

Sonic Healthcare Limited
ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2017
Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2017 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2017

| Financial Results \$'000 | Six months ended 31.12.17 Statutory | % Change |
|---|--|-----------------|
| Revenue from ordinary activities | 2,672,703 | Up 7.9% |
| Profit after tax from ordinary activities attributable to members | 228,550 | Up 16.2% |

| Dividends | 2018 | 2017 | % Change |
|--|-------------|-------------|-----------------|
| Cents per share | | | |
| Interim dividend | 32¢ | 31¢ | Up 3.2% |
| Interim dividend franked amount per security | 6.40¢ | 6.20¢ | |

The record date for determining entitlements to the interim dividend will be 7 March 2018. The interim dividend will be paid on 10 April 2018. The 2018 interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan (DRP) will operate for this dividend, with a discount of 1.5%. The pricing period for DRP purposes will be 10 trading days, starting on 12 March 2018 and concluding on 23 March 2018 (inclusive).

| \$'000 | Six months ended 31.12.17 Constant Currency* | Six months ended 31.12.17 Statutory | Six months ended 31.12.16 | % Change 31.12.17 Constant Currency v 31.12.16 | % Change 31.12.17 Statutory v 31.12.16 |
|---|---|--|--|---|---|
| Revenue | 2,671,995 | 2,672,703 | 2,476,043 | 7.9% | 7.9% |
| Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA) pre non-recurring restructure and acquisition costs (Underlying EBITDA) | 448,488 | 451,097 | 413,791 | 8.4% | 9.0% |
| Non-recurring restructure and acquisition costs EBITDA | (5,913) | (5,840) | (6,548) | 8.7% | 9.3% |
| Depreciation and lease amortisation | (93,928) | (94,134) | (84,009) | 11.8% | |
| Earnings before interest, tax and intangibles amortisation (EBITA) | 348,647 | 351,123 | 323,234 | 7.9% | 8.6% |
| Amortisation of intangibles | (31,375) | (31,533) | (27,251) | 15.1% | |
| Net interest expense | (36,636) | (36,484) | (31,602) | 15.9% | |
| Income tax attributable to operating profit | (46,511) | (48,209) | (61,016) | (23.8)% | |
| Net (profit) attributable to minority interests | (6,369) | (6,347) | (6,638) | | |
| Net profit attributable to Sonic shareholders | 227,756 | 228,550 | 196,727 | 15.8% | 16.2% |
| Less: One-off US net tax benefit | (20,677) | (20,009) | - | | |
| Net profit excluding US net tax benefit | 207,079 | 208,541 | 196,727 | 5.3% | 6.0% |
| Cash generated from operations | | 352,163 | 333,244 | | 5.7% |
| Earnings per share | | | | | |
| Basic earnings per share (cents per share) | 54.1 | 54.3 | 47.3 | | 14.8% |
| Diluted earnings per share (cents per share) | 53.9 | 54.1 | 47.1 | | 14.9% |
| Diluted EPS excluding one-off US net tax benefit (cents per share) | 49.0 | 49.4 | 47.1 | | 4.9% |

* For an explanation of "Constant Currency" refer to 2(a) in the Commentary on Results.

An explanation of the figures reported above is provided in the following pages of this report.

COMMENTARY ON RESULTS For the half year ended 31 December 2017

1. Summary

- On track after seven months of trading to achieve full year earnings guidance provided in August 2017.
- H1 FY 2018 revenue growth 8% and EBITDA growth 9%, despite fewer working days than in the prior period.
- Margin expansion of 20 basis points.
- Solid organic revenue growth of ~5% on a normalised basis.
- One-off net tax benefit of A\$20 million in the US from the restatement of net deferred tax liabilities to the new 21% tax rate.
- Accretive acquisitions in Germany and the US and hospital partnerships in the US contributing to growth, with an active pipeline of further opportunities.
- Progressive dividend policy ongoing (increase of 1 cent (3.2%) to 32 cents for the FY 2018 Interim Dividend).
- Sonic's strong Medical Leadership culture, global leadership team, reputation, modern infrastructure and industry dynamics provide a solid base for future growth.

2. Explanation of results

(a) Constant currency

As a result of Sonic's expanding operations outside of Australia, Sonic is increasingly exposed to currency exchange rate translation risk i.e. the risk that Sonic's offshore earnings and assets fluctuate when reported in AUD.

The average currency exchange rates for the six months to 31 December 2017 for the Australian dollar ("A\$", "AUD" or "\$") versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ("Statutory" earnings). The underlying earnings in foreign currency are not affected.

As in prior periods, in addition to the statutory disclosures, Sonic's results for the half year have also been presented on a "Constant Currency" basis (i.e. using the same exchange rates to convert the current period foreign earnings into AUD as applied in the comparative period, being the average rates for that period). This facilitates comparability of the Group's performance, by providing a view on the underlying business performance without distortion caused by exchange rate volatility, so that an assessment can be made of the growth in earnings in local currencies. Constant Currency reporting also allows comparison to the guidance Sonic provides to the market about its prospective earnings.

In preparing the Constant Currency reporting, the foreign currency elements of each line item in the Income Statement (including net interest expense and tax expense) are restated using the relevant prior period average exchange rate. There is only this one adjustment to each line item so no reconciliation is required.

The average exchange rates used were as follows:

| | 31.12.17 Statutory | 31.12.16 and Constant Currency |
|---------|-------------------------------|---|
| AUD/USD | 0.7795 | 0.7543 |
| AUD/EUR | 0.6623 | 0.6874 |
| AUD/GBP | 0.5913 | 0.5908 |
| AUD/CHF | 0.7595 | 0.7452 |
| AUD/NZD | 1.0926 | 1.0516 |

To manage currency translation risk Sonic uses "natural" hedging, under which foreign currency assets (businesses) are matched to the extent practicable with same currency debt. Therefore:

- as the AUD value of offshore assets changes with currency movements, so does the AUD value of the debt; and
- as the AUD value of foreign currency EBIT changes with currency movements, so does the AUD value of the foreign currency interest expense.

As Sonic's foreign currency earnings grow, debt is repaid, and interest rates change, the natural hedges have only a partial effect, so AUD reported earnings do fluctuate. Sonic believes it is inappropriate to hedge translation risk (a non-cash risk) with real cash hedging instruments.

COMMENTARY ON RESULTS
For the half year ended 31 December 2017

2. Explanation of results (continued)

(b) Revenue

Revenue breakdown

| AUD M | Six months ended 31.12.17 Statutory Revenue | % of 31.12.17 Statutory Revenue | Six months ended 31.12.17 Constant Currency Revenue | Six months ended 31.12.16 Revenue | Growth 31.12.17 Constant Currency v 31.12.16 |
|-----------------------------------|---|---------------------------------|---|-----------------------------------|--|
| Laboratory – Australia | 679 | 25% | 679 | 649 | 4.6% |
| Laboratory – US | 540 | 20% | 558 | 535 | 4.3% |
| Laboratory – Europe | 982 | 38% | 964 | 856 | 12.6% |
| Laboratory – NZ | 13 | <1% | 13 | 13 | 0.0% |
| Imaging – Australia | 234 | 9% | 234 | 216 | 8.3% |
| Other | 223 | 8% | 223 | 205 | 8.8% |
| Revenue excluding interest income | 2,671 | 100% | 2,671 | 2,474 | 7.9% |

Total revenue growth for the half year was 8%. Revenue and earnings growth were affected by fewer working days than in the comparative period (Germany -3, Switzerland -2, elsewhere -1). Group organic revenue was ~5% at Constant Currency exchange rates (i.e. applying the average rates for the six months ended 31.12.16 to the current period results) after normalising for working day differences.

The Laboratory division achieved revenue growth of 8% in the half year, including ~3% (~4% normalised for working days) organic revenue growth.

Sonic's Australian Laboratory organic revenue growth of 4.6% (over 5% normalised for working days) was strong.

US organic revenue growth was ~2% on a Constant Currency basis, after adjusting for working days and the impacts of hurricanes (Harvey and Irma). Additional growth related to an acquisition in California completed in January 2017.

Sonic's European operations experienced strong organic revenue growth, including in Belgium (7% normalised for working days), the UK (6% normalised), Switzerland (5% normalised) and Germany (4% normalised). German growth was further enhanced by the synergistic acquisitions of Laboratory Bremen and the Staber laboratory group.

Imaging organic revenue growth was strong at ~9% (normalised for working days).

Organic revenue growth for Sonic Clinical Services ("SCS"), Sonic's medical centre and occupational health businesses (the major components of the Other segment, which also includes Sonic's laboratory automation development subsidiary, GLP Systems, and other minor operations), was ~4% (normalised for working days) for the half, augmented by acquisitions and successful doctor recruitment. Growth of the medical centre business was impacted by the Medicare rebate freeze, which is being progressively reversed, with indexation being reintroduced.

COMMENTARY ON RESULTS
For the half year ended 31 December 2017

2. Explanation of results (continued)

(c) EBITDA

EBITDA grew 9% and the EBITDA margin improved 20 basis points versus the prior year despite fewer working days. The non-recurring costs of \$6M related to acquisitions, restructuring and laboratory relocations which occurred in the half year.

EBITDA growth for the period was strongest in Sonic's Imaging business, which benefited from investments made in equipment and greenfield sites over recent years, as well as ongoing efficiency strategies. EBITDA growth in the Laboratory division was enhanced by synergistic acquisitions in Germany and the US. The EBITDA margin of the Laboratory division showed strong accretion after normalising for working day differences.

Consumables cost increased slightly as a percentage of revenue despite ongoing success with procurement initiatives as a result of changes in mix in Sonic's total business, including expansion in Germany where consumables are typically a higher percentage of revenue. Underlying prices generally reduced.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 11.8% on the comparative period (at Constant Currency rates) as a result of growth of the Company, including significant laboratory building projects (mainly London, Brisbane, Hawaii and Ingelheim) in recent years. Capital expenditure in the current period was significantly lower than in the prior year as the building projects were largely completed.

(e) Intangibles amortisation

Intangibles amortisation relates to software (both internally developed and purchased) and contract costs (including doctor contracts in SCS). The expense has increased by 15.1% over the previous period at Constant Currency rates due to the growth of the company, new software projects, and the acquisition of GLP Systems in December 2016.

(f) Interest expense and debt facilities

Net interest expense has increased 15.9% on the prior year (at Constant Currency rates) as a result of acquisitions completed in January 2017 and July 2017, increases in USD base rates, and higher margins/coupons on debt facilities refinanced in October 2017 (due to market movements and longer tenor facilities).

The majority of Sonic's debt is drawn in foreign currencies as "natural" balance sheet hedging of Sonic's offshore operations (see (a) Constant currency above).

Interest rate hedging arrangements are in place in accordance with Sonic's Treasury Policy.

COMMENTARY ON RESULTS
For the half year ended 31 December 2017

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 31 December 2017 comprised:

| | Facility Limit M | Drawn M | AUD \$M Available |
|---|---------------------|---------------------|----------------------|
| Notes held by Private Placement investors – USD | US\$405 | US\$405 | - |
| Notes held by Private Placement investors – EUR | €515 | €515 | - |
| Bank debt facilities | | | |
| - USD limits | US\$510 | US\$487 | 29 |
| - Euro limits | €369 | €306 | 97 |
| - AUD (Multicurrency) limits | A\$205 | A\$122 ⁺ | 83 |
| - CHF limit | CHF325 | CHF238 | 114 |
| Minor debt/leasing facilities | n/a | A\$6 | - |
| Cash | n/a | A\$(329)* | 329 |
| Available funds at 31 December 2017 | | | 652 |

+ Includes debt drawn in GBP (£60M)

* Various currencies

Sonic's credit metrics at 31 December 2017 were as follows:

| | 31.12.17 | 30.6.17 |
|------------------------|----------|---------|
| Gearing ratio | 38.3% | 38.3% |
| Interest cover (times) | 10.4 | 10.8 |
| Debt cover (times) | 2.7 | 2.7 |

Definitions:

- Gearing ratio = Net debt / [Net debt + equity] (USPP covenant limit <55%)
- Interest cover = EBITA / Net interest expense (bank covenant limit >3.25)
- Debt cover = Net debt / EBITDA (bank covenant limit <3.5)
- Calculations as per Sonic's debt facility definitions

Sonic's senior debt facility limits at 14 February 2018 expire as follows (**note that the figures shown are the facility limits, not drawn debt**):

| | AUD M | USD M | Euro M | CHF M |
|------|----------|----------|-----------|----------|
| 2018 | 50 | 65 | 99 | - |
| 2019 | - | 230 | 145 | - |
| 2020 | - | 285 | 125 | - |
| 2021 | - | 250 | - | 200 |
| 2022 | - | - | - | 125 |
| 2023 | 155 | 85 | - | - |
| 2024 | - | - | 185 | - |
| 2026 | - | - | 245 | - |
| 2032 | - | - | 85 | - |
| | 205 | 915 | 884 | 325 |

Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk.

COMMENTARY ON RESULTS
For the half year ended 31 December 2017

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate of 17% includes a one-off, non-cash net benefit of A\$20M relating to the revaluing of US net deferred tax liabilities to the new US corporate tax rate of 21%. Normalised for this benefit, the effective tax rate is 24%, slightly lower than the full year guidance provided in August 2017 of approximately 25%.

(h) Cashflow

Cash generated from operations was 5.7% higher than in the comparative period, broadly in line with earnings growth (excluding the one-off non-cash US tax benefit). Gross operating cashflow equated to 94% of EBITDA, reflecting the payment of creditors and other working capital changes from FY 2017, when cashflow was 103% of EBITDA. In addition, inventory had increased at 31 December 2017, partly in preparation for the Australian National Bowel Screening contract, which commenced on 2 January 2018, and partly due to changes in the mix of Sonic's laboratory businesses towards testing with higher consumable costs.

(i) Full year (FY 2018) guidance

Sonic gave full year guidance in August 2017 for EBITDA growth of 6-8% for 2018 on a Constant Currency basis (applying 2017 average currency exchange rates to 2018) over the 2017 underlying EBITDA of A\$889M, excluding any future business acquisitions or regulatory changes. After 7 months of trading the Company is on track to achieve the 6-8% growth range despite the impact of regulatory changes that have/will occur in the US (from 1 January 2018) and Germany (from 1 April 2018).

Sonic expects net interest expense for the full year to increase by 10-15% from the 2017 level of A\$65M on a Constant Currency basis (excluding future business acquisitions), as a result of acquisitions completed in January 2017 and July 2017, recent increases in USD base rates, and higher margins/coupons on debt facilities refinanced in October 2017 and to be refinanced in April 2018 (due to market movements and longer tenor facilities). Underlying floating interest rates are assumed to remain at current levels.

The full year effective tax rate is expected to be approximately 25% (excluding the A\$20M one-off US net tax benefit booked in December 2017).

Capital expenditure on physical assets is expected to be significantly lower in FY 2018 than in the prior year, following completion of major infrastructure projects.

**STATUTORY
HALF YEAR REPORT**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report and Financial Statements for the year ended 30 June 2017 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2017.

1. Names of Directors

The Directors of the Company in office during the half year and up to the date of this report are:

Prof. M.R. Compton – Chairman
Dr C.S. Goldschmidt – Managing Director
Mr C.D. Wilks – Finance Director
Dr P.J. Dubois
Mr N. Mitchell (appointed 29 September 2017)
Mr L.J. Panaccio
Ms K.D. Spargo
Dr E.J. Wilson

2. Review of operations

Revenue for the period increased 8% to \$2,672,703,000 from a combination of organic growth of ~4% (~5% normalised for working day differences and the impact of hurricanes in the US) and synergistic acquisitions in the current and prior year.

Net profit and earnings per share grew by 16.2% and 14.9% respectively, including the A\$20M impact of a one-off non-cash net tax benefit from the revaluation of net deferred tax liabilities for the new US corporate tax rate of 21%. EBITDA grew 9.0% before non-recurring costs.

Summary of the operations:

- On track after seven months of trading to achieve full year earnings guidance provided in August 2017.
- H1 FY 2018 revenue growth 8% and EBITDA growth 9%, despite fewer working days than in the prior period.
- Margin expansion of 20 basis points.
- Solid organic revenue growth of ~5% on a normalised basis.
- One-off US net tax benefit of A\$20 million.
- Accretive acquisitions in Germany and the US and hospital partnerships in the US contributing to growth, with an active pipeline of further opportunities.
- Progressive dividend policy ongoing (increase of 1 cent (3.2%) to 32 cents for the FY 2018 Interim Dividend).
- Sonic's strong Medical Leadership culture, global leadership team, reputation, modern infrastructure and industry dynamics provide a solid base for future growth.

Further information on the operations and financial results and position of the Company is included in the Commentary on Results section attached to this report, the presentation released to the ASX on the same day as this Appendix 4D, and in the 2017 Annual Report. This information includes results presented on a Constant Currency basis – current period results presented using the comparative period average currency exchange rates to translate offshore earnings. The Constant Currency information is not required to be audited or reviewed in accordance with Australian Auditing Standards.

DIRECTORS' REPORT

3. Subsequent events

Since the end of the financial period, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

4. Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is attached to this Half Year Report.

5. Rounding of amounts to nearest thousand dollars

The Company is a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that Instrument.

This report is made in accordance with a resolution of the Directors.



M.R. Compton
Chairman



Dr C.S. Goldschmidt
Director

Sydney
14 February 2018



Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sonic Healthcare Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Mark Dow', with a long, sweeping horizontal stroke extending to the right.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
14 February 2018

CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2017

| | Notes | Six months ended 31.12.17 \$'000 | Six months ended 31.12.16 \$'000 |
|---|-------|---|---|
| Revenue from operations | | 2,672,703 | 2,476,043 |
| Labour and related costs | | (1,240,149) | (1,148,133) |
| Consumables used | | (438,215) | (392,456) |
| Operating lease rental expense | | (164,944) | (158,018) |
| Depreciation and amortisation of physical assets | | (94,134) | (84,009) |
| Repairs and maintenance | | (73,263) | (63,407) |
| Transportation | | (67,220) | (63,235) |
| Utilities | | (62,407) | (57,588) |
| Borrowing costs expense | | (37,797) | (33,524) |
| Amortisation of intangibles | | (31,533) | (27,251) |
| Other expenses from ordinary activities | | (179,935) | (184,041) |
| Profit from ordinary activities before income tax expense | | 283,106 | 264,381 |
| Income tax expense | | (48,209) | (61,016) |
| Profit from ordinary activities after income tax expense | | 234,897 | 203,365 |
| Net (profit) attributable to minority interests | | (6,347) | (6,638) |
| Profit attributable to members of Sonic Healthcare Limited | | 228,550 | 196,727 |
| Basic earnings per share (cents per share) | 4 | 54.3 | 47.3 |
| Diluted earnings per share (cents per share) | 4 | 54.1 | 47.1 |

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2017

| | Six months ended 31.12.17 \$'000 | Six months ended 31.12.16 \$'000 |
|---|---|---|
| Profit from ordinary activities after income tax expense | 234,897 | 203,365 |
| Other comprehensive income | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | 16,892 | (5,221) |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Actuarial gains on retirement benefit obligations | 1,890 | 4,474 |
| Other comprehensive income for the period, net of tax | 18,782 | (747) |
| Total comprehensive income for the period | 253,679 | 202,618 |
| Total comprehensive income attributable to: | | |
| Members of Sonic Healthcare Limited | 245,110 | 198,094 |
| Minority interests | 8,569 | 4,524 |
| | 253,679 | 202,618 |

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 31 December 2017

| | Notes | 31.12.17 \$'000 | 30.6.17 \$'000 |
|----------------------------------|-------|--------------------|-------------------|
| Current assets | | | |
| Cash assets and cash equivalents | | 328,677 | 437,617 |
| Receivables | | 678,391 | 716,589 |
| Inventories | | 107,225 | 96,220 |
| Other | | 55,135 | 52,017 |
| Total current assets | | 1,169,428 | 1,302,443 |
| Non current assets | | | |
| Receivables | | 23,578 | 21,257 |
| Other financial assets | | 38,737 | 38,134 |
| Property, plant and equipment | | 1,115,141 | 1,101,890 |
| Intangible assets | | 5,523,006 | 5,381,234 |
| Deferred tax assets | | 25,167 | 32,044 |
| Other | | 1,324 | 1,163 |
| Total non current assets | | 6,726,953 | 6,575,722 |
| Total assets | | 7,896,381 | 7,878,165 |
| Current liabilities | | | |
| Payables | | 473,360 | 510,486 |
| Interest bearing liabilities | | 255,902 | 821,134 |
| Current tax liabilities | | 70,101 | 56,602 |
| Provisions | | 194,466 | 200,444 |
| Other | | 28,989 | 24,982 |
| Total current liabilities | | 1,022,818 | 1,613,648 |
| Non current liabilities | | | |
| Interest bearing liabilities | | 2,587,372 | 2,051,888 |
| Deferred tax liabilities | | 106,503 | 127,709 |
| Provisions | | 107,429 | 111,662 |
| Other | | 22,897 | 47,128 |
| Total non current liabilities | | 2,824,201 | 2,338,387 |
| Total liabilities | | 3,847,019 | 3,952,035 |
| Net assets | | 4,049,362 | 3,926,130 |
| Equity | | | |
| Parent entity interest | | | |
| Contributed equity | 6 | 2,959,540 | 2,885,615 |
| Reserves | 8 | (44,259) | (53,020) |
| Retained earnings | | 1,034,055 | 996,791 |
| Total parent entity interest | | 3,949,336 | 3,829,386 |
| Minority interests | | 100,026 | 96,744 |
| Total equity | | 4,049,362 | 3,926,130 |

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2017

| | Six months ended 31.12.17 \$'000 | Six months ended 31.12.16 \$'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Receipts from customers (inclusive of goods and services tax) | 2,780,215 | 2,570,381 |
| Payments to suppliers and employees (inclusive of goods and services tax) | (2,360,757) | (2,155,622) |
| Gross operating cash flow | 419,458 | 414,759 |
| Interest received | 1,313 | 1,922 |
| Borrowing costs | (35,814) | (31,356) |
| Income taxes paid | (32,794) | (52,081) |
| Net cash inflow from operating activities | 352,163 | 333,244 |
| Cash flows from investing activities | | |
| Payment for purchase of controlled entities and investments, net of cash acquired | (130,506) | (23,021) |
| Payments for property, plant and equipment | (111,630) | (199,853) |
| Proceeds from sale of non current assets | 2,251 | 3,391 |
| Payments for intangibles | (44,850) | (30,863) |
| Repayment of loans by other entities | 3,271 | 990 |
| Loans to other entities | (4,006) | (12,145) |
| Net cash (outflow) from investing activities | (285,470) | (261,501) |
| Cash flows from financing activities | | |
| Proceeds from issues of shares and other equity securities (net of transaction costs and related costs) | 9,083 | 14,589 |
| Proceeds from borrowings | 436,440 | 928,859 |
| Repayment of borrowings | (480,925) | (801,045) |
| Transaction with non controlling interest | (891) | 9,359 |
| Dividends paid to Company's shareholders (net of Dividend Reinvestment Plan) | (137,761) | (182,963) |
| Dividends paid to minority interests in controlled entities | (4,293) | (3,005) |
| Net cash (outflow) from financing activities | (178,347) | (34,206) |
| Net (decrease)/increase in cash and cash equivalents | (111,654) | 37,537 |
| Cash and cash equivalents at the beginning of the financial period | 437,617 | 290,436 |
| Effects of exchange rate changes on cash and cash equivalents | 2,714 | (3,551) |
| Cash and cash equivalents at the end of the financial period | 328,677 | 324,422 |

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2017

| | Share capital \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 | Minority interests \$'000 | Total \$'000 |
|--|----------------------------|--------------------|--------------------------------|------------------|---------------------------------|------------------|
| Balance at 1 July 2017 | 2,885,615 | (53,020) | 996,791 | 3,829,386 | 96,744 | 3,926,130 |
| Profit for the period | - | - | 228,550 | 228,550 | 6,347 | 234,897 |
| Other comprehensive income for the period | - | 14,670 | 1,890 | 16,560 | 2,222 | 18,782 |
| Total comprehensive income for the period | - | 14,670 | 230,440 | 245,110 | 8,569 | 253,679 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividends paid | - | - | (193,176) | (193,176) | - | (193,176) |
| Shares issued | 71,917 | (7,487) | - | 64,430 | - | 64,430 |
| Transaction costs on shares issued net of tax | (36) | - | - | (36) | - | (36) |
| Transfers to share capital | 1,965 | (1,965) | - | - | - | - |
| Acquisition of treasury shares | (249) | - | - | (249) | - | (249) |
| Allocation of treasury shares | 328 | - | - | 328 | - | 328 |
| Share based payments | - | 2,314 | - | 2,314 | - | 2,314 |
| Acquisition of minority interests | - | 1,229 | - | 1,229 | (949) | 280 |
| Dividends paid to minority interests in controlled entities | - | - | - | - | (4,338) | (4,338) |
| Balance at 31 December 2017 | 2,959,540 | (44,259) | 1,034,055 | 3,949,336 | 100,026 | 4,049,362 |
| Balance at 1 July 2016 | 2,802,491 | (11,223) | 871,612 | 3,662,880 | 69,829 | 3,732,709 |
| Profit for the period | - | - | 196,727 | 196,727 | 6,638 | 203,365 |
| Other comprehensive income for the period | - | (3,107) | 4,474 | 1,367 | (2,114) | (747) |
| Total comprehensive income for the period | - | (3,107) | 201,201 | 198,094 | 4,524 | 202,618 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividends paid | - | - | (182,963) | (182,963) | - | (182,963) |
| Shares issued | 24,713 | (10,124) | - | 14,589 | - | 14,589 |
| Transfers to share capital | 1,819 | (1,819) | - | - | - | - |
| Acquisition of treasury shares | (148) | - | - | (148) | - | (148) |
| Share based payments | - | 2,241 | - | 2,241 | - | 2,241 |
| Contribution from minority interests | - | - | - | - | 17,566 | 17,566 |
| Acquisition of minority interest | - | (2,640) | - | (2,640) | (1,270) | (3,910) |
| Dividends paid to minority interests in controlled entities | - | - | - | - | (3,010) | (3,010) |
| Balance at 31 December 2016 | 2,828,875 | (26,672) | 889,850 | 3,692,053 | 87,639 | 3,779,692 |

The above statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2017 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2 Segment information

Business segments

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance both by the nature of services provided and geographic region. Discrete financial information about each operating segment is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis and is used to assess performance and determine the allocation of resources. The internal reports use a "Constant Currency" basis for reporting revenue and EBITA with foreign currency elements restated using the relevant prior period average exchange rates. The segment revenue and EBITA have therefore been presented using Constant Currency.

The Group has the following reportable segments:

- (i) Laboratory**
Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland. The geographic regions have been aggregated into one reportable segment as they provide similar services and have similar expected growth rates, cost structures, risks, and return profiles.
- (ii) Imaging**
Diagnostic imaging services provided in Australia.
- (iii) Other**
Includes corporate office functions, medical centre operations (IPN), occupational health services (Sonic HealthPlus), laboratory automation development (GLP Systems), and other minor operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

Note 2 Segment information (continued)

| Half Year ended 31 December 2017 | Laboratory \$'000 | Imaging \$'000 | Other \$'000 | Eliminations \$'000 | Consolidated \$'000 |
|---|------------------------------|---------------------------|-------------------------|--------------------------------|--------------------------------|
| Segment revenue (Constant Currency) | 2,213,655 | 233,681 | 229,665 | (6,319) | 2,670,682 |
| Currency exchange movement | 708 | - | - | - | 708 |
| Segment revenue (Statutory) | 2,214,363 | 233,681 | 229,665 | (6,319) | 2,671,390 |
| Interest income | | | | | 1,313 |
| Total revenue | | | | | 2,672,703 |
| Segment EBITA (Constant Currency) | 314,509 | 31,434 | 2,704 | - | 348,647 |
| Currency exchange movement | 2,476 | - | - | - | 2,476 |
| Segment EBITA (Statutory) | 316,985 | 31,434 | 2,704 | - | 351,123 |
| Amortisation expense | | | | | (31,533) |
| Unallocated net interest expense | | | | | (36,484) |
| Profit before tax | | | | | 283,106 |
| Income tax expense | | | | | (48,209) |
| Profit after income tax expense | | | | | 234,897 |
| Depreciation expense | 65,506 | 15,114 | 13,514 | - | 94,134 |
| Half Year ended 31 December 2016 | Laboratory \$'000 | Imaging \$'000 | Other \$'000 | Eliminations \$'000 | Consolidated \$'000 |
| Segment revenue | 2,052,248 | 216,492 | 211,464 | (6,083) | 2,474,121 |
| Interest income | | | | | 1,922 |
| Total revenue | | | | | 2,476,043 |
| Segment EBITA | 303,755 | 23,316 | (3,837) | - | 323,234 |
| Amortisation expense | | | | | (27,251) |
| Unallocated net interest expense | | | | | (31,602) |
| Profit before tax | | | | | 264,381 |
| Income tax expense | | | | | (61,016) |
| Profit after income tax expense | | | | | 203,365 |
| Depreciation expense | 55,927 | 14,668 | 13,414 | - | 84,009 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

| Note 3 | Dividends | Six months ended 31.12.17 \$'000 | Six months ended 31.12.16 \$'000 |
|---------------|--|---|---|
| | Dividends paid during the half year | 193,176 | 182,963 |

Dividends not recognised at the end of the half year

Since the end of the half year the Directors have declared an interim dividend of 32 cents (2017: 31 cents) franked to 20% (2017: 20%).

The dividend is payable on 10 April 2018 with a record date of 7 March 2018. The interim dividend includes no conduit foreign income.

Based on the number of shares on issue at 14 February 2018 the aggregate amount of the proposed interim dividend to be paid out of retained earnings at the end of the half year, but not recognised as a liability is:

| | |
|----------------|----------------|
| 135,284 | 129,061 |
|----------------|----------------|

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan will operate for the FY 2018 interim dividend, with a discount of 1.5%. The pricing period for DRP purposes will be 10 trading days starting on 12 March 2018 and concluding on 23 March 2018 (inclusive).

| Note 4 | Earnings per share | Six months ended 31.12.17 Cents | Six months ended 31.12.16 Cents |
|---------------|----------------------------|--|--|
| | Basic earnings per share | 54.3 | 47.3 |
| | Diluted earnings per share | 54.1 | 47.1 |

| Weighted average number of ordinary shares used as the denominator | Six months ended 31.12.17 Shares | Six months ended 31.12.16 Shares |
|--|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 420,862,719 | 415,664,231 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 422,254,491 | 418,112,219 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

| Note 5 | Goodwill | 31.12.17 | 30.6.17 |
|---------------|--------------------------------|------------------|----------------|
| | | \$'000 | \$'000 |
| | Cost | 5,161,014 | 5,042,181 |
| | Accumulated impairment | (96,722) | (101,736) |
| | Net book amount | 5,064,292 | 4,940,445 |
| | Opening cost | 5,042,181 | 4,861,647 |
| | Acquisition of businesses | 102,509 | 226,530 |
| | Foreign exchange movements | 16,324 | (45,996) |
| | Closing cost | 5,161,014 | 5,042,181 |
| | Opening accumulated impairment | (101,736) | (101,751) |
| | Foreign exchange movements | 5,014 | 15 |
| | Closing accumulated impairment | (96,722) | (101,736) |

| Note 6 | Contributed equity | 31.12.17 | 30.6.17 | 31.12.17 | 30.6.17 |
|---------------|--------------------------------|--------------------|----------------|------------------|----------------|
| | | Shares | Shares | \$'000 | \$'000 |
| | Share capital | | | | |
| | Fully paid ordinary shares | 422,636,259 | 419,195,981 | 2,959,610 | 2,885,764 |
| | Other equity securities | | | | |
| | Treasury shares | (3,248) | (6,849) | (70) | (149) |
| | | 422,633,011 | 419,189,132 | 2,959,540 | 2,885,615 |

Movements in ordinary share capital:

| Date | Details | Number of | Issue | \$'000 |
|-------------|---|--------------------|--------------|------------------|
| | | shares | price | |
| 01/07/17 | Opening balance | 419,195,981 | | 2,885,764 |
| 11/10/17 | Shares issued under the Dividend Reinvestment Plan | 2,648,707 | \$20.9214 | 55,415 |
| Various | Shares issued following exercise of employee options/rights | 791,571 | Various | 16,502 |
| Various | Transfers from equity remuneration reserve | - | | 1,965 |
| Various | Costs associated with shares issued net of future income tax benefits | - | | (36) |
| 31/12/17 | Closing balance | <u>422,636,259</u> | | <u>2,959,610</u> |

Movements in other equity securities:

| Date | Details | Number of | \$'000 |
|-------------|------------------------------------|------------------|---------------|
| | | shares | |
| 01/07/17 | Opening balance | (6,849) | (149) |
| 27/11/17 | On market purchase of Sonic shares | (11,399) | (249) |
| 28/11/17 | Allocation of treasury shares | 15,000 | 328 |
| 31/12/17 | Closing balance | <u>(3,248)</u> | <u>(70)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

Note 7 Unlisted share options and performance rights

| Exercise Price | Expiry Date | Balance at 1.7.17 | Exercised | Granted | Forfeited | Expired | Balance at 31.12.17 |
|-----------------------|--------------------|--------------------------|------------------|------------------|------------------|----------------|----------------------------|
| \$11.43 | 18/11/2017 | 651,126 | (651,126) | - | - | - | - |
| \$11.43 | 18/11/2018 | 596,841 | - | - | - | - | 596,841 |
| \$15.43 | 18/10/2018 | 185,000 | (20,000) | - | - | - | 165,000 |
| \$15.21 | 13/12/2018 | 75,000 | - | - | - | - | 75,000 |
| \$12.57 | 02/07/2019 | 125,000 | (40,000) | - | - | - | 85,000 |
| \$17.32 | 27/11/2019 | 706,108 | - | - | (456,039) | - | 250,069 |
| \$18.84 | 30/11/2019 | 750,000 | (60,000) | - | - | - | 690,000 |
| \$18.49 | 20/08/2020 | 925,000 | - | - | - | - | 925,000 |
| \$19.41 | 20/11/2020 | 766,969 | - | - | - | - | 766,969 |
| \$19.78 | 11/10/2020 | 2,153,333 | - | - | (250,000) | - | 1,903,333 |
| \$21.62 | 17/09/2021 | 800,000 | - | - | - | - | 800,000 |
| \$22.02 | 17/09/2021 | 200,000 | - | - | - | - | 200,000 |
| \$21.62 | 17/11/2021 | 671,089 | - | - | - | - | 671,089 |
| \$23.34 | 05/05/2022 | - | - | 1,000,000 | - | - | 1,000,000 |
| \$21.64 | 22/11/2022 | - | - | 675,145 | - | - | 675,145 |
| Performance Rights | 02/10/2018 | - | - | 2,357 | - | - | 2,357 |
| Performance Rights | 27/11/2019 | 100,085 | (35,445) | - | (64,640) | - | - |
| Performance Rights | 20/11/2020 | 91,988 | - | - | - | - | 91,988 |
| Performance Rights | 17/11/2021 | 87,843 | - | - | - | - | 87,843 |
| Performance Rights | 22/11/2022 | - | - | 87,762 | - | - | 87,762 |
| | | 8,885,382 | (806,571) | 1,765,264 | (770,679) | - | 9,073,396 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

| Note 8 | Reserves | 31.12.17 | 31.12.16 |
|---------------|--|-----------------|-----------------|
| | | \$'000 | \$'000 |
| | Foreign currency translation reserve | 36,510 | 42,581 |
| | Equity remuneration reserve | (69,975) | (57,865) |
| | Share option reserve | 16,427 | 16,427 |
| | Revaluation reserve | 3,272 | 3,272 |
| | Transactions with minority interests | (30,493) | (31,087) |
| | | (44,259) | (26,672) |
| | Movements | | |
| | <i>Foreign currency translation reserve</i> | | |
| | Balance 1 July | 21,280 | 45,790 |
| | Net exchange movement on translation of foreign subsidiaries | 15,230 | (3,209) |
| | Balance | 36,510 | 42,581 |
| | <i>Equity remuneration reserve</i> | | |
| | Balance 1 July | (62,837) | (48,163) |
| | Share based payments expense | 2,314 | 2,241 |
| | Employee share scheme issue | (7,487) | (10,124) |
| | Transfer to share capital (options exercised) | (1,965) | (1,819) |
| | Balance | (69,975) | (57,865) |
| | <i>Share option reserve</i> | | |
| | Balance 1 July | 16,427 | 16,427 |
| | Movement in period | - | - |
| | Balance | 16,427 | 16,427 |
| | <i>Revaluation reserve</i> | | |
| | Balance 1 July | 3,272 | 3,272 |
| | Movement in period | - | - |
| | Balance | 3,272 | 3,272 |
| | <i>Transactions with minority interests</i> | | |
| | Balance 1 July | (31,162) | (28,549) |
| | Transactions with minority interests in period | 1,229 | (2,640) |
| | Net exchange movement | (560) | 102 |
| | Balance | (30,493) | (31,087) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2017

| Note 9 | Net asset backing | 31.12.17 | 30.6.17 |
|---------------|--|-----------------|-----------------|
| | | <u>31.12.17</u> | <u>30.6.17</u> |
| | Net tangible asset backing per ordinary security | <u>(\$3.49)</u> | <u>(\$3.47)</u> |
| | Net asset backing per ordinary security | <u>\$9.58</u> | <u>\$9.37</u> |

Note 10 **Events occurring after the balance sheet date**

Since the end of the financial period no matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years has arisen.

Forward-looking statements

This Half Year Report and ASX Appendix 4D may include forward-looking statements about our financial results, guidance and business prospects that may involve risks and uncertainties, many of which are outside the control of Sonic Healthcare. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the Company include, but are not limited to, adverse decisions by Governments and healthcare regulators, changes in the competitive environment and billing policies, lawsuits, loss of contracts and unexpected growth in costs and expenses. The statements being made in this report do not constitute an offer to sell, or solicitation of an offer to buy, any securities of Sonic Healthcare. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Sonic Healthcare). In particular, no representation, warranty or assurance (express or implied) is given in relation to any underlying assumption or that any forward-looking statement will be achieved. Actual future events may vary materially from the forward-looking statements and the assumptions on which the forward-looking statements are based. Given these uncertainties, readers are cautioned to not place undue reliance on such forward-looking statements.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 12 to 23 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
- (b) there are reasonable grounds to believe that Sonic Healthcare Limited 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.



M.R. Compton
Chairman



Dr C.S. Goldschmidt
Director

Sydney
14 February 2018



Independent Auditor's Review Report to the Members of Sonic Healthcare Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sonic Healthcare Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Sonic Healthcare Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

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 Australian 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, we have become aware of any matter that makes us 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 consolidated entity's financial position as at 31 December 2017 and its 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 Sonic Healthcare Limited, 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*.

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Liability limited by a scheme approved under Professional Standards Legislation.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sonic Healthcare Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A large, stylized handwritten signature of 'PricewaterhouseCoopers' in black ink, written in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Mark Dow', written in a cursive script.

Mark Dow
Partner

Sydney
14 February 2018