Sonic Healthcare Limited

ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2013

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2013 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2013

Financial Results $'000	Six months ended 31.12.13 Statutory	% Change
Revenue from ordinary activities	**1,898,659**	**Up 11.9%**
Profit after tax from ordinary activities attributable to members	**177,313**	**Up 17.7%**

Dividends Cents per share	2014	2013	% Change
Interim dividend	**27¢**	25¢	**Up 8.0%**
Interim dividend franked amount per security	**12.15¢**	11.25¢	

The record date for determining entitlements to the interim dividend will be 6 March 2014. The interim dividend will be paid on 25 March 2014. The 2014 interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan (DRP) remains suspended until further notice.

$'000	Six months ended 31.12.13 Constant Currency*	Six months ended 31.12.13 Statutory	Six months ended 31.12.12	% Change 31.12.13 Constant Currency v 31.12.12	% Change 31.12.13 Statutory v 31.12.12
Revenue	**1,771,728**	**1,898,659**	1,697,326	**4.4%**	**11.9%**
Earnings before interest, tax, depreciation and intangibles amortisation (**EBITDA**) pre USA 'cost-out' implementation costs	**322,401**	**346,451**	303,710	6.2%	14.1%
USA 'cost-out' implementation costs	**(1,801)**	**(2,029)**	-		
EBITDA	**320,600**	**344,422**	303,710	5.6%	13.4%
Depreciation and lease amortisation	**(57,000)**	**(60,455)**	(55,813)	2.1%	8.3%
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**263,600**	**283,967**	247,897	6.3%	14.6%
Amortisation of intangibles	**(16,547)**	**(17,414)**	(12,930)	28.0%	34.7%
Net interest expense	**(27,045)**	**(31,186)**	(32,630)	(17.1)%	(4.4)%
Income tax attributable to operating profit	**(53,113)**	**(56,111)**	(48,605)	9.3%	15.4%
Net (profit) attributable to minority interests	**(1,766)**	**(1,943)**	(3,102)		
Net profit attributable to shareholders of Sonic Healthcare Limited	**165,129**	**177,313**	150,630	**9.6%**	**17.7%**
Cash generated from operations (Refer Note 2(h))		**240,009**	222,379		7.9%
Earnings per share Cents per share					
Basic earnings per share	**41.3¢**	**44.4¢**	38.3¢	7.8%	15.9%
Diluted earnings per share	**41.0¢**	**44.1¢**	38.0¢	7.9%	16.1%

* 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 2013

1. Summary

- Double digit revenue and earnings growth.
- Margin expansion of 25 basis points reflecting cost-out initiatives and achievement of synergies.
- On track to achieve full year guidance provided in August 2013.
- Currency movements augmenting reported results.
- Interim dividend increased by 8%.
- Ongoing focus on synergy capture and cost-control.
- Synergistic acquisition of Labco Germany completed 2 December 2013.
- Lower interest expense expected in 2014.
- Business secure and growing.

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 2013 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) to facilitate 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:

	31.12.13 Statutory	31.12.12 and Constant Currency
AUD/USD	0.9220	1.0389
AUD/EUR	0.6866	0.8160
AUD/GBP	0.5821	0.6523
AUD/CHF	0.8459	0.9838
AUD/NZD	1.1346	1.2731

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 and debt is repaid 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 2013

2. Explanation of results (continued)

(b) Revenue

Total revenue growth for the half year was 4.4% at Constant Currency exchange rates (i.e. applying the average rates for the six months ended 31.12.12 to the current period results) and 11.9% including exchange rate impacts.

Revenue breakdown AUD M	**Six months ended 31.12.13 Statutory Revenue**	**% of 31.12.13 Statutory Revenue**	**Six months ended 31.12.13 Constant Currency Revenue**	**Six months ended 31.12.12 Revenue**	**Growth 31.12.13 Constant Currency v 31.12.12**
Pathology – Australia	563	30%	563	520	8.3%
Pathology – USA	411	22%	365	367	(0.5)%
Pathology – Europe	516	27%	439	422	4.0%
Pathology – NZ	22	1%	19	20	(5.0)%
Imaging – Australia and NZ	209	11%	208	203	2.5%
Medical centres and occupational health (IPN) – Australia	177	9%	177	164	7.9%
Revenue excluding interest income	1,898	100%	1,771	1,696	4.4%
Interest income	1		1	1	
Total revenue	1,899		1,772	1,697	

Sonic's Australian Pathology organic revenue growth of 7% was very strong given the approximate 1.1% Medicare fee cut from 1 January 2013, driven by Sonic's strong brands and market positioning. The organic growth was augmented by the acquisition of the Healthscope Western Australian (October 2012) and ACT (March 2013) pathology businesses (~1.3% impact).

Organic revenue growth in the USA was flat due to Medicare fee cuts in January and April 2013 and the weak economic environment, and was consistent with the organic growth rate of Sonic's major competitors in the USA market. Volume growth was 1.4% per working day for the half year, impacted in December by extreme weather.

Sonic's European operations experienced strong organic revenue growth in the UK (10%) and Switzerland (11%), with German organic growth (2%) hampered by fee adjustments in the form of national "fee quotas" applied to statutory insurance revenue (which represents just less than 50% of Sonic's German revenue). 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. A subsequent annual indexation fee increase of approximately 1% took effect from 1 January 2014. The Labco Germany acquisition on 2 December 2013 made a small contribution to European revenues in the half.

Imaging revenue growth was impacted by the sale of Sonic's Palmerston North X-ray practice on 1 November 2012. Sonic's Australian Imaging business grew revenue by 5% organically.

Sonic's medical centre and occupational health business ("IPN"), achieved strong revenue growth through a combination of organic growth in existing medical centres (backed by successful doctor recruitment strategies) and small acquisitions.

Revenue was impacted by currency exchange rate movements, which increased reported (Statutory) revenue by A$127M compared to the comparative period.

COMMENTARY ON RESULTS
For the half year ended 31 December 2013

2. Explanation of results (continued)

(c) EBITDA

EBITDA grew 5.6% at Constant Currency exchange rates versus the comparative period. The equivalent margin expanded by 25 bps over the comparative period. These results were achieved through organic revenue growth and cost reduction initiatives.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 2.1% 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 17.1% (A$5.6M) on the prior year (at Constant Currency rates) due to lower margins on debt facilities and the expiry of interest rate hedges which were at higher historical 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 2013

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 31 December 2013 comprised:

	Facility Limit M	Drawn M	AUD $M Available
Notes held by US investors – USD	US$500	US$500	-
Bank debt facilities			
- USD limits	US$409	US$409	-
- Euro limits	€633	€633	-
- GBP limits	£40	£40	-
- AUD (Multicurrency) limits	A$344	A$79+	265
Minor debt/leasing facilities	n/a	A$9*	-
Cash	n/a	A$(229)*	229
Available funds at 31 December 2013			494

+ Drawn in USD and EUR
* Various currencies

Sonic's credit metrics at 31 December 2013 were as follows:

	31.12.13	30.6.13
Gearing ratio	38.5%	37.3%
Interest cover (times)	9.4	8.6
Debt cover (times)	2.4	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
2014 (March)	165	259	62	-
2015	179	-	186	-
2016	-	75	190	40
2017	-	170	195	-
2020	-	155	-	-
2021	-	250	-	-
	344	909	633	40

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 well progressed with the refinancing of the debt tranches expiring in March 2014 and foresees no difficulties with completing this, and in any case has significant available funding/headroom in other facilities.

COMMENTARY ON RESULTS
For the half year ended 31 December 2013

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate of 23.8% is in line with the comparative period and slightly better than the guidance provided in August 2013 of approximately 25%.

(h) Cashflow

Cash generated from operations increased 7.9% on the comparative period. Cash receipts from debtors were strong in the period, however timing of creditor payments caused cash generated to represent 95% of EBITDA, versus 100% in the comparative period.

Payments for property, plant and equipment disclosed in the Statement of Cash Flows include $17.3M spent on laboratory buildings; mainly the new laboratory facility in Perth.

(i) Full year (2014) guidance

Sonic gave full year guidance in August 2013 of EBITDA growth of approximately 5% over the 2013 level of A$647M, on a Constant Currency basis (applying 2013 average currency exchange rates to 2014). After seven months of trading the Company is on track to achieve this guidance. The Labco Germany acquisition is expected to add a further approximate 0.5% to EBITDA growth (7 months earnings less acquisition costs).

2014 net interest expense is expected to decrease by approximately 15% from the 2013 level of A$63M on a constant currency basis.

Sonic’s effective tax rate for 2014 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 2013 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 2013.

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
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 11.9% to $1,898,659,000 reflecting organic growth, currency impacts and a number of synergistic business acquisitions during the current and prior year.

Net profit increased 17.7% to $177,313,000 as a result of earnings and margins growth and lower interest costs.

Diluted earnings per share ("EPS") increased 16.1%.

Summary of the operations:

- Double digit revenue and earnings growth.
- Margin expansion of 25 basis points reflecting cost-out initiatives and achievement of synergies.
- On track to achieve full year guidance provided in August 2013.
- Currency movements augmenting reported results.
- Interim dividend increased by 8%.
- Ongoing focus on synergy capture and cost-control.
- Synergistic acquisition of Labco Germany completed 2 December 2013.
- Lower interest expense expected in 2014.
- Business secure and growing.

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 2013 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
18 February 2014

Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half year ended 31 December 2013, 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.

Mark Dow
Partner

Sydney
18 February 2014

PricewaterhouseCoopers

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CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2013

	Notes	Six months ended 31.12.13 $'000	Six months ended 31.12.12 $'000
Revenue from operations		**1,898,659**	1,697,326
Labour and related costs (including $1,231,000 (2013: $1,834,000) of equity remuneration expense)		**(877,882)**	(790,393)
Consumables used		**(284,643)**	(255,987)
Operating lease rental expense		**(109,432)**	(93,304)
Depreciation and amortisation of physical assets		**(60,455)**	(55,813)
Transportation		**(51,750)**	(45,158)
Utilities		**(45,034)**	(41,731)
Repairs and maintenance		**(42,947)**	(39,831)
Borrowing costs expense		**(32,660)**	(33,996)
Amortisation of intangibles		**(17,414)**	(12,930)
Other expenses from ordinary activities (including $514,000 (2013: $1,928,000) of acquisition related costs)		**(141,075)**	(125,846)
Profit from ordinary activities before income tax expense		**235,367**	202,337
Income tax expense		**(56,111)**	(48,605)
Profit from ordinary activities after income tax expense		**179,256**	153,732
Net profit attributable to minority interests		**(1,943)**	(3,102)
Profit attributable to members of Sonic Healthcare Limited		**177,313**	150,630
Basic earnings per share (cents per share)	4	**44.4**	38.3
Diluted earnings per share (cents per share)	4	**44.1**	38.0

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2013

	Six months ended 31.12.13 $'000	Six months ended 31.12.12 $'000
Profit from ordinary activities after income tax expense	**179,256**	153,732
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**88,075**	12,179
Cash flow hedges	**1,136**	1,730
Items that will not be reclassified to profit or loss		
Actuarial gains on retirement benefit obligations	**-**	795
Other comprehensive income for the period, net of tax	**89,211**	14,704
Total comprehensive income for the period	**268,467**	168,436
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	**264,436**	164,781
Minority interests	**4,031**	3,655
	268,467	168,436

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2013

	Notes	31.12.13 $'000	30.6.13 $'000
Current assets			
Cash assets and cash equivalents		**229,318**	219,729
Receivables		**552,435**	536,446
Inventories		**69,477**	61,595
Other		**42,481**	34,695
Total current assets		**893,711**	852,465
Non current assets			
Receivables		**6,137**	2,982
Other financial assets		**74,782**	64,357
Property, plant and equipment		**692,883**	658,727
Intangible assets		**4,181,623**	3,913,374
Deferred tax assets		**28,672**	26,303
Other		**26**	18
Total non current assets		**4,984,123**	4,665,761
Total assets		**5,877,834**	5,518,226
Current liabilities			
Payables		**305,946**	306,741
Interest bearing liabilities		**524,998**	521,225
Current tax liabilities		**36,341**	44,943
Provisions		**146,286**	146,563
Other financial liabilities (interest rate hedging)		**826**	2,665
Other		**2,651**	2,502
Total current liabilities		**1,017,048**	1,024,639
Non current liabilities			
Interest bearing liabilities		**1,632,384**	1,437,352
Deferred tax liabilities		**83,414**	74,145
Provisions		**44,983**	41,875
Other		**24,069**	22,114
Total non current liabilities		**1,784,850**	1,575,486
Total liabilities		**2,801,898**	2,600,125
Net assets		**3,075,936**	2,918,101
Equity			
Parent entity interest			
Contributed equity	7	**2,537,188**	2,468,102
Reserves	10	**(54,513)**	(111,131)
Retained earnings		**567,170**	537,913
Total parent entity interest		**3,049,845**	2,894,884
Minority interests		**26,091**	23,217
Total equity		**3,075,936**	2,918,101

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2013

	Six months ended 31.12.13 $'000	Six months ended 31.12.12 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**1,931,733**	1,734,586
Payments to suppliers and employees (inclusive of goods and services tax)	**(1,603,713)**	(1,430,161)
Gross operating cash flow	**328,020**	304,425
Interest received	**1,474**	1,366
Borrowing costs	**(29,850)**	(31,027)
Income taxes paid	**(59,635)**	(52,385)
Net cash inflow from operating activities	**240,009**	222,379
Cash flows from investing activities		
Payment for purchase of controlled entities and investments, net of cash acquired	**(115,834)**	(31,335)
Payments for property, plant and equipment	**(83,277)**	(72,911)
Proceeds from sale of non current assets	**14,922**	22,845
Payments for intangibles	**(29,012)**	(21,739)
Repayment of loans by other entities	**1,930**	2,365
Loans to other entities	**(3,078)**	(1,427)
Net cash (outflow) from investing activities	**(214,349)**	(102,202)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related costs)	**36,049**	18,532
Proceeds from borrowings	**718,715**	103,819
Repayment of borrowings	**(637,342)**	(125,927)
Dividends paid to Company's shareholders (net of Dividend Reinvestment Plan)	**(148,056)**	(100,544)
Dividends paid to minority interests in controlled entities	**(2,252)**	(3,325)
Net cash (outflow) from financing activities	**(32,886)**	(107,445)
Net (decrease)/increase in cash and cash equivalents	**(7,226)**	12,732
Cash and cash equivalents at the beginning of the financial period	**219,729**	168,594
Effects of exchange rate changes on cash and cash equivalents	**16,815**	1,612
Cash and cash equivalents at the end of the financial period	**229,318**	182,938

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 2013

	Share capital $'000	Reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total $'000
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
Balance at 1 July 2012	2,379,525	(229,478)	439,454	2,589,501	20,698	2,610,199
Profit for the period	-	-	150,630	150,630	3,102	153,732
Other comprehensive income for the period	-	13,356	795	14,151	553	14,704
Total comprehensive income for the period	-	13,356	151,425	164,781	3,655	168,436
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(137,427)	(137,427)	-	(137,427)
Shares issued	65,597	(10,183)	-	55,414	-	55,414
Transaction costs on shares issued net of tax	(72)	-	-	(72)	-	(72)
Transfers to share capital	7,345	(7,345)	-	-	-	-
Share based payments	-	1,834	-	1,834	-	1,834
Dividends paid to minority interests in controlled entities	-	-	-	-	(3,306)	(3,306)
Balance at 31 December 2012	2,452,395	(231,816)	453,452	2,674,031	21,047	2,695,078

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 2013

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2013 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 2013 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, except as outlined below.

New standards and change in accounting policy

Sonic has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, effective as of 1 July 2013.

AASB 10 Consolidated Financial Statements
AASB 10 introduces a single definition of control that applies to all entities. The standard focuses on the need to have both power and rights or exposure to variable returns for control to be established. The Group reassessed the control conclusion for its investees at 1 July 2013 and there have been no changes.

AASB 13 Fair Value Measurement
AASB 13 establishes a single source of guidance under IFRS for all fair value measurements. AASB 13 does not change when any entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of AASB 13 has not materially impacted the fair value measures carried out by the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Working capital deficiency

Sonic is required to disclose $518M of debt drawn under bank debt facilities which expire in March 2014 as a current liability as at 31 December 2013. As a result the Consolidated Balance Sheet shows a deficiency of working capital of $123M. 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 majority of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

Note 2 Segment information (continued)

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) Radiology
Radiology and diagnostic imaging services provided in Australia and New Zealand.

(iii) Other
Includes the corporate office function, medical centre operations, occupational health operations and other minor operations.

Half Year ended 31 December 2013	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Segment revenue (Constant Currency)	1,386,941	208,003	179,945	(4,635)	1,770,254
Currency exchange movement	126,059	872	-	-	126,931
Segment revenue (Statutory)	**1,513,000**	**208,875**	**179,945**	**(4,635)**	**1,897,185**
Interest income					1,474
Total revenue					**1,898,659**
Segment EBITA (Constant Currency)	227,728	26,134	9,738	-	263,600
Currency exchange movement	20,336	31	-	-	20,367
Segment EBITA (Statutory)	**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**

Half Year ended 31 December 2012	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Segment revenue	1,329,525	203,277	167,286	(4,128)	1,695,960
Interest income					1,366
Total revenue					1,697,326
Segment EBITA	215,763	27,971	4,163	-	247,897
Amortisation expense					(12,930)
Unallocated net interest expense					(32,630)
Profit before tax					202,337
Income tax expense					(48,605)
Profit after income tax expense					153,732
Depreciation & lease amortisation expense	32,942	15,212	7,659	-	55,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

	Six months ended 31.12.13 $'000	Six months ended 31.12.12 $'000
Note 3 Dividends		
Dividends paid during the half year	**148,056**	137,427
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 27 cents (2013: 25 cents) franked to 45% (2013: 45%).		
The dividend was declared on 17 February 2014 and is payable on 25 March 2014 with a record date of 6 March 2014. The interim dividend includes no conduit foreign income.		
Based on the number of shares on issue at 18 February 2014 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:	**108,202**	99,039

	Six months ended 31.12.13 Cents	Six months ended 31.12.12 Cents
Note 4 Earnings per share		
Basic earnings per share	**44.4**	38.3
Diluted earnings per share	**44.1**	38.0

	Six months ended 31.12.13 Shares	Six months ended 31.12.12 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	**399,480,428**	393,515,765
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**402,410,393**	396,121,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

Note 5 Business combinations

Acquisitions of subsidiaries/business assets in the period included:

- German pathology business Labdiagnostik (previously known as Labco Germany) on 2 December 2013.
- A number of small businesses acquired by IPN.

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	**114,729**
Less: Cash of entities acquired	**(4,489)**
	110,240
Deferred consideration	**944**
Total consideration	**111,184**
Carrying value of identifiable net assets of subsidiaries acquired:	
Debtors & other receivables	**12,665**
Prepayments	**1,360**
Inventory	**1,412**
Property, plant & equipment	**6,380**
Identifiable intangibles	**2,140**
Trade creditors	**(3,511)**
Sundry creditors & accruals	**(5,253)**
Provisions	**(1,928)**
	13,265
Goodwill	**97,919**

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 $514,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is $12,665,000. The gross contractual amount due is $13,023,000, of which $358,000 is expected to be uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

Note 6 Goodwill

	31.12.13 $'000	30.6.13 $'000
Cost	**3,960,986**	3,702,581
Accumulated impairment	**(97,916)**	(89,866)
Net book amount	**3,863,070**	3,612,715
Opening cost	**3,702,581**	3,371,871
Acquisition of businesses	**97,919**	46,243
Disposal of business	**-**	(3,341)
Foreign exchange movements	**160,486**	287,808
Closing cost	**3,960,986**	3,702,581
Opening accumulated impairment	**(89,866)**	(83,313)
Foreign exchange movements	**(8,050)**	(6,553)
Closing accumulated impairment	**(97,916)**	(89,866)

Note 7 Contributed equity

	31.12.13 Shares	30.6.13 Shares	31.12.13 $'000	30.6.13 $'000
Share capital				
Fully paid ordinary shares	**400,733,556**	397,158,181	**2,537,188**	2,468,102

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1/7/13	Opening balance	397,158,181		2,468,102
Various	Shares issued following exercise of employee options	3,575,375	Various	54,075
Various	Transfers from equity remuneration reserve	-		15,011
31/12/13	Closing balance	400,733,556		2,537,188

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 2013 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

Note 9 Unlisted share options and performance rights

Exercise Price	Expiry Date	Balance at 1.7.13	Exercised	Granted	Forfeited	Expired	Balance at 31.12.13
$7.50	22/08/2013	1,540,000	(1,540,000)	-	-	-	-
$12.98	22/11/2013	1,068,375	(1,068,375)	-	-	-	-
$11.10	27/01/2014	787,500	(774,500)	-	-	-	13,000
$10.57	10/04/2015	540,000	(192,500)	-	-	-	347,500
$11.13	03/01/2016	340,000	-	-	-	-	340,000
$11.43	18/11/2016	1,341,058	-	-	-	-	1,341,058
$11.14	20/12/2016	600,000	-	-	-	-	600,000
$11.14	07/03/2017	500,000	-	-	-	-	500,000
$11.43	18/11/2017	1,302,250	-	-	-	-	1,302,250
$11.43	18/11/2018	1,705,263	-	-	-	-	1,705,263
$11.14	07/03/2019	1,000,000	-	-	-	-	1,000,000
$12.57	02/07/2019	300,000	-	-	-	-	300,000
$14.50	09/08/2020	-	-	100,000	-	-	100,000
$15.43	18/10/2018	-	-	400,000	-	-	400,000
$15.21	13/12/2018	-	-	600,000	-	-	600,000
$15.21	13/12/2020	-	-	100,000	-	-	100,000
Performance Rights	18/11/2016	141,732	-	-	-	-	141,732
Performance Rights	18/11/2017	141,732	-	-	-	-	141,732
Performance Rights	18/11/2018	188,976	-	-	-	-	188,976
		11,496,886	(3,575,375)	1,200,000	-	-	9,121,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

Note 10 Reserves

	31.12.13 $'000	31.12.12 $'000
Foreign currency translation reserve	**(16,048)**	(224,767)
Hedging reserve	**(578)**	(3,288)
Equity remuneration reserve	**(37,129)**	(5,571)
Share option reserve	**16,427**	16,427
Revaluation reserve	**3,272**	3,272
Transactions with minority interests	**(20,457)**	(17,889)
	(54,513)	(231,816)

Movements

	31.12.13 $'000	31.12.12 $'000
Foreign currency translation reserve		
Balance 1 July	**(103,782)**	(236,831)
Net exchange movement on translation of foreign subsidiaries	**87,734**	12,064
Balance	**(16,048)**	(224,767)
Hedging reserve		
Balance 1 July	**(1,714)**	(5,018)
Revaluation (net of deferred tax)	**(227)**	1,735
Transfer to net profit (net of deferred tax)	**1,363**	(5)
Balance	**(578)**	(3,288)
Equity remuneration reserve		
Balance 1 July	**(5,323)**	10,123
Share based payments expense	**1,231**	1,834
Employee share scheme issue	**(18,026)**	(10,183)
Transfer to share capital (options exercised)	**(15,011)**	(7,345)
Balance	**(37,129)**	(5,571)
Share option reserve		
Balance 1 July	**16,427**	16,427
Movement in period	**-**	-
Balance	**16,427**	16,427
Revaluation reserve		
Balance 1 July	**3,272**	3,272
Movement in period	**-**	-
Balance	**3,272**	3,272
Transactions with minority interests		
Balance 1 July	**(20,011)**	(17,451)
Transactions with minority interests in period	**1,301**	-
Net exchange movement	**(1,747)**	(438)
Balance	**(20,457)**	(17,889)

Note 11 Net asset backing

	31.12.13	30.6.13
Net tangible asset backing per ordinary security	**($2.76)**	($2.51)
Net asset backing per ordinary security	**$7.68**	$7.35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2013

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 2013 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
18 February 2014

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, which comprises the Balance Sheet as at 31 December 2013, and the Income Statement, the Statement of Comprehensive Income, Statement of Changes in Equity and 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 Sonic Healthcare Limited (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 Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 2013 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 2013 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.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
18 February 2014