Healius Limited

Appendix 4D – Half-Year Report

Results for announcement to the market

For the Half-Year ended 31 December 2019

This half-year report should be read in conjunction with the 30 June 2019 annual financial report of Healius Limited.

Healius Limited

Appendix 4D – Half-Year Report

Results for announcement to the market

For the Half-Year ended 31 December 2019

$m	% Change	31 December 2019 Total	Restated 31 December 2018 Total
Revenue	+7.5%	**945.1**	878.9
Profit for the period after tax	+225.0%	**66.3**	20.4
Profit attributable to members of the parent entity	+225.0%	**66.3**	20.4
Underlying profit for the period after tax [1]	+7.7%	**42.1**	39.1

Earnings per share	2019 ¢ per share	Restated 2018 ¢ per share
Basic earnings per share	**10.65**	3.48
Diluted earnings per share	**10.64**	3.47
Underlying basic and diluted earnings per share	**6.76**	6.66
Interim dividend [2, 3]	**2.6**	3.8

[1] Underlying profit excludes the impact of restructuring and strategic initiatives, non-recurring items, tax case and impact of AASB 16. A full reconciliation between statutory profit and underlying profit is contained in the segment information note on pages 32 -34 of the Healius Limited interim financial report for the period ended 31 December 2019.
[2] The 31 December 2019 Interim Dividend will be 100% franked at the corporate income tax rate (2018:100% franked at the corporate income tax rate).
[3] The record date for determining entitlement to the interim dividend is 27 March 2020 and the dividend is payable on 15 April 2020.

Attachment A – Interim Financial Report
For the Half-Year ended 31 December 2019

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Your Directors present their report on the consolidated entity consisting of Healius Limited and the entities it controlled (referred to as "Healius", "the Company", or "the Group") at the end of, or during, the half-year ended 31 December 2019.

Directors

The Directors of Healius during the half-year ended 31 December 2019 and up to the date of this report were:

- Mr Gordon Davis
- Ms Sally Evans
- Mr Robert Hubbard
- Dr Paul Jones
- Dr Errol Katz (until 25 November 2019)
- Dr Malcolm Parmenter
- Ms Arlene Tansey

Review of operations

A Review of operations of the Group during the half-year ended 31 December 2019, and the results of those operations, can be found on pages 3 to 14 of this Report.

Subsequent event

On 29 November 2019, the Group announced that the Federal Court of Australia had ruled in favour of Healius on the Tax Case for financial years 2003 to 2007. Following the decision, Healius has recognised an income tax benefit and tax receivable of $46.6 million and estimates attributable interest benefit and receivable of $23.3 million.

On 13 January 2020, the Commissioner of Taxation appealed the Federal Court of Australia's decision and a hearing date is yet to be advised.

On 25 February 2020, Healius received:

- notice that EAB Holdings Pte. Ltd and related entities (Partners Group) had entered a Call Option Deed over 15.88% of Healius shares held by Jangho Health Care Australia Pty Ltd and Golden Acumen Holdings Limited (Jangho), and
- an unsolicited and non-binding indicative offer from a wholly-owned subsidiary of Partners Group to acquire all the shares in Healius by way of a Scheme of Arrangement. The Board of Directors will assess the indicative offer.

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

Dividend

In respect of the half-year ended 31 December 2019, an interim dividend of 2.6 cents per share has been declared, 100% franked (31 December 2018: 3.8 cents per share, 100% franked).

Non-IFRS Financial Information

The Review of operations attached to and forming part of this Directors' Report includes a number of non-IFRS financial measures. These non-IFRS financial measures are used internally by management to assess the performance of Healius' business and make decisions on the allocation of resources.

The Directors have included the additional line items EBITDA (earnings before interest, tax, depreciation and amortisation) and EBIT (earnings before interest and tax) within the Financial Report as such presentation is necessary, in the Directors' view, to be relevant to a full understanding of the Group's financial performance.

Rounding off of amounts

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

Auditor's independence declaration

The Auditor's Independence Declaration is set out on page 15 and forms part of this report.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

Malcolm Parmenter
Managing Director & Chief Executive Officer

Sydney 26 February 2020

1H 2020 OVERVIEW

GROUP	PATHOLOGY	IMAGING	MEDICAL CENTRES
✓ Strategic review identified key long-term growth opportunities and portfolio simplification to maximise shareholder value ✓ Organisational redesign delivering simplified Group management	✓ Strong revenue growth from a mix of volume and fees, underpinned by strong Q1 flu season	✓ Good revenue growth underpinned by ramp-up of NBH[1] and ADF[2] Heath Services contracts	✓ Investment for long-term growth with quality offerings. Strong 2H 2019 demonstrating uplift achievable from Project Leapfrog ✓ 1H 2020 benefits of good GP recruitment and patient demand temporarily offset by service fee pressure, higher than expected retirements, and productivity dip from system integration
✓ Sustainable Improvement Program savings offsetting cost inflation with progressive improvements ✓ Rationalisation of non-underlying spend in train	✓ EBIT growth nearly double revenue growth with cost savings from the Sustainable Improvement Program	✓ EBIT growth of 16% on revenue growth of 5% with cost savings from the Sustainable Improvement Program	✓ Focus on service fees through tempering of GP recruitment targets ✓ Immediate initiatives include improving service levels to GP, filling capacity created, portfolio review of sites, and divisional overhead reductions
✓ Acceptable leverage ratios maintained with capital constraint ✓ Further capital rationalisation to come with targeted investment for growth	✓ LIS[3] implementation pathway changed with lower costs, better alignment of benefits to spend and lower operational risk	✓ Successful implementation of core platform, iCAR[4] nearing completion with delivery of efficiencies ✓ Growth through contract wins, M&A, hospital channel and high-end community sites, with a rationalisation in NSW	✓ Montserrat delivered a strong result, with $3.5 million EBITDA, as its new hospitals successfully ramped-up ✓ Expected to continue to grow and deliver a ROIC in line with the acquisition case

[1] Northern Beaches Hospital
[2] Australian Defence Force
[3] Laboratory Information System
[4] Imaging Core Application Refresh

GROUP PERFORMANCE

	31 DECEMBER 2019 $M UNDERLYING [5]	31 DECEMBER 2018 $M	31 DECEMBER 2019 $M REPORTED	31 DECEMBER 2018 $M
Revenue	945.1	878.9	945.1	878.9
EBIT	75.7	72.7	45.0	51.0
NPAT	42.1	39.1	66.3	20.4

GROUP UNDERLYING RESULTS

In the six months ended 31 December 2019, Healius grew its revenue by 7.5% with strong increases in Pathology and Montserrat. The Group's underlying EBIT grew 4%, with Pathology up 10% and Imaging up 16% but with a small decline in Medical Centres. Underlying NPAT was up 8% with lower finance costs.

Underlying results have also been shown before AASB 16 to enable comparability with 1H 2019, as Healius has adopted the modified retrospective approach in its reported results with prior periods not restated. From 1H 2021, underlying results will include the impact of AASB 16.

GROUP REPORTED RESULTS

Reported results for the six months ended 31 December 2019 benefitted from the recognition of the tax refund and associated interest on the 2003-2007 tax case, partially offset by the investment in strategic initiatives and the impact of the adoption of AASB 16, as set out in detail below in the section titled "Group Reported Results".

DIVIDENDS

Taking into consideration the competing demands of optimal gearing, investment in the business, and payment of dividends to shareholders, the Board has declared an interim dividend of 2.6 cents per share fully franked, in line with 2H 2019 payout ratio of 38% of Underlying Net Profit after Tax.

SUSTAINABLE IMPROVEMENT PROGRAM

The Sustainable Improvement Program was introduced in 2H 2019 to drive efficiencies in operations and reduce supplier prices. Savings in labour, property (through network rationalisation), consumables and IT are being delivered with both Pathology and Imaging divisions recording margin expansion in the period. The program delivered $20 million of savings in 1H 2020 which partially offset non volume-related cost increases. It will be a 3-year process and savings are expected to progressively increase.

[5] All comments in this Review of operations relate to underlying results unless otherwise noted. Underlying results for the six months ended 31 December 2019 exclude the impact of investment in restructuring and strategic initiatives, recognition of tax refund and interest on a favourable tax ruling, and the impact of AASB 16. For a reconciliation and analysis, refer section below titled: "Group reported results"

GROUP CASH FLOW AND NET DEBT

Group cash flow for 1H 2020 was as follows:

REPORTED $m	31 DECEMBER 2019 $M	31 DECEMBER 2018 $M
Operating cash flow[6]	129.3	55.6
Maintenance capital	(34.5)	(29.5)
Growth capital	(51.5)	(115.6)
Cash flow after capital investment	43.3	(89.5)
Proceeds from issuing shares	0.0	244.6
Debt funding / (reduction)	70.0	(105.3)
Dividends	(21.4)	(28.7)
Payment of lease liabilities[6]	(90.4)	
Net increase in cash held	1.5	21.1
Opening cash	119.7	84.0
F/X	0.1	0
Closing cash	121.3	105.1

Operating cash flow in 1H 2020 was higher than 1H 2019. The movement included:

- Pre-AASB 16 gross cash flow conversion at 97% impacted by timing of payroll and creditor payments

Operating cash flow was used to fund $34.5 million in maintenance capital and $51.5 million in growth capital. Growth capital expenditure was below 1H 2019 levels. It included:

- $19 million for strategic projects: Leapfrog $8 million, platforms in Pathology $4 million and Imaging $3 million, and Corporate renewal $4 million
- $11 million on acquisition and earn-outs in Health & Co and Pathology
- $11 million for the Montserrat acquisition ($67 million 1H 2019)

Further capital rationalisation will occur in 2H 2020 with targeted investment for growth.

Group net debt at 31 December 2019 was as follows:

REPORTED $M	30 DECEMBER 2019 $M	30 JUNE 2019 $M
Bank and finance debt	867.9	797.9
Cash	(121.3)	(119.7)
Net debt	746.6	678.2
Bank gearing ratio (covenant <3.5x)[7]	2.7x	2.4x
Bank interest ratio (covenant >3.0x)	9.6x	9.5x
Gearing (net debt: net debt + equity)	26.4%	24.9%

Healius has delivered a significant improvement in its leverage since FY 2015 from an extensive capital recycling program, free cash flow generation and the $250 million capital raise in FY 2019. At the end of 1H 2020, gearing and interest ratios remain comfortably within the covenants. The first tranche of Healius' syndicated bank debt facility, totalling $500 million, is due to mature in January 2021 and the second of $525 million in January 2023.

[6] Amounts have been impacted by the adoption of AASB 16. Refer Adoption of AASB 16: Cash Flow impact
[7] Bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15 and 16

DIVISIONAL RESULTS

The underlying divisional results of the Group are as follows:

1H 2020 $M	PATHOLOGY	MEDICAL CENTRES[8]	IMAGING	CORPORATE	GROUP[9]
Revenue	583.0	183.2	201.8	0.0	945.1
EBITDA	62.9	30.0	28.6	(8.5)	113.0
Depreciation	(10.2)	(11.5)	(6.2)	(1.8)	(29.7)
Amortisation	(3.0)	(2.2)	(1.1)	(1.3)	(7.6)
EBIT	49.7	16.3	21.3	(11.6)	75.7

1H 2019 $M	PATHOLOGY	MEDICAL CENTRES[8]	IMAGING	CORPORATE	GROUP[9]
Revenue	551.5	155.8	192.0	0.0	878.9
EBITDA	58.8	29.6	26.2	(6.2)	108.4
Depreciation	(10.0)	(9.9)	(6.7)	(1.5)	(28.1)
Amortisation	(3.8)	(1.8)	(1.2)	(0.8)	(7.6)
EBIT	45.0	17.9	18.3	(8.5)	72.7

[8] Medical Centres includes Healius Medical Centres, Health & Co, Dental, IVF, Montserrat and Healius Day Hospitals
[9] $22.9 million of inter-company revenue/expenses have been eliminated at the Group level (1H 2019: $20.4 million)

BUSINESS REVIEW PATHOLOGY

	31 DECEMBER 2019 $M	31 DECEMBER 2018 $M	BETTER/(WORSE) %
Revenue	583.0	551.5	5.7
EBITDA	62.9	58.8	7.0
Depreciation	(10.2)	(10.0)	(2.0)
Amortisation	(3.0)	(3.8)	21.1
EBIT	49.7	45.0	10.4
Total capital expenditure	23.9	16.7	(43.1)

In 1H 2020, Pathology grew its revenues by 6%, above the 12-months rolling Medicare data, through a mix of volume and fee growth and underpinned by strong volumes in the first quarter.

Cost control in 1H 2020 saw the division's EBIT result improve 10% compared to 1H 2019 with the Sustainable Improvement Program delivering savings in major cost categories. Both labour costs and approved collection centre costs grew at a lower rate than revenue.

Acquisition of a small pathology group during the period is reflected in the increase in capital expenditure.

STRATEGY

Cost control

Pathology continues to focus on efficiencies from the Sustainable Improvement Program including the consolidation of esoteric testing and optimisation of regional laboratory network as well as on return metrics within its footprint of collection centres and hospitals.

Investment for growth

The division 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. With Laverty in New South Wales and QML in Queensland operational in 1H 2020, upgrades to Dorevitch in Victoria are in progress.
- The national Laboratory Information System, or LIS, project 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.

  Following a discovery period, an amended pathway to implementation has been selected which is expected to better align benefits to costs and reduce the operational risk.

  The division will upgrade the four existing systems and standardise across the states prior a unified database and installation of additional modules, such as genomics, with SCC Soft Computer part of the destination.

The division also continues to see growth in niche specialists, for example in Genomic Diagnostics where breast cancer gene screening and pharmacogenomics are being developed, in addition to the successful growth in non-invasive prenatal testing which was up 34% on the prior period.

BUSINESS REVIEW IMAGING

	31 DECEMBER 2019 $M	31 DECEMBER 2018 $M	BETTER/(WORSE) %
Revenue	201.8	192.0	5.1
EBITDA	28.6	26.2	9.2
Depreciation	(6.2)	(6.7)	7.5
Amortisation	(1.1)	(1.2)	8.3
EBIT	21.3	18.3	16.4
Total capital expenditure	7.2	11.4	36.8

In 1H 2020, the Imaging division increased its revenue by 5% supported by growth in new and expanded sites, including the Northern Beaches Hospital contract and the Australian Defence Force Health Services contract in partnership with Bupa. Market volumes remain subdued, while benefits tracked in line with long-term averages according to the 12-months rolling Medicare data.

The division's EBIT strongly increased, up by 16%. The margin expansion was underpinned by savings in consumables and property expenses from the Sustainable Improvement Program. When normalised for the impact of new and replacement equipment operating leases, the EBITDA margin was around 20%.

Imaging reduced its capital investment in the period.

STRATEGY

Cost control

Further opportunities to improve returns in this division will be delivered through the Sustainable Improvement Program, with a focus on labour cost control.

Investment for growth

The division continues to deliver growth at both the revenue and EBIT lines following successful contract wins, selective M&As, a strategic focus on the higher margin hospital channel and expansion of its large-scale high-end community sites, together with a rationalisation of its NSW community sites.

The Imaging Core Application Refresh roll-out is bringing a new radiology information system (RIS) and a new picture archiving and communication solution (PACS) to the division. Over 80% of sites are now live and installation is expected to be completed in 2H 2020. Together, these platforms are delivering the budgeted efficiencies in operational savings. They are expected to drive revenue uplift by enhancing the way the division interacts with referrers and their patients.

BUSINESS REVIEW MEDICAL CENTRES

The Medical Centres division has 95 sites nation-wide including the Healius Medical Centres, Health & Co clinics and Montserrat Day Hospitals. Within some of its Medical Centres, Healius has dental facilities, day hospitals and IVF clinics. Overall the performance of the division was as follows:

	31 DECEMBER 2019 $M	31 DECEMBER 2018 $M	BETTER/(WORSE) %
Revenue	183.2	155.8	17.6
EBITDA	30.0	29.6	1.4
Depreciation	(11.5)	(9.9)	(16.2)
Amortisation	(2.2)	(1.8)	(22.2)
EBIT	16.3	17.9	(8.9)
HCP capital expenditure	15.7	15.5	(1.3)
Total capital expenditure[10]	36.0	46.0	21.8

Medical Centres recorded strong revenue growth up 18% primarily due to Montserrat and Healius Medical Centres.

At the EBIT line, Montserrat and Health & Co delivered good EBIT growth in 1H 2020. However overall the division's contribution declined $1.6 million due to Healius' Medical Centres.

Healius has invested in its people, processes, and property for long-term sustainable growth including creating a common practice management platform, introducing appointment capability, new consumer offerings and centre refurbishments. Healius Medical Centres achieved a strong result in 2H 2019. However, in 1H 2020 the benefits of good GP recruitment and patient demand were offset by higher than expected GP retirements, service fee pressure and a short-term productivity dip from system integration, causing a decline in EBIT. The immediate focus for improvement includes better service levels to existing GPs, a portfolio review of underperforming sites, and initiatives to deliver divisional Head Office efficiencies. The target increase in the GP cohort has been tempered in response to the current competitive market situation in order to optimise service fee levels.

Overall capital investment was down on 1H 2019 spend, with a moderated approach to M&A roll-ins and a pause on property investment to fill the capacity already created. $15.7 million was spent on GP upfronts, with 30% of new GPs and around 17% of re-signing GPs electing to receive an upfront.

Medical Centres: GPs

At 31 December 2019, the cohort of Healius Medical Centres GPs stood at 1,155 GPs, or 969 FTEs[11]. Pleasingly, Healius recruited 101 GPs in the period with 94 through normal channels, 2 through conversion of registrars and 5 joining through the M&A program. However, departures were above expectations at 110 with a number of retirements, this is expected to improve as the average age of the cohort reduces.

Transition to new contracts is largely complete. In 1H 2020 Healius' average service fee was 31.3%, in a competitive market where supply was constrained by visa restrictions for overseas trained GPs and a lower number of registrar GPs coming into the system.

Pleasingly Medical Centres continue to see strong patient demand. Gross billings per hour are up on 1H 2019 but flat on 2H 2019, with a short-term productivity slowdown as new systems were introduced into the larger, older centres.

Revenue in Healius Medical Centres was up 6% to $117 million, comprising $67 million service fee and $50 million from Government grants and rentals.

[10] Excludes capital expenditure associated with the Montserrat acquisition ($11.0 million in 1H 2020. $67.3 million in 1H 2019)
[11] Full time equivalents (FTEs) are based on 40-hour week, 47-week year

STRATEGY

People: As aforementioned, 1H 2020 saw a strong level of new GPs coming into the Healius Medical Centres and a good pipeline exists for 2H 2020, testament to the quality of the brand and offerings to GPs. In 2H 2020 the division will focus on continued recruitment of quality GPs, better retention of existing GPs through improved local engagement and service levels, and investment in frontline staff.

While spend on M&A roll-ins was moderated in 1H 2020, a range of infill opportunities remain. The three roll-ins into Greensborough noted in FY 2019 have been successfully integrated and are delivering a strong increase in billings at that centre.

Processes: Project Leapfrog has transformed the way things are done in the Healius Medical Centres, paving the way for significant efficiencies and improved returns. A single practice management system has been rolled out and appointment capability is available in all sites. Digital enablement is being progressively rolled out, through e-recalls, self-check in kiosks, and a unique "Join the Queue Remotely" application.

Medical Centres have achieved a rapid growth in chronic disease management where revenue is up over 60% on 1H 2019, and in its new consumer offerings, with Skin^2 cancer clinics and Logic Health both up over 30%. Healius is also uniquely placed to alleviate the pressure on State hospital emergency departments with four urgent care clinics established to-date and additional funding being received at a State level.

At the 32 medical centres where we changed software, increasing GP familiarisation with the new practice management system and appointment management is expected to improve productivity levels with a second wave of training already occurring. Gross billing per hour should continue to grow through a combination of increased system familiarisation and the rapid growth in chronic disease management and new revenue streams.

Property: The Project Leapfrog property initiative aims to improve both utilisation and the experience within Healius' Medical Centres. It has been successfully delivered in 15 of the better performing sites in late FY 2019 and a further site in 1H 2020, with additional uplifts in other centres for skin, dental and treatment rooms. The program has been stage-gated and the current focus is on filling this newly created capacity. To-date 19 FTEs have commenced in these sites with a further 30-plus in the pipeline.

Update on targets:

Capital investment: $59 million has been invested in Project Leapfrog (FY 2019 $45 million 1H 2020 $14 million) which represents 42% of the initial estimate of $140 million. There is a pause on investment and focus on delivering the required return from the spend to-date.

GP targets: The target increase in the GP FTE cohort of 45% has been tempered in response to the current competitive market situation and in order to prevent erosion of the service fee, with the expectation that the supply/demand equation will return to more normal levels in the future. The uplift to gross billings per hour of 10-15% is expected to be achieved.

$1 million per annum EBIT per centre: Around 40% of the centres in the portfolio are already achieving the $1 million per annum EBIT target[12], prior to group overhead recharges, and further sites have individual plans for improvement. A review of centres is being undertaken to optimise portfolio profitability together with a range of initiatives to achieve divisional head office efficiencies. Overall the $1m EBIT per centre remains achievable but beyond the Leapfrog timeframe.

Health & Co

The Health & Co network comprises 13 clinics, with practices in NSW, VIC, QLD, and SA. 132 GPs, or 97 FTEs, are in the network, revenue grew by 30% to $11 million and EBIT of $2 million was achieved.

[12] Before group overheads. ~30% achieving $1m pa EBIT after group overheads. Also excludes IVF and Healius's Day Hospitals.

BUSINESS REVIEW EMERGING BUSINESSES

Dental

The Dental business is one of the top four dental operations in the country, with 169 dentists or 126 FTEs working at 62 dental locations. The division grew its revenue by 8% to $20 million, while EBIT was $3 million. Further dental surgeries have been added under the Project Leapfrog.

Adora Fertility

Adora Fertility, Healius' IVF business, now has 4 treatment facilities and 2 satellite clinics. During the period, Adora undertook a move of its Queensland centre into Montserrat's Westside facility.

Revenue increased around 28% in 1H 2020, while the division recorded a small EBIT loss due to greenfields and laboratory investment. Importantly IVF made a positive contribution to the Group on a whole-of-business view and normalised for start-up costs. Capital-light initiatives to drive demand and efficiencies are being introduced in 2H 2020, including the recent launch of a telehealth IVF service for regional Queensland and northern NSW.

Montserrat Day Hospitals

Healius acquired Montserrat, an operator of day hospitals and haematology/oncology clinics, in October 2018. Three new hospitals were opened during FY 2019, including the flagship Westside Private Hospital in Brisbane.

Montserrat operates in a sector where improving technology and on-going cost pressures are moving patients away from high-cost overnight hospitals into day hospitals. Westside Private Hospital has equivalent high-level facilities to the Ambulatory Surgical Centres in the US which perform same-day outpatient surgical care and have become an integral part of that country's healthcare system. Cancer treatments, cardiology, and orthopaedic procedures are projected to grow strongly in the outpatient setting. Australia is experiencing similar cost drivers and procedural innovation and is likely to follow other countries in seeking to reduce hospital costs and improve clinical outcomes in a day hospital setting. The interest from private health insurers in potential new models of care remains strong.

Through Montserrat, Healius has a substantial platform to grow and diversify revenue. Montserrat also provides synergies with IVF and Pathology. In 1H 2020, Montserrat delivered $18 million of revenue, $3.5 million of EBITDA and $2 million of EBIT. Westside Private Hospital itself, which is ramping up since opening in 2H 2019, delivered $1 million EBITDA in 1H 2020.

Overall, after a delay of around 6 months in commissioning the new facilities, Montserrat should continue to grow strongly in 2H 2020 and is on track to deliver a ROIC, in line with the acquisition case.

Healius Day Hospitals

The five day hospital facilities within the Healius Medical Centres grew revenue by 22% to $8 million in 1H 2020 with IVF volumes continuing to support this. However, with the two new sites still ramping-up, an EBIT loss was incurred.

A comprehensive turnaround under the Montserrat team, which has a proven approach to business development, health fund negotiations, list scheduling and labour management, has begun. The first phase includes branding the facilities "Montserrat", and adopting Montserrat's risk and billing systems and business development initiatives. In addition, a review of the older day surgeries will be undertaken. Thereafter Montserrat will undertake a detailed analysis of the operations to improve efficiencies and reduce costs.

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 1H 2020 is as follows:

1H 2020 $M	REPORTED	RESTRUCTURING/ STRATEGIC INITIATIVES	IMPAIRMENTS	TAX CASE	UNDERLYING	AASB 16 IMPACT	UNDERLYING PRE AASB 16
EBIT	45.0	31.0	8.3		84.3	(8.6)	75.7
Interest	(13.5)			(23.3)	(36.8)	21.2	(15.6)
PBT	31.5				47.5	12.6	60.1
Income Tax Benefit / (Expense)[13]	34.8			(46.6)	(11.8)	(3.8)	(18.0)
NPAT	66.3				35.7	8.8	42.1

RESTRUCTURING / STRATEGIC INITIATIVES

As heralded in FY 2019, there are four key strategic projects which are undeniably transformational in nature and unlikely to be undertaken again at such a collective magnitude. These are the Leapfrog project in Medical Centres, the technology platform upgrades in Pathology and in Imaging, and the corporate renewal program. They are reported separately both internally and to the market in order to neither distract nor distort the underlying performance.

Adjustments in 1H 2020 were as follows:

- Leapfrog $6 million (1H 2019 $5 million)
- Platforms in Pathology $6 million (1H 2019 $4 million)
- Platforms in Imaging $2 million (1H 2019 $2 million)
- Corporate renewal program $3 million (1H 2019 $4 million)

The balance of the adjustments relates to redundancy costs under the organisational redesign program consistent with the simplification of the group management structure ($8 million) and various non-underlying costs including business acquisition, set-up costs, and corporate and tax case defence costs ($6 million).

The adjustments to reported results will continue until these strategic programs are completed. As previously reported, the non-underlying costs relating to the Imaging platform are expected to cease after FY 2020. The Leapfrog project costs are expected to substantially reduce after FY 2020 with less than $2 million of non-underlying costs expected in FY 2021. The non-underlying costs for the corporate renewal program, which is accelerating the digitisation and automation in financial shared services, are expected to substantially reduce in FY 2021 and beyond.

With an amended pathway for implementation of a national Laboratory Information System in Pathology, the size and timing of the investment will be detailed once the current discovery phase has been completed and project costs quantified, with expectation that the timeline will be extended at a lower overall cost.

IMPAIRMENTS

Impairments include the write-off of assets relating to a few small Medical Centres where leases are due to expire and centre closure or consolidation is anticipated, together with the write-off of capitalised costs on the Laboratory Information System in Pathology due to the adoption of an amended pathway for implementation.

[13] Reported and underlying tax expense does not reconcile due to non-deductible items within statutory tax expense. Refer section below titled: "Tax expense". Underlying tax is assumed at 30%

TAX 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[14], 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. These culminated a favourable decision by the Federal Court of Australia in November 2019. The Commissioner has appealed to the Full Court of the Federal Court of Australia and a hearing date is yet to be advised.

Healius has recognised the following as one-off items 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 1H 2020:

- $46.6 million income tax benefit and tax receivable
- $23.3 million interest benefit and receivable

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. Because of this, the underlying performance of the business has been stated before the impact of AASB 16. From 1H 2021 onwards underlying performance will be stated including the impact of AASB 16.

The adoption of AASB 16 has no economic impact on Healius, nor on its covenants, cash flows or shareholder value. The impact of AASB 16 on reported results for 1H 2020 is as follows:

P&L	31 DECEMBER 2019 $M	31 DECEMBER 2019 $M	
Property & other expenses	105.7		Operating lease expense reversed
EBITDA		105.7	
Depreciation	(97.1)		Depreciation of right of use asset recognised
EBIT		8.6	
Finance costs	(21.2)		Interest paid on lease liability recognised
Profit before tax		(12.6)	
Tax @ 30%	3.8		
NPAT		(8.8)	

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

The impact of AASB 16 on the cash flow for 1H 2020 is as follows:

CASH FLOW	31 DECEMBER 2019 $M	31 DECEMBER 2019 $M	
Gross cash flows from operating activities	108.6		Operating lease payments reversed from gross operating cash flows
Interest paid on lease liabilities	(18.2)		Interest paid on lease liability recognised in operating cash flows
Net cash provided by operating activities		90.4	
Payments of lease liabilities	(90.4)		Principal payments on lease liability recognised in financing cash flows
Net cash used in financing activities		(90.4)	

The impact of AASB 16 on the closing Balance Sheet for 1H 2020 is as follows:

BALANCE SHEET	31 DECEMBER 2019 $M	31 DECEMBER 2019 $M	
Right of use assets	1,225.0		Leases recognised as an asset and depreciated
Total assets		1,225.0	
Current interest-bearing lease liabilities	(189.2)		Leases recognised as a liability representing future lease payments discounted at incremental borrowing rate
Non-current interest-bearing lease liabilities	(1,162.6)		Leases recognised as a liability representing future lease payments discounted at incremental borrowing rate
Total Liabilities		(1,351.8)	

As shown above, there is a net asset reduction of $127 million due to the differences in the profile of depreciation and lease liability run-off on Healius' larger property leases.

TAX EXPENSE

The Group reported an income tax benefit for 1H 2020 of $34.8 million primarily due to the recognition of the $46.6 million benefit and tax receivable from the 2003-2007 tax case.

Excluding this one-off tax benefit, a tax expense of $11.8 million was recorded which equated to an effective tax rate of 37.5%, $2.4 million above the prima facie tax expense of 30%. The increase was due to the $1.3 million permanent difference associated with amortisation of healthcare practice acquisitions prior to 30 June 2015. In addition, Healius recognised a $1.1 million non-deductible share-based payments expense. From FY 2021 onwards, Healius expects the Group's effective tax rate to revert closer to 30%, assuming the current structure and nature of the business. An effective tax rate of 30% has been adopted for underlying NPAT.

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Auditor's Independence Declaration to the Directors of Healius Limited

As lead auditor for the review of the half-year financial report of Healius Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Healius Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Douglas

Douglas Bain
Partner
Sydney

26 February 2020

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Independent Auditor's Review Report to the Members of Healius Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Healius Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the condensed consolidated financial position of the Group as at 31 December 2019 and of its condensed consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's condensed consolidated financial position as at 31 December 2019 and its condensed consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Ernst & Young

Douglas Bain
Partner
Sydney

26 February 2020

The Directors declare that:

(a) in the Directors' opinion, the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including section 304 (compliance with Accounting Standards) and section 305 (true and fair view); and

(b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Malcolm Parmenter
Managing Director & Chief Executive Officer

Sydney, 26 February 2020

Condensed consolidated statement of profit or loss

For the half-year ended 31 December 2019

	Note	CONSOLIDATED 31 December 2019 $M	CONSOLIDATED RESTATED 31 December 2018 $M
Revenue		**945.1**	878.9
Other gains		**0.1**	1.0
Employee benefits expense	1	**484.3**	445.4
Property expenses		**52.8**	142.3
Consumables		**105.6**	97.5
IT expenses		**16.1**	14.8
Impairment and related items	2	**8.3**	-
Other expenses		**98.7**	93.2
Depreciation - Fixed Assets	6	**29.7**	28.1
Depreciation - Right of Use Asset	1	**97.1**	-
Amortisation of intangibles	7	**7.6**	7.6
Earnings before interest and tax		**45.0**	51.0
Net finance costs	3	**13.5**	16.8
Profit before tax		**31.5**	34.2
Income tax (benefit)/ expense	4	**(34.8)**	13.8
Profit for the period		**66.3**	20.4
Attributable to:			
Equity holders of Healius Limited		**66.3**	20.4
Profit for the period		**66.3**	20.4

Earnings per share	2019 Cents per share	RESTATED 2018 Cents per share
Basic earnings per share	**10.65**	3.48
Diluted earnings per share	**10.64**	3.47

Refer to Note 1 for details of the Group's adoption of new accounting standards, and impact of prior period error during the period.

Notes to the financial statements are included on pages 25 to 43

Condensed consolidated statement of comprehensive income

For the half-year ended 31 December 2019

	CONSOLIDATED	
	31 December 2019 $M	RESTATED 31 December 2018 $M
Profit for the period	**66.3**	20.4
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(0.1)**	-
Fair value (loss) on cash flow hedges	**(1.5)**	(5.5)
Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss	**3.3**	0.7
Income tax relating to items that may be reclassified subsequently to profit and loss	**(0.5)**	1.5
Other comprehensive income/(loss) for the period, net of income tax	**1.2**	(3.3)
Total comprehensive income for the period	**67.5**	17.1
Attributable to:		
Equity holders of Healius Limited	**67.5**	17.1

Notes to the financial statements are included on pages 25 to 43

Condensed consolidated statement of financial position
As at 31 December 2019

		CONSOLIDATED		
As at	Note	31 December 2019 $M	RESTATED 30 June 2019 $M	RESTATED 30 June 2018 $M
Current assets				
Cash	13 (a)	**121.3**	119.7	84.0
Receivables		**167.7**	169.0	146.5
Interest receivables	3	**23.3**	-	-
Consumables		**24.6**	22.7	22.2
Tax receivable		**55.0**	3.6	-
Contract assets		**32.3**	31.5	34.3
Total current assets		**424.2**	346.5	287.0
Non-current assets				
Receivables		**4.4**	5.0	3.9
Goodwill	5	**2,490.0**	2,482.5	2,348.7
Right of use asset	1	**1,225.0**	-	-
Property, plant and equipment	6	**323.7**	327.0	297.5
Other intangible assets	7	**84.4**	77.9	63.0
Contract assets		**31.1**	39.2	51.1
Other financial assets		**0.8**	0.6	10.5
Deferred tax asset		**82.5**	73.9	66.2
Total non-current assets		**4,241.9**	3,006.1	2,840.9
Total assets		**4,666.1**	3,352.6	3,127.9
Current liabilities				
Payables		**174.6**	251.6	218.3
Tax liabilities		**-**	1.9	7.9
Provisions		**117.0**	131.6	147.8
Other financial liabilities		**6.7**	6.9	0.5
Interest bearing liabilities		**-**	0.6	0.8
Lease liability	1	**189.2**	-	-
Total current liabilities		**487.5**	392.6	375.3
Non-current liabilities				
Payables		**26.2**	35.9	14.1
Provisions		**28.5**	60.5	60.7
Other financial liabilities		**13.6**	15.2	2.6
Interest bearing liabilities	8	**867.4**	797.3	860.0
Lease liability	1	**1,162.6**	-	-
Total non-current liabilities		**2,098.3**	908.9	937.4
Total liabilities		**2,585.8**	1,301.5	1,312.7
Net assets		**2,080.3**	2,051.1	1,815.2
Equity				
Issued capital	11	**2,672.3**	2,671.1	2,424.2
Reserves		**(6.2)**	(7.6)	12.9
Accumulated losses		**(585.8)**	(612.4)	(621.9)
Total equity		**2,080.3**	2,051.1	1,815.2

Refer to Note 1 for details of the Group's adoption of new accounting standards, and impact of prior period error during the period.

Notes to the financial statements are included on pages 25 to 43

Condensed consolidated statement of changes in equity

For the half-year ended 31 December 2019

CONSOLIDATED $M	Issued capital	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payments reserve	Other reserves	Accumulated losses	Total
Balance at 1 July 2019	2,671.1	(15.5)	(0.5)	7.2	1.2	(608.1)	2,055.4
Impact of prior period error[1]	-	-	-	-	-	(4.3)	(4.3)
Balance after prior period adjustment	2,671.1	(15.5)	(0.5)	7.2	1.2	(612.4)	2,051.1
Impact of AASB 16 adoption[1]	-	-	-	-	-	(20.5)	(20.5)
Balance at 1 July 2019 (restated)	2,671.1	(15.5)	(0.5)	7.2	1.2	(632.9)	2,030.6
Profit for the period	-	-	-	-	-	66.3	66.3
Exchange differences arising on translation of foreign operations	-	-	(0.1)	-	-	-	(0.1)
Fair value loss on cash flow hedges	-	(1.5)	-	-	-	-	(1.5)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	-	3.3	-	-	-	-	3.3
Income tax relating to components of other comprehensive income	-	(0.5)	-	-	-	-	(0.5)
Total comprehensive income for the period	-	1.3	(0.1)	-	-	66.3	67.5
Share issued via STIP	1.2	-	-	(1.2)	-	-	-
Payment of dividends	-	-	-	-	-	(21.4)	(21.4)
Share based payments	-	-	-	3.6	-	-	3.6
Transfers	-	-	-	(2.2)	-	2.2	-
Balance at 31 December 2019	2,672.3	(14.2)	(0.6)	7.4	1.2	(585.8)	2,080.3

[1] Refer to Note 1 for details of the Group's adoption of new accounting standards during the period and prior period restatements.

Notes to the financial statements are included on pages 25 to 43

CONSOLIDATED $M	Issued capital	Financial assets fair value reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payments reserve	Other reserves	Accumulated losses	Total
Balance at 1 July 2018	**2,424.2**	**6.4**	**(2.1)**	**(0.9)**	**8.3**	**1.2**	**(618.2)**	**1,818.9**
Impact of prior period error[1]	–	–	–	–	–	–	(3.7)	(3.7)
Balance after prior period adjustment	**2,424.2**	**6.4**	**(2.1)**	**(0.9)**	**8.3**	**1.2**	**(621.9)**	**1,815.2**
Impact of AASB9 adoption	–	–	–	–	–	–	(2.2)	(2.2)
Balance at 1 July 2018 (Restated)	**2,424.2**	**6.4**	**(2.1)**	**(0.9)**	**8.3**	**1.2**	**(624.1)**	**1,813.0**
Profit for the period	–	–	–	–	–	–	20.4	20.4
Fair value gain/(loss) on cash flow hedges	–	–	(5.5)	–	–	–	–	(5.5)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	–	–	0.7	–	–	–	–	0.7
Income tax relating to components of other comprehensive income	–	–	1.5	–	–	–	–	1.5
Total comprehensive income for the period	**–**	**–**	**(3.3)**	**–**	**–**	**–**	**20.4**	**17.1**
Entitlement offer	250.5	–	–	–	–	–	–	250.5
Entitlement offer – fees and transaction costs	(6.4)	–	–	–	–	–	–	(6.4)
Entitlement offer – equity tax	1.9	–	–	–	–	–	–	1.9
Payment of dividends	–	–	–	–	–	–	(28.7)	(28.7)
Share based payments	–	–	–	–	1.2	–	–	1.2
Transfers	–	–	–	–	(2.0)	–	2.0	–
Share issued via Short Term Incentive Plan	0.8	–	–	–	(0.8)	–	–	–
Share issued via Sign On Arrangement	0.2	–	–	–	(0.2)	–	–	–
Balance at 31 December 2018	**2,671.2**	**6.4**	**(5.4)**	**(0.9)**	**6.5**	**1.2**	**(630.4)**	**2,048.6**

[1] Refer to Note 1 for details of the Group's adoption of new accounting standards during the period and prior period restatements.

Notes to the financial statements are included on pages 25 to 43

Condensed consolidated cash flow statement

For the half-year ended 31 December 2019

	Note	CONSOLIDATED 31 December 2019 $M	31 December 2018 $M
Cash flows from operating activities			
Receipts from customers		**999.4**	932.7
Payments to suppliers and employees		**(819.4)**	(840.9)
Gross cash flows from operating activities		**180.0**	91.8
Interest paid on interest bearing liabilities		**(13.7)**	(15.5)
Interest paid on lease liabilities[1]		**(18.2)**	-
Net income tax paid		**(19.2)**	(21.4)
Interest received		**0.4**	0.7
Net cash provided by operating activities	13(b)	**129.3**	55.6
Cash flows from investing activities			
Payments for property plant and equipment		**(28.5)**	(34.2)
Payment for Day Hospital practices and subsidiaries		**(11.0)**	(67.3)
Payment for Medical Centre healthcare practitioners		**(15.7)**	(15.5)
Payment for Medical Centre practices and subsidiaries		**(8.3)**	(19.5)
Payment for Imaging healthcare practitioners		**(0.9)**	(0.1)
Payment for Imaging practices and subsidiaries		**-**	(0.5)
Payments for Pathology healthcare practices and subsidiaries		**(5.2)**	-
Payments for other intangibles		**(16.4)**	(8.5)
Proceeds from intangibles		**-**	0.5
Net cash used in investing activities		**(86.0)**	(145.1)
Cash flows from financing activities			
Proceeds from issuing shares, net of transaction costs		**-**	244.6
Proceeds from/ (repayments) to borrowings		**70.0**	(105.3)
Dividends paid	12	**(21.4)**	(28.7)
Payment of lease liabilities[1]		**(90.4)**	-
Net cash used in financing activities		**(41.8)**	110.6
Net increase in cash held		**1.5**	21.1
Cash at the beginning of the period		**119.7**	84.0
Effect of exchange rate movements on cash held in foreign currencies		**0.1**	-
Cash at the end of the period	13(a)	**121.3**	105.1

[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 comparative period, lease payments formed part of payments to suppliers and employees within operating cash flows. Under the new standard, lease payments ($108.6m) are allocated between interest ($18.2m) and principal components ($90.4m), and are classified within operating and financing cash flow respectively.

Notes to the financial statements are included on pages 25 to 43

1. SIGNIFICANT ACCOUNTING POLICIES

Healius Limited ("Healius") is a for-profit entity domiciled in Australia. These financial statements represent the condensed consolidated financial statements of Healius for the half-year ended 31 December 2019 and comprises Healius and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

Statement of compliance

This half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* This financial report does not include all of the notes normally included within the annual financial report and should be read in conjunction with the 30 June 2019 annual financial report of Healius Limited.

Basis of preparation

This half-year 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.

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

New and Amended Standards Adopted

The Group applied AASB 16 Leases and IFRIC 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 is 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 were 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).

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 Healius 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 have been recognised in retained earnings ($20.5 million).

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

- Lease 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.

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	1,199.9
Lease liabilities	1,312.7
Payables	(40.0)
Provisions	(43.5)
Deferred tax assets	8.8
Retained earnings	(20.5)

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	87.3
Lease liability as at 1 July 2019	**1,312.7**

Current Period

The impact on the statement of profit or loss for the half-year ended 31 December 2019 is summarised below:

	31 DECEMBER 2019		
	Including impact of AASB 16 $M	Impact of AASB 16 $M	Excluding impact of AASB 16 $M
Revenue	**945.1**		945.1
Other gains	**0.1**		0.1
Employee benefits expense	**484.3**		484.3
Property expenses	**52.8**	97.1	149.9
Consumables	**105.6**		105.6
IT expenses	**16.1**		16.1
Impairment and related items	**8.3**		8.3
Other expenses	**98.7**	8.6	107.3
Depreciation - Fixed Assets	**29.7**		29.7
Depreciation - Right of Use Asset	**97.1**	(97.1)	–
Amortisation of intangibles	**7.6**		7.6
Earnings before interest and tax	**45.0**	8.6	36.4
Net finance costs/(income)[1]	**13.5**	(21.2)	(7.7)
Profit before tax	**31.5**	12.6	44.1
Income tax (benefit)/ expense	**(34.8)**	3.8	(31.0)
Profit for the period	**66.3**	8.8	75.1

1. The AASB 16 impact of $21.2m on net finance costs comprises $22.2m of interest expense on lease liabilities for the current period less $1.0m for the reversal of the unwinding of the discount on onerous lease provisions that would have been recognised if AASB 16 did not apply.

The movement in the lease liability and right-of-use asset for the half-year ended 31 December 2019 can be reconciled as follows:

Lease liabilities	$M
Opening balance	1,312.7
New leases and remeasurement of leases during the period	125.5
Interest	22.2
Payments	(108.6)
Closing balance	**1,351.8**

Right of use asset	$M
Opening balance	1,199.9
New leases and remeasurement of leases during the period	123.8
Depreciation	(97.1)
Impairment	(1.6)
Closing balance	**1,225.0**

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-or-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.

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 (primarily in Medical Centres). 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-lease 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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 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

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, noting that aside from the tax objections for the year 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 29th November 2019, the Federal Court issued a judgement in the favour of the Group. Following this decision, given the change in circumstances, management reassessed the probability and has considered that it is probable that the taxation authority will accept this uncertain tax treatment, and as a result has recognised a tax receivable and associated interest. Refer to Note 4.

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 31 December 2018 (Extract)

	Restated 31 December 2018 $M	Restatement increase/ (decrease) $M	As reported 31 December 2018 $M
Employee benefits expense	445.4	0.4	445.0
EBIT	**51.0**	(0.4)	51.4
Profit before tax	**34.2**	(0.4)	34.6
Income tax (benefit)/ expense	13.8	(0.1)	13.9
Profit for the period	**20.4**	(0.3)	20.7

Impact on earnings per share for the period ended 31 December 2018

Earnings per share	Restated 2018 Cents per share	Restatement increase/ (decrease) Cents per share	As reported 2018 Cents per share
Basic earnings per share	3.48	(0.02)	3.50
Diluted earnings per share	3.47	(0.03)	3.50

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

	Restated 30 June 2018	Restatement increase/ (decrease)	As reported[1] 30 June 2018
	$M	$M	$M
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.

Net current liability position

The Group has a net current liability of $63.3 million (30 June 2019: $46.1 million), excluding the impact of AASB 16, the Group has a net current asset of $125.9 million. The Group generates significant operating cash flows and had access to $115.0 million of unused financing facilities at the end of the reporting period which can be drawn if required.

Rounding of amounts

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

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.
Medical Centres	This division provides a range of services and facilities to general practitioners, specialists, dentists, IVF specialists and other healthcare professionals operating in the bulk billing and private billing sectors. This division is also an operator of day hospital and haematology/oncology clinics.
Imaging	This division provides imaging and scanning services from standalone imaging sites, hospitals and from within the consolidated entity's medical centres.

The other category comprises corporate functions.

The Group operates predominantly in Australia.

Intersegment

The Medical Centres division charges the Group's Imaging and Pathology divisions 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 six months ended 31 December 2019 exclude the impact of the adoption of AASB 16 and non-underlying items relating to:

- Restructuring and strategic initiatives and other non-recurring items;
- Impairment of assets and other related items; and
- Interest benefit from tax case for FY03 to 07.

Underlying results for the comparative period exclude the impact of non-underlying items relating to:

- Restructuring and strategic initiatives and other non-recurring items.

2. SEGMENT INFORMATION (CONTINUED)

Underlying

31 December 2019	Pathology $M	Medical Centres $M	Imaging $M	Other $M	Total $M
Segment Revenue	**583.0**	**183.2**	**201.8**	**–**	**968.0**
Intersegment sales					**(22.9)**
Total Revenue					**945.1**
EBITDA [1]	**62.9**	**30.0**	**28.6**	**(8.5)**	**113.0**
Depreciation	**10.2**	**11.5**	**6.2**	**1.8**	**29.7**
Amortisation of intangibles	**3.0**	**2.2**	**1.1**	**1.3**	**7.6**
EBIT [2]	**49.7**	**16.3**	**21.3**	**(11.6)**	**75.7**
Finance costs					**15.6**
Profit before tax					**60.1**
Income tax expense [3]					**18.0**
Profit for the period					**42.1**

RESTATED 31 December 2018	Pathology $M	Medical Centres $M	Imaging $M	Other $M	Total $M
Segment Revenue	551.5	155.8	192.0	–	899.3
Intersegment sales					(20.4)
Total Revenue					878.9
EBITDA [1]	58.8	29.6	26.2	(6.2)	108.4
Depreciation	10.0	9.9	6.7	1.5	28.1
Amortisation of intangibles	3.8	1.8	1.2	0.8	7.6
EBIT [2]	45.0	17.9	18.3	(8.5)	72.7
Finance costs					16.8
Profit before tax					55.9
Income tax expense [3]					16.8
Profit for the period					39.1

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 result to statutory profit before tax:

	Note	Segment Result 31 December 2019 $M	Segment Result RESTATED 31 December 2018 $M
Total underlying profit before tax		**60.1**	55.9
Restructuring, strategic initiatives and other non-recurring items		**(31.0)**	(21.7)
Impairment of assets and other related items		**(8.3)**	-
Interest benefit from tax case for FY03 to 07	3	**23.3**	-
Total non-underlying items		**(16.0)**	(21.7)
Impact of AASB 16 adoption		**(12.6)**	-
Total significant items		**(12.6)**	-
Total non-underlying and significant items		**(28.6)**	(21.7)
Total statutory profit before tax		**31.5**	34.2

Below is breakdown of impairment of assets and other related items:

	31 December 2019 $M	31 December 2018 $M
Contract assets	**3.3**	-
Intangibles	**2.6**	-
Right of use asset	**1.6**	-
Property, plant and equipment	**0.8**	-
	8.3	-

Further information on the reconciliation between reported and underlying performance can be found in the Review of Operations on pages 3 to 14.

3. NET FINANCE COSTS	31 December 2019 $M	31 December 2018 $M
Interest benefit from FY03-07 tax case[1]	**(23.3)**	-
Interest expense	**13.1**	16.0
Interest from lease liability	**22.2**	-
Unwinding of discount on provisions	**0.7**	-
Amortisation of borrowing costs	**0.8**	0.8
	13.5	16.8

1. For more information on the interest benefit from FY03-07 tax case, refer to Note 4 below.

4. INCOME TAX (BENEFIT)/EXPENSE	31 December 2019 $M	RESTATED 31 December 2018 $M
The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	**31.5**	34.2
Income tax calculated at 30% (2019: 30%)	**9.4**	10.3
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Amortisation of healthcare practitioner contractual relationships	**1.3**	2.8
Other items	**1.1**	1.2
	2.4	4.0
Over provision in prior years	**(46.6)**	(0.5)
Income tax (benefit)/expense	**(34.8)**	13.8

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.

Healius has recognised an income tax benefit and a tax receivable of $46.6m and associated interest receivable (see Note 3 above) in its 31 December 2019 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 a hearing date is yet to be advised.

5. GOODWILL	31 December 2019 $M	30 June 2019 $M
Opening balance – beginning of financial year	**2,482.5**	2,348.7
Acquisition of businesses and subsidiaries	**7.5**	133.8
	2,490.0	2,482.5

Impairment tests

Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:

	31 December 2019 $M	30 June 2019 $M
Medical Centres	**449.8**	447.6
Pathology	**1,587.0**	1,581.7
Imaging	**356.5**	356.5
Montserrat	**96.7**	96.7
	2,490.0	2,482.5

For the purpose of impairment testing, goodwill is allocated to each of the CGUs, or group of CGUs, expected to benefit from the synergies of the business combination.

The allocation of goodwill for Medical Centres CGU at 30 June 2019 has been restated to include $46.5m previously relating to Health & Co. Health & Co is now included in the Medical Centres CGU for impairment testing.

The carrying amount of Medical Centres goodwill has been tested at 31 December 2019 due to indicators that the asset may be impaired.

In its impairment assessment, the Group determined the recoverable amount of Medical Centres 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 managements latest forecast and growth rates determined with reference to historical company experience, industry data and a long-term growth rate consistent with historic industry trend levels.

The key assumptions in the Group's discounted cash flow model as at 31 December 2019 are as follows:

ASSUMPTION	HOW DETERMINED
Forecast revenue	Cumulative average revenue growth rates 4.3% (30 June 2019: 8.7%)
Terminal value growth rates	The terminal value growth rates 2.5% (30 June 2019: 2.5%). The terminal value growth rate has been determined with reference to historical company experience for the CGU and expectations of long-term operating conditions. The growth rates do not exceed long term industry growth rates.
Discount rates	The post-tax discount rate before AASB16 is 8.5% (30 June 2019: 8.5%). The post-tax discount rate after AASB16 is 6.5%. Post-tax discount rate reflects the Group's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for business risks specific to that CGU.

SENSITIVITY ANALYSIS

The Group has conducted sensitivity analysis on the key assumptions above to assess the effect on the recoverable amount of changes in the key assumptions.

The following table sets out the change in revenue growth rates, terminal value growth and discount rates that would be required in order for the carrying value of the Medical Centres CGU to equal the recoverable amount.

	INCREASE/(DECREASE) IN ASSUMPTIONS REQUIRED FOR RECOVERABLE AMOUNT TO EQUAL CARRYING AMOUNT		
CGU	REVENUE GROWTH PER ANNUM	TERMINAL GROWTH PER ANNUM	DISCOUNT RATE
Medical Centres	(1.0%)	(0.55%)	0.43%

6. PROPERTY, PLANT AND EQUIPMENT

31 December 2019 $M	Plant and Equipment	Leasehold Improvement	Asset under construction	Total
Net book value				
Opening balance	**116.0**	**184.4**	**26.6**	**327.0**
Additions	**11.6**	**0.2**	**15.7**	**27.5**
Capitalisation of assets under construction	**3.3**	**12.4**	**(15.7)**	**-**
Disposals	**-**	**(0.3)**	**-**	**(0.3)**
Impairment	**(0.3)**	**(0.5)**	**-**	**(0.8)**
Depreciation expense	**(16.0)**	**(13.7)**	**-**	**(29.7)**
Closing balance	**114.6**	**182.5**	**26.6**	**323.7**
Cost	**350.1**	**408.3**	**26.6**	**785.0**
Accumulated depreciation	**(235.5)**	**(225.8)**	**-**	**(461.3)**
Closing balance	**114.6**	**182.5**	**26.6**	**323.7**

31 December 2018[1] $M	Plant and Equipment	Leasehold Improvement	Asset under construction	Total
Net book value				
Opening balance	101.6	169.0	26.9	297.5
Additions	13.0	1.3	13.3	27.6
Business acquisitions	5.3	2.3	0.1	7.7
Capitalisation of assets under construction	19.5	10.3	(29.8)	-
Disposals	(0.3)	-	-	(0.3)
Depreciation expense	(12.4)	(15.7)	-	(28.1)
Closing balance	126.7	167.2	10.5	304.4
Cost	338.3	366.9	10.5	715.7
Accumulated depreciation	(211.6)	(199.7)	-	(411.3)
Closing balance	126.7	167.2	10.5	304.4

1. Comparative information has been provided for the 6 months ended 31 December 2018 in order to provide a meaningful comparison for movements in property, plant and equipment during the 6 month period. Comparative information for the 12 months ended 30 June 2019 can be found in the Group's 2019 annual report.

7. OTHER INTANGIBLE ASSETS

31 December 2019 $M	IT Software	Licences	Other	Intangible Under Construction	Total
Net book value					
Opening balance	**44.9**	**10.6**	**3.2**	**19.2**	**77.9**
Additions	**2.0**	**-**	**1.6**	**13.1**	**16.7**
Capitalisation of intangible assets under construction	**11.5**	**-**	**-**	**(11.5)**	**-**
Impairment	**-**	**-**	**(0.1)**	**(2.5)**	**(2.6)**
Amortisation expense	**(5.7)**	**(0.5)**	**(1.4)**	**-**	**(7.6)**
Closing balance	**52.7**	**10.1**	**3.3**	**18.3**	**84.4**
Cost	**129.0**	**40.3**	**7.8**	**20.8**	**197.9**
Accumulated amortisation	**(76.3)**	**(30.2)**	**(4.5)**	**(2.5)**	**(113.5)**
Closing balance	**52.7**	**10.1**	**3.3**	**18.3**	**84.4**

31 December 2018[1] $M	IT Software	Licences	Other	Intangible Under Construction	Total
Net book value					
Opening balance	33.0	11.4	2.9	15.7	63.0
Additions	0.6	–	2.1	7.0	9.7
Capitalisation of intangible assets under construction	15.9	–	–	(15.9)	–
Amortisation expense	(5.4)	(0.4)	(1.8)	–	(7.6)
Closing balance	44.1	11.0	3.2	6.8	65.1
Cost	111.4	40.3	7.4	6.8	165.9
Accumulated amortisation	(67.3)	(29.3)	(4.2)	–	(100.8)
Closing balance	44.1	11.0	3.2	6.8	65.1

1. Comparative information has been provided for the 6 months ended 31 December 2018 in order to provide a meaningful comparison for movements in property, plant and equipment during the 6 month period. Comparative information for the 12 months ended 30 June 2019 can be found in the Group's 2019 annual report.

8. INTEREST-BEARING LIABILITIES	31 December 2019 $M	30 June 2019 $M
Non-current		
Finance lease liabilities	**-**	0.2
Gross bank loans	**870.0**	800.0
Refinancing valuation adjustment	**1.0**	1.5
Unamortised borrowing costs	**(3.6)**	(4.4)
	867.4	797.3

The fair value of the non-current interest-bearing liabilities approximates the carrying amount of gross bank loans disclosed above.

The first tranche of the facility of $500.0 million is due to mature in January 2021 and the second of $525.0 million in January 2023.

9. NET TANGIBLE LIABILITY BACKING	31 December 2019 $	RESTATED 30 June 2019 $
Net tangible liability backing per share	**(0.93)**	(0.96)

Includes the impact of AASB16.

10. CONTINGENT ASSETS AND LIABILITIES

As outlined in Note 4, following the decision of the Federal Court in favour of the Company a tax receivable and interest income on overpayment of tax has now been recorded. There were no material changes in contingent liabilities since 30 June 2019.

11. ISSUED CAPITAL	No. of Shares 31 December 2019 000's	No. of Shares 30 June 2019 000's	31 December 2019 $M	30 June 2019 $M
Opening balance	**622,323**	521,853	**2,671.1**	2,424.2
Shares issued via Entitlement Officer, 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.

12. DIVIDENDS ON EQUITY INSTRUMENTS	31 December 2019 Cents per share	31 December 2018 Cents per share	31 December 2019 $M	31 December 2018 $M
Recognised amounts				
Final dividend – previous financial year	**3.4**	5.5	**21.4**	28.7
Total dividends paid	**3.4**	5.5	**21.4**	28.7
Unrecognised amounts				
Interim dividend – current financial period	**2.6**	3.8		

The Directors have approved the payment of an interim dividend of 2.6 cps 100% franked, to the holders of fully paid ordinary shares, the record date being 27 March 2020 and payable on 15 April 2020. The final dividend for the year ended 30 June 2019 was 100% franked (2018: 100% franked).

13. NOTES TO THE CASH FLOW STATEMENT	31 December 2019 $M	Restated 31 December 2018 $M
(a) Reconciliation of cash		
For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the period as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:		
Cash	**121.3**	105.1

(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities

Profit attributable to equity holders	**66.3**	20.4
Depreciation of plant and equipment	**29.7**	28.1
Depreciation of right of use asset	**97.1**	–
Amortisation of HCP upfronts in revenue	**18.3**	20.1
Amortisation of intangibles	**7.6**	7.6
Interest accrual	**3.9**	–
Impairment of assets and related items	**8.3**	–
Share based payments expense	**3.1**	1.2
Unwind of borrowing costs	**0.7**	
Amortisation of borrowing costs	**0.8**	0.8
Other non-cash items	**(0.6)**	(0.1)
Increase/(decrease) in liabilities:		
Trade payables and accruals	**(26.9)**	(0.4)
Provisions	**(1.8)**	(13.1)
Income tax	**(53.2)**	(3.6)
Decrease/(increase) in assets:		
Receivables and prepayments	**(21.6)**	(0.7)
Consumables	**(1.8)**	(2.4)
Income tax and deferred taxes	**(0.6)**	(2.3)
Net cash provided by operating activities	**129.3**	55.6

14. 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.

	31 December 2019 $M
Non-current assets	**0.1**
Current liabilities	**(0.1)**
Total identifiable net assets at fair value	**0.0**
Goodwill arising on acquisition	**7.5**
Total consideration	**7.5**
Less: Deferred consideration	**(0.2)**
Cash paid on acquisition	**7.3**
Disclosed in the statement of cash flows:	
Payment for Medical Centres practices	**(2.1)**
Payment for Pathology practices	**(5.2)**
	(7.3)

15. SUBSEQUENT EVENTS

On 29 November 2019, the Group announced that the Federal Court of Australia had ruled in favour of Healius on the Tax Case for financial years 2003 to 2007. Following the decision, Healius has recognised an income tax benefit and tax receivable of $46.6 million and estimates attributable interest benefit and receivable of $23.3 million.

On 13 January 2020, the Commissioner of Taxation has appealed the Federal Court of Australia's decision and a hearing date is yet to be advised.

On 25 February 2020, Healius received:

- notice that EAB Holdings Pte. Ltd and related entities (Partners Group) had entered a Call Option Deed over 15.88% of Healius shares held by Jangho Health Care Australia Pty Ltd and Golden Acumen Holdings Limited (Jangho), and
- an unsolicited and non-binding indicative offer from a wholly-owned subsidiary of Partners Group to acquire all the shares in Healius by way of a Scheme of Arrangement. The Board of Directors will assess the indicative offer.

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