Results for announcement to the market

Healius Limited

ACN 064 530 516

Appendix 4E – Preliminary Final Report (Unaudited)

For the year ended 30 June 2021

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Appendix 4E – Preliminary Final Report (Unaudited)

Results for announcement to the market

For the year ended 30 June 2021

$M	2021 TOTAL	RESTATED 2020 TOTAL	$ CHANGE 2021 VS 2020	% CHANGE 2021 VS 2020
Revenue from continuing operations	1,900.7	1,557.0	343.7	+22.1%
Underlying profit for the year after tax [1]	148.4	53.1	95.3	+179.5%
Profit for the year after tax from continuing operations (excluding 2003/07 tax case impact) [2]	129.4	20.3	109.1	+537.4%
Profit for the year after tax from continuing operations (including 2003/07 tax case impact) [2]	66.3	83.4	(17.1)	-20.5%
Profit/(loss) for the year after tax from continuing and discontinued operations	43.7	(70.5)	114.2	+162.0%

CENTS PER SHARE[3]	2021 TOTAL	2020 TOTAL
Basic earnings/(loss) per share from continuing and discontinued operations	7.1	(11.3)
Underlying basic earnings per share	24.0	8.5
Diluted earnings/(loss) per share from continuing and discontinued operations	7.0	(11.3)
Underlying diluted earnings per share	23.7	8.5
Final dividend [4,5]	6.75	–
Interim dividend [6]	6.5	2.6
	13.25	2.6

[1] Underlying profit excludes the impact of strategic initiatives and other non-recurring items. A reconciliation between reported profit and underlying profit is contained in the review of operations on page 10 of this preliminary final report for the year ended 30 June 2021.

[2] Profit for the year after tax from continuing operations has been presented with and without impact of the 2003 to 2007 tax objections. Refer to Note 5 for further information.

[3] Weighted average number of shares at 30 June 2021 determined to be 618.8 million and 626.5 million for basic and diluted earnings per share calculations respectively. Refer to Note 6 for further information on earnings per share.

[4] The 2021 final dividend will be 100% franked at the corporate income tax rate (2020: N/A- No final dividend was declared).

[5] The record date for determining entitlement to the final dividend is 14 September 2021. The final dividend is payable on 8 October 2021.

[6] The 2021 interim dividend was 100% franked (2020: 100%).

FY 2021 OVERVIEW

	GROUP	PATHOLOGY	IMAGING	DAY HOSPITALS
RESULTS	Played a pivotal role in Australia's response to the COVID-19 pandemic, while delivering core healthcare services efficiently Strong momentum on strategic initiatives Underlying EBIT at record $266.5 million $525.9 million in operating cash flows Low gearing and good funding capacity	Substantial growth in COVID-19 testing Non-COVID revenue up despite lockdowns Successful ACC optimisation EBIT margin 17.4% with cost control	Impacted by Victorian lockdowns, with large hospital portfolio and strong metropolitan presence Normalised revenue growth broadly on a par with market EBIT benefit from network optimisation	Strong top line growth in Montserrat and Brookvale Westside Private significantly up on record surgery numbers Good cost control
STRATEGY	Portfolio simplification and strengthened Balance Sheet through HPC[7] sales process Capital management: • $101 million share buy-back • Sustainable dividend • Investment in growth Right-sized overheads with support costs reduced by $15 million Targeting 300 bps margin expansion through SIP[8] Phase II	Through SIP, grew commercial opportunities in COVID-19 testing and veterinary and genetic specialties SIP also delivered savings in network costs SWA[9] roll-out nearing completion	Selective M&A to strategically extend footprint Launch of Lumus brand unifies business ICAR[10] roll-out broadly complete	Continued ramp-up of existing sites plus pipeline of greenfield and brownfield opportunities Successful trial of short stay orthopaedic surgery

[7] Healius Primary Care
[8] Sustainable Improvement Program
[9] Serum Work Area
[10] Imaging Core Application Refresh

GROUP PERFORMANCE

	30 JUNE 2021 $M UNDERLYING [11]	30 JUNE 2020 $M	30 JUNE 2021 $M REPORTED	30 JUNE 2020 $M
Revenue	1,913.1	1,572.4	1,900.7	1,557.0
EBIT	266.5	129.0	255.4	92.1
NPAT (Reported incl. discontinued operations)	148.4	53.1	43.7	(70.5)
Cash flow from operating & investing activities			912.8	285.0
Dividends cps 100% franked			13.25	2.6

GROUP UNDERLYING RESULTS

In the year ended 30 June 2021 (FY 2021), Healius played a pivotal role in Australia's public health response to the COVID-19 pandemic, performing over 5.75 million COVID-19 tests to-date, through dedicated community collection centres and drive-throughs as well as extensive commercial COVID-19 testing at workplaces, for sporting codes, for governments and for travellers.

The various state lockdowns, including the extended lockdown in Victoria in the winter of 2020, had an impact on non-COVID pathology volumes as well as imaging volumes and, to a lesser degree, day hospital surgery numbers. Nevertheless, throughout the pandemic Healius has continued to provide critical healthcare services to its communities while ensuring its people remained safe.

In FY 2021, Healius achieved strong revenue growth of $340.7 million to $1,913.1 million while underlying EBIT grew by $137.5 million to a record $266.5 million. Pathology and Day Hospitals were up significantly on the prior period and Imaging improved from a lock-down impacted FY 2020. Underlying NPAT was up by $95.3 million, a 179.5% increase on the prior period.

The Sustainable Improvement Program (SIP), through both cost control and revenue growth, contributed to the delivery of this strong result. Of particular note, labour costs have increased by only 2.8% on FY 2020, after normalising both years for the impact of staff leave initiatives, while revenue increased 22.1% during the same period.

Group results for continuing operations in both years exclude the trading of Healius Primary Care (HPC), and Adora Fertility and three co-located Healius Day Hospitals (Adora), as these assets were held for sale. The sale of HPC was completed in November 2020 while Adora was held for sale at the end of the year, with a sale announced in August 2021. This is in line with the Group's strategy to streamline the business, strengthen its balance sheet and focus on its specialist core diagnostic and growing Day Hospitals businesses.

The underlying results include the impacts of AASB 16, with FY 2020 underlying results restated for comparability.

Reported results for the year ended 30 June 2021 include a small number of non-underlying items, including investment in pathology information systems. Importantly the quantum of adjustments between reported and underlying has reduced to a 4% differential between reported and underlying EBIT in FY 2021.

In FY 2021, $525.9 million was generated in operating cash flow and $386.9 million in capital recycling net of investments (primarily the HPC sale proceeds), enabling the Company to reduce its debt position and meet the on-going capital needs of the business and value-generating investments, as well as reward its shareholders with sustainable and growing dividends and the current share buy-back program.

Taking into consideration the strong performance of the Company, a final dividend of 6.75 cents per share (cps) fully franked was determined by the Board. This brings dividends for FY 2021 to 13.25 cps

[11] All comments in this review of operations relate to underlying results for continuing operations unless otherwise noted. For a reconciliation and analysis, refer section below titled: 'Group reported results'

representing a payout ratio for FY 2021 of 62% of reported NPAT (after making a positive adjustment of $63.1 million for the non-cash impact of the ATO case[12] in the year).

DIVISIONAL RESULTS

PATHOLOGY

UNDERLYING	30 JUNE 2021 $M	30 JUNE 2020 $M	BETTER/(WORSE) %
Revenue	1,452.1	1,160.1	25.2%
EBITDA	428.3	274.2	56.2%
Depreciation	(168.2)	(143.5)	(17.2)%
Amortisation	(7.3)	(6.3)	(15.9)%
EBIT	252.8	124.4	103.2%
Total capital expenditure	32.5	36.9	11.9%

Healius Pathology has conducted more than 5.75 million COVID-19 tests to-date, playing a pivotal role in the national COVID-19 testing regime. The extensive community COVID-19 testing, collected through the division's 89 dedicated sites as well as in several hospital and aged care facilities, was supplemented by Healius Pathology's commercial and direct-to-consumer initiatives, which included testing at workplaces and sporting codes.

Overall Healius Pathology delivered a strong result for the year with revenue up 25.2% to $1.45 billion (76% of Group revenue) and EBIT up 103.2% to an historic level of $252.8 million.

COVID revenue was the prime driver of growth, while non-COVID revenue was up slightly in the year, on an 8% smaller Approved Collection Centre (ACC) footprint. Good growth was achieved in veterinary testing, which was up 21%, and genetics testing, up 17%. The average fee on non-COVID revenue also increased.

Pathology received an additional $9.8 million in deferred government grants relating to payments under the Pathology Agreement for April and May 2020. The EBIT benefit was, however, offset by additional bad debts expense of $9.0 million provided for during the year after a detailed review of old account balances such as debts relating to overseas health funds and private accounts.

EBIT rose significantly delivering a margin of 17.4%. Despite incurring higher people and consumables expenses through its COVID-19 initiatives, the business maintained its focus on cost control. Pathology improved its EBIT through a successful optimisation of the network which saw ~175 poorly performing and low margin sites closed in the year.

A total of $32.5 million in capital was spent in the year primarily on a new laboratory in WA together with strategic digital initiatives and a small acquisition. Upgrade to the main laboratory testing equipment, called the Serum Work Area, is now complete in all states other than Dorevitch in Victoria which is expected to be finalised in 1H 2022.

[12] See section below in Group Reported Results titled: 'ATO case'

IMAGING

UNDERLYING	30 JUNE 2021 $M	30 JUNE 2020 $M	BETTER/(WORSE) %
Revenue	406.9	376.7	8.0%
EBITDA	84.5	70.2	20.4%
Depreciation	(50.8)	(45.8)	(10.9)%
Amortisation	(2.8)	(2.5)	(12.0)%
EBIT	30.9	21.9	41.1%
Total capital expenditure	18.6	13.4	(38.8)%

Imaging delivered revenue growth in all of its channels: hospitals, community sites and medical centres, with a strong second half up 18% on the prior comparable period due to a soft performance in 2H 2020.

During the year, the division's revenue was affected by the lockdowns in Victoria, where it has a large hospital portfolio and a strong presence in metropolitan areas, and by an 8% reduction in the network with the closure of 14 poorly performing and low margin sites. On a normalised basis, revenue growth was close to market, with the on-going ramp-up of the Northern Beaches Hospital in Sydney being a highlight.

Divisional EBIT increased 41.1% to $30.9 million. Of note, the division improved profit due to the aforementioned network optimisation and delivered SIP productivity gains in NSW, under a prototype to be rolled out nationwide. However, the headline EBIT margin was impacted by the decline in activity in Victoria, historically the division's strongest performer, together with additional COVID-19 personal protective equipment and one-off investments in SIP projects.

A total of $18.6 million in capital was spent in the year on high-end facilities at Orange NSW and South Tweed, upgraded equipment, which was purchased outright rather than leased, and preparation for the launch of the Lumus brand in August 2021. The Imaging Core Application Refresh roll-out was broadly completed in the year, delivering productivity savings and an improved referrer and consumer interface. The division is strategically extending its footprint and announced the acquisition of Axis Radiology in Queensland in FY 2021.

DAY HOSPITALS

The Day Hospitals division includes Montserrat and Brookvale Day Hospital, following the decision to prepare Adora Fertility and three co-located Healius Day Hospitals for sale, with these businesses classified as discontinued operations.

UNDERLYING	30 JUNE 2021 $M	30 JUNE 2020 $M	BETTER/(WORSE) %
Revenue	49.5	37.4	32.4%
EBITDA	15.5	9.7	59.8%
Depreciation	(6.5)	(6.0)	(8.3)%
Amortisation	-	-	n.a
EBIT	9.0	3.7	143.2%
Total capital expenditure	2.9	2.9	-

In FY 2021, the Day Hospitals division grew revenue by 32.4% to $49.5 million with Montserrat contributing $45.8 million, up 33.9%, and Brookvale $3.7 million up 15.6%.

Montserrat's growth came primarily from the on-going ramp-up of its multi-specialist Westside Private Hospital, which accounts for around a third of divisional revenue and delivered 62.2% growth in the year. Westside recruited new surgeons and undertook record surgery numbers, nearing 1,000 procedures in the month of March. It successfully trialled short-stay orthopaedic surgery.

Overall, Montserrat achieved EBITDA of $14.8 million and EBIT of $8.3 million. The results were materially above FY 2020 due to the abovementioned strong revenue growth combined with good cost control and despite COVID-19 lockdowns occasionally impacting procedure numbers. Brookvale delivered a profitable result in the year, with EBITDA and EBIT of $0.7 million, under the management of the Montserrat team.

Capital expenditure of $2.9 million was in line with the previous year, with the majority spent on medical equipment and technology. Montserrat is focused on further ramp up of its four new sites which have collectively more than doubled their EBITDA contribution in FY 2021. The division also has a pipeline of both greenfield and brownfield sites under consideration as it looks to capitalise in this growing sector. Medical and technological advancements and on-going cost pressures are seeing patients move away from traditional overnight hospitals into short-stay hospitals, with strong interest from private health insurers and governments in potential new models of care.

The division repaid the JobKeeper received from the Federal Government in 1H 2021.

CORPORATE

UNDERLYING	30 JUNE 2021 $M	30 JUNE 2020 $M	BETTER/(WORSE) %
Revenue	6.8	0.1	n.a
EBITDA	(14.5)	(10.4)	(39.4)%
Depreciation	(8.0)	(7.5)	(6.7)%
Amortisation	(3.7)	(3.1)	(19.4)%
EBIT	(26.2)	(21.0)	(24.8)%
Total capital expenditure	5.8	9.7	40.2%

Corporate functions include the management of centralised support services, where those functions benefit from scale, and core corporate costs including strategy, capital and stakeholder management, group finance and treasury, Board costs and executive incentives. Overheads are allocated to the divisions in the form of a charge based on headcount, footprint, or usage and the remaining costs are classified as corporate overheads.

In FY 2021, revenue was earned on subleases to discontinued operations and from the transitional services agreement following the sale of HPC, both of which were offset by higher cost of delivery. Corporate overheads remained tightly controlled at under 2% of the Group's total cost base. Core costs were well-managed notwithstanding on-going pressures in insurance, particularly D&O, and IT.

Healius delivered a $15 million reduction in centralised support services from its operating model redesign for the 'stranded' costs after Medical Centres sale. This was delivered ahead of its targeted timeframe and ensured there was no increase in unallocated costs due to the sale.

In the fourth quarter of the year, Healius commenced a capability ramp up in strategy, corporate development including M&A, data analytics, together with improved IT and HR support. It is expected that core corporate costs will rise by ~$5 million in FY 2022 to deliver enhanced capabilities to manage the existing portfolio and growth options, while remaining below 2% of the total cost base. Corporate spent a total of $5.8 million on capital in the year, primarily on IT systems in payroll/time management and in IT security, as the Group repairs historic technology debt.

CASH FLOW AND GEARING

Group cash flows (including continuing and discontinued operations) for FY 2021 were as follows:

REPORTED	30 JUNE 2021 $M	30 JUNE 2020 $M
Gross cash flows from operating activities	571.9	405.2
Net income tax paid	(46.0)	1.7
Net cash flows from operating activities	525.9	406.9
Maintenance capex	(39.9)	(55.9)
Free cash flow	486.0	351.0
Growth capex	(33.6)	(66.1)
Proceeds from capital recycling (primarily HPC sale proceeds)	460.4	0.1
Cash flow after investing activities	912.8	284.8
Net interest paid including lease liabilities	(72.1)	(67.7)
Payment of lease liabilities	(203.1)	(186.4)
Dividends	(56.3)	(21.2)
Payments for buyback of shares	(97.5)	-
Debt funding /(reduction)	(555.7)	15.0
Net increase/(decrease) in cash held	(71.9)	24.7
Opening cash	144.5	119.7
F/X	0.1	0.1
Closing cash	72.7	144.5

In FY 2021, Healius achieved strong gross operating cash flows, 41.1% above the prior year, representing a conversion of 106% of EBITDA. Net income tax paid increased due to the settlement of taxes deferred in FY 2020 at the beginning of the COVID-19 pandemic.

Importantly, the Group has materially lower capital intensity following the divestment of HPC. It invested $59.9 million[13] in maintenance and growth capital programs in the year. Investments included:

- a new pathology laboratory in WA,
- a greenfield imaging facility in Orange, NSW, and upgraded imaging equipment, and
- developed core IT systems in payroll/time management and in IT security.

Healius received a total of $460.4 million in proceeds, primarily for the settlement of the HPC sale. Together with the strong operating cash flows, this capital recycling significantly strengthened the Group's balance sheet, reduced its debt, and positioned it to meet the on-going capital needs of the business and value-generating investments, as well as rewarding its shareholders with dividends and with the current share buy-back program. In the year Healius:

- reduced its loan positions by $555.7 million with annual interest savings equating to $9.2 million,
- paid $56.3 million in dividends, being the deferred FY20 and FY21 interim dividends, and
- bought back shares totalling $97.5 million (with additional $3.5 million settled in July).

[13] $10 million was also spent on payments for medical centre practices and upfront payments to health care practitioners in 1H 2021, prior to the HPC sale completion, and $3.5 million on capital items in Adora. These amounts will not recur.

Group net debt and key ratios at 30 June 2021 were as follows:

REPORTED	30 JUNE 2021 $M	30 JUNE 2020 $M
Bank loans and financing arrangements[14]	277.9	810.1
Cash	(72.7)	(144.5)
Net debt	205.2	665.6
Bank gearing ratio (covenant <3.5x)[15]	0.7x	2.7x
Bank interest ratio (covenant >3.0x)	10.0x	8.9x

Healius has delivered a significant improvement in its net debt and key bank ratios underpinned by the aforementioned strong free cash flow generation and capital recycling. During the year, debt facilities were reduced by $495 million to $600 million in line with reduced borrowing requirements. The Group remains well within its covenants and has a significant liquidity buffer to manage uncertainties that may arise due to unforeseen events.

GROUP REPORTED RESULTS

This review of operations focuses on the underlying results of Healius which adjust for items not considered to be part of core trading performance. The quantum of adjustments between reported and underlying has reduced in FY 2021, with a 4% differential between underlying and reported EBIT.

REVENUE

The reconciliation between reported and underlying revenue for FY 2021 is as follows:

	2021 $M	2020 $M
Underlying revenue	1,913.1	1,572.4
Reclassification of grant income from revenue to other income	(9.8)	(12.4)
Transactions with discontinued operations	(2.6)	(3.0)
Reported revenue	1,900.7	1,557.0

EBIT

The reconciliation between reported and underlying EBIT for FY 2021 is as follows:

	2021 $M	2020 $M
Underlying EBIT	266.5	129.0
Strategic projects (including Pathology information systems upgrades)	(11.3)	(18.3)
Montserrat deferred consideration expense	(3.0)	(14.5)
Other (including impairments)	(1.1)	(12.6)
Reinstatement of transactions with discontinued operations	4.3	8.5
Total non-underlying items	(11.1)	(36.9)
Reported EBIT	255.4	92.1

[14] Bank loans shown net of unamortised borrowing costs together with $19.8 million of parent company guarantees
[15] Bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15 and 16 and adjusted for share-based payments

NPAT

The reconciliation between reported and underlying NPAT for FY 2021 is as follows:

	2021 $M	2020 $M
Underlying NPAT	148.4	53.1
After-tax adjustments to underlying EBIT (set out above)	(7.8)	(25.8)
Finance costs - debt facility reduction and close out of interest rate swaps	(6.6)	-
ATO case - tax	(46.6)	46.6
ATO case - interest	(16.5)	16.5
Tax differential for non-deductible items (underlying tax calculated at 30%)	(4.6)	(7.0)
Total adjustments	(82.1)	30.3
Reported NPAT	66.3	83.4

ATO case

Healius recognised an income tax benefit and a tax receivable of $46.6 million and associated interest receivable of $23.6 million (less $7.1 million tax) in its FY 2020 financial statements. This was based on a favourable decision received from the Federal Court of Australia in respect to its tax objections for the 2003 to 2007 years regarding lump sum payments made to healthcare practitioners during those years, as required by IFRIC 23, *"Uncertainty over Income Tax Treatments"*.

However, on appeal the Full Federal Court overturned the earlier decision and decided in favour of the Commissioner. Healius' subsequent application for special leave to appeal was dismissed by the High Court in March 2021.

Healius has therefore reversed the income tax benefit of $46.6 million and associated interest of $23.6 million (less $7.1 million tax) in its FY 2021 accounts. This has resulted in a $126.2 million negative non-cash movement between FY 2020 and FY 2021 reported NPAT.

DISCONTINUED OPERATIONS

The Group's reported results account for HPC and Adora as discontinued operations. The associated loss of $22.6 million is set out below with further details in Note 21 to the accounts:

	2021 $M	2020 $M
HPC	(24.0)	(142.5)
Adora	1.4	(11.4)
Loss from discontinued operations	(22.6)	(153.9)

The loss on HPC sale of approximately $13 million since 1H 2021 primarily relates to an indemnification to the purchaser in connection with backpay for certain employees. It follows the Fair Work Commission's amendment to the appropriate method of calculating casual loading on overtime to align the Health Professionals and Support Services Award to the Nurses Award. Once an appeal against the amendment was lost in January 2021, Healius accrued for it.

ADOPTION OF AASB 16

AASB 16 was adopted by Healius from 1 July 2019. This accounting standard has removed the distinction between operating and finance leases with most leases (except for short term leases and leases of low value assets) now being recognised as a right-of-use asset with a corresponding lease liability. Importantly, the adoption of AASB 16 has no economic impact on Healius, nor on its banking covenants or cash flows. The underlying results of the business are now stated inclusive of the impact of AASB 16, with FY 2020 restated for comparative purposes.

The impact of AASB 16 on the results for FY 2021 is as follows:

P&L	30 JUNE 2021 $M	30 JUNE 2021 $M	
Property & other expenses	217.9		Operating lease expense reversed
EBITDA		217.9	
Depreciation	(195.4)		Depreciation of right of use asset recognised
EBIT		22.5	
Finance costs	(34.0)		Interest paid on lease liability recognised
Profit before tax		(11.5)	
Tax @ 30%	3.4		
NPAT		(8.0)	

The impact of AASB 16 on the cash flow for FY 2021 is as follows:

CASH FLOW	30 JUNE 2021 $M	30 JUNE 2021 $M	
Gross cash flows from operating activities	242.6		Operating lease payment reversed from gross operating cash flows
Net cash flows from operating activities		242.6	
Interest paid on lease liabilities	(39.5)		Interest payments recognised in financing
Payments of lease liabilities	(203.1)		Principal payments on lease liability recognised in financing cash flows
Net cash used in financing activities		(242.6)	

The impact of AASB 16 on the closing Balance Sheet for FY 2021 is as follows:

BALANCE SHEET	30 JUNE 2021 $M	30 JUNE 2021 $M	
Right of use assets	1,087.2		Leases recognised as an asset and depreciated
Total assets		1,087.2	
Current interest-bearing lease liabilities	(224.4)		Leases recognised as a liability representing future lease payments
Non-current interest-bearing lease liabilities	(953.2)		Leases recognised as a liability representing future lease payments
Total Liabilities		(1,177.6)	

STRATEGY

PORTFOLIO MANAGEMENT

Over the past two years, Healius has pursued a strategy to realign its portfolio in order to deliver higher returns and a strong growth profile, strengthen its balance sheet, and focus on its core diagnostic and growing day hospitals businesses. This has resulted in the following deliverables:

- Successful completion of the HPC divestment in November 2020
- Adora IVF brought to market in May 2021 and a sale announced in August 2021
- Acquisition of Axis radiology, an Imaging bolt-on, in FY 2021 (completed in July 2021)
- Development of a pipeline of opportunities to capture the emerging demand for short-stay hospitals
- On-going assessment of opportunities to further scale the diagnostics businesses

CAPITAL MANAGEMENT

A capital management review was undertaken in December 2020 to consider:

- Options to deploy the HPC sale proceeds
- Sustainable dividend policy providing certainty to shareholders and flexibility to the business
- Capital needs of the portfolio and SIP initiatives
- Headroom for short and medium-term growth scenarios, including a buffer for any future shocks
- Elimination of surplus debt facilities and hedges, together with optimisation of funding costs

The outcomes of the review were as follows:

- On-market share buy-back aiming to return up to $200 million in 2021, with $101 million completed by June 2021 and primarily funded from operating cash flow
- Revised dividend payout target of 50 – 70% of reported NPAT, together with stated aim of growing dividends in real terms
- Medium-term gearing target of 1.7x – 2.2x
- Debt facilities reduction in line with reduced borrowing requirements and gearing targets
- Closing out of ineffective interest rate swaps

SUSTAINABLE IMPROVEMENT PROGRAM

SIP Phase I

The Sustainable Improvement Program (SIP) was introduced at the end of FY 2019 to systematically reduce costs and improve efficiencies across the Group. A target of $70 million in savings representing 4-5% of the cost base, was set for Phase I with a focus on immediately addressable cost reduction.

In 1H 2021, the Phase I target was met with $68 million annualised savings delivered (including $58 million for Continuing Operations), a year ahead of schedule. In total, over 200 initiatives were delivered. Key initiatives included the delayering of middle management, role consolidations, laboratory consolidations in Pathology, and move to zero film in Imaging.

Removal of stranded costs

Complementing SIP Phase I, a cost-out program was initiated at the end of FY 2020 to reduce the cost overhang arising from the sale of HPC. A target of $15 million was set to be delivered by FY 2022. This was achieved in FY 2021 ahead of schedule. As noted above, Healius support costs now benchmark favourably compared with other healthcare and services companies.

In total, $83 million in savings to the Healius cost base have been delivered between FY 2020 and FY 2021 ($73 million in Continuing Operations). The result is a leaner and more flexible business.

SIP Phase II

With the initial cost saving and containments targets met, in FY 2021 the strategic focus was expanded to the delivery of margin growth. The target is for 300 bps EBIT margin growth in Pathology and Imaging by FY 2023, as well as building longer-term capabilities in spend and capital management, data-led operations, customer-centricity, product and innovation, and network optimisation. To achieve these broader outcomes, higher-value structural improvements are required, together with growth in non-Medicare revenue. Outcomes are also dependent on the extent and timing of the COVID-19 pandemic and its on-going impact on operations.

Notwithstanding the COVID-related operational challenges, delivery highlights in SIP Phase II include:

- Digitisation and automation
    - The development of an e-Commerce platform (see below)
    - Improving fuel efficiency in our collection fleet through installing monitors
    - Implementation of 1st large scale AI-radiology read assistance tool for chest X-rays
- Network optimisation
    - Optimisation of the Pathology ACC network
    - Rationalisation of Imaging footprint and shift to cluster-based multimodality clinics
- Workforce management
    - Embedding richer data reporting for management and front-line staff
- Sourcing
    - Re-tendering categories including consumables, afterhours reporting, and equipment maintenance

DIGITISATION

The current Pathology Laboratory Information System (LIS) is working well and has supported 5.75 million COVID tests conducted to-date, over and above business-as-usual pathology volumes. Innovations undertaken in support of COVID testing have included:

- Deploying a QR-code based digital order automation
- Launching the eCommerce platform suitable for existing and future COVID and non-COVID products

Healius is also continuing its technology modernisation program in Pathology to deliver an end-to-end, customer-centric platform with the following priorities:

- One national smart instrument manager to standardise test panels and results
- Modular approach with a blend of in-house solutions and proven off-the-shelf products
- Prioritising patient & doctor touchpoints
- Leveraging synergies across Pathology and Imaging

As part of this modernisation, Healius is expanding internal technology capabilities and partnering with high calibre technology service providers to augment internal capacity. The program is expected to cost within the $85-90 million envelope previously announced and to take between two to three years to complete, sequenced to deliver benefits along the way in operating cost efficiencies as well as increased referral revenue.

Statement of profit or loss for the year end 30 June 2021

	NOTE	2021 $M	RESTATED 2020 $M[1]
Revenue	3	**1,900.7**	1,557.0
Other income and gains		**13.5**	12.8
Employee benefits expense		**(856.3)**	(800.2)
Property expenses		**(59.6)**	(65.3)
Consumables		**(270.6)**	(198.5)
Repairs and maintenance		**(29.1)**	(27.0)
IT expenses		**(42.7)**	(37.6)
Insurance		**(7.6)**	(5.0)
Other expenses		**(145.6)**	(129.4)
Depreciation		**(38.1)**	(39.8)
Depreciation – right of use assets		**(195.4)**	(163.0)
Amortisation of intangibles		**(13.8)**	(11.9)
Earnings before interest and tax		**255.4**	92.1
Net finance costs	4	**(87.6)**	(29.3)
Profit before tax		**167.8**	62.8
Income tax (expense)/benefit	5	**(101.5)**	20.6
Profit for the year from continuing operations		**66.3**	83.4
Loss for the year from discontinued operations	21	**(22.6)**	(153.9)
Profit/(loss) for the year		**43.7**	(70.5)
Attributable to:			
Equity holders of Healius Limited		**43.7**	(70.5)

[1] Refer to page 21 for further details of the restated amounts.

Notes to the financial statements are included on pages 21 to 36.

	2021 $M	2020 $M
Profit/(loss) for the year	**43.7**	(70.5)
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss		
Fair value loss on open cash flow hedges	**(1.8)**	(9.7)
Reclassification adjustments relating to realised cash flow hedges for amounts recognised in profit or loss	**7.8**	8.1
Reclassification adjustments relating to ineffective cash flow hedges	**11.3**	–
Exchange differences arising on translation of foreign operations	**(0.4)**	0.2
Income tax relating to items that may be reclassified subsequently to profit or loss	**(5.2)**	0.5
Other comprehensive income/(loss) for the year, net of income tax	**11.7**	(0.9)
Total comprehensive income/(loss) for the year	**55.4**	(71.4)

Notes to the financial statements are included on pages 21 to 36.

Statement of financial position *as at 30 June 2021*

	NOTE	30 JUNE 2021 $M	30 JUNE 2020 $M
Current assets			
Cash	20 (a)	**70.1**	137.5
Receivables	7	**199.8**	191.4
Interest receivables	5	**-**	23.6
Consumables		**35.9**	26.9
Tax receivable		**-**	46.6
Assets held for sale	21	**25.1**	915.6
Total current assets		**330.9**	1,341.6
Non-current assets			
Goodwill	8	**2,042.3**	2,040.2
Right of use assets	12	**1,087.2**	876.9
Property, plant and equipment	9	**157.7**	166.7
Other intangible assets	10	**76.3**	79.3
Other financial assets		**5.6**	9.2
Deferred tax asset		**82.2**	74.4
Total non-current assets		**3,451.3**	3,246.7
Total assets		**3,782.2**	4,588.3
Current liabilities			
Payables	13	**205.9**	219.2
Deferred consideration	14 (a)	**38.9**	2.0
Tax liabilities		**46.8**	23.2
Provisions	15 (a)	**155.3**	119.6
Other financial liabilities		**5.6**	9.5
Lease liabilities	11	**224.4**	173.9
Liabilities held for sale	21	**13.4**	447.9
Total current liabilities		**690.3**	995.3
Non-current liabilities			
Deferred consideration	14 (b)	**-**	33.5
Provisions	15 (b)	**22.5**	40.0
Other financial liabilities		**0.8**	14.2
Interest bearing liabilities	16	**258.1**	810.1
Lease liabilities	11	**953.2**	763.9
Total non-current liabilities		**1,234.6**	1,661.7
Total liabilities		**1,924.9**	2,657.0
Net assets		**1,857.3**	1,931.3
Equity			
Issued capital	17	**2,575.6**	2,672.3
Treasury shares	18	**(3.6)**	-
Reserves		**16.9**	(3.4)
Accumulated losses		**(731.6)**	(737.6)
Total equity		**1,857.3**	1,931.3

Notes to the financial statements are included on pages 21 to 36.

Statement of changes in equity *for the year ended 30 June 2021*

$M	ISSUED CAPITAL	TREASURY SHARES	CASH FLOW HEDGE RESERVE	SHARE-BASED PAYMENTS RESERVE	OTHER RESERVES	ACCUMULATED LOSSES	TOTAL
Balance at 1 July 2020	**2,672.3**	**–**	**(16.6)**	**13.5**	**(0.3)**	**(737.6)**	**1,931.3**
Profit for the year	–	–	–	–	–	43.7	43.7
Exchange differences arising on translation of foreign operations	–	–	–	–	(0.4)	–	(0.4)
Fair value loss on open cash flow hedges	–	–	(1.8)	–	–	–	(1.8)
Reclassification adjustments relating to realised cash flow hedges recognised in profit or loss	–	–	7.8	–	–	–	7.8
Reclassification adjustments relating to ineffective cash flow hedges	–	–	11.3	–	–	–	11.3
Income tax relating to components of other comprehensive income	–	–	(5.2)	–	–	–	(5.2)
Total comprehensive income	**–**	**–**	**12.1**	**–**	**(0.4)**	**43.7**	**55.4**
Buy-back of shares (Note 17 & 18)	(97.4)	(3.6)	–	–	–	–	(101.0)
Shares issued via Short Term Incentive Plan	0.7	–	–	(0.7)	–	–	–
Payment of dividends	–	–	–	–	–	(40.2)	(40.2)
Share based payments	–	–	–	11.8	–	–	11.8
Transfers	–	–	–	(2.5)	–	2.5	–
Balance at 30 June 2021	**2,575.6**	**(3.6)**	**(4.5)**	**22.1**	**(0.7)**	**(731.6)**	**1,857.3**

Notes to the financial statements are included on pages 21 to 36.

Statement of changes in equity for the year ended 30 June 2021

$M	ISSUED CAPITAL	TREASURY SHARES	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	–	–	–	–	–	(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 open cash flow hedges	–	–	(9.7)	–	–	–	(9.7)
Reclassification adjustments relating to realised 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 Short Term Incentive Plan	1.2	–	–	(1.2)	–	–	–
Payment of dividends	–	–	–	–	–	(37.6)	(37.6)
Share based payments	–	–	–	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

Notes to the financial statements are included on pages 21 to 36.

Statement of cash flows for the year ended 30 June 2021

	NOTE	2021 $M	2020 $M
Cash flows from operating activities			
Receipts from customers		2,129.6	1,899.9
Payments to suppliers and employees		(1,557.7)	(1,494.7)
Gross cash flows from operating activities		571.9	405.2
Net income tax (paid)/refund received		(46.0)	1.7
Net cash provided by operating activities	20 (b)	525.9	406.9
Cash flows from investing activities			
Proceeds from sale of business - net of cash disposed		459.3	-
Payment for property, plant and equipment		(48.4)	(49.3)
Payment for Day Hospital practices and subsidiaries		–	(11.0)
Payment for Imaging healthcare professionals		(0.7)	(1.1)
Payment for Pathology healthcare practices and subsidiaries		(1.5)	(5.2)
Payment for other intangibles		(12.9)	(23.1)
Proceeds from the sale of property, plant and equipment and intangibles		1.1	0.1
Payment for Medical Centres healthcare professionals – discontinued operations		(5.3)	(21.9)
Payment for Medical Centres practices and subsidiaries – discontinued operations		(4.7)	(10.4)
Net cash from/(used in) investing activities		386.9	(121.9)
Cash flows from financing activities			
Finance costs on interest bearing liabilities		(21.9)	(27.5)
Interest paid on ineffective hedge close out		(11.3)	-
Interest paid on lease liabilities		(39.5)	(41.0)
Interest received		0.6	0.8
Payments for buyback of shares		(97.5)	-
(Repayment of)/proceeds from borrowings		(555.7)	15.0
Payment of lease liabilities		(203.1)	(186.4)
Dividends paid		(56.3)	(21.2)
Net cash used in financing activities		(984.7)	(260.3)
Net (decrease)/increase in cash held		(71.9)	24.7
Cash at the beginning of the year	20 (a)	144.5	119.7
Effect of exchange rate movements on cash held in foreign currencies		0.1	0.1
Cash at the end of the year	20 (a)	72.7	144.5

Note: In prior years, interest paid and received were classified as part of cash flows from operating activities. Management believes it is more appropriate to classify those items as part of cash flows from financing activities. This change in classification has been affected for both current and comparative periods.

Notes to the financial statements are included on pages 21 to 36.

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 2021 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.

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 2020. 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

A number of new and amended accounting standards and interpretations are applicable for the first time in the 2021 financial year however their adoption does not have a material impact on the disclosures or amounts recognised in the consolidated financial statements of the Group. The Group has not early adopted any standards and interpretations of amendments that have been issued but are not yet effective.

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 the Board of Directors (also known as the chief operating decision makers) regularly review and assess the financial performance of the business 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	Provider of pathology services.
Imaging	Provider of imaging and scanning services from stand-alone imaging sites, hospitals and medical centres.
Day Hospitals	Operator of day hospitals.

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

Intersegment

The Day Hospitals 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 exclude the impact of non-underlying items relating to:

- Strategic initiatives; and
- Other significant non-recurring items.

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

2. SEGMENT INFORMATION (CONTINUED)

Underlying results

2021	PATHOLOGY $M	IMAGING $M	DAY HOSPITALS $M	OTHER $M	TOTAL CONTINUING OPERATIONS $M
Segment revenue	**1,452.1**	**406.9**	**49.5**	**6.8**	**1,915.3**
Intersegment sales					**(2.2)**
Total revenue					**1,913.1**
EBITDA[1]	**428.3**	**84.5**	**15.5**	**(14.5)**	**513.8**
Depreciation	**(20.8)**	**(10.7)**	**(2.7)**	**(3.9)**	**(38.1)**
Amortisation of intangibles	**(7.3)**	**(2.8)**	**-**	**(3.7)**	**(13.8)**
Depreciation – right of use assets	**(147.4)**	**(40.1)**	**(3.8)**	**(4.1)**	**(195.4)**
EBIT[2]	**252.8**	**30.9**	**9.0**	**(26.2)**	**266.5**

2020	PATHOLOGY $M	IMAGING $M	DAY HOSPITALS[3] $M	OTHER $M	TOTAL CONTINUING OPERATIONS $M
Segment revenue	1,160.1	376.7	37.4	0.1	1,574.3
Intersegment sales					(1.9)
Total revenue					1,572.4
EBITDA[1]	274.2	70.2	9.7	(10.4)	343.7
Depreciation	(20.9)	(12.1)	(2.4)	(4.4)	(39.8)
Amortisation of intangibles	(6.3)	(2.5)	-	(3.1)	(11.9)
Depreciation – right of use assets	(122.6)	(33.7)	(3.6)	(3.1)	(163.0)
EBIT[2]	124.4	21.9	3.7	(21.0)	129.0

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 Day Hospital segment has been restated because Adora has been classified as a discontinued operation. Refer to Note 21.

2. SEGMENT INFORMATION (CONTINUED)

Reconciliation of underlying segment revenue to reported revenue

	SEGMENT RESULT 2021 $M	SEGMENT RESULT 2020 $M
Total underlying segment revenue from continuing operations	**1,913.1**	1,572.4
Reclassification of grant income from revenue to other income	**(9.8)**	(12.4)
Transactions with discontinued operations	**(2.6)**	(3.0)
Total reported revenue	**1,900.7**	1,557.0

Reconciliation of underlying segment result to reported EBIT

	SEGMENT RESULT 2021 $M	SEGMENT RESULT 2020 $M
Total segment EBIT from continuing operations	**266.5**	129.0
Strategic initiatives and other non-recurring items	**(11.1)**	(36.9)
Total reported EBIT	**255.4**	92.1

3. REVENUE

	2021 $M	RESTATED 2020 $M
Trading revenue	**1,900.7**	1,557.0

4. EXPENSES

Finance costs

	2021 $M	RESTATED 2020 $M
Interest cost/(benefit) from FY2003 to FY2007 tax case	**23.6**	(23.6)
Interest expense	**17.4**	20.9
Interest on lease liabilities	**34.0**	29.5
Unwinding of discounting on provisions	**1.1**	0.8
Ineffective cash flow hedges	**7.6**	–
Amortisation of borrowing costs	**3.9**	1.7
	87.6	29.3

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

5. INCOME TAX EXPENSE

	2021 $M	2020 $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	**167.8**	62.8
Income tax calculated at 30% (2020: 30%)	**50.3**	18.8
Tax effect of amounts which are not deductible in calculating taxable income:		
Share related expense	**4.1**	2.0
Other items	**1.7**	5.2
	5.8	7.2
2003/07 tax objection[1]	**46.6**	(46.6)
Over provision in prior years	**(1.2)**	-
Income tax expense/(benefit)	**101.5**	(20.6)

[1]ATO objection decisions – years 2003-2007

Healius had 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 a favourable decision received from the Federal Court of Australia in respect to its tax objections for the 2003 to 2007 years regarding lump sum payments made to healthcare practitioners during those years.

The Commissioner appealed the Federal Court of Australia's decision and on 9 October 2020 the Full Federal Court decided in favour of the Commissioner. On 6 November 2020 Healius applied for special leave to appeal the Full Court's decision however on 4 March 2021 the High Court of Australia dismissed the special leave application.

Healius has therefore reversed the income tax benefit and tax receivable of $46.6m and associated interest receivable of $23.6m (less $7.1 million tax) in its 30 June 2021 accounts.

6. EARNINGS PER SHARE

Basic and diluted earnings per share

EARNINGS	2021 $M	2020 $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	**66.3**	83.4
Profit/(loss) attributable to equity holders of Healius Limited	**43.7**	(70.5)

EARNINGS PER SHARE	2021 CENTS	2020 CENTS
Basic earnings per share from continuing operations	**10.7**	13.4
Basic earnings/(loss) per share from continuing and discontinued operations	**7.1**	(11.3)
Basic underlying earnings per share	**24.0**	8.5
Diluted earnings per share from continuing operations	**10.6**	13.4
Diluted earnings/(loss) per share from continuing and discontinued operations	**7.0**	(11.3)
Diluted underlying earnings per share	**23.7**	8.5

Any share options and performance rights on issue are contingently issuable shares and are included in the calculation of diluted earnings per share only when the performance conditions have been met as at 30 June 2021.

7. Receivables

	2021 $M	2020 $M
Measured at amortised cost		
Current		
Trade receivables	**170.6**	155.2
Allowance for expected credit losses	**(23.1)**	(23.0)
	147.5	132.2
Prepayments	**15.7**	12.8
Accrued revenue	**33.9**	37.6
Other receivables	**2.7**	8.8
	199.8	191.4

8. GOODWILL

	2021 $M	2020 $M
Carrying value		
Opening balance	**2,040.2**	2,482.5
Acquisition of businesses	**2.1**	9.7
Transferred to assets held for sale	**-**	(452.0)
Closing balance	**2,042.3**	2,040.2
Impairment tests		
Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:		
Pathology	**1,589.0**	1,586.9
Imaging	**356.6**	356.6
Montserrat	**96.7**	96.7
	2,042.3	2,040.2

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 financial year 2022 Board approved budget; and
- for financial years 2023 – 2026, 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 COVID-19 on the business.

9. PROPERTY, PLANT AND EQUIPMENT

2021 $M	PLANT AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value				
Opening balance	**86.2**	**75.4**	**5.1**	**166.7**
Additions	**21.8**	**1.2**	**22.7**	**45.7**
Capitalisation of assets under construction	**1.3**	**20.1**	**(21.4)**	**–**
Disposals	**(1.5)**	**(1.3)**	**(0.7)**	**(3.5)**
Depreciation expense	**(26.8)**	**(13.0)**	**–**	**(39.8)**
Transfer to asset held for sale	**(1.3)**	**(10.1)**	**–**	**(11.4)**
Closing balance	**79.7**	**72.3**	**5.7**	**157.7**
Cost	**315.0**	**170.3**	**5.7**	**491.0**
Accumulated depreciation and impairment	**(235.3)**	**(98.0)**	**–**	**(333.3)**
Closing balance	**79.7**	**72.3**	**5.7**	**157.7**

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

10. OTHER INTANGIBLE ASSETS

2021 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTION	TOTAL
Net book value					
Opening balance	63.1	9.8	0.1	6.3	79.3
Additions	4.0	–	–	8.2	12.2
Capitalisation of intangible assets under construction	11.1	–	–	(11.1)	–
Disposals	(0.3)	–	(0.1)	(0.6)	(1.0)
Amortisation expense	(13.3)	(0.8)	–	–	(14.1)
Transfer to asset held for sale	(0.1)	–	–	–	(0.1)
Closing balance	64.5	9.0	–	2.8	76.3
Cost	146.9	40.3	–	2.8	190.0
Accumulated amortisation and impairment	(82.4)	(31.3)	–	–	(113.7)
Closing balance	64.5	9.0	–	2.8	76.3

2020 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTION	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

11. LEASE LIABILITIES

	2021 $M	2020 $M
Opening balance	937.8	1,344.9
New leases and remeasurement of leases during the year	439.8	149.8
Interest	34.4	40.4
Payments	(225.5)	(210.3)
Transfer to assets held for sale	(8.9)	(387.0)
Closing balance	1,177.6	937.8
Presented as:		
Current lease liabilities	224.4	173.9
Non-current lease liabilities	953.2	763.9
Total lease liabilities	1,177.6	937.8

12. RIGHT OF USE ASSETS

	2021 $M	2020 $M
Opening balance	**876.9**	1,232.1
New leases and remeasurement of leases during the year	**414.7**	148.0
Depreciation	**(196.4)**	(189.0)
Net impairment reversal	**-**	10.1
Transfer to assets held for sale	**(8.0)**	(324.3)
Closing Balance	**1,087.2**	876.9

13. PAYABLES

	2021 $M	2020 $M
Current		
Trade payables and accruals	**205.9**	203.0
Dividend payable	**-**	16.2
Total payables	**205.9**	219.2

14. DEFERRED CONSIDERATION

	2021 $M	2020 $M
(a) Current		
Montserrat Day Hospitals	**36.0**	-
Other deferred consideration	**2.9**	2.0
Total current deferred consideration	**38.9**	2.0
(b) Non-current		
Montserrat Day Hospitals	**-**	31.9
Other deferred consideration	**-**	1.6
Total non-current deferred consideration	**-**	33.5

Montserrat Day Hospitals deferred consideration comprises $32.1m payable under the terms of the earn-out clause in the Montserrat/Healius share sale agreement, plus $3.9m being a settlement sum negotiated with the vendors with regards to other commercial matters.

15. PROVISIONS

	2021 $M	2020 $M
(a) Current		
Provision for employee benefits	**129.3**	103.0
Self-insurance provision	**6.4**	5.0
Onerous contract provision	**0.2**	2.9
Make good provision	**0.6**	1.0
Other provisions	**18.8**	7.7
	155.3	119.6
(b) Non-current		
Provision for employee benefits	**12.0**	10.8
Self-insurance provision	**6.4**	6.7
Onerous contract provision	**0.1**	18.4
Make good provision	**4.0**	4.1
	22.5	40.0

16. INTEREST BEARING LIABILITIES

	2021 $M	2020 $M
Non-current		
Gross bank loans	**260.0**	815.0
Refinancing valuation adjustment	**0.5**	0.9
Unamortised borrowing costs	**(2.4)**	(5.8)
Closing Balance	**258.1**	810.1

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

	2021 $M	2020 $M
Financing facilities		
Non-current		
Unsecured Syndicated Debt Facilities		
Amount used	**260.0**	815.0
Amount unused	**340.0**	280.0
Closing balance	**600.0**	1,095.0

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

17. ISSUED CAPITAL

	2021 NO. OF SHARES 000'S	2020 NO. OF SHARES 000'S	2021 $M	2020 $M
Opening balance	**622,743**	622,323	**2,672.3**	2,671.1
Shares issued via Short Term Incentive Plan	**265**	420	**0.7**	1.2
Shares issued via NED Share Plan	**14**	-	**-**	-
Own shares acquired during buy back	**(23,576)**	-	**(97.4)**	-
Closing balance	**599,446**	622,743	**2,575.6**	2,672.3

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 2021, the company has 36,394,239 (2020: 36,394,239) share options on issue, exercisable on a 1:1 basis for 36,394,239 (2020: 36,394,239) 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 2021, the company has nil (2020: 265,634) service rights on issue, exercisable on a 1:1 basis for nil (2020: 265,634) ordinary shares of Healius at an exercise price of $nil.

As at 30 June 2021, the company has 9,731,935 (2020: 12,429,568) performance rights on issue, exercisable on a 1:1 basis for 9,731,935 (2020: 12,429,568) ordinary shares of Healius at an exercise price of $nil. The performance rights will vest between October 2021 and October 2023 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

Restricted shares on issue

As at 30 June 2021, the company has 13,627 (2020: nil) restricted shares on issue, exercisable on a 1:1 basis for 13,627 (2020: nil) ordinary shares of Healius at an exercise price of $nil.

18. TREASURY SHARES

	2021 NO. OF SHARES 000'S	2020 NO. OF SHARES 000'S	2021 $M	2020 $M
Opening balance	-	–	-	–
Own shares acquired under buy back	772	–	3.6	–
Closing balance	772	–	3.6	–

On 9 December 2020 Healius announced an on-market share buy-back of up to $200 million to be conducted between 29 December 2020 and 28 December 2021. The treasury shares purchased under the buy-back and not cancelled prior to 30 June 2021 are disclosed above. These shares were cancelled in July 2021.

19. DIVIDENDS ON EQUITY INSTRUMENTS

	2021 CENTS PER SHARE	2020 CENTS PER SHARE	2021 $M	2020 $M
Recognised amounts				
Final dividend – previous financial year	-	3.4	-	21.4
Interim dividend – this financial year	6.5	2.6	40.2	16.2
	6.5	6.0	40.2	37.6
Unrecognised amounts				
Final dividend – this financial year	6.75	–	40.4	–

In respect of FY 2021:

- an FY20 interim dividend of $16.2 million, originally payable on 15 April 2020, was deferred and subsequently paid on 13 October 2020.
- no final dividend was paid with regards to the year ended 30 June 2020.
- an FY21 interim dividend of 6.5 cents per share (100% franked) was paid to the holders of fully paid ordinary shares on 15 April 2021.

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

FRANKING ACCOUNT	2021 $M	2020 $M
Closing balance as at 30 June	125.6	25.7

20. NOTES TO THE STATEMENT OF CASH FLOWS

	NOTE	2021 $M	2020 $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		**70.1**	137.5
Cash classified as asset held for sale	21	**2.6**	7.0
Cash as disclosed in the Group statement of cash flows		**72.7**	144.5

	NOTE	2021 $M	2020 $M
(b) Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities			
Profit/(loss) profit for the year		**43.7**	(70.5)
Net finance costs		**99.2**	67.7
Depreciation of plant and equipment		**39.8**	54.8
Depreciation of right of use asset		**196.4**	188.6
Amortisation of HCP upfronts		**12.8**	35.8
Amortisation of intangibles		**14.1**	14.5
Share-based payment expense		**11.8**	9.6
Impairment of assets other than receivables		**-**	121.1
Deferred consideration		**3.0**	14.0
Loss on sale of Healius Primary Care	21	**8.3**	-
Gain on derecognition of ROU asset		**(5.2)**	-
Loss on sale of PP&E and intangibles		**1.0**	0.4
Net exchange differences		**0.2**	(0.2)
Other non-cash items		**-**	1.0
Increase/(decrease) in:			
Trade payables and accruals		**(56.8)**	60.9
Provisions		**34.4**	23.8
Deferred revenue		**(0.8)**	0.5
Income tax and deferred taxes		**86.8**	(36.1)
Decrease/(increase) in:			
Consumables		**(8.9)**	(4.6)
Receivables and prepayments		**46.1**	(74.4)
Net cash provided by operating activities		**525.9**	406.9

Non-cash investing and financing

During the financial year 265,634 (2020: 420,114) shares were issued pursuant to the Short-Term Incentive Plan. These transactions are not reflected in the cash flow statement.

Financing facilities

Details of financing facilities available to the Group are provided at Note 16.

21. DISCONTINUED OPERATIONS

(a) Healius Primary Care (HPC)

On 26 February 2020, the Group announced the decision of its Board of Directors to sell HPC. At that time, the Group classified HPC as a disposal group held for sale, accounted for HPC as 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 HPC. The sale completed on 23 November 2020. The Group disposed of 100% of its shareholding of the entities within HPC on that date and control passed to the acquirer. The entities disposed of are:

- Bourke Street Clinic Ltd (ACN 123 076 906);
- Brindabella Medical Practice Services Pty Ltd (ACN 618 932 291);
- Cooper Street Clinic Pty Ltd (ACN 002 974 058);
- Health & Co Pty Ltd (ACN 614 349 585);
- Healthyu Corporation Pty Ltd (ACN 123 076 915);
- HLS Medical Centre Holdings Pty Ltd (ACN 088 128 787);
- Idameneo (No 123) Pty Ltd (ACN 002 968 185) in its personal capacity;
- Idameneo (No 123) Pty Ltd as a trustee of the Artlu Unit Trust (ABN 26 855 078 645);
- Idameneo (No 125) Pty Ltd (ACN 162 662 919);
- Logic Entreprise (WA) Pty Ltd (ACN 154 027 559);
- Medical Centre Services Pty Ltd (ACN 621 584 067);
- Occupational Health Holdings Pty Ltd (ACN 626 660 795);
- Pacific Medical Centres Pty Ltd (ACN 002 866 382);
- Park Family Practice Services Pty Ltd (ACN 617 747 725);
- Primary Health Care Pty Ltd (ACN 169 588 096); and
- Sidameneo (No. 456) Pty Ltd (ACN 089 995 817).

(b) Adora IVF and Healius Day Surgeries Businesses (Adora)

In May 2021 Healius announced its intention to divest Adora and issued an Information Memorandum to interested parties. Consequently, Adora has been accounted for as a discontinued operation at 30 June 2021. On 23 August 2021 the sale of this business was announced. Refer Note 22 for further details.

The table below summarises the carrying value of Adora:

	2021 $M
Cash	2.6
Receivables	0.8
Consumables	0.1
Contract assets	1.8
Property, plant and equipment	9.5
Other intangible assets	0.1
Right-of-use asset	6.4
Deferred tax asset	3.8
Assets held for sale	25.1
Payables	3.6
Provisions	0.9
Lease liabilities	8.9
Liabilities directly associated with assets held for sale	13.4
Net assets directly associated with disposal group	11.7

21. DISCONTINUED OPERATIONS (CONTINUED)

HPC represented the entirety of the previously reported Medical Centres operating segment, except for Adora which has been accounted for as a discontinued operation at 30 June 2021. The results of these businesses for the year are presented below:

	HPC	Adora	2021 $M
Revenue and other gains	**104.6**	**30.2**	**134.8**
Expenses	**(103.7)**	**(26.7)**	**(130.4)**
Earnings before interest, tax and impairment	**0.9**	**3.5**	**4.4**
Net finance costs	**(11.3)**	**(0.3)**	**(11.6)**
(Loss)/profit before tax and impairment	**(10.4)**	**3.2**	**(7.2)**
Impairment loss recognised on the remeasurement to fair value less costs to sell	**-**	**(2.3)**	**(2.3)**
Loss on sale	**(8.3)**	**-**	**(8.3)**
(Loss)/profit before tax from discontinued operations	**(18.7)**	**0.9**	**(17.8)**
Income tax (expense)/benefit	**(5.3)**	**0.5**	**(4.8)**
(Loss)/profit from discontinued operations	**(24.0)**	**1.4**	**(22.6)**

	HPC	Adora	2020 $M
Revenue and other gains	253.7	27.6	281.3
Expenses	(236.3)	(43.6)	(279.9)
Earnings before interest, tax and impairment	17.4	(16.0)	1.4
Net finance costs	(21.5)	(0.2)	(21.7)
Loss before tax and impairment	(4.1)	(16.2)	(20.3)
Impairment loss recognised on the remeasurement to fair value less costs to sell	(151.0)	-	(151.0)
Loss before tax from discontinued operations	(155.1)	(16.2)	(171.3)
Income tax benefit	12.6	4.8	17.4
Loss from discontinued operations	(142.5)	(11.4)	(153.9)

The net cash flows of discontinued operations are:

	2021 $M	2020 $M
Operating	**28.8**	113.7
Investing	**(16.5)**	(45.0)
Financing	**5.3**	(70.7)
Net cash inflow/(outflow)	**17.6**	(2.0)

21. DISCONTINUED OPERATIONS (CONTINUED)

The loss per share attributable to discontinued operations is as follows:

	2021 $M	2020 $M
Basic loss per share from discontinued operations	(3.7)	(24.7)
Diluted loss per share from discontinued operations	(3.6)	(24.7)

Recognition of impairment loss

The impairment loss recognised for HPC in FY20 was determined based on the sale price under the binding sale agreement plus estimated costs of sale.

The impairment loss recognised for Adora in FY21 relates to specific assets whose fair value is deemed lower than carrying amount.

22. SUBSEQUENT EVENTS

On 23 August 2021 the Group announced that it had entered into a binding agreement to sell the Adora IVF and Healius Day Surgeries Businesses. These businesses are classified as discontinued operations as at 30 June 2021 (refer to Note 21). Completion of the transaction is expected to occur before the end of 2021 and remains subject to a number of customary conditions.

Other than the event described above, 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.

23. NET TANGIBLE LIABILITY BACKING

	2021 $	2020 $
Net tangible liability backing per share	**(0.56)**	(0.42)

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

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: 30 August 2021

(Director)
Print name: Malcolm Parmenter