Sonic Healthcare Limited

ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2018

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2018 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2018

Financial Results **$'000**	**Six months ended 31.12.18 Statutory**	**% Change**
Revenue from ordinary activities	**2,900,929**	**8.5%**
Profit after tax from ordinary activities attributable to members	**222,979**	**(2.4)%**

Dividends Cents per share	**2019**	**2018**	**% Change**
Interim dividend	33¢	32¢	**3.1%**
Interim dividend franked amount per security	6.60¢	6.40¢	**3.1%**

The record date for determining entitlements to the interim dividend will be 11 March 2019. The interim dividend will be paid on 26 March 2019. The 2019 interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment has been suspended for this dividend.

$'000	**Six months ended 31.12.18 Constant Currency***	**Six months ended 31.12.18 Statutory**	**Six months ended 31.12.17**	**% Change 31.12.18 Constant Currency v 31.12.17**	**% Change 31.12.18 Statutory v 31.12.17**
Revenue before impact of new accounting standard (AASB 15)	**2,805,158**	**2,905,391**	2,672,703	5.0%	8.7%
Impact of new accounting standard (AASB 15)	**(4,462)**	**(4,462)**	-		
Revenue	**2,800,696**	**2,900,929**	2,672,703	4.8%	**8.5%**
Earnings before interest, tax, depreciation and intangibles amortisation (**EBITDA**) pre non-recurring restructure and acquisition costs and new accounting standard impact (**Underlying EBITDA**)	**466,623**	**484,900**	451,097	3.4%	7.5%
Impact of new accounting standard (AASB 15)	**(4,462)**	**(4,462)**	-		
Non-recurring restructure and acquisition costs	**(8,786)**	**(9,216)**	(5,840)		
EBITDA	**453,375**	**471,222**	445,257		5.8%
Depreciation and lease amortisation	**(97,635)**	**(100,801)**	(94,134)	3.7%	
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**355,740**	**370,421**	351,123		
Amortisation of intangibles	**(29,560)**	**(30,596)**	(31,533)	(6.3)%	
Net interest expense	**(37,241)**	**(39,960)**	(36,484)	2.1%	
Income tax attributable to operating profit	**(70,139)**	**(71,939)**	(48,209)	45.5%	
Net (profit) attributable to minority interests	**(4,771)**	**(4,947)**	(6,347)		
Net profit attributable to Sonic shareholders	**214,029**	**222,979**	228,550		**(2.4)%**
One-off US net tax benefit	**-**	**-**	(20,009)		
Net profit excluding US net tax benefit	**214,029**	**222,979**	208,541	2.6%	6.9%
Cash generated from operations		**368,504**	352,163		4.6%
Earnings per share					
Basic earnings per share (cents per share)	**50.0**	**52.1**	54.3		
Diluted earnings per share (cents per share)	**49.8**	**51.9**	54.1		
Diluted EPS excluding one-off US net tax benefit (cents per share)	**49.8**	**51.9**	49.4	0.8%	5.1%

* 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 2018

1. Summary

- On track after seven months of trading to achieve full year earnings guidance issued in August 2018 (3-5% underlying EBITDA growth, Constant Currency).
- Full-year earnings guidance upgraded to 6-8% underlying EBITDA growth (Constant Currency) to incorporate Aurora Diagnostics acquisition.
- Underlying EBITDA growth: 7% (to A$485 million) actual currency; 3.4% Constant Currency.
- Revenue growth of 9% to A$2.9 billion.
- Solid organic revenue growth of ~4.5% (Constant Currency).
- Net profit growth of 7% to A$223 million (growth adjusted for A$20 million one-off tax gain in previous year).
- Earnings per share growth of 5% to 51.9 cents (growth adjusted for one-off tax gain in previous year).
- Cash generated from operations growth of 5% to A$369 million (101% conversion of EBITDA to cash flow).
- Strong performance in US, Australian and Swiss laboratory operations.
- Strategic acquisition of Aurora Diagnostics (completed January 2019) to augment future growth, funded by well-supported A$928 million equity raising.
- Progressive dividend policy maintained (increase of 1 cent (3.1%) to 33 cents for the FY 2019 Interim Dividend).
- Sonic's Medical Leadership culture, global leadership team, reputation, modern infrastructure and industry dynamics position the Company for strong, ongoing growth.

2. Explanation of results

(a) Constant currency

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

The average currency exchange rates for the six months to 31 December 2018 for the Australian dollar ("A$", "AUD" or "$") versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ("Statutory" earnings). The underlying earnings in foreign currency are not affected.

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

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

The average exchange rates used were as follows:

	31.12.18 Statutory	**31.12.17 and Constant Currency**
AUD/USD	0.7246	0.7795
AUD/EUR	0.6289	0.6623
AUD/GBP	0.5595	0.5913
AUD/CHF	0.7172	0.7595
AUD/NZD	1.0822	1.0926

COMMENTARY ON RESULTS
For the half year ended 31 December 2018

2. Explanation of results (continued)

(a) Constant currency (continued)

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

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

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

(b) Revenue

Revenue breakdown AUD M	**Six months ended 31.12.18 Statutory Revenue**	**% of 31.12.18 Statutory Revenue**	**Six months ended 31.12.18 Constant Currency Revenue**	**Six months ended 31.12.17 Revenue**	**Growth 31.12.18 Constant Currency v 31.12.17**
Laboratory – Australia	717	25%	717	679	5.6%
Laboratory – US	617	21%	573	540	6.1%
Laboratory – Europe	1,084	37%	1,027	982	4.6%
Laboratory – NZ	17	1%	17	13	30.8%
Imaging – Australia	247	9%	247	234	5.6%
Other	217	7%	218	223	(2.2)%
Revenue excluding interest income	2,899	100%	2,799	2,671	4.8%

Total revenue growth for the half year was 9%. Group organic revenue growth was ~4.5% at Constant Currency exchange rates (i.e. applying the average rates for the six months ended 31.12.17 to the current period results).

The Laboratory division achieved revenue growth of 10% in the half year, including ~5% organic revenue growth (Constant Currency).

Sonic’s Australian Laboratory organic revenue growth of ~6% was strong, and included revenue from the National Bowel Screening contract won by Sonic effective 1 January 2018.

US organic revenue growth was very strong at ~8% on a Constant Currency basis. Total US revenue was reduced by ~A$13M as Sonic merged its US Mid-west division into its joint venture with ProMedica Health System, Inc. on 1 September 2018. US revenue was also impacted by Medicare (‘PAMA’) fee cuts effective from 1 January 2018. Further PAMA cuts from 1 January 2019 present a relatively minor headwind for calendar 2019.

Within Europe, Sonic’s UK operations achieved organic growth of ~9% (Constant Currency), enhanced by the Barnet/Chase Farm NHS hospital laboratory outsource contract which commenced in October 2017. German and Belgian organic growth was flat, impacted by the European heatwave over the summer months. German revenue was also impacted by regulatory changes to referrer ‘bonus’ calculations relating to the EBM fee system. These were partially offset by selective fee quota increases. German growth was enhanced by the acquisition of Pathology Trier in July 2018. Swiss organic growth was 5% (Constant Currency).

Imaging organic revenue growth was as expected at ~6%.

Organic revenue growth for Sonic Clinical Services (“SCS”), Sonic’s medical centre and occupational health businesses (the major components of the Other segment, which also includes Sonic’s laboratory automation development subsidiary, GLP Systems, and other minor operations), was flat, impacted by weaker market conditions, including the lower incidence of flu this season. SCS’s current period revenue was also reduced by A$4.5M due to the new (effective 1 July 2018) accounting standard AASB 15.

COMMENTARY ON RESULTS
For the half year ended 31 December 2018

2. Explanation of results (continued)

(c) EBITDA

Underlying EBITDA grew 7% or 3.4% on a Constant Currency basis. The non-recurring costs of $9M related to acquisitions, restructuring and laboratory relocations which occurred in the half year.

Current period EBITDA was reduced by $A4.5M due to the impact of the new (effective 1 July 2018) accounting standard AASB 15.

EBITDA growth in the Laboratory division was enhanced by the Pathology Trier acquisition in Germany. The US, Australian and Swiss laboratory businesses performed particularly strongly. Sonic's Imaging business reported moderate earnings growth following strong growth in the prior year.

Consumables cost increased slightly as a percentage of revenue despite ongoing success with procurement initiatives as a result of changes in mix in Sonic's total business, including expansion in offshore markets where consumables are typically a higher percentage of revenue, and strong growth in tests with relatively higher cost consumables (e.g. the December 2017 transition in Australia from traditional pap smears to HPV testing). Underlying prices generally reduced.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 3.7% on the comparative period (at Constant Currency rates) reflecting the growth of the Company.

(e) Intangibles amortisation

Intangibles amortisation relates to internally developed and purchased software. In the comparative period it also included ~$A4M of amortisation of contract costs (including doctor contracts in SCS), however under the new accounting standard AASB 15 this ceased from 1 July 2018.

(f) Interest expense and debt facilities

Net interest expense has increased 2.1% on the prior year (at Constant Currency rates) as a result of acquisitions completed in July 2018 and increases in USD base 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 2018

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 31 December 2018 comprised:

	Facility Limit M	Drawn M	AUD $M Available
Notes held by Private Placement investors – USD	US$405	US$405	-
Notes held by Private Placement investors – EUR	€515	€515	-
Bank debt facilities			
- USD limits	US$520	US$247	387
- Euro limits	€425	€340	138
- AUD (Multicurrency) limits	A$205	A$118+	87
- CHF limit	CHF325	CHF209	167
Minor debt/leasing facilities	n/a	A$5*	-
Cash	n/a	A$(661)*	661
Available funds at 31 December 2018			1,440

+ Debt drawn in GBP (£65M)
* Various currencies, predominantly AUD

Sonic's credit metrics at 31 December 2018 were as follows:

	31.12.18	30.6.18
Gearing ratio	29.3%	36.7%
Interest cover (times)	10.0	10.1
Debt cover (times)	2.0	2.5

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

Sonic's senior debt facility limits at 19 February 2019 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
2020	-	828^	-	-
2021	-	250	-	200
2022	50	75	305	-
2023	155	85	120	125
2024	-	-	185	-
2026	-	-	245	-
2032	-	-	85	-
	205	1,238	940	325

^ Includes US$313M Bridge Facility used to partially fund the Aurora Diagnostics acquisition in January 2019.

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

COMMENTARY ON RESULTS
For the half year ended 31 December 2018

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate is 24%, slightly lower than the full year guidance provided in August 2018 of approximately 25%, and in line with the comparative period (after adjusting for the one-off, non-cash net benefit of A$20M relating to the revaluing of US net deferred tax liabilities to the new US corporate tax rate of 21%).

(h) Cash flow

Cash generated from operations was 4.6% higher than in the comparative period. Gross operating cash flow equated to 101% of EBITDA, a strong result, however tax payments were substantially higher in the current period.

Cash flows from financing activities included the net proceeds of the A$600M institutional equity placement that Sonic completed in December 2018 to partially fund the Aurora Diagnostics acquisition, which closed on 30 January 2019.

(i) Full year (FY 2019) guidance

Sonic gave full year guidance in August 2018 for EBITDA growth of 3-5% for 2019 on a Constant Currency basis (applying 2018 average currency exchange rates to 2019) over the 2018 underlying EBITDA of A$962M. After 7 months of trading the Company was on track to achieve the 3-5% growth range and with the acquisition of Aurora Diagnostics on 30 January 2019 underlying EBITDA growth is now expected to be 6-8%.

Following the acquisition of Aurora Diagnostics and the associated debt and equity raising, Sonic expects net interest expense for the full year to approximate the 2018 level of A$75M on a Constant Currency basis (excluding future business acquisitions). Underlying floating interest rates are assumed to remain at current levels.

The full year effective tax rate 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 2018 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 2018.

1. Names of Directors

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

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

2. Review of operations

Revenue for the period increased 9% to $2,900,929,000 from a combination of organic growth of ~4.5%, synergistic acquisitions and currency movements.

Net profit and earnings per share grew by 6.9% and 5.1% respectively, after adjusting for the A$20M impact of a one-off net tax benefit in the prior year. EBITDA grew 7% before non-recurring costs and accounting standard changes, equivalent to 3.4% on a Constant Currency basis.

Summary of the operations:

- On track after seven months of trading to achieve full year earnings guidance issued in August 2018 (3-5% underlying EBITDA growth, Constant Currency).
- Full-year earnings guidance upgraded to 6-8% underlying EBITDA growth (Constant Currency) to incorporate Aurora Diagnostics acquisition.
- Underlying EBITDA growth: 7% (to A$485 million) actual currency; 3.4% Constant Currency.
- Revenue growth of 9% to A$2.9 billion.
- Solid organic revenue growth of ~4.5% (Constant Currency).
- Net profit growth of 7% to A$223 million (growth adjusted for A$20 million one-off tax gain in previous year).
- Earnings per share growth of 5% to 51.9 cents (growth adjusted for one-off tax gain in previous year).
- Cash generated from operations growth of 5% to A$369 million (101% conversion of EBITDA to cash flow).
- Strong performance in US, Australian and Swiss laboratory operations.
- Strategic acquisition of Aurora Diagnostics (completed January 2019) to augment future growth, funded by well-supported A$928 million equity raising.
- Progressive dividend policy maintained (increase of 1 cent (3.1%) to 33 cents for the FY 2019 Interim Dividend).
- Sonic's Medical Leadership culture, global leadership team, reputation, modern infrastructure and industry dynamics position the Company for strong, ongoing growth.

Further information on the operations and financial results and position of the Company is included in the Commentary on Results section attached to this report, the presentation released to the ASX on the same day as this Appendix 4D, and in the 2018 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 other than as stated below:

- On 30 January 2019 Sonic completed the transaction to acquire 100% of Aurora Diagnostics, LLC referred to in Sonic's announcements to the market dated 12 December 2018. The initial accounting for the business combination is in its early stages as the Group is still reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded, hence no information is currently disclosed in the financial statements.

- On 12 February 2019 16,830,066 shares in Sonic were issued pursuant to the Share Purchase Plan ('SPP') as announced to the ASX on 18 December 2018, raising ~$328M in equity funds. The capital raised has enhanced Sonic's financial flexibility, including providing additional headroom for Sonic to continue its strategy of securing synergistic acquisitions.

4. Auditor's Independence Declaration

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

5. Rounding of amounts to nearest thousand dollars

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

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

M.R. Compton
Chairman

Dr C.S. Goldschmidt
Director

Sydney
19 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half-year ended 31 December 2018, 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.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
19 February 2019

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CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2018

	Notes	Six months ended 31.12.18 $'000	Six months ended 31.12.17 $'000
Revenue from operations		**2,900,929**	2,672,703
Labour and related costs		**(1,354,422)**	(1,240,149)
Consumables used		**(477,857)**	(438,215)
Operating lease rental expense		**(174,430)**	(164,944)
Depreciation and amortisation of physical assets		**(100,801)**	(94,134)
Repairs and maintenance		**(82,713)**	(73,263)
Transportation		**(74,539)**	(67,220)
Utilities		**(68,926)**	(62,407)
Borrowing costs expense		**(41,666)**	(37,797)
Amortisation of intangibles		**(30,596)**	(31,533)
Other expenses from ordinary activities		**(195,114)**	(179,935)
Profit from ordinary activities before income tax expense		**299,865**	283,106
Income tax expense		**(71,939)**	(48,209)
Profit from ordinary activities after income tax expense		**227,926**	234,897
Net (profit) attributable to minority interests		**(4,947)**	(6,347)
Profit attributable to members of Sonic Healthcare Limited		**222,979**	228,550
Basic earnings per share (cents per share)	4	**52.1**	54.3
Diluted earnings per share (cents per share)	4	**51.9**	54.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2018

	Six months ended 31.12.18 $'000	Six months ended 31.12.17 $'000
Profit from ordinary activities after income tax expense	**227,926**	234,897
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**88,779**	16,892
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on retirement benefit obligations	**(4,704)**	1,890
Other comprehensive income for the period, net of tax	**84,075**	18,782
Total comprehensive income for the period	**312,001**	253,679
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	**304,450**	245,110
Minority interests	**7,551**	8,569
	312,001	253,679

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Notes	31.12.18 $'000	30.6.18 $'000
Current assets			
Cash assets and cash equivalents		**660,909**	313,268
Receivables		**725,533**	747,355
Inventories		**120,671**	106,780
Other		**59,457**	64,306
Total current assets		**1,566,570**	1,231,709
Non current assets			
Receivables		**43,400**	23,916
Other financial assets		**91,267**	40,471
Property, plant and equipment		**1,192,390**	1,155,481
Intangible assets		**6,013,738**	5,722,188
Deferred tax assets		**27,441**	25,755
Other		**4,634**	1,414
Total non current assets		**7,372,870**	6,969,225
Total assets		**8,939,440**	8,200,934
Current liabilities			
Payables		**530,316**	519,290
Interest bearing liabilities		**407**	3,752
Current tax liabilities		**93,002**	103,196
Provisions		**205,116**	207,619
Other		**36,787**	34,006
Total current liabilities		**865,628**	867,863
Non current liabilities			
Interest bearing liabilities		**2,736,196**	2,792,297
Deferred tax liabilities		**130,812**	120,795
Provisions		**123,894**	114,431
Other		**81,564**	22,623
Total non current liabilities		**3,072,466**	3,050,146
Total liabilities		**3,938,094**	3,918,009
Net assets		**5,001,346**	4,282,925
Equity			
Parent entity interest			
Contributed equity	6	**3,646,328**	3,005,875
Reserves	8	**102,336**	27,889
Retained earnings		**1,146,286**	1,143,643
Total parent entity interest		**4,894,950**	4,177,407
Minority interests		**106,396**	105,518
Total equity		**5,001,346**	4,282,925

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2018

	Six months ended 31.12.18 $'000	Six months ended 31.12.17 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**3,031,819**	2,780,215
Payments to suppliers and employees (inclusive of goods and services tax)	**(2,555,897)**	(2,360,757)
Gross operating cash flow	**475,922**	419,458
Interest received	**1,455**	1,313
Borrowing costs	**(38,763)**	(35,814)
Income taxes paid	**(70,110)**	(32,794)
Net cash inflow from operating activities	**368,504**	352,163
Cash flows from investing activities		
Payment for purchase of controlled entities and investments, net of cash acquired	**(108,368)**	(130,506)
Payments for property, plant and equipment	**(113,709)**	(111,630)
Proceeds from sale of non current assets	**4,214**	2,251
Payments for intangibles	**(56,526)**	(44,850)
Repayment of loans by other entities	**5,661**	3,271
Loans to other entities	**(2,669)**	(4,006)
Net cash (outflow) from investing activities	**(271,397)**	(285,470)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related costs)	**624,869**	9,083
Proceeds from borrowings	**273,990**	436,440
Repayment of borrowings	**(435,070)**	(480,925)
Transaction with non controlling interest	**-**	(891)
Dividends paid to Company's shareholders (net of Dividend Reinvestment Plan)	**(208,742)**	(137,761)
Dividends paid to minority interests in controlled entities	**(6,878)**	(4,293)
Net cash inflow/(outflow) from financing activities	**248,169**	(178,347)
Net increase/(decrease) in cash and cash equivalents	**345,276**	(111,654)
Cash and cash equivalents at the beginning of the financial period	**313,268**	437,617
Effects of exchange rate changes on cash and cash equivalents	**2,365**	2,714
Cash and cash equivalents at the end of the financial period	**660,909**	328,677

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 2018

	Share capital $'000	Reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total $'000
Balance at 1 July 2018	3,005,875	27,889	1,143,643	4,177,407	105,518	**4,282,925**
Change in accounting standards	-	-	(6,890)	(6,890)	-	**(6,890)**
Restated balance at 1 July 2018	3,005,875	27,889	1,136,753	4,170,517	105,518	**4,276,035**
Profit for the period	-	-	222,979	222,979	4,947	**227,926**
Other comprehensive income for the period	-	86,175	(4,704)	81,471	2,604	**84,075**
Total comprehensive income for the period	-	86,175	218,275	304,450	7,551	**312,001**
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(208,742)	(208,742)	-	**(208,742)**
Shares issued	643,626	(10,671)	-	632,955	-	**632,955**
Transaction costs on shares issued net of tax	(5,660)	-	-	(5,660)	-	**(5,660)**
Transfers to share capital	2,075	(2,075)	-	-	-	**-**
Allocation of treasury shares	412	(412)	-	-	-	**-**
Share based payments	-	2,483	-	2,483	-	**2,483**
Acquisition of minority interests	-	(1,053)	-	(1,053)	339	**(714)**
Dividends paid to minority interests in controlled entities	-	-	-	-	(7,012)	**(7,012)**
Balance at 31 December 2018	**3,646,328**	**102,336**	**1,146,286**	**4,894,950**	**106,396**	**5,001,346**
Balance at 1 July 2017	2,885,615	(53,020)	996,791	3,829,386	96,744	3,926,130
Profit for the period	-	-	228,550	228,550	6,347	234,897
Other comprehensive income for the period	-	14,670	1,890	16,560	2,222	18,782
Total comprehensive income for the period	-	14,670	230,440	245,110	8,569	253,679
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(193,176)	(193,176)	-	(193,176)
Shares issued	71,917	(7,487)	-	64,430	-	64,430
Transaction costs on shares issued net of tax	(36)	-	-	(36)	-	(36)
Transfers to share capital	1,965	(1,965)	-	-	-	-
Acquisition of treasury shares	(249)	-	-	(249)	-	(249)
Allocation of treasury shares	328	-	-	328	-	328
Share based payments	-	2,314	-	2,314	-	2,314
Acquisition of minority interest	-	1,229	-	1,229	(949)	280
Dividends paid to minority interests in controlled entities	-	-	-	-	(4,338)	(4,338)
Balance at 31 December 2017	2,959,540	(44,259)	1,034,055	3,949,336	100,026	4,049,362

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 2018

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2018 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 2018 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 other than as noted below.

The Group adopted the new accounting standards AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments from 1 July 2018. The Group applied the modified retrospective approach to the new standards which means the cumulative impact of the adoption could be recognised in retained earnings as of 1 July 2018 with comparative information not required to be restated.

Impact of adopting AASB 15
AASB 15 supersedes the existing accounting standards and interpretations for revenue recognition. The core principle is that revenue must be recognised when goods or services are transferred to a customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This is achieved by applying a five step model:

- Identify the contract with the customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract based upon relative standalone selling prices
- Recognise revenue when (or as) the performance obligations are settled

The main impact on the Group's revenue recognition policies from applying the new standard is the requirement to recognise consideration payable to a customer as a reduction of the transaction price, and therefore of revenue, where this payment is not for a distinct good or service. The Group makes payments to doctors (customers) in its medical centre and occupational health businesses in exchange for contracting the Group's services for an agreed period of time. These payments were previously capitalised as an intangible asset and amortised through the amortisation of intangibles line in the Income Statement. The amount that has been recognised against revenue for the half year to 31 December 2018 is $4,462,000, with a balance of unamortised payments of $24,954,000 in the Receivables lines at the period end. Had the new standard applied in the comparative period the equivalent amounts would have been $3,831,000 and $23,354,000. Note that there is no net impact to the net profit, net assets or cash flows as a consequence of this change in accounting treatment. Medical services revenue will continue to be recognised on a completed test or service basis.

In accordance with the transition provisions in AASB 15, adjustments were made to the amounts recognised in the Balance Sheet and retained earnings as at the date of initial application. In addition to the changes noted above for revenue recognition it was deemed that certain capitalised costs could not be recognised under the new standard. The net reduction in retained earnings on transition was $6,890,000, with a corresponding decrease to the financial statement line item intangibles ($7,901,000), and an increase in the line item deferred tax liabilities ($1,011,000).

Impact of adopting AASB 9
AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 resulted in changes in accounting policies but there were no adjustment to amounts recognised in the financial statements.

Classification and measurement
AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The classification categories of held to maturity, loans and receivables and available for sale have been replaced by amortised cost, fair value through other comprehensive income and fair value through profit or loss. Note that the Group currently only has financial assets carried at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 1 Summary of significant accounting policies (continued)

Classification and measurement (continued)
From 1 July 2018 financial assets are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Income Statement.

Impairment
The Group assesses on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. For trade receivables the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses trade receivables have been grouped on shared credit risk characteristics and days past due. There is no change in the impairment for trade receivables as at 30 June 2018. When a trade receivable is uncollectible it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against revenue in the Income Statement.

Hedging
The Group has adopted the hedging principles of AASB 9. The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices due to changes in the approach for assessing hedge effectiveness. The Group's hedge documentation has been updated to align with the new requirements and the existing hedge relationships are therefore treated as continuing hedges.

Note 2 Segment information

Business segments

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

The Group has the following reportable segments:

(i) Laboratory
Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland. The geographic regions have been aggregated into one reportable segment as they provide similar services and have similar expected growth rates, cost structures, risks, and return profiles.

(ii) Imaging
Diagnostic imaging services provided in Australia.

(iii) Other
Includes corporate office functions, medical centre operations (IPN), occupational health services (Sonic HealthPlus), laboratory automation development (GLP Systems), and other minor operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 2 Segment information (continued)

Half Year ended 31 December 2018	Laboratory $'000	Imaging $'000	Other $'000	Eliminations $'000	Consolidated $'000
Segment revenue (Constant Currency)	2,335,079	246,616	223,841	(6,546)	2,798,990
Currency exchange movement	100,233	-	-	-	100,233
Segment revenue (Statutory)	**2,435,312**	**246,616**	**223,841**	**(6,546)**	**2,899,223**
Interest income					1,706
Total revenue					**2,900,929**
Segment EBITA (Constant Currency)	326,203	32,381	(2,844)	-	355,740
Currency exchange movement	14,681	-	-	-	14,681
Segment EBITA (Statutory)	**340,884**	**32,381**	**(2,844)**	**-**	**370,421**
Amortisation expense					(30,596)
Unallocated net interest expense					(39,960)
Profit before tax					**299,865**
Income tax expense					(71,939)
Profit after income tax expense					**227,926**
Depreciation expense	71,311	15,278	14,212	-	**100,801**

Half Year ended 31 December 2017	Laboratory $'000	Imaging $'000	Other $'000	Eliminations $'000	Consolidated $'000
Segment revenue	2,214,363	233,681	229,665	(6,319)	2,671,390
Interest income					1,313
Total revenue					2,672,703
Segment EBITA	316,985	31,434	2,704	-	351,123
Amortisation expense					(31,533)
Unallocated net interest expense					(36,484)
Profit before tax					283,106
Income tax expense					(48,209)
Profit after income tax expense					234,897
Depreciation expense	65,506	15,114	13,514	-	94,134

Disaggregated revenue

	Six months ended 31.12.18 $'000	Six months ended 31.12.17 $'000
Laboratory		
Australia	**717,343**	679,133
Germany	**599,332**	553,449
USA	**616,872**	540,327
Switzerland	**206,083**	184,706
UK & Ireland	**207,639**	177,029
Belgium	**70,990**	67,168
New Zealand	**17,053**	12,551
Non-Laboratory		
Imaging	**246,616**	233,681
Other (Medical centres, occupational health services, etc.)	**217,295**	223,346
	2,899,223	2,671,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

	Six months ended 31.12.18 $'000	Six months ended 31.12.17 $'000
Note 3 Dividends		
Dividends paid during the half year	**208,742**	193,176

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 33 cents (2018: 32 cents) franked to 20% (2018: 20%).

The dividend is payable on 26 March 2019 with a record date of 11 March 2019. The interim dividend includes no conduit foreign income.

Based on the number of shares on issue at 19 February 2019 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:	**156,345**	135,284

Dividend Reinvestment Plan
The Company's Dividend Reinvestment Plan has been suspended for the FY 2019 interim dividend.

	Six months ended 31.12.18 Cents	Six months ended 31.12.17 Cents
Note 4 Earnings per share		
Basic earnings per share	**52.1**	54.3
Diluted earnings per share	**51.9**	54.1

	Six months ended 31.12.18 Shares	Six months ended 31.12.17 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	**427,989,347**	420,862,719
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**429,404,479**	422,254,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 5 Goodwill

	31.12.18 $'000	30.6.18 $'000
Cost	**5,646,317**	5,337,656
Accumulated impairment	**(101,475)**	(97,657)
Net book amount	**5,544,842**	5,239,999
Opening cost	**5,337,656**	5,042,181
Acquisition/disposal of businesses	**147,398**	127,483
Foreign exchange movements	**161,263**	167,992
Closing cost	**5,646,317**	5,337,656
Opening accumulated impairment	**(97,657)**	(101,736)
Foreign exchange movements	**(3,818)**	4,079
Closing accumulated impairment	**(101,475)**	(97,657)

Note 6 Contributed equity

	31.12.18 Shares	30.6.18 Shares	31.12.18 $'000	30.6.18 $'000
Share capital				
Fully paid ordinary shares	**456,932,338**	424,704,991	**3,635,407**	3,006,555
Other equity securities				
Treasury shares	**(11,583)**	(28,083)	**(268)**	(680)
Shares to be issued under SPP*	**-**	-	**11,189**	-
	456,920,755	424,676,908	**3,646,328**	3,005,875

* Shares to be issued reflect funds received under the Share Purchase Plan ('SPP') by 31 December 2018, prior to the issuance of shares on 12 February 2019 (refer to Note 10 for more information).

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
01/07/18	Opening balance	424,704,991		3,006,555
13/12/18	Shares issued under the Institutional Placement	30,769,231	$19.50	600,000
Various	Shares issued following exercise of employee options/rights	1,458,116	Various	32,437
Various	Transfers from equity remuneration reserve	-		2,075
Various	Costs associated with shares issued net of future income tax benefits	-		(5,660)
31/12/18	Closing balance	456,932,338		3,635,407

Movements in other equity securities:

Date	Details	Number of shares	$'000
01/07/18	Opening balance	(28,083)	(680)
02/07/18	Allocation of treasury shares	16,500	412
31/12/18	Closing balance	(11,583)	(268)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 7 Unlisted share options and performance rights

Exercise Price	Expiry Date	Balance at 1.7.18	Exercised	Granted	Forfeited	Expired	Balance at 31.12.18
$15.43	18/10/2018	125,000	(110,000)	-	-	(15,000)	**-**
$11.43	18/11/2018	596,841	(596,841)	-	-	-	**-**
$15.21	13/12/2018	50,000	(50,000)	-	-	-	**-**
$12.57	02/07/2019	35,000	-	-	-	-	**35,000**
$17.32	27/11/2019	250,069	-	-	-	-	**250,069**
$18.84	30/11/2019	515,000	(178,500)	-	-	-	**336,500**
$18.49	20/08/2020	850,000	(287,500)	-	-	-	**562,500**
$19.78	11/10/2020	1,886,833	(192,500)	-	-	-	**1,694,333**
$19.41	20/11/2020	766,969	-	-	(410,328)	-	**356,641**
$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**
$21.64	22/11/2022	675,145	-	-	-	-	**675,145**
$23.34	05/05/2022	1,000,000	-	-	(30,000)	-	**970,000**
$21.83	14/10/2023	-	-	2,000,000	-	-	**2,000,000**
$21.69	21/11/2023	-	-	667,787	-	-	**667,787**
Performance Rights	20/11/2020	91,988	(42,775)	-	(49,213)	-	**-**
Performance Rights	17/11/2021	87,843	-	-	-	-	**87,843**
Performance Rights	22/11/2022	87,762	-	-	-	-	**87,762**
Performance Rights	01/10/2019	-	-	2,748	-	-	**2,748**
Performance Rights	21/11/2023	-	-	87,560	-	-	**87,560**
		8,689,539	(1,458,116)	2,758,095	(489,541)	(15,000)	**9,484,977**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 8 Reserves

	31.12.18 $'000	31.12.17 $'000
Foreign currency translation reserve	**196,612**	36,510
Equity remuneration reserve	**(78,813)**	(69,975)
Share option reserve	**16,427**	16,427
Revaluation reserve	**3,272**	3,272
Transactions with minority interests	**(35,162)**	(30,493)
	102,336	(44,259)
Movements		
Foreign currency translation reserve		
Balance 1 July	**109,291**	21,280
Net exchange movement on translation of foreign subsidiaries	**87,321**	15,230
Balance	**196,612**	36,510
Equity remuneration reserve		
Balance 1 July	**(68,138)**	(62,837)
Share based payments expense	**2,483**	2,314
Employee share scheme issue	**(11,083)**	(7,487)
Transfer to share capital (options exercised)	**(2,075)**	(1,965)
Balance	**(78,813)**	(69,975)
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	**(32,963)**	(31,162)
Transactions with minority interests in period	**(1,053)**	1,229
Net exchange movement	**(1,146)**	(560)
Balance	**(35,162)**	(30,493)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Note 9 Net asset backing

	31.12.18	**30.6.18**
Net tangible asset backing per ordinary security	**($2.22)**	($3.39)
Net asset backing per ordinary security	**$10.95**	$10.08

Note 10 Events occurring after the balance sheet date

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

- On 30 January 2019 Sonic completed the transaction to acquire 100% of Aurora Diagnostics, LLC referred to in Sonic's announcements to the market dated 12 December 2018. The initial accounting for the business combination is in its early stages as the Group is still reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded, hence no information is currently disclosed in the financial statements.

- On 12 February 2019 16,830,066 shares in Sonic were issued pursuant to the Share Purchase Plan ('SPP') as announced to the ASX on 18 December 2018, raising ~$328M in equity funds. The capital raised has enhanced Sonic's financial flexibility, including providing additional headroom for Sonic to continue its strategy of securing synergistic acquisitions.

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 2018 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that Sonic Healthcare Limited will be able to pay its debts as and when they become due and payable.

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

M.R. Compton
Chairman

Dr C.S. Goldschmidt
Director

Sydney
19 February 2019

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 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Sonic Healthcare Group (the consolidated entity). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 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:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
19 February 2019