provides benefits to senior executives and other employees.

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 either a Black Scholes model or Monte Carlo simulation model.

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 profit or loss 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.

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.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 8).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

19. SHARE BASED PAYMENTS (cont'd)

Employee Share Option Scheme

900,000 shares were granted as options to key Visage Imaging GmbH 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 had 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. During the reporting period, all options had vested and were fully exercised in previous reporting periods. There are no outstanding options at 30 June 2019.

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

	2019 Number of Options	Weighted average exercise price	2018 Number of Options	Weighted average exercise price
Outstanding at the beginning of the year	-	-	25,000	\$1.00
- granted	-	-	-	-
- forfeited	-	-	-	-
- exercised	-	-	(25,000)	\$1.00
- expired	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at end of year	-	-	-	-

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

Weighted average remaining contractual life

The weighted average remaining contractual life for share options outstanding at 30 June 2019 is zero years (2018: zero years)

Range of exercise price

The range of exercise prices for options outstanding at the end of the year was nil (2018: nil).

Weighted average fair value

The weighted average fair value of options granted during the year was nil (2018: 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.

Performance Rights

Former Long Term Incentive (LTI) Scheme

A long term incentive plan was established on 18 November 2011 whereby Senior Executives of the 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 4 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.

Current Long Term Incentive (LTI) Scheme

A new long term incentive plan was established during 2016-17 whereby Senior Executives of the Group were offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, are offered for a 12 month period and vest 4 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.

During the reporting period, 241,250 performance rights have been granted with a grant date of 16 August 2018. The performance rights vest over 4 years from grant date on completion of service. The fair value of these 241,250 performance rights at grant date was \$719,551 (TSR hurdle - \$1.10, EPS hurdle - \$4.24 per performance right).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

19. SHARE BASED PAYMENTS (cont'd)

330,021 performance rights were granted in prior periods in relation to the 2017-18 financial performance. The performance rights vest over 4 years from grant date on completion of service. The fair value of these 330,021 performance rights at grant date was \$564,707 (TSR hurdle - \$0.72, EPS hurdle - \$2.37 per performance right).

320,492 performance rights were granted in prior periods in relation to the 2016-17 financial performance. 90,000 performance rights from Tranche 1 vest over 4 years from grant date on completion of service. The fair value of these 90,000 performance rights at grant date was \$439,326 (\$4.88 per performance right). A further 180,492 performance rights from Tranche 2 vest over 4 years from grant date on completion of service. The fair value of these 180,492 performance rights at grant date was \$326,003 (TSR hurdle - \$0.85, EPS hurdle - \$2.45 per performance right). The remaining 50,000 performance rights vest in September 2017 and the fair value of these rights was \$44,500 (\$0.89 per performance right).

414,375 performance rights were granted in prior periods in relation to the 2015-16 financial performance. 364,375 performance rights vest over 4 years from grant date on completion of service. The fair value of the 364,375 performance rights at grant date was \$721,463 (\$1.98 per performance right). The remaining 50,000 performance rights vest in September 2016 and the fair value of these rights was \$44,500 (\$0.89 per performance right).

397,469 performance rights were granted in prior periods in relation to the 2014-15 financial performance. 247,469 performance rights vest over 4 years from grant date on completion of service. The fair value of the 247,469 performance rights at grant date was \$205,166 (\$0.83 per performance right). The remaining 150,000 performance rights vest in September 2015 and the fair value of these rights was \$133,737 (\$0.89 per performance right).

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

	2019	2018
	Number of	Number of
	Performance	Performance
	Rights	Rights
Outstanding at the beginning of the year	1,206,609	1,565,836
- granted	241,250	330,021
- forfeited	-	-
- exercised	(247,469)	(683,500)
- expired	-	(5,748)
Outstanding at the end of the year	1,200,390	1,206,609
Exercisable at end of year	-	-

Weighted average remaining contractual life

The weighted average remaining contractual life for performance rights at 30 June 2019 is 2.4 years (2018: 2.6 years)

Performance rights pricing model (Former Long Term Incentive Scheme)

The fair value of the equity-settled performance rights granted under the former long term incentive scheme 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.

There were no rights granted under the former long term incentive scheme during the period.

Performance rights pricing model (Current Long Term Incentive Scheme)

The fair value of the equity-settled performance rights granted for the current long term incentive scheme is estimated as at the date of the grant using Black Scholes and Monte Carlo Simulation Models taking into account the terms and conditions upon which the performance rights were granted.

The following table lists the inputs to the models used:

	2019	2018
Dividend yield	0.69%	0.82%
Expected volatility	14.96%	15.56%
Risk-free interest rate	3.30%	3.30%
Expected life of performance rights	4 years	4 years
Performance rights exercise price	\$0.00	\$0.00
Fair value of performance rights at measurement date (per performance right)	\$1.10-4.24	\$0.72-2.37

Notes to the Financial Statements

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20. COMMITMENTS

Leases

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

Operating lease commitments – Group as 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.

The US operations have entered into a commercial property lease for office premises from 1 December 2015 for a 5 year period. The German operations have entered into a commercial property lease for office premises and can give notice to vacate 6 months prior to 31 March each year, whereby they sign into another 12 months. The German operations also have several motor vehicle leases which expire at various stages between Jul 2020 and May 2022

	Consolidated	
	2019	2018
	\$'000	\$'000
Future minimum rentals payable under non-cancellable operating lease as at 30 June are as follows:		
– Within one year	364	380
– After one year and not more than five years	134	343
– After more than five years	-	-
	498	723

21. EVENTS AFTER THE BALANCE SHEET DATE

On 22 August 2019, the directors of Pro Medicus Limited declared a final dividend on ordinary shares in respect of the 2019 financial year. This dividend comprises a normal dividend of 4.5 cents per share. The total amount of the dividend is \$4,662,743 which represents a franked dividend of a total of 4.5 cents per share. The dividend has not been provided for in the 30 June 2019 financial statements.

22. AUDITOR'S REMUNERATION

	Consolidated	
	2019	2018
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 Group	187,200	197,757
– other services in relation to the Company or Group	64,450	96,133
	251,650	293,890
Amounts received or due and receivable by related practices of Ernst & Young (Australia):		
- audit of the financial report of Visage Imaging GmbH	73,632	87,411
– other services in relation to Visage Imaging GmbH	14,820	27,753
	340,102	409,054

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FOR THE YEAR ENDED 30 JUNE 2019

23. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	Consolidated	
	2019	2018
Short-term employee benefits	3,478,777	2,955,465
Post-employment benefits	114,769	114,160
Other long-term benefits	25,392	30,878
Share-based payment	507,643	279,351
Total compensation	4,126,581	3,379,854

(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 \$200,000 (2018: \$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. The current arrangement is on a month to month basis.

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	
		2019	2018	2019	2018
Promed (USA) Pty Ltd	Australia	100	100	-	-
PME IP Australia Pty Ltd	Australia	100	100	-	-
Visage Imaging (Aust) Pty Ltd	Australia	100	100	-	-
Visage Ventures Pty Ltd	Australia	100	100	-	-
PME Nominees Pty Ltd (ATF Employee Share Trust)	Australia	100	100	-	-
Pro Medicus (USA) LLC	United States	100	100	-	-
Visage Ventures Inc	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
				6,027	6,027

(b) Ultimate parent

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

(c) 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.

Consolidated	Related party		Sales to related parties	Purchases from related parties	Other transactions with related parties
			\$'000	\$'000	\$'000
	Champagne Properties Pty Ltd* – Rental lease	2019	-	200	-
	Champagne Properties Pty Ltd* – Rental lease	2018	-	169	-

* Champagne Properties Pty Ltd is an entity controlled by Directors of the Company, S. Hupert and A. Hall.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

25. 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

(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 for consolidated reporting.

(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.

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

Approximately 83% (2018: 79%) of the Group's sales are denominated in currencies other than the presentational 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 presentational 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 functional currency of the subsidiary

	Consolidated	
	2019	2018
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	12,886	5,652
	12,886	5,652
Financial liabilities		
Trade and other payables	-	-
Net exposure	12,886	5,652

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

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 functional currency of the subsidiary

	Consolidated	
	2019	2018
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	619	144
	619	144
Financial liabilities		
Trade and other payables	-	-
Net exposure	619	144

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 functional currency of the subsidiary

	Consolidated	
	2019	2018
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	126	125
	126	125
Financial liabilities		
Trade and other payables	-	-
Net exposure	126	125

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 functional currency of the subsidiary

	Consolidated	
	2019	2018
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	3	3
	3	3
Financial liabilities		
Trade and other payables	-	-
Net exposure	3	3

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:	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
AUD/USD +10%	(10)	(565)	(95)	(79)
AUD/USD – 5%	5	283	48	40
AUD/CAD +10%	(62)	(14)	-	-
AUD/CAD – 5%	31	7	-	-
AUD/GBP +10%	(13)	(13)	-	-
AUD/GBP – 5%	6	6	-	-
AUD/EUR +10%	-	-	(244)	(215)
AUD/EUR – 5%	-	-	122	107

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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

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 counterparty, 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 and Wells Fargo Bank N.A., both AA rated banks.

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) \$32,315 (2018: \$25,238).

The Group's policy is to place cash balances in either 30-90 day term deposits or commercial bills that earn higher interest rates.

At 30 June 2019, 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:

Consolidated				
Judgements of reasonably possible movements:	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
+1% (100 basis points)	322	250	-	-
- 0.5% (50 basis points)	(161)	(125)	-	-

Liquidity risk

The Group has minimal liquidity risk as it has cash reserves of \$32.2m, 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 2019.

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

	Consolidated	
	2019	2018
	\$'000	\$'000
	(Restated)	
<30 days	1,385	1,074
31-60 days	344	67
61-90 days	29	144
Over 90 days	1,663	714
TOTAL	3,421	1,999

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

26. 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). There are additional 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.

27. PARENT ENTITY INFORMATION

Information relating to Pro Medicus Limited	2019 \$'000	2018 \$'000 (Restated)
Current assets	20,873	24,926
Total assets	33,921	35,842
Current liabilities	21,289	18,778
Total liabilities	24,859	21,251
Issued capital	1,962	1,962
Retained earnings	5,665	12,629
Foreign currency translation reserve	(3,395)	(2,944)
Share reserve	4,903	3,018
Share Buyback Reserve	(73)	(73)
Total shareholders' equity	9,062	14,592
Profit/(loss) of the parent entity	2,781	1,432
Total comprehensive income of parent entity	2,781	1,432

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.

28. OTHER ACCOUNTING POLICIES

(a) 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 2019. These are as follows:-

- AASB 16 *Leases* – Effective date: 1 January 2019 (Application date: 1 July 2019)

AASB 16 replaces existing lease requirements in Australian Accounting Standards (AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC – 15 *Operating Leases – Incentives*, SIC – 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). In determining the lease liability, the Group must consider the lease term and the expected exercise of renewal options available.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

28. OTHER ACCOUNTING POLICIES (cont'd)

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the impact of the change in standard, although no material impact is expected.

- ii. AASB Interpretation 23 *Uncertainty over Income Tax Treatments* – Effective date: 1 January 2019
(Application date: 1 July 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Group is currently assessing the impact of the application of the new interpretation.

- iii. Conceptual Framework AASB 2019-1 *Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework* — Effective date: 1 January 2020 (Application date: 1 July 2020)

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows.

- Chapter 1 — The objective of financial reporting
- Chapter 2 — Qualitative characteristics of useful financial information
- Chapter 3 — Financial statements and the reporting entity
- Chapter 4 — The elements of financial statements
- Chapter 5 — Recognition and derecognition
- Chapter 6 — Measurement
- Chapter 7 — Presentation and disclosure
- Chapter 8 — Concepts of capital and capital maintenance

AASB 2019-1 sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.

The Group is currently assessing the impact of the application of the new Conceptual Framework.

(b) Derivative financial instruments and hedging

The Group uses derivative financial instruments (forward currency contracts) to manage its risks associated with foreign currency. Such derivative financial instruments are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured to fair value at the reporting date. The fair value of the derivative financial instruments are level 2, being derived from directly or indirectly observable inputs.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivative are recorded directly in profit or loss for the year within net foreign currency gains/(losses). The Group does not apply hedge accounting. The foreign exchange forward contracts are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from three to six months.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

28. OTHER ACCOUNTING POLICIES (cont'd)

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments.

	2019		2018	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Financial liabilities				
Foreign exchange forward contracts	(159)	(159)	(193)	(193)
	(159)	(159)	(193)	(193)

(c) 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.

(d) Comparatives

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

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 2019 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 2019.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'P T Kempen', with a large, stylized initial 'P'.

P T Kempen
Chairman

Melbourne, 22 August 2019

Independent Auditor's Report to the Members of Pro Medicus Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pro Medicus Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the director's declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Capitalisation of development costs

Why significant

The Group develops medical software related to radiology systems. Development costs are capitalised and presented as intangible assets on the consolidated statement of financial position.

The carrying value of intangible assets as at 30 June 2019 was \$18.2 million (22% of total assets).

Capitalised development costs was a key audit matter as product development is core to the Group's operations and it is the key asset on the Group's consolidated statement of financial position. This involves judgement to determine whether the costs meet the capitalisation criteria in accordance with Australian Accounting Standards.

The measurement of capitalised development costs is based on the time and overhead costs associated with individuals employed by the Group for the specific purpose of developing software. Capitalised development costs are amortised once the product is available for use. Capitalised development costs are amortised over a useful life of five years.

Refer to Note 14 of the financial report for disclosure relating to capitalised program development costs.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessed key measurement inputs, including salaries and overhead costs, used in the Group's capitalisation model which determines the amount of capitalised development costs.
- ▶ Selected a sample of overhead costs capitalised within the capitalisation model to assess whether these costs were appropriately capitalised in accordance with Australian Accounting Standards.
- ▶ Agreed a sample of employee costs recorded within the capitalisation model to employee timesheets and payroll records. We enquired with the Group regarding the development activities that were undertaken relating to these costs and determined whether the sample of employees were directly involved in developing software and not maintenance, as maintenance costs are not eligible for capitalisation.
- ▶ Assessed the useful life and amortisation rate allocated to capitalised development costs.
- ▶ Assessed the consistency of the capitalisation methodology applied by the Group in comparison to prior reporting periods.
- ▶ Assessed the adequacy of the disclosures included in Note 14.

2. Revenue recognition

Why significant

The Group generated \$50.1 million in revenue from customers across its global operations for the year ended 30 June 2019.

Revenue recognition was considered a key audit matter due to the judgements involved in determining the appropriate revenue recognition for the Group's customer contracts.

The application of the new revenue recognition standard, AASB 15 Revenue from Contracts with Customers, was effective for the Group from 1 July 2018. As outlined in Note 2(d)(i), the Group transitioned to AASB 15 by applying the full retrospective transition method.

The adoption of AASB 15 is inherently complex due to the need to apply the requirements of the new standard to the Group's customer contracts which required an adjustment to the comparative year.

Refer to Note 2(d)(i) and Note 5 to the financial report for disclosure relating to revenue recognition.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered the appropriateness of the Group's revenue recognition accounting policies in accordance with AASB 15, as well as the judgements applied in determining the timing of revenue recognition.
- ▶ Evaluated the Group's assessment of the impact of AASB 15 in the current year and the transition adjustments recorded.
- ▶ Reviewed a sample of customer contracts to assess the application of revenue recognition policies to customer arrangements.
- ▶ Selected a sample of revenue transactions and assessed revenue recognised with respect to customer contracts.
- ▶ Selected a sample of revenue transactions recognised prior to and after year end, to assess whether revenue was recognised in the appropriate period.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report and the Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 13 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Pro Medicus Limited for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.



Responsibilities

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

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A stylized, handwritten signature of 'Tony Morse' in black ink.

Tony Morse
Partner

Melbourne
22 August 2019

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	3,898	1,690,722
1,001	–	5,000	1,991	4,672,578
5,001	–	10,000	361	2,698,003
10,001	–	100,000	299	7,751,410
100,001	and Over		38	86,803,805
			6,587	103,616,518
The number of shareholders holding less than a marketable parcel are:			72	322

(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)	29,107,660	28.09%
2	Mr A Hall (multiple shareholdings)	29,067,500	28.05%
3	HSBC Custody Nominees (Australia) Limited	10,329,462	9.97%
4	J P Morgan Nominees Australia Limited	6,378,859	6.16%
5	Citicorp Nominees Pty Ltd	2,870,649	2.77%
6	National Nominees Limited	844,255	0.81%
7	Mr Bram Vander Jagt & Mrs Maaiké Vander Jagt	780,000	0.75%
8	Mr Peter Terence Kempen & Mrs Elaine Margaret Kempen (multiple shareholdings)	678,082	0.65%
9	Grain Exporters (Australia) Pty Ltd	600,578	0.58%
10	BNP Paribas Noms Pty Ltd	583,041	0.56%
11	ECapital Nominees Pty Limited	492,096	0.47%
12	Mr Kenneth John Vander Jagt & Mrs Tanya Vander Jagt	383,600	0.37%
13	Mr Danny Tauber	381,573	0.37%
14	Mr Roderick Lyle (multiple shareholdings)	340,000	0.33%
15	Mr Stephen Geoffrey Wilson & Ms Denise Adele Prandi	337,537	0.33%
16	Mr John Charles Plummer	300,000	0.29%
17	Mr Evan Philip Clucas and Ms Leanne Jane Weston	287,980	0.28%
18	Mr Colin Gregory Organ	271,000	0.26%
19	Mr Michael Wu	244,942	0.24%
20	BNP Parabis Nominees Pty Ltd	229,565	0.22%
		84,508,379	81.56%

(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
S. Hupert	29,107,660
A Hall	29,067,500

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2019

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.

		Comply	Reference/
	Recommendation	Yes/No	explanation
Principle 1 - Lay solid foundations for management and oversight			
1.1	A listed entity should disclose: a) roles and responsibilities of its board and management; and b) those matters expressly reserved to the board and those delegated to management.	Yes	Page 65
1.2	A listed entity should: a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Yes	Page 65
1.3	A listed entity should have written agreement with each director and senior executive setting out the terms of their agreement.	No	Page 65
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Yes	Page 65
1.5	A listed entity should: a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; b) disclose that policy or a summary c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: 1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	Yes	Page 66
1.6	A listed entity should: a) have and disclose a process for periodically evaluation the performance of the board, its committees and individual directors; and b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes	Page 66
1.7	A listed entity should: a) have and disclose a process for periodically evaluating the performance of its senior executives; and b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes	Page 66

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2019

		Comply	Reference/
	Recommendation	Yes/No	Explanation
Principle 2 - Structure the board to add value			
	The board of a listed entity should:		
2.1	a) have a nomination committee which: <ol style="list-style-type: none"> 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent directors, and disclose the charter of the committee; 3) the members of the committee; and 4) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at this meetings; or b) if it does not have a nomination committee, disclose the fact and the process it employs to address board succession issues and to ensure that the board has the appropriate skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	No	Page 67
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Yes	Directors Report
2.3	A listed entity should disclose: <ol style="list-style-type: none"> a) the names of the directors considered by the board to be independent directors; b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and c) the length of service of each director. 	Yes	Page 65
2.4	A majority of the board of a listed entity should be independent directors.	Yes	Page 65
2.5	The chair of the board of a listed entity should be an independent directors and, in particular, should not be the same person as the CEO of the entity.	Yes	Page 65
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as a directors effectively.	Yes	Page 65
Principle 3 - Act ethically and responsibly			
	A listed entity should:		
3.1	<ol style="list-style-type: none"> a) have a code of conduct for its directors, senior executives and employees; and b) disclose that code or a summary of it. 	Yes	Page 69
Principle 4 - Safeguard integrity in corporate reporting			
	The board of a listed entity should:		
4.1	<ol style="list-style-type: none"> a) have an audit committee which: <ol style="list-style-type: none"> 1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and 2) is chaired by an independent director, who is not the chair of the board; and disclose 3) the charter of the committee 4) the relevant qualifications and experience of the members of the committee; and 	No	Page 67

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	5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		
	b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of external auditor and the rotation of the audit engagement partner.		
		Comply	Reference/
	Recommendation	Yes/No	Explanation
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes	Page 68
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Yes	Page 68
Principle 5 - Make timely and balanced disclosure			
5.1	A listed entity should: a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and b) disclose that policy or a summary of it.	Yes	Page 68
Principle 6 - Respect the rights of security holders			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Yes	Page 68
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Yes	Page 68
6.3	A listed entity should disclose policies and progress it has in place to facilitate and encourage participation at meetings of security holders.	Yes	Page 68
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes	Page 68
Principle 7 - Recognise and manage risk			
7.1	The board of a listed entity should: a) have a committee or committees to oversee risk, each of which: 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent director; and disclose 3) the charter of the committee 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	No	Page 69

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7.2	<p>The board or a committee of the board should:</p> <ul style="list-style-type: none"> a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and b) disclose, in relation to each reporting period, whether such a review has taken place. 	Yes	Page 69
7.3	<p>A listed entity should disclose:</p> <ul style="list-style-type: none"> a) if it has an internal audit function, how the function is structured and what role it performs; or b) if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving effectiveness of its risk management and internal control processes. 	No	Page 69
7.4	<p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	Yes	Page 69
Principle 8 – Remunerate fairly and responsibly			
8.1	<p>The board of a listed entity should:</p> <ul style="list-style-type: none"> a) have a remuneration committee which: <ul style="list-style-type: none"> 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent director; and disclose 3) the charter of the committee 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	No	Page 67
8.2	<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	Yes	Page 67
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b) disclose that policy or a summary of it. 	No	Page 67

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FOR THE YEAR ENDED 30 JUNE 2019

Pro Medicus Limited's corporate governance practices were in place throughout the year ended 30 June 2019.

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
P T Kempen	Chairman, Non-Executive Director, Chairman Audit Committee
A Glenning	Non-Executive Director
L Farrell	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.

The appointment of appropriately skilled Non-Executive Directors, together with a broadly unchanged business base has meant one new director nomination has occurred this year.

Executive 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.

Non-Executive Directors and senior executives have a written employment agreement with the Company setting out the terms of their appointment.

Dr 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, Mr Anthony Glenning was appointed in May 2016 and Dr Leigh Farrell was appointed in September 2017.

Company Secretary

The Company Secretary is accountable to the Board on all matters to do with the proper functioning of the Board. The Company Secretary, who is also the Chief Financial Officer, attends all Board meetings and ensures that the business at Board meetings is accurately captured in the minutes of these meetings.

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.

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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. These mechanisms include the following:

- 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.

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.

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.

The Group has established a diversity policy outlining the board's measureable 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">• There were no key senior female appointments made during the year as there were no key senior appointments made during the year.• Pro Medicus did not appoint any females in managerial roles as there were no managerial appointments made during the year• As at 30 June 2019, women represented 21% in the Group's workforce (2018:23%), 20% in key executive positions (2018:20%) and 0% at board level (2018:0%)

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	<ul style="list-style-type: none"> Women represented 18% of new hires during the year (2018:43%) <p>For the upcoming financial year, the Group targets to increase female representation in the Group's workforce to 25-30%</p>
Objectives	<ul style="list-style-type: none"> Steps taken/Outcome
Promote an inclusive culture that treats the workforce with fairness and respect.	<ul style="list-style-type: none"> 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. No cases of discrimination were reported during the year (2018: nil).
Provide career development opportunities for every employee, irrespective of any cultural, gender or other differences.	<ul style="list-style-type: none"> Whilst Pro Medicus place focus on gender diversity, career development opportunities are equal for all employees. <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 Company does not have a policy in regards to whether participants are permitted to enter into transactions (whether through derivatives or otherwise) which limit the economic risk of participating in the scheme, however the Board are in the process of evaluating a policy for such issues.

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
 A Glenning
 L Farrell

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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, the Committee does not meet the requirements of Recommendation 4.1 as 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.

The number of meetings held and individual attendance of Committee members at those meetings are disclosed in the Directors Report.

Prior to approval of the Company's annual financial statements, the Board obtains a declaration from the Chief Executive Officer and Chief Financial Officer that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

A representative of the external auditors Ernst & Young will continue to attend the Annual General Meeting and is available to answer questions from security holders relevant to the audit.

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.promedicus.com.au;
- email contact with registered users; and
- special written communications to shareholders distributed with the dividend notifications.

The company ensures 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. Shareholders are encouraged to receive communications electronically as requested and can elect to do so through the company's share registry.

A copy of the Corporate Governance Statement is also available of the Company's website – www.promedicus.com.au.

The Company effectively facilitates two-way communication with shareholders, through six monthly investor relations roadshows and through constant investor meetings and conference calls with shareholders on request.

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.

Executives, directors and employees of the group may only trade in the securities of the parent company during an open period.

Only in exceptional circumstances will approval be forthcoming outside of an open 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.

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FOR THE YEAR ENDED 30 JUNE 2019

Code of Conduct

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

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.

Whilst the Company has not established an internal audit function, it 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

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.

A review of the Company risk management policy was not undertaken during the year.

The Board does not believe the Company has any material exposure to economic, environmental and social sustainability risks at the present time.

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
Anthony Glenning	Non-Executive Director
Dr Leigh Farrell	Non-Executive Director

Company Secretary

Clayton James Hatch

Registered Office

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Internet Address

www.promedicus.com.au
www.promedicus.com
www.visageimaging.com

Solicitors

Sci-Law Strategies
Morrison Foerster

Bankers

Westpac Banking Corporation

Auditors

Ernst & Young

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
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Mailing address:

Link Market Services Limited
Locked Bag A14
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Telephone +612 8280 7111
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Facsimile +612 9287 0303
Facsimile (proxy forms only) +612 9287 0309
E-mail registrars@linkmarketservices.com.au
Website: 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 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 – 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