Results for announcement to the market

Healius Limited

ACN 064 530 516

Appendix 4E – Preliminary Final Report (Unaudited)

For the year ended 30 June 2020

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Healius Limited

Appendix 4E – Preliminary Final Report (Unaudited)

Results for announcement to the market

For the year ended 30 June 2020

$M	% CHANGE 2020 VS 2019	2020 TOTAL	RESTATED 2019 TOTAL
Revenue from continuing operations	+1.4%	**1,584.6**	1,562.1
Profit for the year after tax from continuing operations	+25.9%	**72.0**	57.2
(Loss)/profit for the year after tax	-227.3%	**(70.5)**	55.3
Underlying profit for the year after tax [1]	-21.2%	**55.4**	70.3

CENTS PER SHARE	2020 TOTAL	RESTATED 2019 TOTAL
Basic and diluted (loss)/ earnings per share from continued and discontinued operations	**(11.3)**	9.2
Underlying basic and diluted earnings per share	**8.9**	11.6
Final dividend [2]	**-**	3.4
Interim dividend [2]	**2.6**	3.8
	2.6	7.2

FINANCIAL STATEMENT	FOR THE YEAR ENDED 30 JUNE 2020 (POST AASB 16)	FOR THE YEAR ENDED 30 JUNE 2019 (PRE-AASB 16)
Consolidated statement of profit and loss	Reporting by nature of continuing operations, with results for discontinued operations consolidated as one line	Reporting by nature of continuing operations, with results for discontinued operations consolidated as one line
Consolidated statement of financial position	Reporting in detail for continuing operations, with discontinued operations consolidated and reported on two lines, assets held for sale and liabilities held for sale	Reporting as a Consolidated Group
Consolidated statement of cash flows	Reporting as a Consolidated Group, combining cash flows of both continuing and discontinued operations by nature of cash flow. Separate summary cash flows disclosed for discontinued operations	Reporting as a Consolidated Group

[1] Underlying profit excludes the impact of restructuring/strategic initiatives and other non-recurring items. A full reconciliation between statutory profit and underlying profit is contained in Note 2 and in the review of operations on page 3 of this preliminary final report for the year ended 30 June 2020.

[2] The Board has determined that no FY20 final dividend will be paid at this time. The FY20 interim dividend (2.6 cps, fully franked) is anticipated to be paid (as rescheduled) on 15 October 2020. The Board will continue to monitor trading conditions in FY21 and may consider payment of a special dividend towards the end of calendar year 2020.

FY 2020 OVERVIEW

	GROUP	PATHOLOGY	IMAGING	DAY HOSPITALS
FY 20	Good trading pre and post COVID-19 lock-down, but significant and rapid volume reductions during lock-down Proactive response as frontline care provider with COVID-19 testing facilities, drive-through collection centres, and GP telehealth, while maintaining permanent staffing levels Cash conservation and capital constraint delivering good balance sheet and gearing ratios	Revenue growth with average fee increase Natural hedge from COVID-19 testing offsetting softness in BAU MBS fee for COVID enabled Healius' valuable contribution to the fight against COVID Strong trading outside of lock-down and cost management delivered increase in EBIT	February YTD revenue and EBIT growth Revenue and EBIT significantly impacted mid-March onwards by COVID-19 with largely fixed cost base Unlike Pathology, no Government support or natural hedge	Division significantly impacted mid-March onwards by COVID-related clinical restrictions Montserrat and HLS DH[3] received a small amount of Government support through JobKeeper and viability agreements Notwithstanding restrictions, Montserrat's delivered a strong result due to growth in its four new sites[4]
STRATEGY	Sale of HPC[5] to deliver portfolio simplification, strengthens Balance Sheet and remove a capital intensive-business SIP[6] savings ($54 million annualised) offsetting growth in cost base. FY21 targeting margin expansion from more complex but higher value structural improvements Right-sizing overheads following HPC sale Rationalisation of non-underlying spend from FY21	Commercial opportunities in COVID-19 testing and specialties Network optimisation based on value not volume of ACC footprint Digitisation of customer journey Updated LIS[7] pathway targeting lower cost and risk and better alignment of benefits Workforce planning and rostering	Revenue growth opportunities in hospital channel and specialties Network optimisation, particularly NSW community sites Digitisation of customer journey iCAR[8] effective completion delivering efficiencies and improved service Workforce planning and rostering	Montserrat - continued ramp-up of four new sites and inorganic growth HLS DHs - labour and other initiatives to deliver turnaround IVF - monetisation of selected services and digitisation of customer journey to deliver profitable growth

[3] Healius Day Hospitals
[4] Albany Day Hospital, Westside Private, Westside Haematology and Oncology and Western Haematology and Oncology
[5] Healius Primary Care
[6] Sustainable Improvement Program
[7] Laboratory Information System
[8] Imaging Core Application Refresh

GROUP PERFORMANCE

	30 JUNE 2020 $M UNDERLYING [9]	30 JUNE 2019 $M	30 JUNE 2020 $M REPORTED	30 JUNE 2019 $M
Revenue	1,600.4	1,565.4	1,597.4	1,566.4
EBIT	102.7	125.9	76.0	107.6
NPAT (continuing operations)	55.4	70.3	72.0	57.2
NPAT (incl. adjustment for discontinued operations)			(70.5)	55.3

GROUP UNDERLYING RESULTS

During the year ended 30 June 2020, Healius was tracking ahead of the prior comparative period and in line with guidance until mid-March, with strong growth in revenue and EBIT in Pathology, Imaging and Montserrat Day Hospitals.

In mid-March, the spread of COVID-19 accelerated in Australia and the Federal Government instigated a national lock-down. As a frontline healthcare provider, Healius focused on helping to combat the virus with dedicated COVID-19 pathology drive-throughs and collection centres, increased COVID-19 testing capabilities at its pathology laboratories, and GP isolation rooms and telehealth services.

The Group experienced an increase in its COVID-19 testing and telehealth services but a sharp and rapid decline in volumes in non-critical and routine services in line with community concerns around visiting healthcare centres and the cessation of all non-urgent elective surgery. At their worst, volumes were down over 30% and 40% in Pathology and Imaging respectively compared to the prior comparable period. Additional costs for personal protective equipment and screening in GP clinics were incurred to provide a safe environment for patients and staff.

During mid-March to April with the extent of the volume declines and the timing of any recovery unknown, management implemented measures to cut its operating costs, notwithstanding its largely fixed cost base, including reducing opening hours and temporarily closing pathology metropolitan collection centres and imaging sites. While keeping all its permanent workforce employed, it undertook labour management with the assistance of employees and unions. It also negotiated $6.6 million in short-term rental concessions across the Group.

The pathology division is eligible for assistance, currently estimated at $11 million in connection with its revenue declines in April, in return for the ongoing delivery of its services including in remote and regional areas, maintaining permanent staffing levels, and reducing senior management and Board salaries and fees. Montserrat and Healius Day Hospitals will receive a combined $1.7 million in JobKeeper and viability payments. Without this support, further reductions in services and other measures would have been undertaken.

From May onwards, the economy started progressively opening up and Healius saw a good recovery in its volumes although with differing recovery rates by division and by state. This dynamic situation has continued into FY21 and the Group remains focused on the proactive management of the business in response to localised COVID-19 outbreaks and state government initiatives.

Overall in FY20, the Group recorded a 2% growth in revenue, notwithstanding the significant impact of COVID-19. Underlying EBIT was down 18%, underpinned by a strong trading performance in Pathology and Montserrat in combination with cost-saving initiatives. This was partially offset by the significant COVID-19-related decreases in Imaging.

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[9] All comments in this Review of operations relate to underlying results for continuing operations unless otherwise noted. Underlying results for continuing operations for the year ended 30 June 2020 exclude the impact of the loss on sale of Healius Primary Care, items considered to be outside the underlying activities of the Group and the impact of AASB 16. For a reconciliation and analysis, refer section below titled: 'Group reported results'.

SALE OF HEALIUS PRIMARY CARE

Together with its 1H 20 results, Healius announced a sale process for its Medical Centres and Dental businesses, called Healius Primary Care[10], in line with its strategy to simplify the portfolio and focus on its diagnostic services and day hospitals.

In June 2020, Healius announced a successful conclusion to this process with a sale agreement signed with certain funds managed by BGH Capital for $500 million enterprise value, enabling the realisation of value not fully reflected in the historical share price. The sale proceeds of approximately $470 million[11] will significantly strengthen the Group's balance sheet and support growth initiatives. Completion is expected in 1H 21.

Group results for continuing operations in FY20 exclude the trading of Healius Primary Care since this business is deemed to be 'held for sale' under the accounting standards for this period. The comparable period has also been adjusted. Reported results for FY20 include an adjustment for a loss from discontinued operations which primarily represents a non-cash write-off of goodwill (refer section titled 'Discontinued Operations').

SUSTAINABLE IMPROVEMENT PROGRAM

The Sustainable Improvement Program (SIP) was introduced at the end of FY19 to systematically reduce costs and improve efficiencies across the Group. Pathology and Imaging labour, Pathology property and Pathology consumables were identified as the largest addressable opportunities with a target of $70 million in savings announced, representing 4-5% of the cost base.

In FY20, over 150 initiatives commenced, delivering savings in labour, property, consumables and IT. Across the Group, in-year savings of $37 million[12] were achieved, notwithstanding the inevitable shifting of focus to COVID-related challenges from mid-March onwards. The annualised run rate of $54 million[9] in savings makes up a good portion of the program's total target of $70 million. These savings have served to partially offset cost inflation across the Group.

BALANCE SHEET MANAGEMENT

At the end of FY20, Healius delivered a strong balance sheet with ratios comfortably within bank covenants and increased liquidity at $424 million. Through cash conservation measures during COVID-19, operating cash flow was above the prior year and capital expenditure was carefully managed.

Overall, Healius has a strong balance sheet and a good buffer to sustain any further disruptions from COVID-19. The completion of the sale of Healius Primary Care in FY21 will deliver cash proceeds in the order of $470[5] million which will give the Group significant flexibility for capital management and value-generating investments.

In addition, a substantial portion of capital expenditure will cease following the sale of Healius Primary Care in FY21 with 35% of FY20 capital expenditure totalling $122.1 million relating to Healius Primary Care.

DIVIDENDS

On 26 February 2020, Healius' Board determined that an interim dividend of 2.6 cents per share, fully franked, would be payable. On 14 April 2020, due to the negative impacts of COVID-19 on the business at that time, the Board determined to defer payment of this dividend for six months. This dividend is expected to be paid as rescheduled on 15 October 2020.

Notwithstanding its relatively strong FY20 result, the Board does not consider it appropriate to pay a final dividend for FY20 because it has received the benefit of assistance and, in some cases, personal sacrifices

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[10] Healius Primary Care comprises 69 large scale medical centres, 13 Health & Co practices and 62 dental clinics. Four small scale medical centres have been retained by Healius and are in the process of being closed.

[11] Up to $75 million may be deferred up to 18 months, payable once the dental business returns to pre-COVID-19 trading levels. Also subject to movements in working capital and capital expenditure and sale costs over the period until completion.

[12] After 1-off implementation costs of $13 million.

from its stakeholders including its people, landlords and Government throughout a challenging second half of FY20.

Given the strong outlook for FY21, the Board expects regular dividends to re-commence in the first half of 2021. Moreover, following the completion of the sale of Healius Primary Care, the Board intends to review its capital structure including consideration of an out-of-cycle dividend and other capital uses. The Board hopes to provide an update on this capital management review at its AGM on 22 October 2020.

GROUP STRATEGY

STREAMLINED PORTFOLIO

With the completion of the sale of Healius Primary Care, Healius will be a specialist diagnostics company with a growing day hospitals business. It will have balance sheet flexibility, low leverage and a high level of liquidity together with significantly reduced requirements for capital expenditure.

Being the second and third largest player in Pathology and Imaging respectively in Australia, Healius will build on its strong brands, clinical leadership and established position with targeted investment for growth. Over time, it will look to invest in the Day Hospitals, a sector with economic, technological and regulatory tailwinds as alternative to traditional overnight hospital care.

SUSTAINABLE IMPROVEMENT PROGRAM ('SIP')

As mentioned above, SIP was introduced in late FY19 to systematically reduce costs and improve efficiencies across the Group. A target of $70 million in savings, representing 4-5% of the Group's cost base, was set and $54 million of annualised savings were achieved in FY20.

From FY21, the program aims to deliver margin expansion, with a focus on addressing more complex but higher value structural improvements. Initiatives are focused in four major categories:

- Digitisation and automation – optimise revenue, via improved consumer experience and development of new markets, and drive cost savings, via standardisation and automation of processes
- Network optimisation – rationalise network footprints in Pathology and Imaging including laboratories, collection centres, fleet of couriers, warehouses and imaging facilities
- Workforce management – develop a better balance of workloads in the frontline operations and a more dynamic rostering capability to better match supply and demand with the workforce
- Sourcing – direct sourcing or re-tendering to reduce costs of external spend, currently at $750 million

Healius has already undertaken an organisational review which has seen the management structure simplified, the divisions more autonomous and the group functions more efficient. It will complete the rightsizing of its support function cost base to reflect its smaller and more streamlined portfolio, with targeted savings of $15 million in overheads by the end of FY22.

DIVISIONAL RESULTS

PATHOLOGY

	30 JUNE 2020 $M	30 JUNE 2019 $M	BETTER/(WORSE) %
Revenue	1,160.1	1,128.3	2.8
EBITDA	142.3	136.1	4.6
Depreciation	(20.9)	(19.8)	(5.6)
Amortisation	(6.3)	(5.3)	(18.9)
EBIT	115.1	111.0	3.7
Total capital expenditure	36.9	35.1	(5.1)

Pathology's revenue was 3% higher than FY19, due to a combination of an average fee increase of 2.9% and a volume decline of 1.5%, underpinned by good trading up until the mid-March and April national lockdown and by a good recovery in BAU testing from May along with strong COVID-19 volumes.

The average fee increase was delivered from a range of initiatives during the year including private billing for electrocardiograms, overseas patient billing and health fund gap billing. It was also due to the COVID testing fee from the Government which has enabled the reconfiguration of laboratories to accommodate COVID-19 testing equipment, the roll-out of drive-through testing centres to enable easy and secure access for the public, and the operation of significantly extended hours to deliver test results back to the public quickly and efficiently.

Overall, Pathology's EBIT result improved 4% compared to FY19 as a result of strong cost control measures in combination with good trading other than in the mid-March/April national lockdown.

At the height of COVID-19 lock-down restrictions, the division responded with cost control measures including temporarily closing a number of metropolitan collection centres and negotiating rental reductions and deferrals. Employment levels were maintained with staff and unions working together with management to navigate the dynamic situation.

In addition, the division will receive Government support, currently estimated at $11 million, to assist with its significant volume declines in April. This support was in return for undertakings around availability including of its remote and regional services, maintenance of staffing levels and remuneration and fee reductions for the Board and senior management. Without this support, additional cost reductions would have been undertaken.

The Sustainable Improvement Program delivered $17 million in savings in business-as usual activities. Both labour costs and approved collection centre costs grew at a lower rate than revenue. The division also focused on controlling capex spend during the period, with the increase attributable to the acquisition of a small pathology group and the development of a new laboratory in Western Australia, due to complete in FY21.

STRATEGY

Revenue growth

The division has made good progress in tendering for commercial COVID-19 testing opportunities, including partnerships with the Federal Government and the AFL. This drive will continue in FY21. Pathology also continues to see opportunities in niche specialties such as genetics, with non-invasive prenatal testing in its genetics division up approximately 30% on the prior period.

Network Optimisation

Pathology aims to continue to right-size its footprint of collection centres and laboratories, based on value rather than volume, and to build on the initiatives undertaken as part of the COVID-19 response when a substantial number of centres were temporarily closed.

Digitisation

Pathology is investing in a modern infrastructure platform that will provide significant clinical, operational and financial benefits to support future growth. This includes:

- Upgrade to the main laboratory testing equipment, called the Serum Work Area, which covers around 60% of all pathology tests. This will increase automation and improve clinical methodologies while being at a lower cost per test. Laverty in New South Wales was completed in 1H 20, and QML in Queensland, Dorevitch in Victoria, Western Diagnostic Pathology in Western Australia and Northern Territory are on track for completion in FY21.
- Implementation of the national Laboratory Information System, or LIS, to enable Healius to standardise processes and conventions, automate the pre-analytical processes (in collection, courier, data entry, and specimen reception areas), increase functionality and better meet referrers' needs.

  The project will deliver a single instance of LIS within the existing system as well as additional modules for pre-analytical, reporting and specialities, such as genomics. A detailed program will be announced in 1H 21 on completion of vendor discussions and project planning.

The division will also focus in the near-term on improving its digital capability in the customer journey, for example through e-referrals and e-results, to maximise efficiencies and improve the consumers' experience.

Workforce management

Pathology aims to improve its workforce capability management through planning and rostering initiatives.

IMAGING

	30 JUNE 2020 $M	30 JUNE 2019 $M	BETTER/(WORSE) %
Revenue	376.7	391.3	(3.7)
EBITDA	31.8	53.8	(40.9)
Depreciation	(12.1)	(13.4)	9.7
Amortisation	(2.5)	(2.0)	(25.0)
EBIT	17.2	38.4	(55.2)
Total capital expenditure	13.4	22.1	39.4

In FY20, Imaging's revenue decreased by 4% due to the rapid and significant decline in volumes from mid-March as a result of the COVID-19 pandemic and the national lock-down, peaking in excess of 40% compared to prior comparable period. From May, volumes started to return to normal in line with the reopening of the economy and the resumption of elective surgery. Unlike Pathology, Imaging does not have a natural 'hedge' in the form of COVID testing to offset the declines in business-as-usual testing.

The division's EBIT was $17.2 million for the period, a decrease of 55% due to COVID-19 related volume declines and increased costs for personal protective equipment. Faced with a largely fixed cost base and a rapid and significant volume decline, Imaging was able to achieve some cost savings including temporary site closures, reduction in opening hours and redeployment of staff. Labour management was undertaken with the support of the unions and staff while permanent employment levels were maintained. The division was not eligible for Government support such as JobKeeper.

STRATEGY

Digitisation

The Imaging Core Application Refresh (iCAR) has delivered a new radiology information system (RIS) and a new picture archiving and communication solution (PACS) to the division. iCAR roll-out is now complete in all but a small number of sites. These platforms have improved radiologist workflow, voice recognition, referrer delivery channel and images. Cost efficiencies are now being realised and iCAR is enhancing the way the division interacts with referrers and their patients. A further component of Imaging's technology road map is to digitise the end-to-end patient journey, including referrals, booking forms, check-in and results. Benefits are expected from FY22 onwards.

Revenue Growth

The division will leverage iCAR to target the top five specialty referral groups to grow its revenue. The business also remains focused on developing the higher margin hospital channel.

Network optimisation

Imaging has identified opportunities to improve its returns through network optimisation, particularly in its footprint of community sites.

Workforce management

The division aims to optimise its front-line labour through benchmarking and rostering initiatives to drive efficiencies.

DAY HOSPITALS

This division includes Montserrat, Healius Day Hospitals and IVF and has been created following the decision to sell Healius Primary Care.

30 JUNE 2020 $M	MONTSERRAT	HEALIUS DAY HOSPITALS	IVF	DAY HOSPITALS TOTAL
Revenue	34.2	12.5	18.7	65.4
EBITDA	5.4	(5.3)	(1.8)	(1.7)
Depreciation	(2.3)	(1.4)	(1.2)	(4.9)
Amortisation	0.0	0.0	(0.2)	(0.2)
EBIT	3.1	(6.7)	(3.2)	(6.8)
Total capital expenditure	2.6	2.2	3.4	8.2

30 JUNE 2019 $M	MONTSERRAT[13]	HEALIUS DAY HOSPITALS	IVF	DAY HOSPITALS TOTAL
Revenue	18.9	10.8	17.0	46.7
EBITDA	1.8	(2.5)	0.5	(0.2)
Depreciation	(1.2)	(0.8)	(0.9)	(2.9)
Amortisation	(0.2)	0.0	(0.1)	(0.3)
EBIT	0.5	(3.3)	(0.5)	(3.3)
Total capital expenditure	4.2	6.2	3.9	14.3

Montserrat Day Hospitals

In FY20, Montserrat delivered $34.2 million of revenue, an increase of 81% over FY19. Montserrat traded strongly until mid-March, with revenue increasing primarily due to the ramp-up of its four new facilities, including Brisbane's multi-specialist Westside Private Hospital. Volumes were impacted by the elective surgery restrictions in mid-March and April but moved back towards pre-COVID levels with the lifting of these restrictions.

Montserrat EBITDA at $5.4 million is broadly in line with expectations at the time of the acquisition although one year later than expected due to commissioning delays, and includes a $2.6 million contribution from the four new facilities.

Notwithstanding the significant COVID-related volume declines, the business achieved EBIT of $3.1 million in FY20, a significant increase on the prior year. It accessed $0.6 million in JobKeeper from the Federal Government for seven of its hospitals, without which it would have necessarily undertaken cost containment initiatives.

Healius Day Hospitals

Healius Day Hospitals grew revenue by 16% to $12.5 million in FY20, with its volumes also significantly impacted by the COVID-related elective surgery restrictions. Overall, the business had an EBIT loss of $6.7 million for the year, impacted by COVID-19, the closure of Bankstown, and certain one-off costs due to the separation from Healius Primary Care. The four Healius Day Hospitals accessed various State Governments' Viability Guarantee agreements totalling $1.1 million.

IVF

Healius' IVF business, Adora Fertility, grew revenue by 10% to $18.7 million. Its volumes were impacted by the elective surgery restrictions, with a four-week total shut down . Pleasingly, strong GP and specialist commitment to telehealth consultations ensured continued patient throughput during this time. IVF volumes recovered with the reopening of the economy, with demand strong in May, June and July.

The business had an EBIT loss of $3.2 million in FY20, half of which arose during the lock-down. It did not receive any Government support. Initiatives were introduced towards the end of the year to improve pricing and increase the revenue per cycle. Pleasingly, Adora Fertility delivered profits in June and July 2020.

During the year the business undertook some capital-light initiatives including the enhancement of its sites. A focus on targeted social media campaigns drove increased demand from new patients and Adora Fertility continues to grow its market share.

[13] FY 2019 consists of 8 months of trading

STRATEGY

Montserrat Day Hospitals

Montserrat operates in a sector where advancements in medicine and technology and on-going cost pressures are moving patients away from high-cost overnight hospitals into day hospitals. Montserrat's flagship hospital, Westside Private Hospital, has equivalent high-level facilities to the Ambulatory Surgical Centres in the USA, which perform same-day outpatient surgical care and have become an integral part of that country's healthcare system.

Australia is lagging behind other developed markets in the shift towards day surgeries. Cancer treatments, cardiology, and orthopaedic procedures are projected to grow strongly in the outpatient setting, reducing hospital costs and improving clinical outcomes in a day hospital setting. The interest from private health insurers and governments in potential new models of care remains strong.

Montserrat is focused on further growth through the ramp up of its four new sites which are expected to double their EBITDA contribution in FY21. The division will look for inorganic growth opportunities, as a leading player with a scalable platform in a fragmented industry.

Healius Day Hospitals

The business is focused on a turnaround from its current loss-making into profit. It aims to achieve this through the integration and rebranding of the Healius Day Hospitals into Montserrat, through improving margins by merging supply chains and billing systems and by focusing on business development and labour management.

The business has rationalised its network with the closure of Bankstown and is in the process of selling its Eye Clinics. Going forward, Healius Day Hospitals will partner with GP owners rather than operating individual specialist clinics.

IVF

The business is focused on capitalising on its market share and delivering profitable contribution to the Group. It will continue to optimise its service model through digitisation of delivery activities, grow brand awareness and monetise selective services to increase revenue per cycle. IVF is also upgrading capacity in Western Australia to meet expected demand.

CORPORATE

UNDERLYING	FY 2020 $M	FY 2019 $M	BETTER/(WORSE) %
Revenue	0.1	0.3	(66.7)
EBITDA	(15.3)	(15.8)	3.2
Depreciation	(4.3)	(3.1)	(38.7)
Amortisation	(3.3)	(1.3)	(153.8)
EBIT	(22.9)	(20.2)	(13.4)
Total capital expenditure	9.7	6.6	47.0

Total corporate costs include centralised support services for the Group where functions benefit from scale, and core corporate costs including strategy, capital and stakeholder management, Board fees and executive incentives. Approximately $90 million is managed at a group level of which approximately $70 million is allocated to the operations in the form of an overhead charge based on headcount, footprint, and usage. Divisional overhead allocations were reset following the sale of Healius Primary Care at appropriate go-forward rates.

In FY20, a redesign of the corporate centre and business unit head offices has delivered a simpler operating model. In-year savings of $8 million were achieved, including labour, as part of the Sustainable Improvement Program. These savings partially offset increases in activity-related costs such as IT and property and significant price rises in insurance premiums.

GROUP CASH FLOW AND GEARING

Group cash flow for FY 2020 was as follows:

REPORTED $m	30 JUNE 2020[14] $M	30 JUNE 2019 $M
Operating cash flow	339.2	127.6
Maintenance capital	(55.9)	(51.6)
Growth capital	(66.0)	(176.4)
Cash flow after capital investment	217.3	(100.4)
Proceeds from issuing shares	-	244.0
Payment of lease liabilities	(186.4)	-
Debt funding / (reduction)	15.0	(66.0)
Dividends	(21.2)	(52.3)
Capital Recycling	-	10.5
Net increase in cash held	24.7	35.8
Opening cash	119.7	84.0
F/X	0.1	(0.1)
Closing cash	144.5	119.7

The Group's operating cash flow before AASB 16 was $153.4 million and exceeded FY19 notwithstanding the impact of COVID-19, reflecting management's cash conservation during 2H 20, including network rationalisation, rental negotiations, and labour management.

Capital expenditure

Operating cash flow was used to fund $55.9 million in maintenance capital (FY19 $51.6 million) and $66.0 million in growth capital (FY19 $176.4 million including $68.3 million for the acquisition of Montserrat).

Maintenance capital expenditure for Pathology, Imaging and Day Hospitals totalled $34.3 million in FY20 and for Healius Primary Care totalled $21.6 million primarily on upfront payments to healthcare professionals. The latter expenditure will no longer be required following the sale of Healius Primary Care in FY21.

Growth capital expenditure for Pathology, Imaging and Day Hospitals totalled $44.7 million in FY20 and included:

- $10.7 million for strategic projects
- $11.0 million for the Montserrat acquisition earn-out relating to the commissioning of the four new sites
- $5.2 million for a small pathology acquisition

Growth capital expenditure for Healius Primary Care totalled $21.3 million and included $10.4 million GP clinic earn-outs and acquisitions. Once again, this growth investment will not continue following the sale of Healius Primary Care in FY21.

[14] FY20 amounts have been impacted by the adoption of AASB 16

Group net debt at 30 June 2020 was as follows:

REPORTED $M	30 JUNE 2020 $M	30 JUNE 2019 $M
Bank and finance debt[15]	810.5	797.9
Cash[16]	(144.5)	(119.7)
Net debt	666.0	678.2
Bank gearing ratio (covenant <3.5x)[17]	2.7x	2.4x
Bank interest ratio (covenant >3.0x)	8.9x	9.5x

At 30 June 2020, gearing and interest ratios remain comfortably within bank covenants due to cash management, despite significant COVID-19-related trading disruptions.

In addition, Healius successfully refinanced the first tranche of its syndicated bank debt facility of $500 million which was due to mature in January 2021. The facility has been increased by $70 million to $570 million and its maturity extended to January 2024, with covenants remaining unchanged. The second tranche of $525 million is due to expire in January 2023. As a result of the refinance, Healius had $424 million of liquidity at 30 June 2020.

Overall, Healius has delivered a significant improvement in its leverage over the past five years and has a strong balance sheet and a substantial buffer to sustain any further disruptions from COVID-19. The completion of the sale of Healius Primary Care in FY21 will deliver cash proceeds in the order of $470[9] million which will give the Group significant flexibility for capital management and value-generating acquisitions.

GROUP REPORTED RESULTS

This Review of Operations focuses on the underlying results of Healius which adjust for several items not considered to be part of core trading performance. The reconciliation between reported and underlying results for FY20 is as follows:

FY 2020 $M	REPORTED	DISCONTINUED OPERATIONS	NON-UNDERLYING ITEMS	NON-UNDERLYING ATO CASE	AASB 16 IMPACT	UNDERLYING
EBIT	76.0		43.2		(16.5)	102.7
Interest	(29.6)			(23.6)	29.7	(23.5)
PBT	46.4				13.2	79.2
Income Tax benefit/(expense)[18]	25.6			(46.6)	(4.0)	(23.8)
NPAT continuing operations	72.0				9.2	55.4
NPAT discontinued operations	(142.5)	142.5				

[15] Bank loans and finance liabilities shown net of unamortised borrowing costs
[16] FY20 cash includes $137.5 million from continuing operations and $7.0 million from Healius Primary Care
[17] Bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15 and 16 and adjusted for share-based payments
[18] Reported and underlying tax expense does not reconcile due to non-deductible items within statutory tax expense. Underlying tax is assumed at 30%

DISCONTINUED OPERATIONS: HEALIUS PRIMARY CARE

As noted above, in June 2020 Healius announced a sale of its Medical Centres and Dental businesses, called Healius Primary Care, for $500 million enterprise value. Group reported results for FY20 include an adjustment for discontinued operations. This comprises:

- the trading result for Healius Primary Care for the year,
- an impairment loss from the difference between the net sale proceeds and value of assets to be sold, and
- cost associated with the sale.

Accordingly, a loss on sale of $142.5 million has been recognised, as follows:

DISCONTINUED OPERATIONS PROFIT/(LOSS) ON DISPOSAL	FY 2020 $M	FY 2019 $M
Revenue from Contracts with Customer	253.7	243.9
Expenses	(236.3)	(234.9)
Earnings before interest, tax and impairment	17.4	9.0
Net finance costs	(21.5)	(8.6)
Profit before Tax	(4.1)	0.4
Impairment less costs to sell	(151.0)	0.0
Loss before tax from discontinued operations	(155.1)	0.4
Income tax (expense) / benefit from discontinued operations before impairment	(1.6)	(2.3)
Income tax benefit on impairment loss	14.2	0.0
Profit / (Loss) for the year from discontinued operations	(142.5)	(1.9)

Further details are set out in the Notes to the accounts (Note 18). The loss primarily represents a non-cash write-off of goodwill previously held on Balance Sheet.

NON-UNDERLYING ITEMS

The underlying results of Healius adjust for several items not considered to be part of core trading performance. **Pre-tax non-underlying items of $43.2 million can be analysed as follows:**

	FY 2020 $M
Strategic projects	18.3
Montserrat acquisition	14.5
Impairments	11.6
Other	8.5
Transactions with discontinued operations	(9.7)
EBIT	43.2

Strategic projects

As previously advised, there are three key strategic projects which are transformational in nature and unlikely to be undertaken again at such a collective magnitude. The projects are the technology platform upgrades in Pathology and in Imaging, and the corporate renewal program (previously four projects including Project Leapfrog which is now part of the discontinued operations). They are reported separately both internally and to the market in order to neither distract nor distort the underlying performance. Adjustments in FY20 were as follows:

- Platforms in Pathology $9.9 million (FY 2019 $10.3 million)
- Platforms in Imaging $3.0 million (FY 2019 $3.1 million)
- Corporate renewal program $5.4 million (FY 2019 $9.2 million)

Going forward, only the technology platform upgrades in Pathology will be recorded as a non-underlying project and adjusted between reported and underlying results.

Montserrat acquisition

Healius' acquisition of Montserrat Day Hospitals in FY19 included earn-outs contingent on Montserrat achieving certain financial milestones in FY21 and FY22 and $16.6 million was recognised for these potential earn-outs in the accounts. No earn-out was achieved in FY20 due to the impacts of COVID-19. However, given strong budgeted performance in FY21, an additional amount of $14.5 million has been accrued for FY21 potential earn-out.

Impairments

Impairment costs of $11.6 million primarily relate to Healius Day Hospitals and Eye Clinics that are now a standalone business following separation from Healius Primary Care.

Other

Other non-underlying adjustments of $8.5 million primarily relate to:

- Redundancy costs under the organisational redesign program, consistent with the simplification of the Group management structure, and
- Costs of surplus Head Office space from transitioning to a more flexible operating model for Head Office employees, driven by COVID-19.

Transactions with discontinued operations

The accounting standards require businesses held for sale to include in their results only transactions with external parties and hence to eliminate any intercompany transactions during the period. Accordingly, rental revenue from the Pathology and Imaging divisions, net of overhead charges and other costs, have been eliminated within discontinued operations and the corresponding net costs have also been eliminated in continuing operations. These net costs have been added back for the underlying results of continuing operations.

NON-UNDERLYING ITEMS: ATO CASE 2003-2007

In 2015, Healius was advised by the Commissioner of Taxation ("the Commissioner") that lump sum payments made by it to healthcare practitioners for the financial years 2010 to 2014 were tax deductible. Healius subsequently filed an application for similar tax deductions for the financial years 2003 to 2007[19], subject to the Commissioner's discretion in allowing an out-of-time objection. Following the Commissioner's decision not to allow such an objection, Healius commenced legal proceedings which culminated a favourable decision by the Federal Court of Australia in November 2019. The Commissioner appealed to the Full Court of the Federal Court of Australia and this appeal was heard in August 2020. Healius is awaiting the decision of the appeal. In the meantime, Healius has recognised the following as non-underlying benefits in its reported results due to the favourable Federal Court ruling and the introduction of AASB Interpretation 23 (clarification of accounting for uncertain tax treatments) in FY 2020:

- $46.6 million income tax benefit
- $23.6 million interest benefit (which is taxable)

[19] Healius was in a loss-making position for taxation purposes during FY 2008 and FY 2009

ADOPTION OF AASB 16

AASB 16 was adopted by Healius from 1 July 2019. This standard has removed the distinction between operating and finance leases with most leases now being recognised as a right-of-use asset and a lease liability except for short term leases and leases of low value assets. Healius has applied the new standard using the modified retrospective approach, which requires no restatement of comparative information in the reported results. Because of this, the underlying performance of the business has been stated before the impact of AASB 16 in order to ensure comparability year-on-year. From FY21 onwards, underlying (and reported) performance will be stated including the impact of AASB 16 in both the current and the prior periods.

The impact of AASB 16 on reported results for FY20 is to recognise depreciation and finance costs in the place of operating lease charges. The net impact on Healius' reported results in FY20 is a $9.2 million after-tax loss due to a range of factors including:

- Many of Healius' large leases are relatively new and the recognition of interest costs is higher in the early years
- The majority of Pathology leases, which are small leases and/or have CPI increases, cannot be valued at a modified right of use asset value (which would be lower) and hence deliver a higher P&L expense in FY20
- Both of the above will unwind over time with the P&L impact reversing

Importantly, the adoption of AASB 16 has no economic impact on Healius, nor on its banking covenants, cash flows or shareholder value.

The impact of AASB 16 on the P&L is as follows:

P&L	30 JUNE 2020 $M	30 JUNE 2020 $M	
Property & other expenses	180.2		Operating lease expense reversed
EBITDA		**180.2**	
Depreciation	(163.7)		Depreciation of right of use asset recognised
EBIT		**16.5**	
Finance costs	(29.7)		Interest paid on lease liability recognised
Profit before tax		**(13.2)**	
Tax @ 30%	4.0		
NPAT		**(9.2)**	

The impact of AASB 16 on the cash flow for FY20 is as follows:

CASH FLOW	30 JUNE 2020 $M	30 JUNE 2020 $M	
Gross cash flows from operating activities	226.8		Operating lease payments reversed from gross operating cash flows
Interest paid on lease liabilities	(41.0)		Interest paid on lease liability recognised in operating cash flows
Net cash provided by operating activities		**185.8**	
Payments of lease liabilities	(185.8)		Principal payments on lease liability recognised in financing cash flows
Net cash used in financing activities		**(185.8)**	

The impact of AASB 16 on the closing Balance Sheet for FY20 is as follows:

BALANCE SHEET	30 JUNE 2020 $M	30 JUNE 2020 $M	
Right of use assets	876.9		Leases recognised as an asset and depreciated
Total assets		876.9	
Current interest-bearing lease liabilities	(176.6)		Leases recognised as a liability representing future lease payments discounted at incremental borrowing rate
Non-current interest-bearing lease liabilities	(757.8)		Leases recognised as a liability representing future lease payments discounted at incremental borrowing rate
Total Liabilities		(934.4)	

As shown above, there is a net asset reduction of $57.5 million due to the differences in the profile of depreciation and lease liability run-off on Healius' property leases.

Statement of profit or loss for the year ended 30 June 2020

	NOTE	2020 $M	RESTATED 2019 $M
Revenue	3	**1,584.6**	1,562.1
Other income and gains		**12.8**	4.3
Less:			
Employee benefits expense	4	**816.1**	786.6
Property expenses	4	**56.6**	226.9
Consumables		**203.3**	195.6
Repairs and maintenance		**27.4**	26.1
IT expenses		**38.2**	30.6
Impairment and other related items	4	**10.2**	-
Other expenses		**151.6**	145.1
Depreciation		**42.3**	39.2
Depreciation – Right of Use Asset		**163.7**	-
Amortisation of intangibles		**12.0**	8.7
Earnings before interest and tax		**76.0**	107.6
Net finance costs	4	**(29.6)**	(25.6)
Profit before tax		**46.4**	82.0
Income tax benefit / (expense)	5	**25.6**	(24.8)
Profit for the year from continuing operations		**72.0**	57.2
Loss for the year from discontinued operations	18	**(142.5)**	(1.9)
(Loss)/ profit for the year		**(70.5)**	55.3
Attributable to:			
Equity holders of Healius Limited		**(70.5)**	55.3
(Loss)/ profit for the year		**(70.5)**	55.3

	NOTE	2020 CENTS PER SHARE	RESTATED 2019 CENTS PER SHARE
Basic and diluted earnings per share from continuing operations	6	**11.6**	9.5
Basic and diluted (loss)/ earnings per share from continuing and discontinued operations	6	**(11.3)**	9.2

Statement of other comprehensive income for the year ended 30 June 2020

	2020 $M	RESTATED 2019 $M
(Loss)/ profit for the year	**(70.5)**	55.3
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value loss on cash flow hedges	**(9.7)**	(20.8)
Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss	**8.1**	1.7
Exchange differences arising on translation of foreign operations	**0.2**	0.4
Income tax relating to items that may be reclassified subsequently to profit or loss	**0.5**	5.8
Items that will not be reclassified subsequently to profit or loss		
Net gain on equity instruments designated at fair value through other comprehensive income	–	0.2
Other comprehensive loss for the year, net of income tax	**(0.9)**	(12.7)
Total comprehensive (loss) / income for the year	**(71.4)**	42.6

Statement of financial position as at 30 June 2020

	NOTE	30 JUNE 2020 $M	RESTATED 30 JUNE 2019 $M[1]	RESTATED 30 JUNE 2018 $M[1]
Current assets				
Cash	16 (a)	**137.5**	119.7	84.0
Receivables	7 (a)	**188.9**	169.0	146.5
Interest receivables	5	**23.6**	–	–
Consumables		**26.9**	22.7	22.2
Tax receivable		**23.4**	3.6	–
Contract assets		**2.5**	31.5	34.3
Assets held for sale	18	**915.6**	–	–
Total current assets		**1,318.4**	346.5	287.0
Non-current assets				
Receivables	7 (b)	**2.4**	5.0	3.9
Goodwill	8	**2,040.2**	2,482.5	2,348.7
Right of use asset	1	**876.9**	–	–
Property, plant and equipment	9	**166.7**	327.0	297.5
Other intangible assets	10	**79.3**	77.9	63.0
Contract assets		**5.6**	39.2	51.1
Other financial assets		**1.2**	0.6	10.5
Deferred tax asset		**74.4**	73.9	66.2
Total non-current assets		**3,246.7**	3,006.1	2,840.9
Total assets		**4,565.1**	3,352.7	3,127.9
Current liabilities				
Payables	11 (a)	**220.5**	251.6	218.3
Tax liabilities		**-**	1.9	7.9
Provisions	12 (a)	**119.3**	131.6	147.8
Other financial liabilities		**9.5**	6.9	0.5
Interest bearing liabilities	13 (a)	**-**	0.6	0.8
Lease liability	1	**173.9**	–	–
Liabilities held for sale	18	**447.9**	–	–
Total current liabilities		**971.1**	392.6	375.3
Non-current liabilities				
Payables	11 (b)	**33.5**	35.9	14.1
Provisions	12 (b)	**41.0**	60.5	60.7
Other financial liabilities		**14.2**	15.2	2.6
Interest bearing liabilities	13 (b)	**810.1**	797.3	860.0
Lease liability	1	**763.9**	–	–
Total non-current liabilities		**1,662.7**	908.9	937.4
Total liabilities		**2,633.8**	1,301.5	1,312.7
Net assets		**1,931.3**	2,051.1	1,815.2
Equity				
Issued capital	14	**2,672.3**	2,671.1	2,424.2
Reserves		**(3.4)**	(7.6)	12.9
Accumulated losses		**(737.6)**	(612.4)	(621.9)
Equity attributable to equity holders		**1,931.3**	2,051.1	1,815.2
Total equity		**1,931.3**	2,051.1	1,815.2

1 Refer to Significant accounting policies on page 24 for further details of the restated amounts.

Statement of changes in equity for the year ended 30 June 2020

$M	ISSUED CAPITAL	CASH FLOW HEDGE RESERVE	SHARE-BASED PAYMENTS RESERVE	OTHER RESERVES	ACCUMULATED LOSSES	TOTAL
Balance at 1 July 2019	2,671.1	(15.5)	7.2	0.7	(612.4)	2,051.1
Impact of AASB 16 adoption[1]	–	–	–	–	(20.5)	(20.5)
Balance at 1 July 2019	2,671.1	(15.5)	7.2	0.7	(632.9)	2,030.6
Loss for the year	–	–	–	–	(70.5)	(70.5)
Exchange differences arising on translation of foreign operations	–	–	–	0.2	–	0.2
Fair value loss on cash flow hedges	–	(9.7)	–	–	–	(9.7)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	–	8.1	–	–	–	8.1
Income tax relating to components of other comprehensive income	–	0.5	–	–	–	0.5
Total comprehensive income	–	(1.1)	–	0.2	(70.5)	(71.4)
Shares issued via STIP	1.2	–	(1.2)	–	–	–
Payment of dividends	–	–	–	–	(37.6)	(37.6)
Share–based payment	–	–	9.7	–	–	9.7
Transfers	–	–	(2.2)	(1.2)	3.4	–
Balance at 30 June 2020	2,672.3	(16.6)	13.5	(0.3)	(737.6)	1,931.3

1 Refer to Significant accounting policies on page 24 for further details of the restated amounts.

Statement of changes in equity for the year ended 30 June 2020

$M	ISSUED CAPITAL	FINANCIAL ASSETS FAIR VALUE RESERVE	CASH FLOW HEDGE RESERVE	SHARE-BASED PAYMENTS RESERVE	OTHER RESERVES	ACCUMULATED LOSSES	TOTAL
Balance at 1 July 2018	2,424.2	6.4	(2.1)	8.3	0.3	(620.4)	1,816.7
Impact from prior year error[1]	–	–	–	–	–	(3.7)	(3.7)
Balance at 1 July 2018 (restated)	2,424.2	6.4	(2.1)	8.3	0.3	(624.1)	1,813.0
Profit for the year	–	–	–	–	–	55.3	55.3
Exchange differences arising on translation of foreign operations	–	–	–	–	0.4	–	0.4
Fair value gain on investments	–	0.2	–	–	–	–	0.2
Fair value loss on cash flow hedges	–	–	(20.8)	–	–	–	(20.8)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	–	–	1.7	–	–	–	1.7
Income tax relating to components of other comprehensive income	–	–	5.7	–	–	0.1	5.8
Total comprehensive income	–	0.2	(13.4)	–	0.4	53.4	40.6
Entitlement offer	250.5	–	–	–	–	–	250.5
Entitlement offer – fees and transaction costs	(6.5)	–	–	–	–	–	(6.5)
Entitlement offer – equity tax	1.9	–	–	–	–	–	1.9
Payment of dividends	–	–	–	–	–	(52.3)	(52.3)
Share–based payment	–	–	–	1.9	–	–	1.9
Transfers	–	(6.6)	–	(2.0)	–	8.8	–
Shares issued via Short Term Incentive Plan	0.8	–	–	(0.8)	–	–	–
Shares issued via Sign On Arrangement	0.2	–	–	(0.2)	–	(0.2)	–
Balance at 30 June 2019	2,671.1	–	(15.5)	7.2	0.7	(612.4)	2,051.1

1 Refer to Significant accounting policies on page 24 for further details of the restated amounts.

Statement of cash flows *for the year ended 30 June 2020*

	NOTE	2020 $M	2019 $M
Cash flows from operating activities			
Receipts from customers		**1,899.9**	1,879.1
Payments to suppliers and employees		**(1,494.7)**	(1,684.1)
Gross cash flows from operating activities		**405.2**	195.0
Interest paid on interest bearing liabilities		**(27.5)**	(30.7)
Interest paid on lease liabilities[1]		**(41.0)**	–
Net income tax paid		**1.7**	(37.9)
Interest received		**0.8**	1.2
Net cash provided by operating activities	16 (b)	**339.2**	127.6
Cash flows from investing activities			
Payment for property plant and equipment		**(49.3)**	(79.6)
Payment for Day Hospital practices and subsidiaries		**(11.0)**	(68.3)
Payment for Medical Centres healthcare professionals		**(21.9)**	(28.9)
Payment for Medical Centres practices and subsidiaries		**(10.4)**	(29.4)
Payment for Imaging healthcare professionals		**(1.1)**	(0.9)
Payment for Imaging practices and subsidiaries		**-**	(0.5)
Payment for Pathology healthcare practices and subsidiaries	17	**(5.2)**	–
Payment for other intangibles		**(23.1)**	(20.4)
Proceeds from sale of investments		**-**	9.9
Proceeds from the sale of property plant and equipment and intangibles		**0.1**	0.6
Net cash used in investing activities		**(121.9)**	(217.5)
Cash flows from financing activities			
Proceeds from issuing shares, net of transaction costs		**-**	244.0
Net proceeds from borrowings		**15.0**	(65.1)
Payment of lease liabilities		**(186.4)**	(0.9)
Dividends paid		**(21.2)**	(52.3)
Net cash (used in) / provided by financing activities		**(192.6)**	125.7
Net cash for the year		**24.7**	35.8
Cash at the beginning of the year		**119.7**	84.0
Effect of exchange rate movements on cash held in foreign currencies		**0.1**	(0.1)
Cash at the end of the year	16 (a)	**144.5**	119.7

[1] Amounts have been impacted by the adoption of the new leasing accounting standard from 1 July 2019, refer to Note 1 for details on transition. In the prior year comparative period, lease payments formed part of payments to suppliers and employees within operating cash flows. Under the new standard, lease payments ($227.4m) are allocated between interest ($41.0m) and principal components ($186.4m).

1. SIGNIFICANT ACCOUNTING POLICIES

Healius Limited (Healius), is a for-profit entity domiciled in Australia. These financial statements represent the consolidated financial statements of Healius for the financial year ended 30 June 2020 and comprise Healius and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

Statement of compliance

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. This preliminary financial report does not include all the notes included with the annual financial report.

Basis of preparation

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars. The financial report has been prepared on a going concern basis. Where applicable, prior year comparatives have been restated in line with current year presentation, including restatement of prior year error.

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards, with the exception of the new and amended standards adopted and set out below.

New and Amended Standards Adopted

The Group applied AASB 16 Leases and AASB Interpretation 23 Uncertainty over Income Tax Treatment for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard and accounting interpretation are described below.

Several other amendments and interpretations apply for the first time in FY 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 16 Leases

AASB 16 was adopted by the Group on 1 July 2019.

Previously, operating leases were not recognised in the statement of financial position. Instead operating lease payments, including fixed rate increases, were recognised as an expense on a straight-line basis over the lease term. The benefit of any lease incentives was recognised on a straight-line basis as a reduction to the rental expense over the lease term. An asset or liability was recognised for the difference between amounts paid/received and the net lease expense recognised in the income statement. Contingent rental arising under an operating lease, for example CPI-linked increases to lease payments, were recognised as an expense in the period in which they were incurred.

AASB 16 has removed the distinction between operating and finance leases resulting in almost all leases being recognised by lessees as a right-of-use asset and a lease liability in the statement of financial position, except for short term leases and leases of low value assets. The impact to the income statement for leases previously classified as operating leases has been to recognise an interest expense and depreciation expense rather than a property or equipment rental expense and has also affected the timing of recognition (whereby the overall expense for an individual contract is higher in the earlier periods when the interest expense which is calculated on the outstanding liability is higher).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The main types of leases under which the Group is a lessee are:

- Premises for medical centres, day hospitals, pathology and imaging sites as well as corporate offices; and
- Diagnostic imaging equipment.

Transition

The Group has elected to apply the new standard using the modified retrospective approach, which requires no restatement of comparative information.

The lease liability on initial adoption has been measured as the present value of the future lease payments under the various lease agreements discounted at the relevant incremental borrowing rate as at 1 July 2019. The relevant incremental borrowing rate is determined based on the remaining term of each lease agreement as at 1 July 2019.

The right-of-use asset on initial adoption has been measured as follows:

- For the largest property leases the right-of-use asset has been calculated as the present value of lease payments since the commencement of the lease using the discount rate applicable as at 1 July 2019 based on the remaining lease term, less accumulated depreciation recognised on a straight-line basis over the lease term and adjusted for any lease incentives received or receivable.
- For all other leases the right-of-use asset is equivalent to the lease liability.
- Any onerous lease provision that existed as at 30 June 2019 has been adjusted against the opening right-of-use asset for the lease to which it relates.

Other adjustments on initial adoption include:

- The reversal of any amounts in the balance sheet as at 30 June 2019 that relate to the straight-lining of lease payments where the Group is the lessee under the lease ($36.2 million).
- The reversal of any accrued operating lease expenses as at 30 June 2019 as these are included in the measurement of the lease liability on initial adoption ($3.8 million).
- The recognition/reversal of deferred taxes in relation to all adjustments listed above ($8.8 million).
- The net effect of the adjustments recognised on initial adoption has been recognised in retained earnings ($20.5 million).

On transition the Group has elected to apply the following practical expedients available under AASB 16:

- Leases with lease terms less than 12 months remaining from the date of transition will continue to be expensed on a straight-line basis.
- Hindsight has been used in determining the lease term where a contract contains options to extend or terminate the lease.
- The assessment of onerous leases performed as at 30 June 2019 has been relied on as an alternative to performing an impairment review. The right-of-use asset on initial application for any lease that had an onerous lease provision recognised as at 30 June 2019 has been adjusted for that onerous lease provision on initial adoption ($43.5 million).
- A single discount rate has been applied to each portfolio of leases with reasonably similar characteristics.
- Initial direct costs have been excluded from the measurement of the right-of-use asset at the date of initial application.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The impact on the statement of financial position as at 1 July 2019 of adopting the new standard is summarised below as increases/(decreases) to the items noted.

1 July 2019	$M
Right of use assets	1,232.1
Lease liabilities	1,344.9
Payables	(40.0)
Provisions	(43.5)
Deferred tax assets	8.8
Retained earnings	(20.5)

The right of use assets and lease liabilities recognised on adoption of AASB 16 have been adjusted compared to the balances disclosed in the financial statements for the half-year ended 31 December 2019 in order to include balances relating to leases previously disclosed as new and remeasured leases during the period when in fact the change was effective prior to 1 July 2019. There is no net impact of these adjustments on retained earnings.

The table below reconciles the total operating lease commitments as disclosed in the 2019 Annual Report with the lease liability recognised on 1 July 2019:

	$M
Operating lease commitments as at 30 June 2019	716.2
Impact of discounting	(122.5)
Impact of including first option period in lease term	647.3
Short-term leases	(15.6)
Items not included in operating lease commitments	119.5
Lease liability as at 1 July 2019	**1,344.9**

Current Period

The impact on the statement of profit or loss of continuing activities for the year ended 30 June 2020 is summarised below:

	30 June 2020		
$M	Including impact of AASB 16	Impact of AASB 16 Increase/ (decrease)	Excluding impact of AASB 16
Revenue	**1,584.6**	–	1,584.6
Other gains	**12.8**	0.4	12.4
Employee benefits expense	**(816.1)**	–	(816.1)
Property expenses	**(56.6)**	160.5	(217.0)
Consumables	**(203.3)**	–	(203.3)
Repairs and maintenance	**(27.4)**	–	(27.4)
IT expenses	**(38.2)**	–	(38.2)
Impairment and related items	**(10.2)**	1.4	(11.6)
Other expenses	**(151.6)**	17.9	(169.5)
Depreciation – Fixed Assets	**(42.3)**	–	(42.3)
Depreciation - Right of Use Asset	**(163.7)**	(163.7)	–
Amortisation of intangibles	**(12.0)**	–	(12.0)
Earnings before interest and tax	**76.0**	16.5	59.6
Net finance costs/(income)	**29.6**	(29.7)	0.1
Profit before tax	**46.4**	(13.2)	59.7
Income tax benefit	**25.6**	4.0	21.6
Profit for the period	**72.0**	(9.2)	81.3

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The movement in the lease liability and right-of-use asset for the year ended 30 June 2020 can be reconciled as follows:

Lease liabilities	$M
Opening balance	1,344.9
New leases and remeasurement of leases during the period	149.8
Interest	40.4
Payments	(210.3)
Transfer to assets held for sale	(387.0)
Closing balance	**937.8**

Right of use asset	$M
Opening balance	1,232.1
New leases and remeasurement of leases during the period	148.0
Depreciation	(189.0)
Net impairment reversal	10.1
Transfer to assets held for sale	(324.3)
Closing balance	**876.9**

Accounting Policy – Leases

(a) The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a lease liability and a right-of-use asset for all lease arrangements in which it is the lessee, except for short-term leases (being leases with a lease term of less than 12 months) and leases of low value items (generally small items of IT equipment). For these leases, the Group recognises the lease payment as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured as the present value of the lease payments not paid at the commencement date. Lease payments include:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index (such as CPI) initially measured using the index at the commencement date;
- In relation to equipment leases the amount expected to be payable on the exercise of purchase options where it is reasonably certain that the option will be exercised.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease payments are discounted using the rate implicit in the lease. If this rate cannot be readily determined (which is the case for all property leases) the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the lease term unless the Group expects to exercise a purchase option (primarily in relation to Imaging equipment leases) where the right-of-use asset is depreciated over the useful life of the underlying asset.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index (such as CPI) in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- The lease contract is modified and the lease modification is not accounted for as a separate lease in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate effective at the date of the modification.

(b) The Group as lessor

The Group enters into lease agreements as lessor in respect of some property leases. In this situation, where the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts.

The sub-lease is a finance lease where it transfers substantially all the risks and rewards of ownership to the lessee. All other sub-leases are operating leases. The determination of whether a sub-lease is classified as a finance or operating lease is made by reference to the right-of-use asset arising from the head lease.

The majority of sub-leases have lease terms substantially shorter than the head lease and accordingly are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

AASB Interpretation 23 Uncertainty over Income Tax Treatment

AASB 23 was adopted by the Group on 1 July 2019.

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain 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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, noting that aside from the tax objections for the 2003 to 2007 years in respect to lump sum payments made to healthcare practitioners during those years, the Group does not have any other uncertain tax positions. As at transition date of 1 July 2019, no asset was recognised due to uncertainty on the matter, at the time.

On 29 November 2019, the Federal Court issued a judgement in the favour of the Group with respect to the tax objections for the 2003 to 2007 years. Following this decision, given the change in circumstances, management reassessed the position and has considered that it is probable that the court will ultimately find in favour of Healius, and as a result has recognised a tax receivable and associated interest (refer to Note 5).

Prior Period Re-statement – Correction of Error

Following a detailed review of long service leave assumptions, adjustments were identified whereby the long service leave provisions were understated. Where these adjustments arose as a result of information that existed in prior periods on retention rates that were not correctly taken into consideration when assessing the carrying amount and the adequacy of liabilities, the errors are prior period errors that have been corrected by restating each of the affected financial statement line items for the prior periods as set out below. There is no impact on the statement of cash flows for the prior period arising from the correction of the prior period errors.

Impact on the consolidated statement of financial position as at 30 June 2019 (Extract)

	Restated 30 June 2019 $M	Restatement increase/ (decrease) $M	As reported 30 June 2019 $M
Current provisions	131.6	0.7	130.9
Non-current provisions	60.5	5.4	55.1
Deferred tax asset	73.9	1.8	72.1
Net assets	**2,051.1**	(4.3)	2,055.4
Accumulated losses	(612.4)	(4.3)	(608.1)
Total equity	**2,051.1**	(4.3)	2,055.4

Impact on the consolidated statement of profit or loss for the period ended 30 June 2019 (Extract)

	Restated 30 June 2019 $M[1]	Restatement increase/ (decrease) $M	As reported 30 June 2019 $M
Employee benefits expense	904.0	0.8	903.2
Earnings before interest and tax	116.6	(0.8)	117.4
Profit before tax	82.4	(0.8)	83.2
Income tax (benefit)/ expense	27.1	(0.2)	27.3
Profit for the period	55.3	(0.6)	55.9

[1] Restatement amounts presented includes discontinued operations. Restated Employee benefits expense from discontinued operations is $0.1m.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact on earnings per share for the period ended 30 June 2019

Earnings per share	Restated 2019 Cents per share	Restatement increase/ (decrease) Cents per share	As reported 2019 Cents per share
Basic earnings per share	9.15	(0.09)	9.24
Diluted earnings per share	9.14	(0.10)	9.24

Impact on the consolidated statement of financial position as at 30 June 2018 (Extract)

	Restated 30 June 2018 $M	Restatement increase/ (decrease) $M	As reported 30 June 2018 $M[1]
Current provisions	147.8	0.4	147.4
Non-current provisions	60.7	4.9	55.8
Deferred tax asset	66.2	1.6	64.6
Net assets	**1,815.2**	(3.7)	1,818.9
Accumulated losses	(621.9)	(3.7)	(618.2)
Total equity	**1,815.2**	(3.7)	1,818.9

[1] The figures as reported are as per the comparatives in the 30 June 2019 annual report.

Rounding of Amounts

Healius is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) instruments 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report are rounded to the nearest hundred thousand dollars, unless otherwise indicated.

Comparative information

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current period disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current period disclosures, where considered material, are referred to separately in the preliminary financial report or notes thereto.

2. SEGMENT INFORMATION

Operating segments are identified based on the way that the Chief Executive Officer and Board of Directors (also known as the chief operating decision makers) regularly review the financial performance of the business to assess performance and determine the allocation of resources. For internal management reporting purposes, the Group is organised into the following three divisions or operating segments:

OPERATING SEGMENT	ACTIVITY
Pathology	This division provides pathology services.
Imaging	This division provides imaging and scanning services from stand-alone imaging sites, hospitals and from within the consolidated entity's medical centres.
Day Hospitals	This division is an operator of day hospitals and haematology/oncology services and also provides services and facilities to IVF specialists.

The other category comprises corporate functions. The Group operates predominantly in Australia.

The Day Hospitals segment was previously included within the Medical Centre segment. Given the remainder of the Medical Centre segment is classified as discontinued operations, Day Hospitals is now reported as a separate segment. Comparative information has been restated for this change.

Intersegment

The Day Hospital division charges the Pathology division a fee for use of its facilities and services. These charges are eliminated on consolidation.

Presentation of segment revenue and results

Segment revenues and segment results are presented on an underlying basis.

Underlying results for the year ended 30 June 2020 exclude the impact of the adoption of AASB 16 and non-underlying items relating to:

- Restructuring and strategic initiatives and other non-recurring items; and
- Impairment of assets and other related items

Underlying results include the payment of rent, recharging of costs and other transactions with discontinued actvitites which are required to be excluded from reported results.

2. SEGMENT INFORMATION (CONTINUED)

Underlying

2020	PATHOLOGY $M	IMAGING $M	DAY HOSPITALS $M	OTHER $M	TOTAL CONTINUING OPERATIONS $M
Segment Revenue	**1,160.1**	**376.7**	**65.4**	**0.1**	**1,602.3**
Intersegment sales					**(1.9)**
Total Revenue					**1,600.4**
EBITDA[1]	**142.3**	**31.8**	**(1.8)**	**(15.3)**	**157.0**
Depreciation	**20.9**	**12.1**	**4.9**	**4.4**	**42.3**
Amortisation of intangibles	**6.3**	**2.5**	**0.1**	**3.1**	**12.0**
EBIT[2]	**115.1**	**17.2**	**(6.8)**	**(22.8)**	**102.7**
Finance costs					**23.5**
Profit before tax					**79.2**
Income tax expense[3]					**23.8**
Profit for the year					**55.4**

2019	PATHOLOGY $M	IMAGING $M	DAY HOSPITAL S $M	OTHER $M	TOTAL CONTINUING OPERATIONS $M
Segment Revenue	1,128.3	391.3	46.7	0.3	1,566.6
Intersegment sales					(1.2)
Total Revenue					1,565.4
EBITDA[1]	136.1	53.8	(0.1)	(15.8)	174.0
Depreciation	19.8	13.4	2.9	3.1	39.2
Amortisation of intangibles	5.3	2.0	0.3	1.3	8.9
EBIT[2]	111.0	38.4	(3.3)	(20.2)	125.9
Finance costs					25.6
Profit before tax					100.3
Income tax expense[3]					30.0
Profit for the year					70.3

1 EBITDA is a non-statutory profit representing earnings before interest, tax, depreciation and amortisation.
2 EBIT is a non-statutory profit representing earnings before interest and tax.
3 Underlying income tax is calculated as 30% of underlying profit before tax.

2. SEGMENT INFORMATION (CONTINUED)

Reconciliation of underlying segment revenue to statutory revenue:

	SEGMENT RESULT 2020 $M	2019 $M
Total segment revenue from continuing operations	**1,600.4**	1,565.4
Reclass of grant income from revenue	**(12.4)**	-
Inter-company eliminations and transactions with discontinued operations	**(3.4)**	(3.3)
Total revenue	**1,584.6**	1,562.1

Reconciliation of underlying segment result to profit before tax:

	SEGMENT RESULT 2020 $M	2019 $M
Total segment result from continuing operations before tax	**79.2**	100.3
Strategic projects	**(18.3)**	(22.6)
Montserrat deferred consideration adjustment	**(14.5)**	4.0
Impairment and related provisions	**(11.6)**	-
Other	**(8.5)**	(14.7)
Transactions with discontinued operations	**9.7**	15.0
Interest on ATO refund	**23.6**	-
Impact of AASB16 adoption	**(13.2)**	-
Total profit before tax	**46.4**	82.0

3. REVENUE

	2020 $M	RESTATED 2019 $M
Trading revenue	**1,584.6**	1,562.1

4. EXPENSES

Employee benefits expense

	2020 $M	RESTATED 2019 $M
Employee benefits	**754.5**	731.3
Defined contribution superannuation	**54.8**	53.4
Share-based payments	**6.8**	1.9
	816.1	786.6

4. EXPENSES (CONTINUED)

Property expenses

	2020 $M	2019 $M
Lease cost not included in AASB 16 calculations	**22.1**	193.9
Other property expenses	**34.5**	33.0
	56.6	226.9

Impairment and other related items

	2020 $M	2019 $M
Other asset impairments, provisions and related items	**10.2**	-

Finance costs

	2020 $M	2019 $M
Interest benefit from FY2003 to FY2007 tax case	**(23.6)**	-
Interest expense	**20.9**	23.6
Interest on lease liability	**29.7**	-
Unwinding of discount on provisions	**0.8**	0.5
Amortisation of borrowing costs	**1.8**	1.5
	29.6	25.6

For more information on the interest benefit from FY2003 to 2007 tax case, refer to Note 5 below.

5. INCOME TAX EXPENSE

	2020 $M	RESTATED 2019 $M
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	**46.4**	82.0
Income tax calculated at 30% (2019: 30%)	**13.9**	24.6
Tax effect of amounts which are not deductible in calculating taxable income:		
Amortisation of pre FY15 contractual relationship intangibles	**0.1**	0.2
Share related expense	**2.9**	0.6
Deferred consideration for acquisitions	**4.2**	–
Other items	**(0.1)**	(0.5)
	7.1	0.3
Over provision in prior years	**(46.6)**	(0.1)
Income tax (benefit)/ expense	**(25.6)**	24.8
Comprising:		
Current tax	**25.9**	23.5
Deferred tax	**(4.9)**	1.4
Over provision in prior years	**(46.6)**	(0.1)
	(25.6)	24.8

ATO objection decisions – years 2003-2007

The Federal Court of Australia decided in favour of Healius on 29th November 2019 regarding its appeal against the Commissioner of Taxation's (Commissioner's) decision to disallow its tax objections for the 2003 to 2007 years in respect to lump sum payments made to healthcare practitioners during those years.

5. INCOME TAX EXPENSE (CONTINUED)

Healius has recognised an income tax benefit and a tax receivable of $46.6m and associated interest receivable of $23.6m in its 30 June 2020 accounts based on the favourable decision received from the Federal Court of Australia.

The Commissioner appealed the Federal Court of Australia's decision on 13 January 2020 and the appeal was heard on 11 and 14 August 2020. No decision has yet been handed down in relation to the appeal.

6. EARNINGS PER SHARE

Basic and diluted earnings per share

EARNINGS	2020 $M	2019 $M
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the consolidated statement of profit or loss as follows:		
Profit for the year from continuing operations	**72.0**	57.2
(Loss)/ profit attributable to equity holders of Healius Limited	**(70.5)**	55.3

WEIGHTED AVERAGE NUMBER OF SHARES	2020 000'S	2019 000'S
The weighted average number of shares used in the calculation of basic earnings per share	**622,741**	606,907
Effects of dilution from service rights	**266**	495
The weighted average number of shares used in the calculation of diluted earnings per share	**623,007**	607,402

	2020 CENTS PER SHARE	RESTATED 2019 CENTS PER SHARE
Basic and diluted earnings per share from continuing operations	**11.6**	9.5
Basic and diluted (loss)/ earnings per share from continuing and discontinued operations	**(11.3)**	9.2

Any share options on issue are potential ordinary shares which are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

Any performance rights on issue are contingently issuable shares for which the conditions have not been met as at 30 June 2020 and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share.

7. RECEIVABLES

	2020 $M	2019 $M
Measured at amortised cost		
(a) Current		
Trade receivables	**155.2**	140.6
Allowance for expected credit losses	**(23.0)**	(17.0)
	132.2	123.6
Prepayments	**12.8**	17.8
Accrued revenue	**37.6**	20.1
Other receivables	**6.3**	7.5
	188.9	169.0
(b) Non-current		
Other receivables and prepayments	**2.4**	5.0
	2.4	5.0

8. GOODWILL

	NOTE	2020 $M	2019 $M
Carrying value			
Opening balance		**2,482.5**	2,348.7
Acquisition of subsidiaries		**-**	100.8
Acquisition of businesses	**17**	**9.7**	33.0
Transferred to assets held for sale		**(452.0)**	-
Closing balance		**2,040.2**	2,482.5
Impairment tests			
Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:			
Medical Centres		**-**	401.1
Health & Co		**-**	46.5
Pathology		**1,586.9**	1,581.7
Imaging		**356.6**	356.5
Montserrat		**96.7**	96.7
		2,040.2	2,482.5

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. Where an asset is deemed to be impaired, it is written down to its recoverable amount.

In its impairment assessment, the Group determines the recoverable amount based on a fair value less costs of disposal calculation, under a five year discounted cash flow model cross checked to available market data. The five year discounted cash flow uses:

- year one cash flows derived from the FY 2021 Board approved budget; and
- for FY 2022 – FY 2025, growth rates have been determined with reference to historical company experience, industry data and a long term growth rate consistent with historic industry trend levels.

The Board approved budget takes into account the Group's view with regards to the potential economic impacts of Covd-19 on the business.

9. PROPERTY, PLANT AND EQUIPMENT

2020 $M	PLANT AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value				
Opening balance	**116.0**	**184.4**	**26.6**	**327.0**
Additions	**21.8**	**3.2**	**23.8**	**48.8**
Capitalisation of assets under construction	**11.1**	**21.1**	**(32.2)**	**–**
Disposals	**(1.0)**	**(0.4)**	**(0.8)**	**(2.2)**
Impairment	**(10.0)**	**(0.3)**	**(0.4)**	**(10.7)**
Depreciation expense	**(31.0)**	**(23.8)**	**–**	**(54.8)**
Transfer to asset held for sale	**(20.7)**	**(108.8)**	**(11.9)**	**(141.4)**
Closing balance	**86.2**	**75.4**	**5.1**	**166.7**
Cost	**311.5**	**168.5**	**5.1**	**485.1**
Accumulated depreciation and impairment	**(225.3)**	**(93.1)**	**–**	**(318.4)**
Closing balance	**86.2**	**75.4**	**5.1**	**166.7**

2019 $M	PLANT AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value				
Opening balance	101.6	169.0	26.9	297.5
Additions	25.3	0.8	54.1	80.2
Business Acquisitions	5.9	2.7	0.2	8.8
Capitalisation of assets under construction	10.6	41.7	(52.3)	–
Disposals	(0.2)	(0.3)	(2.3)	(2.8)
Depreciation expense	(27.2)	(29.5)	–	(56.7)
Closing balance	116.0	184.4	26.6	327.0
Cost	335.8	397.0	26.6	759.4
Accumulated depreciation and impairment	(219.8)	(212.6)	–	(432.4)
Closing balance	116.0	184.4	26.6	327.0

10. OTHER INTANGIBLE ASSETS

2020 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTIO N	TOTAL
Net book value					
Opening balance	**44.9**	**10.6**	**3.2**	**19.2**	**77.9**
Additions	**3.1**	**–**	**2.1**	**23.3**	**28.5**
Capitalisation of intangible assets under construction	**31.6**	**–**	**0.1**	**(31.7)**	**-**
Disposals	**(0.7)**	**–**	**(0.2)**	**(0.3)**	**(1.2)**
Impairment	**(0.3)**	**–**	**–**	**(2.7)**	**(3.0)**
Amortisation expense	**(11.8)**	**(0.8)**	**(1.9)**	**–**	**(14.5)**
Transfer to asset held for sale	**(3.7)**	**–**	**(3.2)**	**(1.5)**	**(8.4)**
Closing balance	**63.1**	**9.8**	**0.1**	**6.3**	**79.3**
Cost	**135.6**	**40.3**	**0.1**	**6.3**	**182.3**
Accumulated amortisation and impairment	**(72.5)**	**(30.5)**	**–**	**–**	**(103.0)**
Closing balance	**63.1**	**9.8**	**0.1**	**6.3**	**79.3**

2019 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTION	TOTAL
Net book value					
Opening balance	33.0	11.4	2.9	15.7	63.0
Additions	1.4	–	3.2	22.3	26.9
Capitalisation of intangible assets under construction	19.0	–	(0.2)	(18.8)	–
Amortisation expense	(8.5)	(0.8)	(2.7)	–	(12.0)
Closing balance	44.9	10.6	3.2	19.2	77.9
Cost	115.5	40.3	6.3	19.2	181.3
Accumulated amortisation and impairment	(70.6)	(29.7)	(3.1)	–	(103.4)
Closing balance	44.9	10.6	3.2	19.2	77.9

11. PAYABLES

	2020 $M	2019 $M
(a) Current		
Trade payables and accruals	**202.3**	222.9
Dividend payable	**16.2**	-
Deferred consideration	**2.0**	28.7
	220.5	251.6
(b) Non-current		
Trade payables and accruals	**-**	6.6
Deferred consideration	**33.5**	29.3
	33.5	35.9

12. PROVISIONS

	2020 $M	RESTATED 2019 $M
(a) Current		
Provision for employee benefits	**102.3**	106.0
Self-insurance provision	**5.0**	3.3
Onerous contract provision	**3.3**	9.6
Make good provision	**1.0**	0.3
Other provisions	**7.7**	12.4
	119.3	131.6
(b) Non-current		
Provision for employee benefits	**11.5**	15.7
Self-insurance provision	**6.7**	3.2
Onerous contract provision	**18.7**	34.8
Make good provision	**4.1**	6.8
	41.0	60.5

13. INTEREST BEARING LIABILITIES

	2020 $M	2019 $M
Measured at amortised cost		
(a) Current		
Finance lease liabilities	**-**	0.6
	-	0.6
(b) Non-current		
Finance lease liabilities	**-**	0.2
Gross bank loans	**815.0**	800.0
Refinancing valuation adjustment	**0.9**	1.5
Unamortised borrowing costs	**(5.8)**	(4.4)
	810.1	797.3

The Group had access to the following financing facilities as at the end of the reporting period.

	2020 $M	2019 $M
Financing facilities		
Non-current		
Unsecured Syndicated Debt Facilities		
Amount used	**815.0**	800.0
Amount unused	**280.0**	325.0
Total financing facilities	**1,095.0**	1,125.0

Amounts unused on non-current facilities are able to be drawn during the course of the ordinary working capital cycle of the Group.

14. ISSUED CAPITAL

	2020 NO. OF SHARES 000'S	2019 NO. OF SHARES 000'S	2020 $M	2019 $M
Opening balance	**622,323**	521,853	**2,671.1**	2,424.2
Shares issued via Entitlement Offer, net of transaction costs	**-**	100,183	**-**	245.9
Shares issued via Short Term Incentive Plan	**420**	218	**1.2**	0.8
Shares issued via sign on arrangement	**-**	69	**-**	0.2
Closing balance	**622,743**	622,323	**2,672.3**	2,671.1

Issued capital consists of fully paid ordinary shares carrying one vote per share and the right to dividends.

Transaction costs that are incurred directly in connection with the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Share options on issue

As at 30 June 2020, the company has 36,394,239 (2019: nil) share options on issue, exercisable on a 1:1 basis for 36,394,239 (2019: nil) ordinary shares of Healius at an exercise price of $3.05. The share options will vest between July 2022 and July 2024 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

Rights on issue

As at 30 June 2020, the company has 265,634 (2019: 723,212) service rights on issue, exercisable on a 1:1 basis for 265,634 (2019: 723,212) ordinary shares of Healius at an exercise price of $nil. The service rights will vest in July 2020 and carry no rights to dividends and no voting rights.

As at 30 June 2020, the company has 12,429,568 (2019: 13,084,714) performance rights on issue, exercisable on a 1:1 basis for 12,429,568 (2019: 13,084,714) ordinary shares of Healius at an exercise price of $nil. The performance rights will vest between October 2020 and October 2022 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

15. DIVIDENDS ON EQUITY INSTRUMENTS

	2020 CENTS PER SHARE	2019 CENTS PER SHARE	2020 $M	2019 $M
Recognised amounts				
Final dividend – previous financial year	**3.4**	5.5	**21.4**	28.7
Interim dividend – this financial year	**2.6**	3.8	**16.2**	23.6
	6.0	9.3	**37.6**	52.3
Unrecognised amounts				
Final dividend – this financial year	**-**	3.4		

In respect of FY 2020 the deferred interim dividend of 2.6cps (100% franked), will be payable to the holders of fully paid ordinary shares on 15 October 2020. A decision regarding the declaration of a final dividend for the year ended June 2020 will be determined prior to the Annual General Meeting.

The Dividend Reinvestment Plan and a Bonus Share Plan were suspended effective 16 February 2016 until further notice.

The final dividend and the interim dividend for the year ended 30 June 2019 were 100% franked.

16. NOTES TO THE STATEMENT OF CASH FLOWS

	NOTE	2020 $M	2019 $M
(a) Reconciliation of cash			
For the purpose of the statement of cash flows, cash includes cash on hand and in banks. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash as disclosed in statement of financial position		**137.5**	119.7
Cash classified as asset held for sale	18	**7.0**	–
Cash as disclosed in the Group statement of cash flows		**144.5**	119.7

(b) Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities		
(Loss)/ profit for the year	**(70.5)**	55.3
Depreciation of plant and equipment	**54.8**	56.7
Depreciation of right of use asset	**188.6**	–
Amortisation of HCP upfronts in revenue	**35.8**	39.4
Amortisation of intangibles	**14.5**	12.0
Amortisation of borrowing costs	**1.8**	1.5
Share-based payment expense	**9.6**	1.9
Impairment of assets other than receivables	**121.1**	–
Deferred consideration	**14.0**	–
Other non-cash items	**(0.8)**	(1.7)
Loss on sale of PP&E and intangibles	**0.4**	2.5
Net exchange differences	**(0.2)**	(0.1)
Increase/ (decrease) in:		
Trade payables and accruals	**60.9**	9.3
Provisions	**23.8**	(17.2)
Deferred revenue	**0.5**	0.1
Income tax and deferred taxes	**(36.1)**	(13.7)
Decrease/ (increase) in:		
Consumables	**(4.6)**	0.2
Receivables and prepayments	**(74.4)**	(18.6)
Net cash provided by operating activities	**339.2**	127.6

(c) Non-cash investing and financing

During the financial year 420,114 (2019: 217,811) and nil (2019: 68,681) shares were issued pursuant to the Short-Term Incentive Plan and sign on Arrangement respectively for nil consideration.

These transactions are not reflected in the cash flow statement.

(d) Financing facilities

Details of financing facilities available to the Group are provided at note 13.

17. BUSINESSES ACQUIRED

The information provided below is aggregated for business combinations that have occurred during the period that are individually immaterial.

The initial accounting for the businesses acquired has been performed on a provisional basis. The identification and fair value measurement of the assets and liabilities acquired remains ongoing as does the assessment of the fair value of the deferred consideration payable.

	2020 $M
Non-current assets	0.4
Current liabilities	(0.1)
Total identifiable net assets at fair value	0.3
Goodwill arising on acquisition	9.7
Total consideration	10.0
Less: Deferred consideration	(0.7)
Cash paid to vendors on acquisition	9.3
Cash transferred to repay debt on acquisition	-
Total cash transferred on acquisition	9.3
Disclosed in the statement of cash flows:	
Payment for Medical Centres practices	(4.1)
Payment for Pathology practices	(5.2)
	(9.3)

18. DISCONTINUED OPERATIONS

On 26 February 2020, the Group publicly announced the decision of its Board of Directors to sell the Healius Primary Care business. The Group classified the Healius Primary Care business as a disposal group held for sale and a discontinued operation from that date and ceased the depreciation and amortisation of non-current assets.

On 15 June 2020 the Group announced that it had entered into a binding agreement to sell the Healius Primary Care business. The sale of the Healius Primary Care business is expected to be completed before the end of 2020 and remains subject to a number of customary conditions including approval by the Foreign Investment Review Board.

The Healius Primary Care business represented the entirety of the previously reported Medical Centres operating segment except for IVF and Day Hospitals which will remain with the Group. With the Healius Primary Care business classified as discontinued operations it is no longer presented in the segment note. The results of the Healius Primary Care business for the year are presented below:

	2020 $M	2019 $M
Revenue and other gains	**253.7**	243.9
Expenses	**236.3**	234.9
Earnings before interest, tax and impairment	**17.4**	9.0
Net finance costs	**21.5**	8.6
(Loss)/ profit before tax and impairment	**(4.1)**	0.4
Impairment loss recognised on the remeasurement to fair value less costs to sell	**151.0**	-
(Loss)/profit before tax from discontinued operations	**(155.1)**	0.4
Income tax expense from discontinued operations before impairment loss	**(1.6)**	(2.3)
Income tax benefit on impairment loss	**14.2**	-
Loss from discontinued operations	**(142.5)**	(1.9)

The following major classes of assets and liabilities of Healius Primary Care classified as held for sale as at 30 June 2020 are:

	NOTE	2020 $M
Cash	16(a)	**7.0**
Receivables		**24.0**
Contract Assets		**43.0**
Property, plant and equipment		**140.0**
Other intangible assets		**8.8**
Goodwill		**348.6**
Right of use asset		**321.1**
Deferred tax asset		**23.1**
Assets held for sale		**915.6**
Payables		**54.3**
Provisions		**14.3**
Lease liabilities		**379.3**
Liabilities directly associated with assets held for sale		**447.9**
Net assets directly associated with disposal group		**467.7**

18. DISCONTINUED OPERATIONS (CONTINUED)

The net cash flows incurred by the Healius Primary Care business are:

	2020 $M	2019 $M
Operating	**62.5**	55.3
Investing	**(35.9)**	(54.8)
Financing	**(30.6)**	3.5
Net cash (outflow) / inflow	**(4.0)**	4.0

The loss per share attributable to Healius Primary Care are:

	2020 $M	2019 $M
Basic and diluted earnings per share from discontinued operations	**(22.9)**	(0.3)

Recognition of impairment loss

The impairment loss recognised has been determined based on the sale price for the Healius Primary Care business under the binding sale agreement plus estimated costs of sale.

19. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Accounting standards on issue not yet adopted

At the date of authorisation of the financial statements, a number of Accounting Standards and Interpretations were on issue but not yet effective for the Group. In the Directors' opinion, the Accounting Standards on issue but not yet effective, will not have a material impact on the amounts reported by the Group in future financial periods.

21. SUBSEQUENT EVENTS

Refer to Note 5 for details on the subsequent events relating to the FY2003 - 2007 tax case.

Other than these events there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

22. NET TANGIBLE ASSET BACKING

	2020 $	2019 $
Net tangible liability backing per share	**(0.42)**	(0.95)

Net tangible liability backing is calculated based upon net assets excluding goodwill, deferred taxation and other intangible assets.

Compliance Statement for the year ended 30 June 2020

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used: NIL

This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

This report gives a true and fair view of the matters disclosed.

This report is based on accounts to which one of the following applies.
(Tick one)

☐ The accounts have been audited.	☐ The accounts have been subject to review.
✓ The accounts are in the process of being audited.	☐ The accounts have *not* yet been audited or reviewed.

If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.

The entity has a formally constituted audit committee.

Sign here: Date: 21 August 2020

(Director)
Print name: Malcolm Parmenter