

Sonic Healthcare Limited
ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2014
Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2014 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2014

Financial Results \$'000	Six months ended 31.12.14		% Change
	Statutory		
Revenue from ordinary activities	2,014,492		Up 6.1%
Profit after tax from ordinary activities attributable to members	174,020		Down 1.9%
Dividends			
Cents per share	2015	2014	% Change
Interim dividend	29¢	27¢	Up 7.4%
Interim dividend franked amount per security	15.95¢	12.15¢	

The record date for determining entitlements to the interim dividend will be 11 March 2015. The interim dividend will be paid on 25 March 2015. The 2015 interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan (DRP) remains suspended until further notice.

\$'000	Six months ended 31.12.14	Six months ended 31.12.14	Six months ended 31.12.13	% Change	
	Constant Currency*	Statutory		31.12.14 Constant Currency v 31.12.13	31.12.14 Statutory v 31.12.13
Revenue	1,995,742	2,014,492	1,898,659	5.1%	6.1%
Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA) pre non-recurring restructure and acquisition costs	347,896	349,983	346,965	0.3%	0.9%
Non-recurring restructure and acquisition costs	(4,131)	(4,231)	(2,543)		
EBITDA	343,765	345,752	344,422	(0.2)%	0.4%
Depreciation and lease amortisation	(64,937)	(65,320)	(60,455)	7.4%	8.0%
Earnings before interest, tax and intangibles amortisation (EBITA)	278,828	280,432	283,967	(1.8)%	(1.2)%
Amortisation of intangibles	(21,221)	(21,361)	(17,414)	21.9%	22.7%
Net interest expense	(24,650)	(25,198)	(31,186)	(21.0)%	(19.2)%
Income tax attributable to operating profit	(57,820)	(57,771)	(56,111)	3.0%	3.0%
Net (profit) attributable to minority interests	(2,091)	(2,082)	(1,943)		
Net profit attributable to shareholders of Sonic Healthcare Limited	173,046	174,020	177,313	(2.4)%	(1.9)%
Cash generated from operations		251,601	240,009		4.8%
Earnings per share					
Cents per share					
Basic earnings per share	43.1¢	43.4¢	44.4¢	(2.9)%	(2.3)%
Diluted earnings per share	42.8¢	43.1¢	44.1¢	(2.9)%	(2.3)%

* 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 2014

1. Summary

- Result is in line with guidance provided in November 2014.
- On track after seven months of trading to achieve full year guidance provided in November 2014.
- Pathology volume growth strengthening in Australia and the USA.
- Currency movements expected to augment reported results in second half.
- Ongoing focus on synergy capture and cost-control.
- Interest expense continues to decrease.
- Interim dividend increased by 7%.

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 2014 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. Given the volatility of the AUD in recent years, Sonic is not comfortable to provide earnings guidance which requires forecasting of exchange rates. Sonic therefore provides earnings guidance on a Constant Currency basis, and then reports against that measure.

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:

	31.12.14 Statutory	31.12.13 and Constant Currency
AUD/USD	0.8904	0.9220
AUD/EUR	0.6914	0.6866
AUD/GBP	0.5473	0.5821
AUD/CHF	0.8352	0.8459
AUD/NZD	1.0960	1.1346

To manage currency translation risk Sonic uses "natural" hedging, under which foreign currency assets (businesses) are matched to the extent possible 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 2014

2. Explanation of results (continued)

(b) Revenue

Total revenue growth for the half year was 5.1% at Constant Currency exchange rates (i.e. applying the average rates for the six months ended 31.12.13 to the current period results) and 6.1% including exchange rate impacts.

Revenue breakdown AUD M	Six months ended 31.12.14 Statutory Revenue	% of 31.12.14 Statutory Revenue	Six months ended 31.12.14 Constant Currency Revenue	Six months ended 31.12.13 Revenue	Growth 31.12.14 Constant Currency v 31.12.13
Pathology – Australia	579	29%	579	563	2.8%
Pathology – USA	430	21%	415	411	1.0%
Pathology – Europe	599	30%	595	516	15.3%
Pathology – NZ	18	1%	17	22	(22.7)%
Imaging	207	10%	207	209	(1.0)%
Medical centres and occupational health (IPN) – Australia	180	9%	180	177	1.7%*
Revenue excluding interest income	<u>2,013</u>	<u>100%</u>	<u>1,993</u>	<u>1,898</u>	<u>5.0%</u>

* Revenue growth for IPN was 5% for the period. The comparative revenue number shown above included amounts unrelated to IPN, but disclosed in the "Other" operating segment.

Australian Pathology revenue growth was unusually low in the period due to low volume growth in the first quarter and an unexpected Medicare fee cut implemented on 1 November 2014. Strong volume growth returned in the second quarter and has continued into January. Market growth, as measured by Medicare benefits, was only 1.7% for the half.

Volume growth in the USA has been strengthening in recent months through market share wins and the impact of the Affordable Care Act, partially offset by lower average fees per patient.

Sonic's European operations experienced strong revenue growth (in local currencies) in the UK (9%) and Switzerland (6%), with German growth of 21% augmented by acquisitions. Organic growth in Germany was 6%. Sonic's Belgian operations were impacted by a one-off statutory fee cut (equating to approximately 7% of total Belgian revenues) from 1 November 2013.

Imaging revenue growth was impacted by the sale of the last of Sonic's imaging businesses in New Zealand in March 2014. Australian organic growth was 3%.

Revenue growth for Sonic's medical centre and occupational health businesses (IPN) was 5% for the half, augmented by small acquisitions and successful doctor recruitment.

Revenue was impacted by currency exchange rate movements, which increased reported (Statutory) revenue by A\$19M compared to the comparative period.

COMMENTARY ON RESULTS
For the half year ended 31 December 2014

2. Explanation of results (continued)

(c) EBITDA

EBITDA growth was flat compared to the prior period, with negative earnings growth in Australian Pathology and the USA offsetting growth in other markets. Deregulation has triggered abnormal growth in collection centre costs for the industry in Australia. The US result has been impacted by deterioration in performance of Sonic's CBLPath anatomic pathology business, which has suffered from fee cuts and in-sourcing. A comprehensive restructure of CBLPath is under way, with annual savings of more than \$10M expected. Sonic's Imaging division and IPN both reported earnings growth and margin expansion as a result of revenue growth, and tight cost control.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 7% on the comparative period (at Constant Currency rates) as a result of business acquisitions and growth of the Company.

(e) Intangibles amortisation

Intangibles amortisation relates to software (both internally developed and purchased) and contract costs (including doctor contracts in IPN).

(f) Interest expense and debt facilities

Net interest expense has decreased 21% (A\$6.5M) on the prior year (at Constant Currency rates) due to lower margins on debt facilities, the expiry of interest rate hedges which were at higher historical rates, and lower base interest rates.

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 2014

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 31 December 2014 comprised:

	Facility Limit M	Drawn M	AUD \$M Available
Notes held by US investors – USD	US\$500	US\$500	-
Notes held by US investors – EUR	€110	€110	-
Bank debt facilities			
- USD limits	US\$435	US\$365	86
- Euro limits	€586	€558	42
- GBP limits	£40	£40	-
- AUD (Multicurrency) limits	A\$179	A\$34	145
Minor debt/leasing facilities	n/a	A\$2*	-
Cash	n/a	A\$(192)*	192
Available funds at 31 December 2014			<u>465</u>

* Various currencies

Sonic's credit metrics at 31 December 2014 were as follows:

	31.12.14	30.6.14
Gearing ratio	38.0%	35.9%
Interest cover (times)	11.9	10.7
Debt cover (times)	2.5	2.4

Definitions:

- Gearing ratio = Net debt / [Net debt + equity] (bank 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 syndicated bank debt facility definitions

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

	AUD M	USD M	Euro M	GBP M
2015 (April)	179	-	141	-
2016	-	-	190	40
2017	-	95	130	-
2018	-	305	-	-
2019	-	130	125	-
2020	-	155	-	-
2021	-	250	-	-
2024	-	-	110	-
	<u>179</u>	<u>935</u>	<u>696</u>	<u>40</u>

Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk. Sonic is in discussions with its banks regarding the refinancing of the debt tranches expiring in April 2015 and foresees no difficulties with completing this, and in any case has significant available funding/headroom in other facilities and cash.

COMMENTARY ON RESULTS
For the half year ended 31 December 2014

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate of 24.7% is in line with the guidance provided in August 2014 of approximately 25%.

(h) Cashflow

Cash generated from operations grew 4.8% over the comparative period, significantly better than EBITDA growth, due to interest savings and the timing of tax payments.

(i) Full year (2015) guidance

Sonic gave revised full year guidance in November 2014 of EBITDA growth of 2-4% over the 2014 level of A\$733M, on a Constant Currency basis (applying 2014 average currency exchange rates to 2015). After seven months of trading the Company is on track to achieve this guidance.

2015 net interest expense is expected to decrease by 10-15% from the 2014 level of A\$57M on a constant currency basis.

Sonic's effective tax rate for 2015 is expected to be approximately 25%.

**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 2014 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 2014.

1. Names of Directors

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

Mr R.P. Campbell – Chairman
Dr C.S. Goldschmidt – Managing Director
Mr C.D. Wilks – Finance Director
Prof. M.R. Compton (appointed 7 October 2014)
Dr P.J. Dubois
Mr C.J. Jackson
Mr L.J. Panaccio
Ms K.D. Spargo
Dr E.J. Wilson

2. Review of operations

Revenue for the period increased 6.1% to \$2,014,492,000 reflecting organic growth, currency impacts and a number of synergistic business acquisitions during the current and prior year.

Net profit and earnings per share fell by ~2%, with flat EBITDA growth, lower interest expense, and increased depreciation and intangibles amortisation expenses.

Summary of the operations:

- Result is in line with guidance provided in November 2014.
- On track after seven months of trading to achieve full year guidance provided in November 2014.
- Pathology volume growth strengthening in Australia and the USA.
- Currency movements expected to augment reported results in second half.
- Ongoing focus on synergy capture and cost-control.
- Interest expense continues to decrease.
- Interim dividend increased by 7%.
- Three small synergistic pathology acquisitions were completed during the half year.

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 and in the 2014 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 Class Order 98/0100 issued by the Australian Securities & Investments Commission, 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 Class Order.

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



R.P. Campbell
Chairman



Dr C.S. Goldschmidt
Director

Sydney
17 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Mark Dow', written over a white background.

Mark Dow
Partner

Sydney
17 February 2015

PricewaterhouseCoopers

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CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2014

	Notes	Six months ended 31.12.14 \$'000	Six months ended 31.12.13 \$'000
Revenue from operations		2,014,492	1,898,659
Labour and related costs (including \$1,258,000 (2014: \$1,231,000) of equity remuneration expense)		(939,335)	(877,882)
Consumables used		(307,491)	(284,643)
Operating lease rental expense		(124,276)	(109,432)
Depreciation and amortisation of physical assets		(65,320)	(60,455)
Transportation		(55,979)	(51,750)
Utilities		(49,284)	(45,034)
Repairs and maintenance		(47,705)	(42,947)
Borrowing costs expense		(27,161)	(32,660)
Amortisation of intangibles		(21,361)	(17,414)
Other expenses from ordinary activities (including \$1,285,000 (2014: \$514,000) of acquisition related costs)		(142,707)	(141,075)
Profit from ordinary activities before income tax expense		233,873	235,367
Income tax expense		(57,771)	(56,111)
Profit from ordinary activities after income tax expense		176,102	179,256
Net profit attributable to minority interests		(2,082)	(1,943)
Profit attributable to members of Sonic Healthcare Limited		174,020	177,313
Basic earnings per share (cents per share)	4	43.4	44.4
Diluted earnings per share (cents per share)	4	43.1	44.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2014

	Six months ended 31.12.14 \$'000	Six months ended 31.12.13 \$'000
Profit from ordinary activities after income tax expense	<u>176,102</u>	179,256
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	89,188	88,075
Cash flow hedges	164	1,136
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial (losses) on retirement benefit obligations	<u>(3,826)</u>	-
Other comprehensive income for the period, net of tax	<u>85,526</u>	89,211
Total comprehensive income for the period	<u><u>261,628</u></u>	<u>268,467</u>
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	258,984	264,436
Minority interests	<u>2,644</u>	4,031
	<u><u>261,628</u></u>	<u>268,467</u>

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2014

	Notes	31.12.14 \$'000	30.6.14 \$'000
Current assets			
Cash assets and cash equivalents		191,671	232,137
Receivables		592,072	575,999
Inventories		74,088	65,153
Other		44,453	39,730
Total current assets		<u>902,284</u>	<u>913,019</u>
Non current assets			
Receivables		15,473	12,235
Other financial assets		63,457	67,865
Property, plant and equipment		749,526	691,877
Intangible assets		4,344,010	4,084,964
Deferred tax assets		27,228	27,622
Other		16	24
Total non current assets		<u>5,199,710</u>	<u>4,884,587</u>
Total assets		<u>6,101,994</u>	<u>5,797,606</u>
Current liabilities			
Payables		338,855	350,071
Interest bearing liabilities		390,463	450,388
Current tax liabilities		40,298	44,093
Provisions		158,590	158,053
Other financial liabilities (interest rate hedging)		-	235
Other		3,250	18,354
Total current liabilities		<u>931,456</u>	<u>1,021,194</u>
Non current liabilities			
Interest bearing liabilities		1,769,158	1,520,539
Deferred tax liabilities		104,169	89,991
Provisions		53,187	47,582
Other		28,458	9,306
Total non current liabilities		<u>1,954,972</u>	<u>1,667,418</u>
Total liabilities		<u>2,886,428</u>	<u>2,688,612</u>
Net assets		<u>3,215,566</u>	<u>3,108,994</u>
Equity			
Parent entity interest			
Contributed equity	7	2,549,349	2,538,517
Reserves	10	(34,377)	(119,941)
Retained earnings		673,812	664,067
Total parent entity interest		<u>3,188,784</u>	<u>3,082,643</u>
Minority interests		26,782	26,351
Total equity		<u>3,215,566</u>	<u>3,108,994</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2014

	Six months ended 31.12.14 \$'000	Six months ended 31.12.13 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	2,056,826	1,931,733
Payments to suppliers and employees (inclusive of goods and services tax)	(1,734,974)	(1,603,713)
Interest received	1,963	1,474
Borrowing costs	(22,544)	(29,850)
Income taxes paid	(49,670)	(59,635)
Net cash inflow from operating activities	251,601	240,009
Cash flows from investing activities		
Payment for purchase of controlled entities and investments, net of cash acquired	(26,545)	(115,834)
Payments for property, plant and equipment	(102,628)	(83,277)
Proceeds from sale of non current assets	2,796	14,922
Payments for intangibles	(37,719)	(29,012)
Repayment of loans by other entities	2,399	1,930
Loans to other entities	(4,144)	(3,078)
Net cash (outflow) from investing activities	(165,841)	(214,349)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related costs)	6,348	36,049
Proceeds from borrowings	251,093	718,715
Repayment of borrowings	(228,438)	(637,342)
Dividends paid to Company's shareholders (net of Dividend Reinvestment Plan)	(160,449)	(148,056)
Dividends paid to minority interests in controlled entities	(2,179)	(2,252)
Net cash (outflow) from financing activities	(133,625)	(32,886)
Net (decrease) in cash and cash equivalents	(47,865)	(7,226)
Cash and cash equivalents at the beginning of the financial period	232,137	219,729
Effects of exchange rate changes on cash and cash equivalents	7,399	16,815
Cash and cash equivalents at the end of the financial period	191,671	229,318

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 2014

	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Minority interests \$'000	Total \$'000
Balance at 1 July 2014	2,538,517	(119,941)	664,067	3,082,643	26,351	3,108,994
Profit for the period	-	-	174,020	174,020	2,082	176,102
Other comprehensive income for the period	-	88,790	(3,826)	84,964	562	85,526
Total comprehensive income for the period	-	88,790	170,194	258,984	2,644	261,628
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(160,449)	(160,449)	-	(160,449)
Shares issued	9,983	(3,535)	-	6,448	-	6,448
Transfers to share capital	949	(949)	-	-	-	-
Share based payments	-	1,258	-	1,258	-	1,258
Acquisition of treasury shares	(100)	-	-	(100)	-	(100)
Dividends paid to minority interests in controlled entities	-	-	-	-	(2,213)	(2,213)
Balance at 31 December 2014	2,549,349	(34,377)	673,812	3,188,784	26,782	3,215,566
Balance at 1 July 2013	2,468,102	(111,131)	537,913	2,894,884	23,217	2,918,101
Profit for the period	-	-	177,313	177,313	1,943	179,256
Other comprehensive income for the period	-	87,123	-	87,123	2,088	89,211
Total comprehensive income for the period	-	87,123	177,313	264,436	4,031	268,467
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(148,056)	(148,056)	-	(148,056)
Shares issued	54,075	(18,026)	-	36,049	-	36,049
Transfers to share capital	15,011	(15,011)	-	-	-	-
Share based payments	-	1,231	-	1,231	-	1,231
Transactions with minority interests	-	1,301	-	1,301	1,180	2,481
Dividends paid to minority interests in controlled entities	-	-	-	-	(2,337)	(2,337)
Balance at 31 December 2013	2,537,188	(54,513)	567,170	3,049,845	26,091	3,075,936

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 2014

Note 1 **Summary of significant accounting policies**

This general purpose financial report for the interim half year reporting period ended 31 December 2014 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 2014 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.

Working capital deficiency

Sonic is required to disclose \$389M of debt drawn under bank debt facilities which expire in April 2015 as a current liability as at 31 December 2014. As a result the Consolidated Balance Sheet shows a deficiency of working capital of \$29M. Sonic is in the process of refinancing these facilities, and foresees no difficulties in doing so given recent feedback from its existing syndicate of banks, its investment grade metrics and its strong and reliable operating cashflows. In addition, Sonic currently has headroom in cash and undrawn facilities sufficient to cover the maturing limits. The financial report has therefore been presented on a "going concern" basis.

Note 2 **Segment information**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (the chief operating decision makers) in assessing performance and determining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return. The Group has the following reportable segments.

- (i) *Pathology***
Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland.
- (ii) *Imaging***
Radiology and diagnostic imaging services provided in Australia. Imaging operations in New Zealand ceased in March 2014.
- (iii) *Other***
Includes the corporate office function, medical centre operations, occupational health operations and other minor operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 2 Segment information (continued)

Half Year ended 31 December 2014	Pathology \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue (Constant Currency)	1,606,123	207,298	185,296	(4,938)	1,993,779
Currency exchange movement	18,750	-	-	-	18,750
Segment revenue (Statutory)	1,624,873	207,298	185,296	(4,938)	2,012,529
Interest income					1,963
Total revenue					2,014,492
Segment EBITA (Constant Currency)	243,431	28,416	6,981	-	278,828
Currency exchange movement	1,604	-	-	-	1,604
Segment EBITA (Statutory)	245,035	28,416	6,981	-	280,432
Amortisation expense					(21,361)
Unallocated net interest expense					(25,198)
Profit before tax					233,873
Income tax expense					(57,771)
Profit after income tax expense					176,102
Depreciation & lease amortisation expense	41,646	14,606	9,068	-	65,320
Half Year ended 31 December 2013	Pathology \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue	1,513,000	208,875	179,945	(4,635)	1,897,185
Interest income					1,474
Total revenue					1,898,659
Segment EBITA	248,064	26,165	9,738	-	283,967
Amortisation expense					(17,414)
Unallocated net interest expense					(31,186)
Profit before tax					235,367
Income tax expense					(56,111)
Profit after income tax expense					179,256
Depreciation & lease amortisation expense	37,016	15,269	8,170	-	60,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

		Six months ended 31.12.14 \$'000	Six months ended 31.12.13 \$'000
Note 3	Dividends		
	Dividends paid during the half year	160,449	148,056
	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 29 cents (2014: 27 cents) franked to 55% (2014: 45%).		
	The dividend is payable on 25 March 2015 with a record date of 11 March 2015. The interim dividend includes no conduit foreign income.		
	Based on the number of shares on issue at 16 February 2015 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:	116,406	108,202
		Six months ended 31.12.14 Cents	Six months ended 31.12.13 Cents
Note 4	Earnings per share		
	Basic earnings per share	43.4	44.4
	Diluted earnings per share	43.1	44.1
		Six months ended 31.12.14 Shares	Six months ended 31.12.13 Shares
	Weighted average number of ordinary shares used as the denominator		
	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	401,082,983	399,480,428
	Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	403,879,875	402,410,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 5 Business combinations

A number of small acquisitions of subsidiaries/business assets occurred in the period. The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. It is impracticable to accurately determine the contribution these immaterial acquisitions made to the net profit of the Group during the period, and what they are likely to contribute on an annualised basis. The initial accounting for these business combinations has only been determined provisionally at the date of this report, as the Group is still in the process of reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded, so as to determine the fair values of the identifiable assets, liabilities and contingent liabilities acquired. Therefore no comparisons of book and fair values are shown.

The aggregate cost of the combinations, the preliminary values of the identifiable assets and liabilities, and the provisional goodwill arising on acquisition are detailed below:

	Total \$'000
Consideration - cash paid	23,650
Less: Cash of entities acquired	(293)
	23,357
Deferred consideration	4,741
Total consideration	28,098
Carrying value of identifiable net assets of businesses acquired:	
Debtors & other receivables	2,592
Prepayments	70
Inventory	121
Property, plant & equipment	3,669
Identifiable intangibles	585
Deferred tax assets	712
Trade creditors	(41)
Sundry creditors & accruals	(1,046)
Provisions	(2,410)
Borrowings	(703)
	3,549
Goodwill	24,549

The goodwill arising from the business combinations is attributable to their reputation in the local market, the benefit of marginal profit and synergies expected to be achieved from integrating the business with existing operations, expected revenue growth, future market development, the assembled workforce and knowledge of local markets. These benefits are not able to be individually identified or recognised separately from goodwill. No purchased goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related costs of \$1,285,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is \$2,592,000. The gross contractual amount due is \$2,592,000, of which \$nil is expected to be uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 6	Goodwill	31.12.14	30.6.14
		\$'000	\$'000
	Cost	4,090,445	3,850,258
	Accumulated impairment	(101,363)	(98,653)
	Net book amount	3,989,082	3,751,605
	Opening cost	3,850,258	3,702,581
	Acquisition of businesses	24,549	121,489
	Disposal of business	-	(4,344)
	Foreign exchange movements	215,638	30,532
	Closing cost	4,090,445	3,850,258
	Opening accumulated impairment	(98,653)	(89,866)
	Foreign exchange movements	(2,710)	(8,787)
	Closing accumulated impairment	(101,363)	(98,653)

Note 7	Contributed equity	31.12.14	30.6.14	31.12.14	30.6.14
		Shares	Shares	\$'000	\$'000
	Share capital				
	Fully paid ordinary shares	401,401,556	400,811,556	2,549,449	2,538,517
	Other equity securities				
	Treasury shares	(5,902)	-	(100)	-
		401,395,654	400,811,556	2,549,349	2,538,517

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
1/7/14	Opening balance	400,811,556		2,538,517
Various	Shares issued following exercise of employee options	590,000	Various	9,983
Various	Transfers from equity remuneration reserve	-		949
31/12/14	Closing balance	401,401,556		2,549,449

Movements in other equity securities:

Date	Details	Number of shares	\$'000
1/7/14	Opening balance	-	-
14/10/14	Acquisition of treasury shares	(5,902)	(100)
31/12/14	Closing balance	(5,902)	(100)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 8 Receivables

Certain regional funding bodies ("KVs") in Germany short paid quarterly billing up to the September 2012 quarter, after which the statutory insurance payment system moved to a national funding structure. As at 31 December 2014 Sonic is carrying ~€15M in debtors in relation to these short payments. Sonic is pursuing recovery of these debtors and legal advice supports full recoverability as the short payments are considered illegal, and this view is supported by a number of the other regional KVs.

Note 9 Unlisted share options and performance rights

Exercise Price	Expiry Date	Balance at 1.7.14	Exercised	Granted	Forfeited	Expired	Balance at 31.12.14
\$10.57	10/04/2015	307,500	(217,500)	-	-	-	90,000
\$11.13	03/01/2016	315,000	(72,500)	-	-	-	242,500
\$11.43	18/11/2016	1,341,058	-	-	(756,652)	-	584,406
\$11.14	20/12/2016	600,000	(300,000)	-	-	-	300,000
\$11.14	07/03/2017	500,000	-	-	-	-	500,000
\$11.43	18/11/2017	1,302,250	-	-	-	-	1,302,250
\$15.43	18/10/2018	400,000	-	-	-	-	400,000
\$11.43	18/11/2018	1,705,263	-	-	-	-	1,705,263
\$15.21	13/12/2018	600,000	-	-	-	-	600,000
\$11.14	07/03/2019	1,000,000	-	-	-	-	1,000,000
\$12.57	02/07/2019	125,000	-	-	-	-	125,000
\$17.32	27/11/2019	-	-	706,108	-	-	706,108
Performance Rights	01/10/2015	-	-	1,593	-	-	1,593
Performance Rights	18/11/2016	141,732	-	-	(82,205)	-	59,527
Performance Rights	18/11/2017	141,732	-	-	-	-	141,732
Performance Rights	18/11/2018	188,976	-	-	-	-	188,976
Performance Rights	27/11/2019	-	-	100,085	-	-	100,085
		8,668,511	(590,000)	807,786	(838,857)	-	8,047,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 10	Reserves	31.12.14	31.12.13
		\$'000	\$'000
	Foreign currency translation reserve	9,339	(16,048)
	Hedging reserve	-	(578)
	Equity remuneration reserve	(39,510)	(37,129)
	Share option reserve	16,427	16,427
	Revaluation reserve	3,272	3,272
	Transactions with minority interests	(23,905)	(20,457)
		(34,377)	(54,513)
Movements			
<i>Foreign currency translation reserve</i>			
	Balance 1 July	(79,758)	(103,782)
	Net exchange movement on translation of foreign subsidiaries	89,097	87,734
	Balance	9,339	(16,048)
<i>Hedging reserve</i>			
	Balance 1 July	(164)	(1,714)
	Revaluation (net of deferred tax)	(30)	(227)
	Transfer to net profit (net of deferred tax)	194	1,363
	Balance	-	(578)
<i>Equity remuneration reserve</i>			
	Balance 1 July	(36,284)	(5,323)
	Share based payments expense	1,258	1,231
	Employee share scheme issue	(3,535)	(18,026)
	Transfer to share capital (options exercised)	(949)	(15,011)
	Balance	(39,510)	(37,129)
<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	(23,434)	(20,011)
	Transactions with minority interests in period	-	1,301
	Net exchange movement	(471)	(1,747)
	Balance	(23,905)	(20,457)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2014

Note 11	Net asset backing	<u>31.12.14</u>	<u>30.6.14</u>
	Net tangible asset backing per ordinary security	<u>(\$2.81)</u>	<u>(\$2.43)</u>
	Net asset backing per ordinary security	<u>\$8.01</u>	<u>\$7.76</u>

Note 12 **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 24 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 2014 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.



R.P. Campbell
Chairman



Dr C.S. Goldschmidt
Director

Sydney
17 February 2015



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 2014, the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, selected explanatory notes and the Directors' Declaration for the Sonic Healthcare Limited Group (the consolidated entity). The consolidated entity comprises both 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 (including the Australian Accounting Interpretations) 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 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 2014 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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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:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink that appears to read 'Mark Dow' in a cursive, flowing script.

Mark Dow
Partner

Sydney
17 February 2015