

Sonic Healthcare Limited
ABN 24 004 196 909

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2017
Lodged with the ASX under Listing Rule 4.3A

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the year ended 30 June 2017

Financial Results	2017		% Change
\$'000	Statutory		
Revenue from ordinary activities	5,122,143		1.4%
Profit after tax from ordinary activities attributable to members	427,773		(5.2)%
Dividends	2017	2016	% Change
Final dividend (cents per share)	46¢	44¢	Up 4.5%
Final dividend franked amount per security	9.20¢	13.20¢	
Interim dividend (cents per share)	31¢	30¢	Up 3.3%
Interim dividend franked amount per security	6.20¢	9.00¢	

The final dividend is scheduled to be paid on 11 October 2017 to shareholders registered as at close of business on 11 September 2017 (the record date). The 2017 final 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 14 September 2017 and concluding on 27 September 2017 (inclusive).

Financial Results				% Change	
\$'000				2017	2017
	2017	2017	2016	Constant	2017
	Constant	Statutory	Statutory	Currency¹	Statutory
	Currency¹			v 2016	v 2016
				Statutory	Statutory
Revenue	5,307,562	5,122,143	5,052,486		1.4%
Less: Non-recurring gain on property sales	-	-	(34,766)		
Underlying Revenue²	5,307,562	5,122,143	5,017,720	5.8%	2.1%
Underlying EBITDA²	922,829	888,722	876,298	5.3%	1.4%
Non-recurring gain on property sales	-	-	34,766		
Non-recurring expense items	(20,708)	(20,163)	(30,660)		
EBITDA³	902,121	868,559	880,404		
Depreciation and lease amortisation	(178,041)	(172,447)	(165,224)	7.8%	
EBITA	724,080	696,112	715,180		
Amortisation of intangibles	(56,400)	(55,126)	(54,528)	3.4%	
Net interest expense	(68,066)	(65,243)	(63,007)	8.0%	
Income tax expense	(138,190)	(133,323)	(131,644)	5.0%	
Net (profit) attributable to minority interests	(16,448)	(14,647)	(14,627)		
Net profit attributable to Sonic shareholders	444,976	427,773	451,374	(1.4)%	(5.2)%
Add: Non-recurring items after tax (net)	14,497	14,130	(11,163)		
Underlying Net Profit²	459,473	441,903	440,211	4.4%	0.4%
Cash generated from operations (Refer Note 2(h))		736,365	707,708		4.0%
Earnings per share					
Basic earnings per share (cents per share)		102.7¢	110.0¢		
Diluted earnings per share (cents per share)	106.2¢	102.1¢	109.3¢	(2.8)%	(6.6)%
Underlying earnings per share (cents per share) ²	109.7¢		106.6¢	2.9%	

¹ For an explanation of "Constant Currency" refer to 2(a) in the Commentary on Results.

² Underlying Revenue, EBITDA, Net Profit and Earnings Per Share = Revenue, EBITDA, Net Profit and Earnings Per Share adjusted to remove the impact of non-recurring items (after tax for Net Profit and Earnings Per Share) in the current and/or previous year.

³ EBITDA = Earnings before interest, tax, depreciation and intangibles amortisation.

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

COMMENTARY ON RESULTS For the year ended 30 June 2017

1. Headlines

- FY2017 result in line with previous guidance: underlying EBITDA growth of 5.3% (Constant Currency)
- Underlying revenue growth of 5.8% (Constant Currency)
- Underlying net profit growth 4.4% (Constant Currency)
- Final dividend up 4.5% (full year up 4.1%)
- Strong cash generation: 103% conversion of EBITDA to gross operating cash flow
- Strong earnings growth in Sonic's Laboratory and Imaging divisions
- Accretive acquisitions and hospital laboratory joint ventures to augment ongoing strong organic 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 year to 30 June 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 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 comparative 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:

	2017 Statutory	2016 and Constant Currency
AUD/USD	0.7544	0.7285
AUD/EUR	0.6921	0.6564
AUD/GBP	0.5951	0.4921
AUD/CHF	0.7476	0.7137
AUD/NZD	1.0586	1.0903

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 year ended 30 June 2017

2. Explanation of results (continued)

(b) Revenue

Total revenue growth for the year was 5.0% (or 5.8% excluding the non-recurring gain on sale of properties in FY2016) at Constant Currency exchange rates (i.e. applying the average rates for the 2016 year to the current year results) and 1.4% including exchange rate impacts.

Revenue breakdown

AUD M

	2017 Statutory Revenue	% of 2017 Statutory Revenue	2017 Constant Currency Revenue	2016 Revenue	Growth 2017 Constant Currency v 2016
Laboratory - Australia	1,320	26%	1,320	1,254	5.3%
Laboratory - USA	1,106	22%	1,145	1,088	5.2%
Laboratory - Europe	1,803	35%	1,950	1,815	7.4%
Laboratory - NZ	25	<1%	25	26	(3.8)%
Imaging - Australia	442	9%	442	421	5.0%
Other	423	8%	423	409	3.4%
Revenue - underlying	5,119	100%	5,305	5,013	5.8%
Non-recurring gain on property sale	-		-	35	
Interest income	3		3	4	
Total revenue	5,122		5,308	5,052	5.0%

The Laboratory division enjoyed revenue growth of 6% in the year (on a Constant Currency basis), including ~4% organic revenue growth.

Sonic's Australian Laboratory revenue growth of 5% included ~1% relating to an acquisition in South Australia completed in the prior year. Sonic's growth was significantly stronger than the Medicare market data (2.5%), driven by Sonic's brands and market positioning.

US organic revenue growth was ~3% on a Constant Currency basis, the highest level for several years. Sonic's largest US business, CPL (based in Texas), continues to grow strongly.

Sonic's European operations experienced strong revenue growth, including in Switzerland (~5% organic growth) and Germany (~5% organic growth). Belgian growth of ~1% was adversely impacted by recent fee changes. UK organic growth was ~4%.

Imaging revenue growth of 5% included ~1% relating to a small acquisition in NSW.

Revenue growth for Sonic's occupational health business (Sonic HealthPlus) was subdued due to the downturn in employment in the resources sector. Revenue growth of Sonic's medical centre business (IPN) was impacted by the Medicare rebate freeze, with fee indexation to be reintroduced progressively over the next few years.

Revenue was impacted by currency exchange rate movements, which decreased reported (Statutory) revenue by A\$185M compared to the prior year.

COMMENTARY ON RESULTS
For the year ended 30 June 2017

2. Explanation of results (continued)

(c) EBITDA

Underlying EBITDA (pre non-recurring items) grew 5.3% (at Constant Currency exchange rates) versus the prior year. The A\$20.7M of non-recurring items in FY2017 related to acquisitions, restructuring and laboratory relocations which occurred in the year.

In the previous year non-recurring items included a gain of A\$34.8M on the sale and lease back of two Australian laboratory properties (Melbourne and Perth), as well as \$30.7M of expenses related to acquisitions, restructuring and laboratory relocations.

Both the Laboratory and Imaging divisions reported strong underlying EBITDA growth (8% and 7% respectively) and margin accretion (25 and 30 basis points respectively). Germany and Switzerland were the strongest performers in the Laboratory division, with Australia returning to earnings growth and margin accretion in 2017, after several years of negative earnings growth.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 7.8% on the comparative period (at Constant Currency rates) as a result of business acquisitions and growth of the Company, including the recent completion of several significant laboratory building projects.

The relatively high levels of capital expenditure on property, plant and equipment in 2017 and 2016 relate to spend on laboratory building projects in London, Brisbane, Hawaii and Ingelheim. Capital expenditure is expected to be significantly lower in 2018.

(e) Intangibles amortisation

Intangibles amortisation relates to software (both internally developed and purchased) and contract costs (including doctor contracts in SCS). Investments in innovative software tools have been made over recent periods, leading to an increase in amortisation expense.

(f) Interest expense and debt 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 risk management arrangements are in place in accordance with Sonic's Treasury Policy.

Net interest expense has increased 8.0% on the prior year (at Constant Currency rates) mainly as a result of:

- Higher margins on Swiss franc (CHF) debt, which in 2016 was drawn from a low margin short term bridge facility. From July 2016 this debt was drawn from a new 5 year CHF bank debt facility.
- Favourable interest swaps which expired in 2016.
- Business acquisitions completed in January 2017.

COMMENTARY ON RESULTS
For the year ended 30 June 2017

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 30 June 2017 comprised:

	Facility Limit M	Drawn M	AUD \$M Available
Notes held by USA investors – USD	US\$405	US\$405	-
Notes held by USA investors – Euro	€355	€355	-
Bank debt facilities			
- USD limits	US\$425	US\$425	-
- Euro limits	€630	€498	196
- AUD (Multicurrency) limits	A\$250	A\$183 ⁺	67
- CHF limits	CHF325	CHF247	106
Minor debt/leasing facilities	n/a	A\$6*	-
Cash	n/a	A\$(438)*	438
Available funds at 30 June 2017			<u>807</u>

The high cash level at 30 June 2017 reflected debt drawn before balance date in preparation for settlement of the Bremen acquisition on the first working day of July 2017.

⁺ Includes debt drawn in GBP (£60M) and USD (US\$63M)

* Various currencies

Sonic's credit metrics at 30 June 2017 were as follows:

	30.6.17	31.12.16	30.6.16
Gearing ratio	38.3%	38.8%	38.0%
Interest cover (times)	10.8	11.3	11.5
Debt cover (times)	2.7	2.6	2.6

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

As at 30 June 2017, Sonic's senior debt facility limits were due to expire as follows (**note that the figures shown are the facility limits, not drawn debt**):

Calendar Year	AUD M	USD M	Euro M	CHF M
2017 (26 October)	200	-	130	-
2018	50	65	230	-
2019	-	230	145	-
2020	-	285	125	-
2021	-	250	-	200
2022	-	-	-	125
2024	-	-	110	-
2026	-	-	245	-
	<u>250</u>	<u>830</u>	<u>985</u>	<u>325</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 intends to refinance the AUD and Euro facilities which expire in October 2017 and foresees no difficulty in doing so based on discussions with existing lenders and approaches from potential new lenders.

COMMENTARY ON RESULTS
For the year ended 30 June 2017

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate of 23% is in line with the prior year but lower than previous guidance of approximately 25% due to an over-provision in the prior year, higher than forecast deductions, including for Australian research and development, and strong earnings performance in lower tax rate jurisdictions (mainly Switzerland).

Corporate income tax rates have recently been reduced in the UK and are proposed to be reduced in Belgium. In the UK, the corporate tax rate reduced from 20% to 19% from 1 April 2017. It has been announced that a further reduction in the UK rate to 17% will occur from 1 April 2020. In Belgium, agreement has been reached to reduce the corporate income tax rate from 33.99% to 29.58% from 1 January 2018 and to 25% from 1 January 2020. The Belgian changes are subject to the enabling legislation being passed in the Belgium Parliament.

(h) Cashflow from operations

Cash generated from operations grew 4.0% over the previous year, significantly higher than earnings growth, due to improvements in working capital. Gross operating cashflow equated to 103% of EBITDA.

3. Guidance for 2018

Sonic expects 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.

Net interest expense is expected 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 likely higher margins on debt facilities to be refinanced in October 2017 and April 2018 (due to market movements). Underlying floating interest rates are assumed to remain at current levels.

The effective tax rate is expected to be approximately 25%.

FULL YEAR REPORT
For the year ended 30 June 2017

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This 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 accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Revenue from operations		5,122,143	5,017,720
Other income		-	34,766
Total		5,122,143	5,052,486
Labour and related costs (including \$3,980,000 (2016: \$1,887,000) of equity remuneration expense)		(2,359,294)	(2,304,796)
Consumables used		(823,008)	(811,666)
Operating lease rental expense		(323,061)	(314,327)
Depreciation and amortisation of physical assets		(172,447)	(165,224)
Repairs and maintenance		(137,321)	(129,723)
Transportation		(125,867)	(129,668)
Utilities		(113,007)	(114,353)
Borrowing costs expense		(68,136)	(67,137)
Amortisation of intangibles		(55,126)	(54,528)
Other expenses from ordinary activities		(369,133)	(363,419)
Profit from ordinary activities before income tax expense		575,743	597,645
Income tax expense		(133,323)	(131,644)
Profit from ordinary activities after income tax expense		442,420	466,001
Net (profit) attributable to minority interests		(14,647)	(14,627)
Profit attributable to members of Sonic Healthcare Limited		427,773	451,374
Basic earnings per share (cents per share)	5	102.7	110.0
Diluted earnings per share (cents per share)	5	102.1	109.3

The above Consolidated Income Statement should be read in conjunction with the accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2017

	2017	2016
	\$'000	\$'000
Profit from ordinary activities after income tax expense	442,420	466,001
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(26,447)	6,636
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gains/(losses) on retirement benefit obligations	9,754	(16,791)
Other comprehensive income for the period, net of tax	(16,693)	(10,155)
Total comprehensive income for the period	425,727	455,846
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	413,039	444,960
Minority interests	12,688	10,886
	425,727	455,846

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Current assets			
Cash assets and cash equivalents		437,617	290,436
Receivables		716,589	703,909
Inventories		96,220	89,052
Other		52,017	53,356
Total current assets		<u>1,302,443</u>	<u>1,136,753</u>
Non-current assets			
Receivables		21,257	21,882
Other financial assets		38,134	56,275
Property, plant and equipment		1,101,890	958,382
Intangible assets		5,381,234	5,158,984
Deferred tax assets		32,044	37,781
Other		1,163	562
Total non-current assets		<u>6,575,722</u>	<u>6,233,866</u>
Total assets		<u>7,878,165</u>	<u>7,370,619</u>
Current liabilities			
Payables		510,486	493,800
Interest bearing liabilities		821,134	475,883
Current tax liabilities		56,602	42,013
Provisions		200,444	186,228
Other		24,982	22,515
Total current liabilities		<u>1,613,648</u>	<u>1,220,439</u>
Non-current liabilities			
Interest bearing liabilities		2,051,888	2,098,800
Deferred tax liabilities		127,709	111,572
Provisions		111,662	127,408
Other		47,128	79,691
Total non-current liabilities		<u>2,338,387</u>	<u>2,417,471</u>
Total liabilities		<u>3,952,035</u>	<u>3,637,910</u>
Net assets		<u>3,926,130</u>	<u>3,732,709</u>
Equity			
Parent entity interest			
Contributed equity	6	2,885,615	2,802,491
Reserves	8	(53,020)	(11,223)
Retained earnings	9	996,791	871,612
Total parent entity interest		<u>3,829,386</u>	<u>3,662,880</u>
Minority interests		96,744	69,829
Total equity		<u>3,926,130</u>	<u>3,732,709</u>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	5,219,266	5,082,370
Payments to suppliers and employees (inclusive of goods and services tax)	(4,322,565)	(4,217,422)
Gross operating cash flow	896,701	864,948
Interest received	2,893	4,130
Borrowing costs	(67,324)	(58,276)
Income taxes paid	(95,905)	(103,094)
Net cash inflow from operating activities	736,365	707,708
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	(267,871)	(475,257)
Payments for property, plant and equipment	(336,903)	(322,418)
Proceeds from sale of non current assets	8,193	92,385
Payments for investments	(3,613)	(3,382)
Payments for intangibles	(72,208)	(71,576)
Repayment of loans by other entities	6,191	6,829
Loans to other entities	(7,281)	(12,818)
Net cash (outflow) from investing activities	(673,492)	(786,237)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)	27,991	91,276
Proceeds from borrowings	1,508,101	877,958
Repayment of borrowings	(1,179,868)	(631,936)
Transaction with non-controlling interest	13,695	13,925
Dividends paid to Company's shareholders	(275,775)	(214,805)
Dividends paid to minority interests in controlled entities	(5,586)	(4,569)
Net cash inflow from financing activities	88,558	131,849
Net increase in cash and cash equivalents	151,431	53,320
Cash and cash equivalents at the beginning of the financial year	290,436	249,393
Effects of exchange rate changes on cash and cash equivalents	(4,250)	(12,277)
Cash and cash equivalents at the end of the financial year	437,617	290,436

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

	Share capital	Reserves	Retained earnings	Total	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	2,802,491	(11,223)	871,612	3,662,880	69,829	3,732,709
Profit for period	-	-	427,773	427,773	14,647	442,420
Other comprehensive income for the period	-	(24,488)	9,754	(14,734)	(1,959)	(16,693)
Total comprehensive income for the period	-	(24,488)	437,527	413,039	12,688	425,727
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(312,348)	(312,348)	-	(312,348)
Shares issued	79,815	(15,204)	-	64,611	-	64,611
Transaction costs on shares issued net of tax	(34)	-	-	(34)	-	(34)
Transfers to share capital	3,450	(3,450)	-	-	-	-
Share based payments	-	3,980	-	3,980	-	3,980
Acquisition of treasury shares	(149)	-	-	(149)	-	(149)
Allocation of treasury shares	42	-	-	42	-	42
Contribution from minority interests	-	-	-	-	21,391	21,391
Acquisition of minority interests	-	(2,635)	-	(2,635)	(1,519)	(4,154)
Dividends paid to minority interests in controlled entities	-	-	-	-	(5,645)	(5,645)
Balance at 30 June 2017	2,885,615	(53,020)	996,791	3,829,386	96,744	3,926,130
Balance at 1 July 2015	2,561,817	(13,634)	725,945	3,274,128	51,870	3,325,998
Profit for period	-	-	451,374	451,374	14,627	466,001
Other comprehensive income for the period	-	10,377	(16,791)	(6,414)	(3,741)	(10,155)
Total comprehensive income for the period	-	10,377	434,583	444,960	10,886	455,846
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(288,916)	(288,916)	-	(288,916)
Shares issued	239,378	(3,978)	-	235,400	-	235,400
Transaction costs on shares issued net of tax	(131)	-	-	(131)	-	(131)
Transfers to share capital	1,396	(1,396)	-	-	-	-
Share based payments	-	1,887	-	1,887	-	1,887
Allocation of treasury shares	31	-	-	31	-	31
Contribution from minority interests	-	-	-	-	12,206	12,206
Acquisition of minority interests	-	(4,479)	-	(4,479)	(619)	(5,098)
Dividends paid to minority interests in controlled entities	-	-	-	-	(4,514)	(4,514)
Balance at 30 June 2016	2,802,491	(11,223)	871,612	3,662,880	69,829	3,732,709

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes, the 2016 Annual Report, the 2016 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

Note 1 Summary of significant accounting policies

This financial report has been prepared in accordance with International Financial Reporting Standards, other authoritative pronouncements and Interpretations of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This 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 2016, the 2016 Annual Financial Statements and any public announcements made by Sonic Healthcare Limited during the 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

Sonic is required to disclose \$821M of debt drawn under facilities which expire before 30 June 2018 as a current liability as at 30 June 2017. As a result the Consolidated Balance Sheet shows a deficiency of working capital of \$311M. Sonic intends to refinance this debt and foresees no difficulty in doing so based on discussions with existing lenders and approaches from potential new lenders. Sonic also has significant headroom available in cash and undrawn facilities. The financial report has therefore been prepared on a "going concern" basis.

Note 2 Segment information

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 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.
- (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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 2 Segment information (continued)

Year ended 30 June 2017	Laboratory \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue (Constant Currency)	4,439,067	441,994	435,794	(12,186)	5,304,669
Currency exchange movement	(185,419)	-	-	-	(185,419)
Segment revenue (Statutory)	4,253,648	441,994	435,794	(12,186)	5,119,250
Interest income					2,893
Total revenue					5,122,143
Segment EBITA (Constant Currency)	674,592	51,928	(2,440)	-	724,080
Currency exchange movement	(27,968)	-	-	-	(27,968)
Segment EBITA (Statutory)	646,624	51,928	(2,440)	-	696,112
Amortisation expense					(55,126)
Unallocated net interest expense					(65,243)
Profit before tax					575,743
Income tax expense					(133,323)
Profit after income tax expense					442,420
Depreciation expense	116,430	29,436	26,581	-	172,447
Year ended 30 June 2016	Laboratory \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue	4,182,101	420,675	456,960*	(11,380)	5,048,356
Interest income					4,130
Total revenue					5,052,486
Segment EBITA	625,124	47,743	42,313*	-	715,180
Amortisation expense					(54,528)
Unallocated net interest expense					(63,007)
Profit before tax					597,645
Income tax expense					(131,644)
Profit after income tax expense					466,001
Depreciation expense	113,600	28,307	23,317	-	165,224

* FY2016 "Other" includes A\$35M non-recurring gain on property sales

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 3 Business combinations

Acquisitions of subsidiaries/business assets in the period included:

- Majority interest in a German laboratory automation technology developer, GLP Systems, on 14 December 2016.
- US laboratory business, West Pacific Medical Laboratory, on 12 January 2017.
- German laboratory business, Staber Laboratory, on 25 January 2017.
- A number of small healthcare businesses.

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. 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	273,550
Less: Cash of entities acquired	<u>(26,596)</u>
	246,954
Deferred consideration	2,321
Consideration - other	<u>20,492</u>
Total consideration	<u>269,767</u>

Carrying value of identifiable net assets of businesses acquired:

Debtors & other receivables	29,422
Prepayments	593
Inventory	7,924
Property, plant & equipment	9,254
Identifiable intangibles	25,409
Deferred tax assets	254
Trade creditors	(19,056)
Sundry creditors & accruals	(5,271)
Current tax liabilities	(113)
Deferred tax liabilities	(1,157)
Provisions	(2,488)
Borrowings	<u>(2,244)</u>
	42,527
Minority interests	<u>(710)</u>
Goodwill	<u>226,530</u>

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. \$26,038,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a fifteen year period.

Acquisition related costs of \$2,045,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is \$29,422,000. The gross contractual amount due is \$30,936,000, of which \$1,514,000 is expected to be uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 4 Dividends

	2017	2016
	\$'000	\$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2016 of 44 cents (2015: 41 cents) per share paid on 27 September 2016 (2015: 22 October 2015), franked to 30% (2015: 55%)	182,963	164,908
Interim dividend for the year ended 30 June 2017 of 31 cents (2016: 30 cents) per share paid on 11 April 2017 (2016: 6 April 2016), franked to 20% (2016: 30%)	129,385	124,008
	312,348	288,916

Dividends not recognised at the end of the year

On 15 August 2017 the directors declared a final dividend of 46 cents per share (2016: 44 cents) franked to 20% (2016: 30%), payable on 11 October 2017 with a record date of 11 September 2017. Based on the number of shares expected to be on issue at the record date, the aggregate amount of the proposed final dividend to be paid out of retained earnings at the end of the year, but not recognised as a liability is:

193,311	182,963
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Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan will operate for the FY2017 final dividend, with a discount of 1.5%. The pricing period for DRP purposes will be 10 trading days starting on 14 September 2017 and concluding on 27 September 2017 (inclusive).

	2017	2016
	Cents	Cents
Note 5 Earnings per share		
Basic earnings per share	102.7	110.0
Diluted earnings per share	102.1	109.3

	2017	2016
	Shares	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	416,726,482	410,405,046
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	418,968,161	412,925,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 6 Contributed equity

	2017 Shares	2016 Shares	2017 \$'000	2016 \$'000
Share capital				
Fully paid ordinary shares	419,195,981	415,089,808	2,885,764	2,802,533
Other equity securities				
Treasury shares	(6,849)	(2,480)	(149)	(42)
	<u>419,189,132</u>	<u>415,087,328</u>	<u>2,885,615</u>	<u>2,802,491</u>

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
1/7/16	Opening balance	415,089,808		2,802,533
11/4/17	Shares issued under the Dividend Reinvestment Plan	1,745,626	\$20.951	36,573
Various	Shares issued following exercise of employee options/rights	2,360,547	Various	43,242
Various	Transfers from equity remuneration reserve	-		3,450
Various	Costs associated with shares issued net of future income tax benefits	-		(34)
30/6/17	Closing balance	<u>419,195,981</u>		<u>2,885,764</u>

Movements in other equity securities:

1/7/16	Opening balance	(2,480)		(42)
25/11/16	On market purchase of Sonic shares	(6,849)		(149)
3/3/17	Allocation of treasury shares	2,480		42
30/6/17	Closing balance	<u>(6,849)</u>		<u>(149)</u>

Note 7 Unlisted share options / performance rights

Exercise Price	Expiry Date	Balance at 1.7.16	Granted	Exercised	Forfeited	Expired	Balance at 30.6.17
\$11.43	18/11/2016	584,406	-	(584,406)	-	-	-
\$11.14	20/12/2016	150,000	-	(150,000)	-	-	-
\$11.43	18/11/2017	651,126	-	-	-	-	651,126
\$11.43	18/11/2018	1,705,263	-	-	(1,108,422)	-	596,841
\$15.43	18/10/2018	320,000	-	(135,000)	-	-	185,000
\$15.21	13/12/2018	600,000	-	(425,000)	(100,000)	-	75,000
\$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
\$18.84	30/11/2019	750,000	-	-	-	-	750,000
\$18.49	20/08/2020	925,000	-	-	-	-	925,000
\$19.41	20/11/2020	766,969	-	-	-	-	766,969
\$19.78	11/10/2020	2,200,000	-	-	(46,667)	-	2,153,333
\$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
Performance Rights	03/10/2017	-	2,480	(2,480)	-	-	-
Performance Rights	18/11/2018	188,976	-	(66,141)	(122,835)	-	-
Performance Rights	27/11/2019	100,085	-	-	-	-	100,085
Performance Rights	20/11/2020	91,988	-	-	-	-	91,988
Performance Rights	17/11/2021	-	87,843	-	-	-	87,843
		<u>10,864,921</u>	<u>1,761,412</u>	<u>(2,363,027)</u>	<u>(1,377,924)</u>	<u>-</u>	<u>8,885,382</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 8	Reserves	2017	2016
		\$'000	\$'000
	Foreign currency translation reserve	21,280	45,790
	Equity remuneration reserve	(62,837)	(48,163)
	Share option reserve	16,427	16,427
	Revaluation reserve	3,272	3,272
	Transactions with minority interests	(31,162)	(28,549)
		(53,020)	(11,223)
Movements			
<i>Foreign currency translation reserve</i>			
	Balance 1 July	45,790	34,818
	Net exchange movement on translation of foreign subsidiaries	(24,510)	10,972
	Balance	21,280	45,790
<i>Equity remuneration reserve</i>			
	Balance 1 July	(48,163)	(44,676)
	Share based payments	3,980	1,887
	Employee share scheme issue	(15,204)	(3,978)
	Transfer to share capital (options exercised)	(3,450)	(1,396)
	Balance	(62,837)	(48,163)
<i>Share option reserve</i>			
	Balance 1 July	16,427	16,427
	Movement	-	-
	Balance	16,427	16,427
<i>Revaluation reserve</i>			
	Balance 1 July	3,272	3,272
	Movement	-	-
	Balance	3,272	3,272
<i>Transactions with minority interests</i>			
	Balance 1 July	(28,549)	(23,475)
	Acquisition of minority interests	(2,635)	(4,479)
	Net exchange movement	22	(595)
	Balance	(31,162)	(28,549)
Note 9			
Retained earnings			
		2017	2016
		\$'000	\$'000
	Retained earnings at the beginning of the financial year	871,612	725,945
	Net profit attributable to members of Sonic Healthcare Limited	427,773	451,374
	Dividends provided for or paid	(312,348)	(288,916)
	Actuarial gains/(losses) on retirement benefit obligations (net of tax)	9,754	(16,791)
	Retained earnings at the end of the financial year	996,791	871,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Note 10 Net asset backing

	<u>2017</u>	<u>2016</u>
Net tangible asset backing per ordinary security	<u>(\$3.47)</u>	<u>(\$3.44)</u>
Net asset backing per ordinary security	<u>\$9.37</u>	<u>\$8.99</u>

Note 11 Events occurring after reporting date

Since the end of the financial year, no matter or circumstance not otherwise dealt with in these financial statements has arisen that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, other than:

- the acquisition on 3 July 2017 of Medical Laboratory Bremen, a laboratory practice in the North West of Germany for an enterprise value of €63M, as announced to the market on 30 January 2017.

Forward-looking statements

This Preliminary Final Report (Appendix 4E) 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.

COMPLIANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Interpretations or other standards acceptable to ASX.

Identify other standards used

NIL

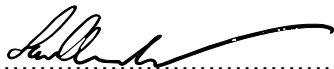
This report, and the accounts upon which the report is based use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has a formally constituted audit committee.

Signed:


.....
(Company Secretary)

Date: 16 August 2017

Print name:

PAUL ALEXANDER