



SONIC  
HEALTHCARE  
LIMITED



# CONCISE ANNUAL REPORT 2012

# CORPORATE DIRECTORY

---

## Directors

Mr R.P. Campbell, *Chairman*

Dr C.S. Goldschmidt, *Managing Director*

Mr C.D. Wilks, *Finance Director*

Dr P.J. Dubois

Mr C.J. Jackson

Mr L.J. Panaccio

Ms K.D. Spargo

Dr E.J. Wilson

## Company Secretary

Mr P.J. Alexander

## Principal registered office in Australia

14 Giffnock Avenue, Macquarie Park,  
New South Wales, 2113, Australia.

Ph: 61 2 9855 5444

Fax: 61 2 9878 5066

Website: [www.sonichealthcare.com](http://www.sonichealthcare.com)

## Share registry

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street, Adelaide,  
South Australia, 5000, Australia.

Ph: 1300 556 161 (Within Australia)

Ph: 61 3 9415 4000 (Outside Australia)

Fax: 1300 534 987 (Within Australia)

Fax: 61 3 9473 2408 (Outside Australia)

Website: [www.computershare.com](http://www.computershare.com)

Email: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

---

## Auditor

PricewaterhouseCoopers

## Solicitors

Allens

Baker & McKenzie

## Bankers

Australia and New Zealand Banking Group Limited

Barclays Bank PLC

Citibank, N.A.

Commonwealth Bank of Australia

JPMorgan Chase Bank, N.A.

Macquarie Bank Limited

Mizuho Corporate Bank, Ltd

National Australia Bank Limited

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Hongkong and Shanghai Banking Corporation Limited

The Royal Bank of Scotland plc

Westpac Banking Corporation

## Stock exchange listings

Sonic Healthcare Limited (SHL) shares are listed  
on the Australian Securities Exchange.

---

# CONTENTS

- 02 Chairman's Letter
- 04 Managing Director's Report
- 08 Company Conscience
- 12 Financial History
- 14 Directors' Report
- 39 Corporate Governance Statement
- 49 Concise Financial Report
- 66 Directors' Declaration
- 67 Independent Auditor's Report to the Members
- 69 Shareholders' Information

# CHAIRMAN'S LETTER

---

My fellow shareholders,  
I am sure you share my delight that your Company has delivered a record net profit in 2012, improving margins, and perhaps even more importantly, making considerable strides forward towards delivering on our goal to improve the return on the capital invested in Sonic Healthcare.

---

Our strategy to consolidate selected fragmented laboratory markets in Europe and the USA, as we successfully did in Australia, is now bearing fruit, after several years in which our efforts were directed at acquiring the necessary infrastructure and reaching the critical mass in order to achieve this end. Our focus now is on further enhancing the returns on those investments, and adding additional highly synergistic acquisitions in those markets.

We understand the importance of dividends to our shareholders and have maintained the level of dividend per share in recent years despite foreign currency headwind impacting on our profit when reported in Australian dollars. This has caused our payout ratio (73% in 2012) to exceed our historic level of 70%.

Sonic now provides vital healthcare services in eight countries, across three continents. Our market leadership positions are not only desirable financially, but also provide the opportunity to help shape the healthcare systems in which we operate. Our level of quality and service, backed by our medical leadership culture, has raised the bar for other participants in our markets.

Sonic and its people contribute positively to the community in many other ways. We provide employment for over 26,000 people in an environment of professionalism, ethical behaviour, non-discrimination, and reward based on merit. We are an "employer of choice" in our markets due to the respect we offer to individuals and to the medical

profession as a whole. We support many charities, especially those where we can be directly involved in delivering a positive outcome. Perhaps the best example of this is our ongoing support of the HEAL Africa Hospital, located in Goma in the Democratic Republic of the Congo. An ongoing company-wide initiative has seen Sonic's staff travel to Goma at regular intervals to establish and then extend a hospital-based laboratory service and to coordinate the provision of much-needed equipment to one of the world's most disadvantaged areas.

Under our Environmental Policy, our people seek to minimise the negative impacts our businesses may have on their surroundings. Whilst the nature of our industry is such that we are not a significant polluter or energy consumer, our philosophy is that we all have a duty to the community to continuously improve in this area. More information on our impacts on the community and environment can be found in our inaugural Company Conscience report, included herein.

I believe that there is much that we, Sonic Healthcare's shareholders, can be proud of and I thank you for your continued support of the Company as we grow and develop into the future.



**Peter Campbell**, Chairman







# MANAGING DIRECTOR'S REPORT

---

Sonic Healthcare has delivered a record net profit for the year to 30 June 2012, despite the prevailing weak global economic conditions. Sonic's strong earnings were delivered as a result of our relentless focus on quality, professionalism, service and efficiency gains, all of which have allowed us to win market share from competitors and enhance shareholder value by growing both earnings per share and return on invested capital.

---

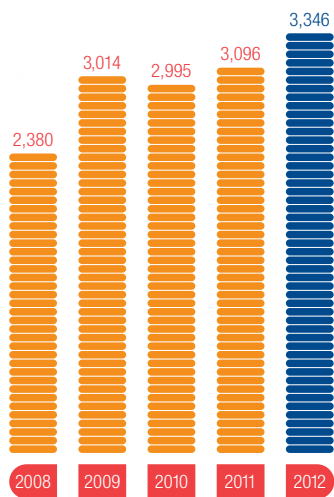
One of the most pleasing numbers from our results was the 90 basis point improvement (from 8.9% to 9.8%) in return on invested capital. As flagged in my report last year, in the six years to 2011, the Company invested heavily to establish significant market presences in carefully selected, fragmented northern hemisphere markets. In the early phases of this expansion, earnings per share growth was achieved but as expected, there was a temporary dilution in returns. Having achieved critical mass in the large markets of the USA and Germany, Sonic is now enhancing investment returns by capturing synergies from the acquired businesses, just as we have in Australia over the past two decades.

Sonic enjoys top-3 position status in the laboratory markets of eight countries, being the largest player in Australia and the UK/Ireland, either the first or second largest in Germany, the second largest in Belgium and New Zealand, and the third largest in the USA and Switzerland. In addition, Sonic is the largest operator of medical centres in Australia, and the second largest player in the Australian radiology market. These strong market positions allow us to leverage existing infrastructure to realise synergies and to grow earnings, augmented by organic growth and synergistic acquisitions.

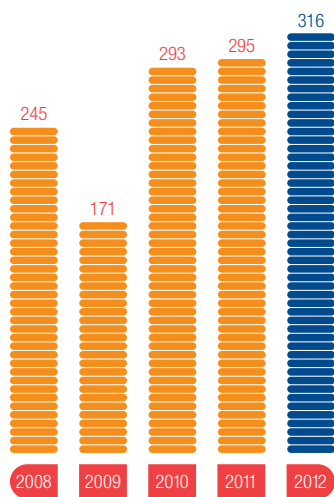
Sonic's laboratory and radiology divisions each increased their margins in 2012, a pleasing outcome at any time but even more creditable in light of prevailing market conditions. Our laboratory division faced substantial additional cost pressures in Australia as a result of collection centre deregulation, and low market growth in the USA. Although Sonic's USA organic growth rate exceeded that of our major competitors, the current low-growth market environment has made margin expansion extremely difficult. However, we do anticipate a return to historical growth rate trends, given that the underlying industry growth drivers of population ageing, preventative medicine, new tests and technologies all remain stronger than ever. We also expect further market growth from the millions of additional insured lives entering the market from calendar 2014 onwards, as envisaged under the Affordable Care Act.



Gross Revenue \$M



Net Profit \$M





I am pleased to advise the appointment of David Bryant as the new Sonic Healthcare USA CEO from 1 September 2012. David is a dynamic leader, a former US Marine Major, and an experienced operator in the USA laboratory market. He will be based in Sonic's US head office in Austin, Texas. His appointment follows the retirement of David Schultz, after seven years of outstanding service with Sonic.

Sonic's Australian laboratory revenue grew 9% in 2012, substantially higher than both the market as a whole, and our largest competitor. Organic growth was enhanced by revenue synergies with our expanding medical centre business, IPN.

Sonic's organic revenue growth in Germany was also strong, augmented by a small synergistic acquisition during the year. Another small highly synergistic acquisition has been completed since year end. Sonic's German head office is located in Berlin and our management team there has been working diligently –

and with great success – on a number of very significant synergy projects, the benefits of which will continue to flow for years to come. Our smaller European operations, in Belgium, Switzerland, the UK and Ireland, have also experienced strong growth in 2012.

Following a number of years of difficult market conditions, our radiology division has now delivered margin accretion for the second successive year and I wish to congratulate our managers and radiologists on this fine outcome.

Sonic's reported results would have been even stronger if not for the ongoing headwind from the strengthening Australian dollar, which whilst softening our statutory results, does not impact our underlying business performance.

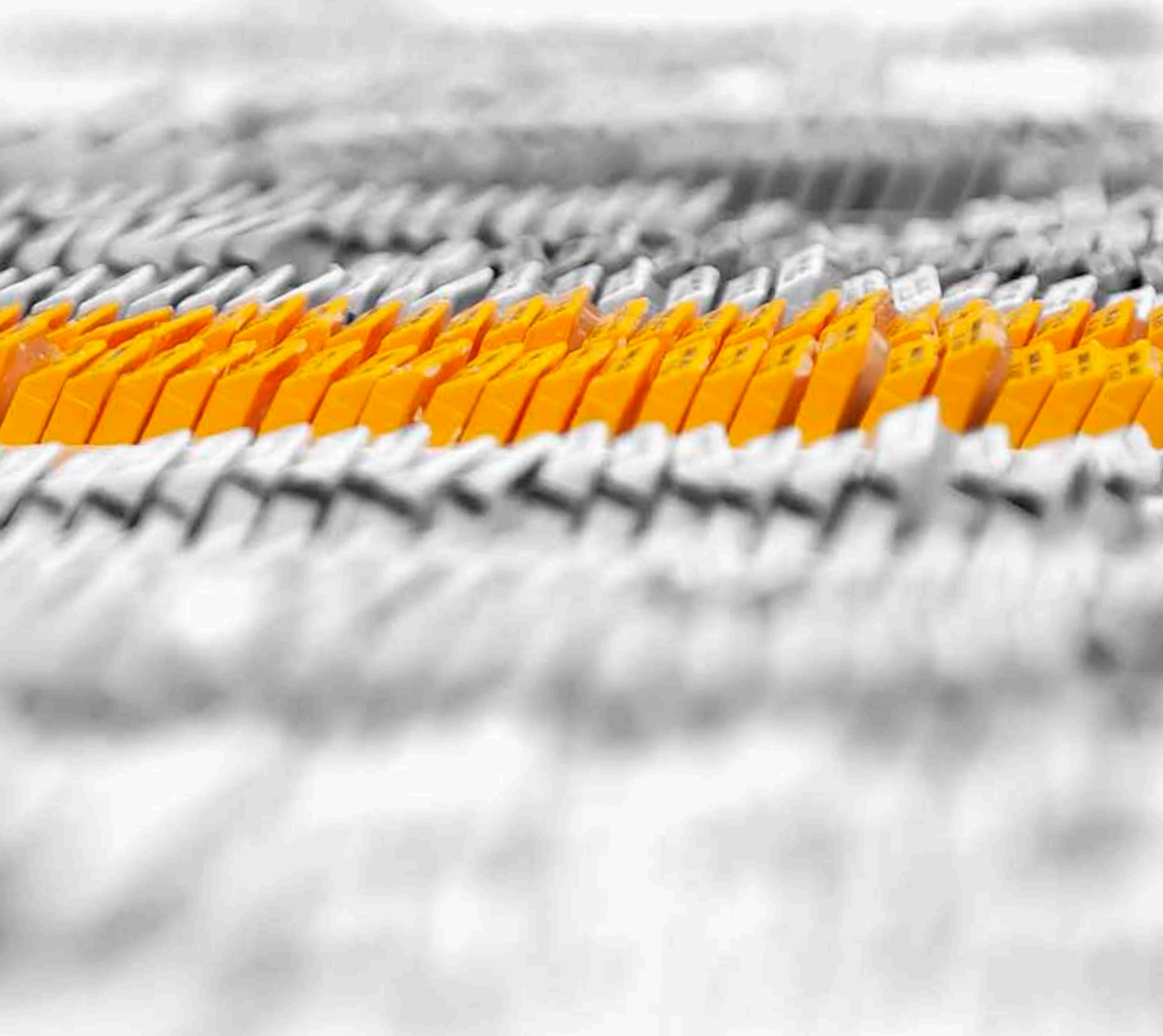
This year, Sonic Healthcare celebrates its 25th anniversary as a company. Over that period our business model, designed to enhance shareholder value by driving accretion in earnings per share and return on invested capital, has been consistent and successful. This model, along with Sonic's stability, reputation and global presence, will serve the Company well in the years ahead. Sonic's future outlook is indeed bright, in light of our unique and consistent culture, our core values, our quality, our growth strategies, our market leadership positions and our exceptional infrastructure. These enviable corporate attributes are all the product of focussed and relentless human endeavour and represent an enormous tribute to Sonic's people. I am confident that our global team will continue to deliver high quality, exceptional healthcare services, which in turn will drive further shareholder value.

Our Company continues to make a very substantial contribution to the health of communities in which we operate. We augment positive healthcare outcomes by providing high quality, outstanding diagnostic and clinical services to millions of patients each year. Operating at highly sophisticated levels, we prevent disease, we diagnose disease and we play an indispensable role in the treatment and monitoring of disease.

The strong position we have reached after 25 years is the culmination of the effort, talents and dedication of our experienced and stable management teams, our pathologists and radiologists, as well as our 26,000 staff in eight countries and three continents around the world. Our people are passionate about our services, our contribution to society and indeed about Sonic Healthcare itself. I wish to take this opportunity to thank Sonic's staff, shareholders and other stakeholders for their ongoing input into the Company's enviable stature and success to date.

**Dr Colin Goldschmidt**, CEO and Managing Director

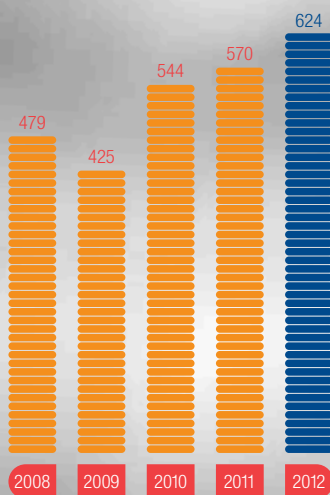




---

EBITDA \$M

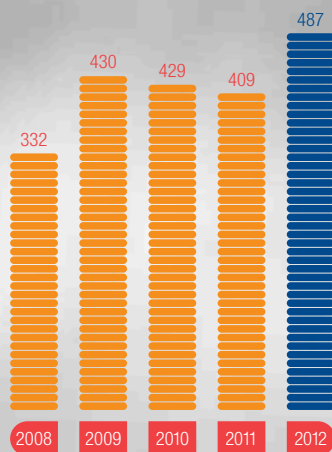
---



---

Net Cash Flow from Operations \$M

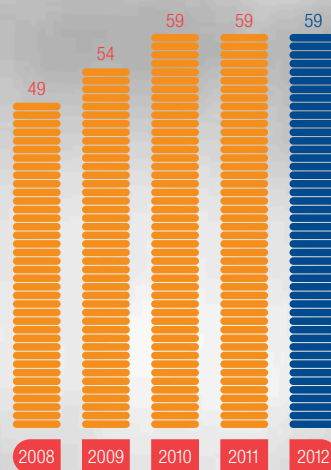
---



---

Dividends Paid per Ordinary Share ¢

---



# COMPANY CONSCIENCE

Sonic Healthcare recognises the importance of corporate social responsibility, and considers this to be a basic principle of our Medical Leadership culture. Our commitment to social responsibility is encapsulated in the Sonic Healthcare Foundation Principles, which guide our businesses in their relationships with stakeholders, including customers, communities and staff.

Sonic Healthcare and its people seek to contribute positively to the community in many ways.



## Sonic as a leader and educator

Sonic Healthcare provides vital healthcare services and infrastructure in eight countries, across three continents. Our market leadership positions provide the opportunity to help shape the healthcare systems in which we operate. We take active roles in industry associations, and we encourage our people to take leadership positions in colleges and other professional and craft organisations. We produce education information and conduct seminars to share knowledge with our referring physicians, and we employ many preeminent, subspecialised pathologists and radiologists, who are encouraged to publish in medical journals to share their unique knowledge and experiences. We provide vocational training positions for pathologists, radiologists and (through IPN) general practitioners, helping to ensure the future supply of these important medical practitioners in the community.

Sonic's subsidiary Douglass Hanly Moir Pathology works in partnership with The University of Notre Dame's Medical School in Sydney to promote the training of medical students in pathology and basic science, the first such arrangement in Australia involving a private laboratory. Many of our operations are registered training organisations, offering courses in pathology collection.

Sonic's medical leadership culture, and our levels of quality and service, have raised the bar for other participants in our markets.

## Sonic as an employer

Sonic provides employment for over 26,000 people in an environment of professionalism, ethical behaviour, non-discrimination, and reward based on merit. We are considered an "employer of choice" in our markets due to the respect we offer to individuals and to the medical profession as a whole, and believe that our employee turnover is lower than industry standards as a result, especially at more senior levels of staff. Our Core Values set out a unifying code of conduct for our people.

The philosophy of treating each other with respect and honesty is further encouraged by our Diversity Policy and our Code of Ethics.

We engage in a positive manner with unions and other employee representative groups, and have not experienced significant industrial action in our 25 year history. When achieving synergies from business acquisitions our approach generally is to rely on natural staff turnover to achieve savings over time, rather than wide scale redundancy programs. This is beneficial not only to staff, but to the business as it preserves staff morale, and therefore the goodwill we have acquired.

Sonic is committed to the safety and wellbeing of our staff, as reflected in our Workplace Health and Safety Policy. The nature of our industry, plus our staff training programs and management, mean that workforce injuries are negligible. Sonic's culture and policies prohibit staff accepting or offering bribes or any other type of "kick-back" arrangement.



## Our Values

- Commit to Service Excellence**  
*To willingly serve all those with whom we deal; with unsurpassed excellence.*
- Treat each other with Respect & Honesty**  
*To grow a workplace where trust, team spirit, and equity are an integral part of everything we do.*
- Demonstrate Responsibility & Accountability**  
*To set an example, to take ownership of each situation to the best of our ability, and to seek help when needed.*
- Be Enthusiastic about Continuous Improvement**  
*To never be complacent, to recognise limitations and opportunities for ourselves and processes; and to learn through these.*
- Maintain Confidentiality**  
*To keep all information pertaining to patients, as well as professional and commercial issues, in strict confidence.*


**SONIC HEALTHCARE**  
*"We take it personally"*

### Sonic helping others

Sonic Healthcare and its staff support many charities, especially those where we can be directly involved in delivering a positive outcome.

Our major company-wide initiative is our ongoing support of the HEAL Africa Hospital, located in Goma in the Democratic Republic of the Congo. Sonic has been supporting the pathology laboratory of the hospital for the past five years. During that time we have achieved a number of milestones, the most significant of which have been:

- The re-equipping of the Biochemistry and Haematology departments with new instrumentation, using low tech analysers which are sustainable in the maintenance environment of the Congo.
- Onsite training of the staff in the use and maintenance of these machines.
- Sending shipping containers each year, negotiating the many obstacles present in delivering valuable cargo into the Congo. These containers have not only been used to transport laboratory equipment, reagents and consumables, but also to take humanitarian aid in the form of clothing, shoes and

educational equipment to the hospital. We have also made space available to other groups and organisations, including private hospitals, who have donated physiotherapy equipment, surgical and theatre supplies, hospital beds, mattresses and other equipment. These groups had been unable to transport these goods without our assistance. To date almost 120 bed sets have been sent, which have had an enormous impact on patient comfort and safety.

- Supplying a reliable source of reagents and consumables thereby eliminating the need for re-use and washing of single use consumables, such as syringes and tubes.
- The establishment of a functioning and high quality microbiology department, including advanced training for the technicians working there. This has had a profound impact on the effectiveness of treatment for infections, wounds, and traumatic injuries by minimising the need to use multiple antibiotic regimes and being able to target treatment more efficiently.
- The supply of new fridges, safety cabinets, centrifuges and microscopes to replace unreliable equipment previously in use.
- Education and encouragement regarding laboratory safety, including the supply of sharps containers and biohazard bins in conjunction with the supply of a new low tech / high temperature biological incinerator. This has been welcomed hospital wide as it caters for all bio-hazardous waste generated within the hospital, the management of which was previously a major problem.
- Assistance in planning, equipping and constructing a new laboratory facility which has many of the features of a modern laboratory in Australia – including hand washing facilities, modern laboratory bench design, staff area and room for separate departments.
- The establishment of a scholarship program which is currently supporting a trainee Pathologist who will supervise the laboratory into the future, as well as having provided the means for 6 month training courses (in Ultrasound and Digital X-ray) for the two Radiographers at the hospital. We are also considering an application from the hospital for a scholarship to train a Doctor in the area of Public Health.







### Sonic helping others (continued)

- The continuing support of the Radiology department in the form of training and organising equipment donations.
- Initiation of a number of non-medical projects such as the Mosquito Net project (where Sonic supplies netting and Pyrethrum to treat the nets, which are made by a group of women at the hospital and sold to UN agencies, giving them an income stream), the refurbishment of the Paediatric ward and donations of solar power generators to Magunga School.

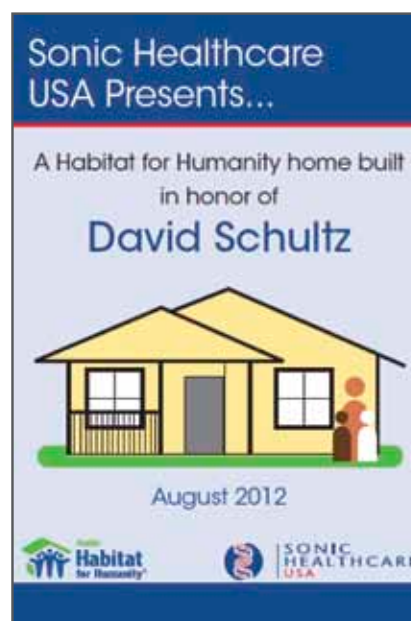
Sonic staff continue to travel to Goma at regular intervals to assist the hospital provide services in one of the world's most disadvantaged areas. More information about our involvement with the Heal Africa Hospital can be found on our website at: [www.sonichealthcare.com/about-us/heal-africa-project-reports.aspx](http://www.sonichealthcare.com/about-us/heal-africa-project-reports.aspx).

Other examples of the many charitable activities of Sonic and its staff include:

- Our Mid-Atlantic Division in the USA recently provided laboratory testing services and specimen collection materials for a medical mission to Sierra Leone, Africa by the organisation "Helping Children Worldwide".
- For almost 20 years, Sonic's Schottdorf laboratory in Germany has been coordinating and matching annual donations by staff to the Children's Cancer Centre at Schwabing Hospital, Munich, to make the lives of their young patients a little brighter.
- Sonic businesses support their local Red Cross by facilitating on-site blood donations.
- Sonic Healthcare USA is partnering with "Habitat for Humanity" to build a house for an underprivileged family in Austin, Texas. Sonic staff are donating both financially and by physical participation in the building project. The project is being dedicated to Sonic USA's retiring CEO, David Schultz.
- Staff from Sonic's Southwest division in the USA recently participated in the "Tour de Cure", which is a cycling event to benefit the American Diabetes Association. The team of

25 raised nearly \$10,000 for this great cause and is now training for the LIVESTRONG Challenge in October 2012.

- Sonic Germany is sponsoring the 2012 Berlin and Essen concerts of the World Doctor's Orchestra, the proceeds of which will go to the Hugo Tempelman Foundation, which plans to buy musical instruments for a new youth and cultural centre in Soweto. Of the 5 million people living in this urban area of Johannesburg, a full 1.2 million are HIV-positive. "The Miracle", as the centre is known, is also a theatre and an AIDS-information centre.
- Since 2008 Sonic's Central Coast Pathology Laboratory ("CCPL") and its staff have supported and participated in the annual "Heart Walk Avila Beach", raising funds for the American Heart Association. CCPL's team was the top fundraiser last year. CCPL runs a booth each year providing free cholesterol testing and educational materials.
- Sonic's laboratory based on Long Island, New York won the 2011 Summer Food Drive local award for most food collected for Long Island Cares, Inc., The Harry Chapin Food Bank.







### Sonic and the environment

Under Sonic Healthcare's Environmental Policy, our people seek to minimise the negative impacts our businesses may have on their surroundings. Whilst the nature of our industry is such that we are not a significant polluter or energy consumer, our philosophy is that we all have a duty to the community to continuously improve in this area.

Sonic was required to report under the Australian National Greenhouse and Energy Reporting Act 2007 for the first time for the 2011 financial year, and reported as follows (2012 numbers are not yet available):

Greenhouse gas emissions (tonnes CO2-e)	
Scope 1	6,646
Scope 2	55,328
Energy Consumed (GJ)	325,907

Examples of initiatives around the Company to minimise our environmental impact include:

- Sonic is a participating member of eTree, an environmental scheme encouraging security holders to register to access all their communications electronically. For every email address registered or updated at [www.eTree.com.au/sonichealthcare](http://www.eTree.com.au/sonichealthcare), a donation is made to Landcare Australia. With shareholder support of the eTree project and other electronic communication channels, Sonic Healthcare has significantly decreased its shareholder communication print production. Only about 6% of Sonic's shareholders still request a hard copy Annual Report, and over 25% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production, and in conjunction with Landcare Australia, thousands of new trees being planted in reforestation projects around Australia and New Zealand.
- The building which houses Sonic's corporate headquarters and our largest laboratory in Australia was designed to achieve a 4-4.5 star Australian Building Greenhouse Rating, with features to save power consumption, harvest rainwater and filter waste

water. Similar consideration has gone into all other Sonic laboratory building projects in recent years.

- Sonic's UK subsidiary, The Doctors Laboratory, is preparing for ISO 14001 Environmental Management Standard certification. This involves reviewing management of environmental impacts across the business. Our Australian laboratories are also in the process of establishing environmental management systems in line with ISO 14001.
- Sonic's German subsidiary Bioscientia is part of a project called ECOPROFIT, a cooperative approach between local government and local companies with the goal of reducing the environmental impact and cost of waste, raw materials, water, and energy.
- Trialling hybrid and other low environmental impact vehicles for our courier fleets, and training drivers to use less fuel.
- Ongoing campaigns to reduce waste and increase recycling, including providing education and recycling facilities. In Australia and New Zealand, a "Waste Watch Committee" seeks to share "best practice" regarding cost effective, environmentally responsible waste management.

Medical waste is often identified as a potential environmental hazard resulting from our businesses. In reality this issue is managed in a safe and straight forward manner by contracting with reputable, licensed businesses that specialise in the field to collect and dispose of our waste. Our handling of waste is subject to regular review by external parties as part of our laboratory accreditation processes. In its 25 year history, Sonic is not aware of a single issue of note arising in relation to medical waste.

Sonic does not undertake animal testing, other than veterinary pathology (which tests for the health of the animal) in some markets. When purchasing equipment, Sonic formally assesses water usage, power requirements and consumables packaging; and when choosing significant suppliers a formal assessment is made of their environmental policies and credentials.

# FINANCIAL HISTORY

As at 30 June	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Revenue	<b>3,345,616</b>	3,096,379	2,994,633	3,013,731	2,380,327
Earnings before interest, tax, depreciation and amortisation (EBITDA) <sup>1</sup>	<b>624,129</b>	570,095	543,857	425,125	478,568
Net profit after tax <sup>1</sup>	<b>315,996</b>	294,535	293,225	171,360	245,116
Net cash flow from operations	<b>486,758</b>	409,019	429,497	429,952	331,885
Total assets	<b>4,928,805</b>	4,712,897	4,863,725	4,761,246	3,629,001
Total liabilities	<b>2,318,606</b>	2,196,462	2,304,984	2,229,163	1,666,922
Net assets	<b>2,610,199</b>	2,516,435	2,558,741	2,532,083	1,962,079
Net interest bearing debt	<b>1,571,081</b>	1,535,626	1,501,091	1,198,335	1,238,185
<b>Statistics</b>					
Dividends paid per ordinary share (cents)	<b>59.0</b>	59.0	59.0	54.0	49.0
Diluted earnings per share (cents) <sup>1</sup>	<b>80.7</b>	75.5	75.0	46.3	73.5
Dividend payout ratio <sup>1</sup>	<b>72.8%</b>	77.8%	78.2%	111.8%	66.1%
Gearing ratio <sup>2</sup>	<b>37.6%</b>	37.9%	37.0%	32.1%	38.0%
Interest cover (times) <sup>2</sup>	<b>7.0</b>	7.4	9.4	6.5	6.4
Debt cover (times) <sup>2</sup>	<b>2.5</b>	2.8	2.6	2.2	2.5
Net tangible asset backing per share (\$)	<b>(2.40)</b>	(2.30)	(2.34)	(1.72)	(2.21)

<sup>1</sup> After non-recurring items in 2009

<sup>2</sup> Calculated using bank debt facility covenant definitions

# CONCISE ANNUAL REPORT 2012

Sonic Healthcare Limited  
ABN 24 004 196 909



# 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 year ended 30 June 2012.

## Directors

The following persons were Directors of Sonic Healthcare Limited during the whole of the financial year and up to the date of this report:

Mr R.P. Campbell	<i>Chairman</i>
Dr C.S. Goldschmidt	<i>Managing Director</i>
Mr C.D. Wilks	<i>Finance Director</i>
Dr P.J. Dubois	
Mr C.J. Jackson	
Mr L.J. Panaccio	
Ms K.D. Spargo	
Dr E.J. Wilson	

## Principal activities

During the year the principal continuing activities of the Group consisted of the provision of medical diagnostic services and the provision of administrative services and facilities to medical practitioners.

## Dividends

Details of dividends in respect of the current year and previous financial year are as follows:

	2012 \$'000	2011 \$'000
Interim dividend paid on 22 March 2012 (2011: 24 March 2011)	93,593	93,224
Final dividend payable on 9 October 2012 (2011: 21 September 2011)	137,427	136,489
<b>Total dividend for the year</b>	<b>231,020</b>	<b>229,713</b>

On 20 August 2012, the Board declared a final dividend in respect of the year ended 30 June 2012 of 35 cents per ordinary share, 45% franked (at 30%), payable on 9 October 2012 with a record date of 7 September 2012. An interim dividend of 24 cents per ordinary share, 35% franked (at 30%), was paid on 22 March 2012. These dividends included no conduit foreign income.

A final dividend of 35 cents per ordinary share was paid on 21 September 2011 in respect of the year ended 30 June 2011, out of profits of that year as recommended by the Directors in last year's Directors' Report. The interim dividend in respect of the year ended 30 June 2011 was 24 cents per ordinary share, paid on 24 March 2011. These dividends included no conduit foreign income.

## Dividend Reinvestment Plan ("DRP")

The Company's DRP is in operation for the 2012 final dividend. Shares under the DRP will have a subscription price of 2.5% below the average of the daily volume weighted average price of Sonic shares sold (excluding certain types of trades) on each of the 10 consecutive trading days from and including the second trading day after the record date of 7 September. DRP elections must have been received by the record date. Shares will be allocated under the DRP on 9 October 2012, and will rank equally with Sonic's existing fully paid ordinary shares.



# DIRECTORS' REPORT

## Review of operations

A summary of consolidated revenue and earnings is set out below:

	2012 Constant Currency* \$'000	2012 Statutory \$'000	2011 Statutory \$'000	% Change 2012 Constant Currency v 2011 Statutory \$'000	% Change 2012 Statutory v 2011 Statutory \$'000
Revenue from ordinary activities	3,422,592	3,345,616	3,096,379	10.5%	8.0%
Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA) pre acquisition costs	642,494	627,656	573,069		
Acquisition-related costs	(3,582)	(3,527)	(2,974)		
EBITDA after acquisition costs	638,912	624,129	570,095	12.1%	9.5%
Depreciation and lease amortisation	(112,414)	(110,497)	(97,227)	15.6%	13.6%
Earnings before interest, tax and intangibles amortisation (EBITA)	526,498	513,632	472,868	11.3%	8.6%
Amortisation of intangibles	(22,005)	(21,557)	(17,691)	24.4%	21.9%
Net interest expense	(77,541)	(74,147)	(64,774)	19.7%	14.5%
Income tax attributable to operating profit	(101,979)	(100,243)	(95,914)	6.3%	4.5%
Net profit attributable to minority interests	(1,743)	(1,689)	46		
<b>Net profit attributable to shareholders of Sonic Healthcare Limited</b>	<b>323,230</b>	<b>315,996</b>	294,535	<b>9.7%</b>	<b>7.3%</b>
Cash generated from operations		486,758	409,019		19.0%

## Earnings per share

Cents per share	2012 Constant Currency	2012 Statutory	2011 Statutory	% Change 2012 Constant Currency v 2011 Statutory	% Change 2012 Statutory v 2011 Statutory
Basic earnings per share	82.9¢	81.1¢	75.8¢	9.4%	7.0%
Diluted earnings per share	82.5¢	80.7¢	75.5¢	9.3%	6.9%

\* For an explanation of "Constant Currency" refer to 2(a) on the following page.

# DIRECTORS' REPORT

## Review of operations (continued)

### 1. Key highlights

- Business performing strongly with EBITDA growth for 2012 in line with guidance given in August 2011, and interest and tax expenses lower than expected.
- Strong organic revenue growth, synergies and operational improvements driving margin expansion and improvement in return on invested capital ("ROIC").
- Positive outlook with EBITDA expected to grow by 5-10% in 2013, excluding additional acquisitions (assuming 2012 average currency exchange rates).

### 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 2012 for the Australian dollar ("A\$", "AUD" or "\$") versus the currencies of Sonic's major offshore earnings (USD and Euro) were higher than in the comparative period, reducing Sonic's AUD reported earnings ("Statutory" earnings). The underlying earnings in foreign currency are not affected.

Sonic's results for the year have therefore also been presented on a "Constant Currency" basis (i.e. using the same exchange rates to convert the current period foreign earnings as applied in the comparative period, being the average rates for that period) to facilitate comparability of the Group's performance, by providing a view of the underlying business performance without distortion caused by exchange rate volatility, so that an assessment can be made of the growth in earnings in local currencies. Constant Currency reporting also allows comparison to the guidance Sonic provides to the market about its prospective earnings. Given the volatility of the AUD in the last few years, Sonic is not comfortable to provide earnings guidance which requires forecasting of exchange rates. Sonic therefore provides earnings guidance on a Constant Currency basis, and then reports against that measure.

In preparing the Constant Currency reporting, the foreign currency elements of each line item in the Consolidated 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 Constant Currency information contained within this Directors' Report has not been audited in accordance with Australian Auditing Standards.

The average exchange rates used were as follows:

	2012 Statutory	2011 and Constant Currency
AUD/USD	1.0320	0.9904
AUD/EUR	0.7719	0.7250
AUD/GBP	0.6516	0.6218
AUD/CHF	0.9269	0.9412
AUD/NZD	1.2830	1.3049

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

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

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

# DIRECTORS' REPORT

## Review of operations (continued)

### 2. Explanation of results (continued)

#### (b) Revenue

Total revenue growth for the year was 10.5% at Constant Currency exchange rates (i.e. applying the average rates for the 2011 year to the current year results).

Revenue breakdown AUD M	2012 Statutory Revenue	% of 2012 Statutory Revenue	2012 Constant Currency Revenue	2011 Statutory Revenue	Growth 2012 Constant Currency v 2011 Statutory
Pathology – Australia	1,004	30%	1,004	923	8.8%
Pathology – USA	765	23%	797	721	10.5%
Pathology – Europe	829	25%	875	798	9.6%
Pathology – NZ	62	2%	61	65	(6.2)%
Radiology	384	11%	384	362	6.1%
Medical centres	299	9%	299	221	35.3%
Revenue excluding interest income	3,343	100%	3,420	3,090	10.7%
Interest income	3		3	6	
<b>Total revenue</b>	<b>3,346</b>		<b>3,423</b>	<b>3,096</b>	<b>10.5%</b>

Australian pathology revenue grew by 8.8%, versus market growth (per Medicare data) of 6.7%, evidencing market share gains.

Sonic's USA and European revenue growth was augmented by synergistic business acquisitions during the current and prior financial year including:

- CBLPath, New York, USA (1 December 2010)
- Physicians' Automated Laboratory, California, USA (31 December 2010)
- KBL-BML-Unilabo Laboratory, Belgium (6 January 2011)
- Woestyn Laboratory, Belgium (13 January 2011)
- Central Coast Pathology, California, USA (4 February 2011)
- Labor Dr. Steinberg, Germany (21 December 2011)

Sonic's operations in Germany achieved strong organic revenue growth of 6%, which was above expectation. As previously advised, certain regional funding bodies ("KVs") in Germany have been short paying quarterly billing. As at 30 June 2012 Sonic is carrying ~€13M in debtors in relation to these short payments (including estimates of short payments for the June quarter). Sonic is pursuing recovery of these debtors and legal advice supports full recoverability as the short payments are considered illegal, and this view is supported by a number of the other regional KVs. The regional short payments will cease after the September 2012 quarter, at which time the statutory insurance payment system moves to a national funding structure.

Organic revenue growth of 2% in the USA was lower than expected due to the weak macro growth environment, but still exceeded the organic growth of Sonic's major competitors in the USA market.

Radiology revenue grew organically by 6%, a pleasing result after lower growth in recent years.

# DIRECTORS' REPORT

## Review of operations (continued)

### 2. Explanation of results (continued)

#### (b) Revenue (continued)

Sonic's medical centre business, Independent Practitioner Network ("IPN"), achieved revenue growth of 35% through a combination of centre acquisitions, and organic growth in existing medical centres and greenfield sites (backed by successful doctor recruitment strategies). Kinetic Health, IPN's occupational health business, performed very strongly during the year.

Revenue was impacted by currency exchange rate movements, which decreased reported (Statutory) revenue by A\$77M compared to the comparative period.

#### (c) EBITDA

EBITDA grew 12% at Constant Currency exchange rates versus the comparative period. The equivalent margin expanded by 30 basis points ("bps") over the comparative period. EBITDA was impacted by the expensing of acquisition-related costs, totalling A\$4M in the year (2011: A\$3M).

EBITDA margin expansion in the period for the Pathology division of 30 bps was pleasing given that margins in the USA were hampered by low organic revenue growth and a A\$2.4M bad debt relating to a hospital bankruptcy.

Sonic's Radiology division margin grew by 90 bps, delivered by organic revenue growth and tight cost control.

#### (d) Interest expense and debt facilities

Net interest expense increased 20% (A\$13M) on the prior year (at Constant Currency rates) due to increased net debt relating to acquisitions completed since July 2010, and higher margin costs as debt facilities were refinanced at current market 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.

Sonic's net interest bearing debt at 30 June 2012 comprised:

	Facility Limit M	Drawn M	AUD \$M Available
Notes held by USA investors – USD	US\$500	US\$500	-
Bank debt facilities			
– USD limits	US\$692	US\$442	245
– Euro limits	€679	€594	105
– AUD (Multicurrency) limits	A\$359	A\$74 <sup>+</sup>	285
Minor debt/leasing facilities	n/a	A\$9 <sup>*</sup>	-
Cash	n/a	A\$(169) <sup>*</sup>	169
Available funds at 30 June 2012			804

<sup>+</sup> Drawn as £16M and A\$49M

<sup>\*</sup> Various currencies

In June 2012, Sonic refinanced a bilateral bank debt facility which was due to expire in September 2012. As part of the refinancing the facility was upsized from US\$75M to US\$150M. Since year end a €26M tranche of debt has been permanently repaid and a new 5 year club bank debt facility for €195M has been established, with one existing and two new lenders to the Company.



# DIRECTORS' REPORT

## Review of operations (continued)

### 2. Explanation of results (continued)

#### (d) Interest expense and debt facilities (continued)

Sonic's credit metrics at 30 June 2012 were as follows:

	30.6.12	31.12.11	30.6.11
Gearing ratio	37.6%	39.7%	37.9%
Interest cover (times)	7.0	6.7	7.4
Debt cover (times)	2.5	2.8	2.8

#### Definitions:

Gearing ratio = Net debt/[Net debt + equity] (bank covenant limit <55%)

Interest cover = EBITA/Net interest expense (bank covenant limit >3.25)

Debt cover = Net debt/EBITDA (bank covenant limit <3.5)

Calculations as per Sonic's syndicated bank debt facility definitions

Sonic's senior debt facility limits (including undrawn facilities) at the date of this report expire as follows:

	AUD M	USD M	Euro M
2012 (October)	15	235	215
2014	165	308	62
2015	179	-	186
2016	-	75	190
2017	-	170	195
2020	-	155	-
2021	-	250	-
	359	1,193	848

Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk. Sonic currently has sufficient headroom in cash and undrawn facilities to repay debt drawn under the October 2012 maturing limits.

#### (e) Tax expense

The effective tax rate of 24% is lower than previous guidance (~26%) and in the comparative period (25%), partly due to overprovisions in prior years and to the performance of Sonic's businesses in higher tax rate jurisdictions relative to the performance of its operations in lower tax rate countries.

#### (f) Cashflow from operations

Cash generated from operations was extremely strong at \$487M (up 19% on the comparative period), exceeding cash profit (net profit plus depreciation, intangibles amortisation, equity instrument expense and outside equity interests) by 7%, mainly as a result of timing of tax payments and tax deductions for goodwill amortisation in offshore jurisdictions.

# DIRECTORS' REPORT

## Review of operations (continued)

### Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the course of the financial year included the following:

- Successful establishment in September 2011 of a new syndicated bank debt facility with tranche limits of A\$150M and US\$100M, expiring in March 2014
- Successful refinancing and upsizing of a US\$150M bilateral bank debt facility, expiring 50% in June 2016 and 50% in June 2017.

### Matters subsequent to the end of the financial year

Since the end of the financial year, 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 follows:

- On 20 August 2012 Sonic's Directors declared a final dividend of 35 cents (45% franked) per ordinary share, payable on 9 October 2012. Sonic's Dividend Reinvestment Plan is in operation for this dividend. The final dividend included no conduit foreign income.
- Successful establishment of a new club bank debt facility for €195M, expiring in 2017.

### Likely developments and expected results of operations

Sonic's main focus during the 2013 and future financial years will be to continue to grow shareholder value through both synergistic acquisitions and organic growth, and by extracting efficiencies from its existing businesses, particularly in our three major markets of Australia, Europe and the USA. Sonic continues to target further acquisitions in the USA and its existing countries of operation in Europe and expects significant growth in these large fragmented laboratory markets over the coming years.

On 21 August 2012 Sonic provided guidance in relation to forecast results for the 2013 financial year as follows:

Sonic expects to grow EBITDA by 5-10% over the 2012 level of A\$624M, on a Constant Currency basis (applying 2012 average currency exchange rates to 2013).

Net interest expense is expected to decrease by approximately 5-10% over the 2012 level of A\$74M on a Constant Currency basis. Underlying floating interest rates are assumed to remain constant.

The effective tax rate is expected to be ~26%.

This guidance excludes the impact of any future business acquisitions.

Sonic is in the process, subject to anti-trust approval, of acquiring the Queensland and Western Australia pathology operations of Healthscope for a total purchase price (cash and debt free) of \$47M. Whilst this acquisition is expected to be highly synergistic, its impact will be immaterial to the Company as a whole.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would prejudice Sonic's competitive position in the market place.

# DIRECTORS' REPORT

## Information on Directors (a) Directors' profiles



### **Peter Campbell** | Chairman

F.C.A., F.T.I.A., F.A.I.C.D.

**Non-executive, independent Director, appointed January 1993 (Chairman from 27 October 2010)**

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Australian Institute of Company Directors. He is a Registered Company Auditor. Mr Campbell is a member of the Remuneration and Nomination Committee and Audit Committee. Mr Campbell is currently a non-executive director of Silex Systems Limited (since 1996) and also of QRxPharma Limited (since April 2007).



### **Dr Colin Goldschmidt** | CEO and Managing Director

M.B.B.Ch., F.R.C.P.A., F.A.I.C.D.

**Executive Director, appointed January 1993**

Dr Goldschmidt is the CEO and Managing Director of Sonic Healthcare. He is a qualified medical doctor who then undertook specialist pathology training in Sydney, before gaining his Specialist Pathologist qualification in 1986. Dr Goldschmidt practised for five years (1987-1992) as a histopathologist with Douglass Hanly Moir Pathology, Sonic's first acquisition, prior to his appointment as CEO of both Sonic Healthcare and Douglass Hanly Moir Pathology in 1993. He is a member of numerous medical and pathology associations and a member of Sonic's Risk Management Committee. He is also a non-executive director of Silex Systems Limited (since 1992), a listed company previously spun out of Sonic.



### **Christopher Wilks** | Finance Director

B.Comm. (Univ Melb), F.A.I.C.D.

**Executive Director, appointed December 1989**

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private investment bank and has held directorships for a number of public companies. He is currently a director of Silex Systems Limited (since 1988). Mr Wilks is a member of the Risk Management Committee.

# DIRECTORS' REPORT

## Information on Directors (continued)

### (a) Directors' profiles (continued)



#### **Dr Philip Dubois**

M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R., F.A.I.C.D.

**Executive Director, appointed July 2001**

Dr Dubois is Chairman of the Sonic Imaging Executive Committee and is Chairman and CEO of Queensland X-Ray. A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at the University of Queensland Medical School. He has served on numerous government and craft group bodies, including the councils of the Royal Australian and New Zealand College of Radiologists and the Australian Medical Association, and as Vice-President of the Australian Diagnostic Imaging Association (ADIA). Dr Dubois is a member of Sonic's Risk Management Committee. He is a non-executive director of Magnetica Limited (since December 2004).



#### **Colin Jackson**

O.A.M., F.C.P.A., F.C.A., F.A.I.C.D.

**Executive Director, appointed December 1999**

Mr Jackson has a background in professional accounting practice and laboratory management. He plays an active role at Sonic corporate level and, as President of the Australian Association of Pathology Practices, represents Sonic at a national industry level. Mr Jackson was the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic's Tasmanian practice) for 11 years to 2006. He is a Fellow of the Australian Society of Certified Practising Accountants, the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia. Mr Jackson is a member of the Winston Churchill Fellowship Trust Selection Committee in Tasmania. He is Chairman of the Tasmanian Symphony Orchestra Foundation Limited. He is also President of the University of Tasmania Foundation and a member of the Tasmanian Board of the Australian Olympic Committee.



#### **Lou Panaccio**

B.Ec., C.A., M.A.I.C.D.

**Non-executive, independent Director, appointed June 2005**

Mr Panaccio is a chartered accountant with strong management experience in business and healthcare services. He is currently Executive Chairman of Health Networks Australia, Executive Chairman (from July 2011) of Genera Biosystems Limited (director from November 2010) and a Non-executive Chairman of the Inner Eastern Community Health Service in Victoria. Mr Panaccio was the Chief Executive Officer and an Executive Director of Melbourne Pathology for ten years to 2001. Mr Panaccio is Chairman of the Audit Committee, and a member of the Remuneration and Nomination Committee.



# DIRECTORS' REPORT

## Information on Directors (continued)

### (a) Directors' profiles (continued)



#### **Kate Spargo**

L.L.B. (Hons), B.A., F.A.I.C.D.

**Non-executive, independent Director, appointed July 2010**

Ms Spargo has gained broad business experience as both a legal advisor, having worked in private practice and government, and as a director. Ms Spargo has been a director of both listed and unlisted companies over the last fifteen years and her current directorships include the ASX listed companies Fletcher Building Limited (from March 2012) and UGL Limited (from October 2010). She is also a director of SMEC Limited, an engineering company with operations in around 40 countries, Investec Bank (Australia) Limited, ColInvest Limited and Suncorp Portfolio Services Limited. She is Chair of the Accounting Professional and Ethical Standards Board Ltd and a member of the International Ethics Standards Board for Accountants. Ms Spargo is Chair of the Remuneration and Nomination Committee and is a member of the Audit Committee.



#### **Dr Jane Wilson**

M.B.B.S., M.B.A., F.A.I.C.D.

**Non-executive, independent Director, appointed July 2010**

Dr Wilson is a senior non-executive director with a background in medicine, finance and banking and has extensive experience in corporate finance, commercialisation of technologies and governance. Since 1995, Dr Wilson has served on boards of ASX companies, Government-owned corporations and not-for-profit organisations. She is a Fellow of the Australian Institute of Company Directors (AICD) and was the Queensland President and National Board Director of AICD from 2002 to 2004. She is currently a director of ASX listed Universal Biosensors Ltd (since December 2006) and CathRx Ltd (since August 2005), Finance Director of The Winston Churchill Memorial Trust and a director of the General Sir John Monash Foundation. She is a member of the University of Queensland Senate, the Senate Finance Committee and the University of Queensland Faculty of Health Sciences Board. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee.

### (b) Company Secretary



#### **Paul Alexander**

B.Ec., C.A., F.Fin.

Mr Alexander has been the Group Financial Controller of Sonic Healthcare Limited since 1997 and Sonic's Company Secretary since 2001. Prior to joining Sonic, Mr Alexander gained 10 years experience in professional accounting practice, mainly with Price Waterhouse, and was also Financial Controller and Company Secretary of a subsidiary of a multinational company for two years.

# DIRECTORS' REPORT

## Information on Directors (continued)

### (c) Directors' interests in shares, options and performance rights as at 26 September 2012

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
R.P. Campbell	Ordinary	10,000	Beneficially	-	-
Dr C.S. Goldschmidt	Ordinary	700,000	Personally	4,611,298	314,960
	Ordinary	30,243	Beneficially	-	-
C.D. Wilks	Ordinary	810,000	Personally	2,345,648	157,480
	Ordinary	88,122	Beneficially	-	-
Dr P.J. Dubois	Ordinary	-	-	-	-
C.J. Jackson	Ordinary	491,371	Personally	-	-
L.J. Panaccio	Ordinary	-	-	-	-
K.D. Spargo	Ordinary	3,000	Personally	-	-
	Ordinary	5,000	Beneficially	-	-
Dr E.J. Wilson	Ordinary	2,000	Beneficially	-	-

## Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Committees					
			Audit		Remuneration and Nomination		Risk Management	
	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held
R.P. Campbell	12	13	2	3	4	4	-	-
Dr C.S. Goldschmidt	13	13	-	-	-	-	1	2
C.D. Wilks	13	13	-	-	-	-	2	2
Dr P.J. Dubois	13	13	-	-	-	-	2	2
C.J. Jackson	13	13	-	-	-	-	-	-
L.J. Panaccio	13	13	3	3	4	4	-	-
K.D. Spargo	13	13	3	3	-	-	-	-
Dr E.J. Wilson	13	13	-	-	4	4	2	2

# DIRECTORS' REPORT

## Insurance of officers

During the financial year, the Company entered into agreements to indemnify all Directors of the Company that are named above and current and former Directors of the Company and its controlled entities against all liabilities to persons (other than the Company or related entity) which arise out of the performance of their normal duties as Director or executive officer unless the liability relates to conduct involving lack of good faith. The Company has agreed to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The Directors' and officers' liability insurance provides cover against costs and expenses, subject to the terms and conditions of the policy, involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or related entity) incurred in their position as a Director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow disclosure of the nature of the liabilities insured against or the premium paid under the policy.

## Environmental regulation

The Group is subject to environmental regulation in respect of the transport and disposal of medical waste. The Group contracts with reputable, licensed businesses to dispose of waste and there have been no investigations or claims during the financial year. The Directors believe that the Group has complied with all environmental regulations.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor of the Group (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*. In the opinion of the Directors none of the services provided undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 38.

During the year the following fees were paid or payable for non-audit services provided by the auditors of the Group.

	2012 \$	2011 \$
<b>PricewaterhouseCoopers – Australian firm</b>		
Taxation, accounting and advisory services	-	16,350
<b>Related practices of PricewaterhouseCoopers – Australian firm (including overseas PricewaterhouseCoopers firms)</b>		
Taxation and accounting services	33,250	64,650

# DIRECTORS' REPORT

## Share options

Information on share options is detailed in Note 7 – Share options.

## Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the “rounding off” of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Remuneration Report

The Directors of Sonic Healthcare Limited present the Remuneration Report for the year ended 30 June 2012 in accordance with section 300A of the *Corporations Act 2001*.

Sonic Healthcare's remuneration packages are structured and set at levels that are intended to attract, motivate and retain Directors and executives capable of leading and managing the Group's operations, and to align remuneration with the creation of value for shareholders.

Remuneration of Non-executive Directors is determined by the Board within the maximum amount approved by the shareholders. At the Annual General Meeting (“AGM”) on 18 November 2010 shareholders approved a maximum amount of \$1,000,000 for remuneration of Non-executive Directors. The base Non-executive Director fee is \$125,000 per annum (set in May 2009). A Committee fee of \$10,000 per annum applies for each Board Committee upon which a Director serves, other than the Remuneration and Nomination Committee, for which the fee is \$5,000 per annum. Options or performance rights are not issued and bonuses are not payable to Non-executive Directors.

The Remuneration and Nomination Committee, consisting of four Non-executive independent Directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity-based incentive schemes for other employees. The Remuneration and Nomination Committee and Board also seek and consider advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by and report directly to the Remuneration and Nomination Committee, after consideration of any potential conflicts.

Sonic Healthcare's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements relate to the performance of the Group and thus align reward with the creation of value for shareholders.

Remuneration and other terms of employment for other executives are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, performance of the entity or function of the Group for which they have responsibility, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, fringe benefits, performance related bonuses and share and option grants. These bonuses and equity grants reward the creation of value for shareholders.

Other than contributions to superannuation funds during employment periods and notice periods under applicable employment laws and in certain executive service contracts, the Group does not contract to provide retirement benefits to Directors or executives.

### (a) Key management personnel

#### (i) Directors

The following persons were Directors of Sonic Healthcare Limited during the financial year and therefore key management personnel:

#### Non-executive Directors

R.P. Campbell  
L.J. Panaccio  
K.D. Spargo  
Dr E.J. Wilson



# DIRECTORS' REPORT

## Remuneration Report (continued)

### (a) Key management personnel (continued)

#### (i) Directors (continued)

##### Executive Directors

Dr C.S. Goldschmidt *Managing Director*

C.D. Wilks *Finance Director*

Dr P.J. Dubois

C.J. Jackson

All of the above persons were also key management personnel during the year ended 30 June 2011.

#### (ii) Other key management personnel

The Sonic Group operates via a decentralised federated structure whereby the Chief Executive Officers of individual operating entities have delegated authority for their local operations (each of which is immaterial to the Group as a whole). The Group's Australian and New Zealand pathology and radiology activities are co-ordinated and controlled through the Pathology Sonic Executive Committee and the Imaging Sonic Executive Committee ("PSEC" and "ISEC" respectively). Dr C.S. Goldschmidt is Chairman of PSEC and a member of ISEC, Dr P.J. Dubois is Chairman of ISEC and C.D. Wilks is a member of both PSEC and ISEC. A German Sonic Executive Committee ("GSEC") co-ordinates the Group's German operations. Dr C.S. Goldschmidt is Chairman of GSEC and C.D. Wilks is also a member. Dr C.S. Goldschmidt and C.D. Wilks are also involved in the formal meetings of the heads of Sonic's businesses in the USA. C.J. Jackson is an Executive Director of Sonic who is a member of PSEC, Chairman of IPN, represents Sonic in industry matters and plays a role in Sonic's New Zealand operations, and various projects and initiatives.

The Board therefore considers that these executives, plus the Non-executive Directors, are the Group's "key management personnel".

### (b) Performance of the Group and relationship to remuneration of key management personnel

The table below summarises Sonic Healthcare's performance over the last five years and the changes in remuneration of key management personnel (but excluding Non-executive Directors who do not receive bonuses or options/performance rights):

	2008	2009 <sup>1</sup>	2010	2011	2012	Compound Average Annual Growth Rate <sup>2</sup>
Ordinary earnings per share (cps)	73.5	85.2	75.0	75.5	80.7	4.3%
Net profit attributable to members (\$'000)	245,116	315,146	293,225	294,535	315,996	9.8%
Dividends paid per share (cps)	49	54	59	59	59	
Enterprise value <sup>3</sup> (\$'000)	6,090,643	5,928,856	5,552,415	6,534,718	6,536,398	
Total shareholder return <sup>4</sup>	26.9%	(3.0)%	(22.0)%	1.5%	19.2%	
Change in total cash remuneration of executives <sup>5</sup>	5.2%	42.4%	6.0%	0.6%	4.7%	10.8%
Change in total remuneration of executives <sup>6</sup>	19.3%	9.8%	(23.3)%	(18.9)%	(3.0)%	(4.6)%

<sup>1</sup> Net profit attributable to members and earnings per share are based on ordinary earnings and exclude certain non-recurring items in 2009. No other years have been adjusted.

<sup>2</sup> The compound average annual growth rate is calculated over the five year period shown.

<sup>3</sup> Enterprise value is the Company's market capitalisation (number of issued shares times closing share price) plus net interest bearing debt at 30 June.

<sup>4</sup> Total shareholder return is calculated over a rolling 3 year performance period and assumes dividend reinvestment.

<sup>5</sup> Change in total cash remuneration of executives is the percentage increase/(decrease) over the prior year of total cash remuneration of all key management personnel in place for all five years (but excluding Non-executive Directors).

<sup>6</sup> Change in total remuneration of executives is the percentage increase/(decrease) over the prior year of total remuneration (cash plus long service leave accrued plus the calculated value of equity remuneration) of all key management personnel in place for all five years (but excluding Non-executive Directors).

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (b) Performance of the Group and relationship to remuneration of key management personnel (continued)

The table above demonstrates the relationship between the performance of the Group and the remuneration of its key management personnel. Cash remuneration has increased marginally and equity-based remuneration has reduced during the last three years when Sonic Healthcare's reported performance has been significantly impacted by foreign currency headwind, with the strengthening AUD reducing the translated earnings of the Group's offshore operations.

### (c) Remuneration of key management personnel

Details of the nature and amount of each element of the remuneration of the key management personnel of the Group are set out below in the tables (for cash remuneration) and text (non-cash remuneration):

#### 12 months to 30 June 2012

Name	Short-term employee benefits			Post-employment benefits	Total cash remuneration <sup>2</sup>
	Salary & fees \$	Other benefits <sup>1</sup> \$	Cash bonus \$	Superannuation \$	
Dr C.S. Goldschmidt <i>Managing Director</i>	1,781,887	-	1,265,000	18,113	3,065,000
C.D. Wilks <i>Finance Director</i>	764,225	-	600,000	35,775	1,400,000
Dr P.J. Dubois <i>Director</i>	494,902	7,186	110,000	50,000	662,088
C.J. Jackson <i>Director</i>	347,207	-	-	22,793	370,000
R.P. Campbell <i>Chairman and Non-executive Director</i>	128,440	-	-	11,560	140,000
L.J. Panaccio <i>Non-executive Director</i>	128,440	-	-	11,560	140,000
Dr E.J. Wilson <i>Non-executive Director</i>	128,440	-	-	11,560	140,000
K.D. Spargo <i>Non-executive Director</i>	124,617	-	-	11,215	135,832

<sup>1</sup> Other benefits include fringe benefits tax.

<sup>2</sup> Excludes long service leave accruals and equity-based remuneration.

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (c) Remuneration of key management personnel (continued)

12 months to 30 June 2011

Name	Short-term employee benefits			Post-employment benefits	Total cash remuneration <sup>2</sup>
	Salary & fees \$	Other benefits <sup>1</sup> \$	Cash bonus \$	Superannuation \$	
Dr C.S. Goldschmidt <sup>3</sup> <i>Managing Director</i>	1,508,319	-	1,283,500	46,430	2,838,249
C.D. Wilks <sup>3</sup> <i>Finance Director</i>	663,857	-	641,750	36,865	1,342,472
Dr P.J. Dubois <i>Director</i>	492,587	9,336	135,000	50,000	686,923
C.J. Jackson <i>Director</i>	358,159	-	-	22,801	380,960
B.S. Patterson <i>Chairman and Non-executive Director</i> (to 27 October 2010)	47,017	-	-	4,650	51,667
R.P. Campbell <i>Chairman and Non-executive Director</i>	133,028	-	-	11,972	145,000
L.J. Panaccio <i>Non-executive Director</i>	128,440	-	-	11,560	140,000
Dr E.J. Wilson <i>Non-executive Director</i>	125,383	-	-	11,285	136,668
K.D. Spargo <i>Non-executive Director</i>	121,560	-	-	10,940	132,500

<sup>1</sup> Other benefits include fringe benefits tax.

<sup>2</sup> Excludes long service leave accruals and equity-based remuneration.

<sup>3</sup> Due to the timing of the fortnightly payroll cycle, an extra payment occurred in the 2011 year.

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (c) Remuneration of key management personnel (continued)

In addition to the cash remuneration disclosed above, the value of long service leave accrued for each relevant executive for the 12 months to 30 June 2012 was: Dr C.S. Goldschmidt \$151,814 (2011: \$25,331), C.D. Wilks \$31,206 (2011: \$11,293), and C.J. Jackson \$4,318 (2011: \$4,467).

### (i) Equity-based remuneration

The calculated remuneration value of options and performance rights for Dr C.S. Goldschmidt for the 12 month period to 30 June 2012 was \$1,316,989 (2011: \$1,709,787), and for C.D. Wilks it was \$664,475 (2011: \$901,216).

The equity-based remuneration amounts disclosed relate to shares, options and performance rights issued under the Sonic Healthcare Limited Employee Option Plan, Executive Incentive Plan and the Performance Rights Plan, and represent the assessed fair values at the date they were granted, allocated equally over the service periods up to the vesting dates. Fair values for these shares, options and performance rights have been determined using a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield, and risk-free interest rate for the term of the option. The fair value of the shares, options and performance rights granted is adjusted to reflect market vesting conditions (using a Monte Carlo simulation) but excludes the impact of non-market vesting conditions.

No options or performance rights are issuable in future years to Dr C.S. Goldschmidt and C.D. Wilks under the Employee Option Plan, Executive Incentive Plan or the Performance Rights Plan relating to remuneration arrangements for the periods to 30 June 2012.

During the financial year Dr C.S. Goldschmidt exercised 1,000,000 (2011: nil) Executive Incentive Plan options over ordinary shares in the Company issued as remuneration with an exercise price of \$7.50. The total intrinsic value of the options at the date of exercise was \$4,020,000 (2011: \$nil). C.D. Wilks exercised 540,000 (2011: 340,000) Executive Incentive Plan options over ordinary shares in the Company issued as remuneration with an exercise price of \$7.50. The total intrinsic value of the options at the date of exercise was \$2,170,800 (2011: \$936,000).

### (ii) Performance related components of remuneration

Cash bonuses, options and performance rights over unissued ordinary shares of Sonic Healthcare Limited are performance related components of Dr C.S. Goldschmidt's and C.D. Wilks' remuneration. In aggregate, these components made up 57% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2012 (2011: 65%), and 60% of C.D. Wilks' remuneration for the 12 months to 30 June 2012 (2011: 68%). Within these components, the calculated value of options and performance rights over unissued ordinary shares in Sonic Healthcare Limited accounted for 29% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2012 (2011: 37%) and 32% of C.D. Wilks' remuneration for the 12 months to 30 June 2012 (2011: 40%). Dr P.J. Dubois' remuneration includes cash bonuses as performance related components. These components made up 17% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2012 (2011: 20%).

### (d) Service agreements

None of the key management personnel of Sonic Healthcare Limited has a service contract. Rather the terms and entitlements of employment are governed by applicable employment laws.

Dr P.J. Dubois has a cash bonus arrangement in place which is based on the satisfaction of performance conditions relating to the earnings of Queensland X-Ray, where he performs the role of CEO.

### Remuneration for Dr C.S. Goldschmidt and C.D. Wilks prior to 1 July 2011

The remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks for the five financial years to 30 June 2008 included an Executive Incentive Plan from which ordinary shares and options over unissued ordinary shares were issuable upon the achievement of certain performance conditions. Of the total options issued under the Executive Incentive Plan, 100% had vested at 30 June 2012 and none were forfeited.

## Remuneration Report (continued)

### (d) Service agreements (continued)

#### Remuneration for Dr C.S. Goldschmidt and C.D. Wilks prior to 1 July 2011 (continued)

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised with effect from 1 July 2008 for the three years to 30 June 2011. The long term incentive component of the revised remuneration arrangements for the 2009, 2010 and 2011 financial years was approved by shareholders at the 2008 AGM. 1,750,000 options were issued to Dr C.S. Goldschmidt and 875,000 were issued to C.D. Wilks under the Employee Option Plan in November 2008. The options have an exercise price of \$12.98 (Sonic's five day VWAP at the time of the 2008 AGM) and vesting was subject to the fulfilment of two separate performance conditions with a 50% weighting for each (that is, 50% of the options were subject to the first performance condition and the other 50% were subject to the second performance condition).

Performance condition one required a compound annual growth rate of EPS for the three years ending 30 June 2011 of 10%. This performance condition was not met and the relevant 50% of the total number of options were forfeited during the 2012 financial year.

Under performance condition two, Sonic's performance was ranked by percentile according to its Total Shareholder Return (TSR) against the TSRs of the companies forming the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies, over the performance period from 1 July 2008 to 30 June 2011. A TSR below the 50th percentile would result in nil options vesting, a TSR of the 50th percentile would result in 50% of options vesting, with a progressive scale of an additional 2% for each percentile increase to the 75th percentile. A TSR of the 75th percentile and above would result in 100% of the relevant options vesting. Sonic achieved a percentile rank of 65.7% and therefore 81.4% of the relevant options (1,068,375 options) achieved the performance condition. The other 244,125 options were forfeited during the 2012 financial year. The vested options expire on 22 November 2013, 60 months from the date of issue.

Of the total options issued in November 2008 under the Employee Option Plan 40.7% had vested at 30 June 2012, with 59.3% forfeited as performance conditions were not met. The value of the options forfeited, calculated at the time of forfeit and assuming the vesting conditions were met, was \$nil for both Dr C.S. Goldschmidt and C.D. Wilks.

#### Remuneration for Dr C.S. Goldschmidt and C.D. Wilks for the five years from 1 July 2011

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised with effect from 1 July 2011 following a comprehensive review by the Remuneration and Nomination Committee. As part of the review, the Remuneration and Nomination Committee directly engaged Aon Hewitt as independent remuneration consultants to provide market benchmarking analysis and to advise on possible remuneration arrangements. As part of their advice Aon Hewitt considered the level of total and individual components of remuneration and made detailed comparisons by percentile band to a core comparator group of 22 ASX listed companies of comparable size and complexity to Sonic, including significant offshore operations. These comparisons showed that Dr C.S. Goldschmidt's total remuneration for 2011 was well below the median whilst C.D. Wilks' was around the 75th percentile. A cross check was then made to a March 2011 PricewaterhouseCooper's publication referencing CEO and CFO remuneration for all companies in the ASX 100. The remuneration levels and split between components for the executives described below reflect the Aon Hewitt advice and took Dr C.S. Goldschmidt's maximum potential remuneration to the median level of historical actual remuneration of the comparator group and C.D. Wilks' into the upper quartile. The Board believes this is appropriate for C.D. Wilks as the role he performs within Sonic is broader than the usual Chief Financial Officer role.

#### (i) Fixed remuneration

The fixed remuneration component, being \$1,800,000 per annum for Dr C.S. Goldschmidt and \$800,000 per annum for C.D. Wilks for 2012, comprises base salary and employer superannuation contributions, but excludes long service leave accruals. The executives may take part of their base salary as other benefits, such as motor vehicles, including any associated fringe benefits tax.

Fixed remuneration is reviewed annually, taking into account the executives' performance, Company performance and comparative market data.



# DIRECTORS' REPORT

## Remuneration Report (continued)

### (d) Service agreements (continued)

#### (ii) Short Term Incentives ("STI")

The executives are eligible for an annual cash bonus of up to \$1,265,000 for Dr C.S. Goldschmidt and \$600,000 for C.D. Wilks (the "maximum STI") based on achievement of pre-determined goals.

Up to 70% of the maximum STI is based on the Company achieving year on year growth (using Constant Currency exchange rates to translate offshore earnings) in Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") as follows:

Annual EBITDA Growth	% of 70% of STI payable	Amount Payable	
		Dr C.S. Goldschmidt	C.D. Wilks
Less than 6.0%	0%	-	-
6.0%	40%	\$354,200	\$168,000
Greater than 6.0% and less than 12.0%	pro rata	pro rata	pro rata
12.0% or greater	100%	\$885,500	\$420,000

EBITDA growth (using Constant Currency exchange rates) was chosen as a performance criteria as it is consistent with the way Sonic gave market guidance for the 2012 and 2013 financial years and is likely to give future guidance, and it is a clearer measure of operational performance than net profit or earnings per share as it is not distorted by changes in income tax, interest rates, or exchange rates.

The Board ensures the growth calculation is performed on a consistent basis (for example, by removing the impact of a change of accounting standards).

Up to 30% (\$379,500 for Dr C.S. Goldschmidt and \$180,000 for C.D. Wilks) of the maximum STI is awarded after an assessment of performance based on qualitative factors including:

- Promotion of and adherence to Sonic's Core Values and Foundation Principles.
- Medical leadership.
- Federation model.
- Risk management.
- External standing and reputation (including stakeholder management, brand and quality).
- Financial leadership and innovation (for C.D. Wilks).

The annual assessment is made by the Remuneration and Nomination Committee and a recommendation made to the Board for final determination.

The Board has determined to award cash bonuses under the STI for the 2012 financial year of \$1,265,000 for Dr C.S. Goldschmidt and \$600,000 for C.D. Wilks. The bonuses have been calculated on 12.1% Constant Currency EBITDA growth in 2012, and the maximum payable under the qualitative factors, as the Board is satisfied that the executives have excelled in the areas of assessment during 2012, and no issues have arisen during the year that would suggest anything to the contrary. The 2012 cash bonuses awarded represent 100% of the maximum STI with 0% forfeited.

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (d) Service agreements (continued)

#### (iii) Long Term Incentives ("LTI")

After approval by shareholders at the 2011 AGM, the executives were issued the following LTI effective for the five years from 1 July 2011:

	Dr C.S. Goldschmidt	C.D. Wilks
Maximum annual value of LTI	\$1,800,000	\$900,000
Consisting of the issue in November 2011 of:		
Options over shares in Sonic Healthcare Limited (60% of value)	2,899,048	1,449,523
Performance rights over shares in Sonic Healthcare Limited (40% of value)	314,960	157,480

The LTI options and performance rights will vest (subject to performance conditions) and expire as follows:

% of total	Earliest Vesting Date*	Performance conditions measurement period	Expiry date
Up to 30%	18 November 2014	3 years to 30 June 2014	18 November 2016
Up to 30%	18 November 2015	4 years to 30 June 2015	18 November 2017
Up to 40%	18 November 2016	5 years to 30 June 2016	18 November 2018

\* Options can only vest when the market price of Sonic shares is higher than the exercise price.

The number of options issued were determined based on a Black Scholes methodology valuation at the time of grant and the exercise price of the options was determined using the Volume Weighted five day Average market Price ("5 day VWAP") for Sonic shares preceding the date of grant. The valuation did not allow for any discount relating to performance conditions.

The number of performance rights issued was determined by dividing 40% of the maximum annual value of LTI by the 5 day VWAP for Sonic shares preceding the date of grant and multiplying by 5 years.

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (d) Service agreements (continued)

#### (iii) Long Term Incentives ("LTI") (continued)

The options and performance rights are subject to challenging performance conditions designed to align the interests of the executives with those of shareholders. There are two separate performance conditions to be applied with a 50% weighting for each (that is, 50% of the options and 50% of the performance rights are subject to the first performance condition, and the other 50% of each are subject to the second performance condition). The performance conditions are as follows:

#### Performance Condition 1 ("PC1") – 50% weighting – Compound Average Growth Rate ("CAGR") in Return on Invested Capital ("ROIC")

CAGR ROIC	Percentage of Options and Rights that vest
Less than 3.0% p.a.	Nil options and rights to which PC1 applies
3.0% p.a.	30% of options and rights to which PC1 applies
Greater than 3.0% and less than 9.0% p.a.	Pro rata between 30% and 100% of options and rights to which PC1 applies
9.0% p.a. or greater	100% of options and rights to which PC1 applies

ROIC is calculated as Earnings before Interest and Tax ("EBIT") less related tax and minority interests divided by capital employed. Additional details regarding the calculation of ROIC are disclosed in the 2011 AGM section on Sonic's website. It is expressed as a percentage and the hurdle growth rates are growth in this percentage.

Growth in ROIC was chosen as a performance hurdle following the input of several of the Company's larger shareholders and potential shareholders who, along with the Board, believe that the Company's primary focus in coming years should be improvement in the return from the substantial investments the Company has made in its offshore markets. In 2012 the Company's ROIC grew to 9.8% (from 8.9%), a 10.1% improvement.

## Remuneration Report (continued)

### (d) Service agreements (continued)

#### (iii) Long Term Incentives ("LTI") (continued)

#### Performance Condition 2 ("PC2") – 50% weighting – Sonic's Total Shareholder Return ("TSR") against the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies

TSR Target	Percentage of Options and Rights that vest
Below the 50th percentile	Nil options and rights to which PC2 applies
50th percentile	50% of options and rights to which PC2 applies
Greater than 50th and less than 75th percentile	Progressive scale of an additional 2% for each percentile increase
75th percentile and above	100% of options and rights to which PC2 applies

Under PC2, Sonic's performance is ranked by percentile according to its TSR against the TSRs of the component companies of the reference group (being the S&P ASX 100 Accumulation Index, excluding Bank and Resource companies) over the relevant performance periods (see above).

Relative TSR has been chosen as a performance hurdle as it provides a direct link between executive remuneration and shareholder return relative to the Company's peers. A relative measure is important, as it removes from the assessment broad market share price movements which are out of the control of the executives. The executives will not derive any value from the relevant portion of the LTI unless the Company's performance is at least at the median of the benchmark group.

Options and performance rights for which the performance conditions are not satisfied will be forfeited immediately after the performance measurement is finalised. There will be no retesting.

Should one of the executives cease employment with the Group prior to vesting of some or all of their LTI, the Board will have discretion based on whether the executive is judged to be a "good leaver" to enable the executive to retain the portion of the LTI which vests (subject to the performance conditions) within two years of cessation of employment. To be judged a "good leaver" the executive would need to provide sufficient notice, assist with succession planning and transition and make themselves reasonably available to assist/answer queries of their replacement for a period post employment. The Board views this arrangement to be in the best interests of the Company and its shareholders, as the executives will be incentivised to minimise disruption/loss of value associated with their departure. Cessation of employment in all other circumstances will trigger forfeiture of all unvested entitlements.

If a takeover bid or other public proposal is made for voting shares in the Company which the Board reasonably believes is likely to lead to a change of control:

- Within three years from grant – only options and rights with an earliest vesting date 3 years from grant would vest.
- Within the fourth year from grant – only options and rights with an earliest vesting date within 4 years from grant not previously forfeited would vest.
- Within the fifth year of grant – all options and rights not previously forfeited would vest.

Sonic Healthcare ordinary shares to be awarded on exercise/conversion of the options and performance rights may be satisfied by the issue of new shares or the purchase of shares on-market. Options and performance rights are not eligible for dividends.

None of the options or performance rights issued in November 2011 under the Employee Option Plan or Performance Rights Plan had vested or been forfeited at 30 June 2012.

# DIRECTORS' REPORT

## Remuneration Report (continued)

### (e) Securities trading policy

Under the Sonic Securities Trading Policy, all Sonic Healthcare employees are prohibited from buying or selling Sonic Healthcare securities (including shares, options, debt securities) at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading".

Certain "Designated Officers", including all Directors and senior executives (and specified related parties), are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following Sonic Healthcare's provision to the market at any time of definitive guidance regarding the next annual result to be released. Exceptions to this prohibition can be approved by the Chairman (for other Directors) or the Managing Director (for all other employees) in circumstances of severe financial hardship (as defined in the Policy). All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to trading in financial instruments related to Sonic Healthcare shares and to trading in the shares of other entities using information obtained through employment with Sonic. In addition the Managing Director and Finance Director are required to obtain approval from the Chair of the Sonic Board of Directors before selling any shares.

Designated Officers are prohibited from entering into transactions in products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. Designated Officers are required to commit to this by signing the Securities Trading Policy and will forfeit their equity reward should they be found to be in breach.

All Sonic Healthcare securities dealings by Directors are promptly notified to the Australian Securities Exchange (ASX) in accordance with Sonic's Continuous Disclosure obligations.

### (f) Use of remuneration consultant

In June 2011, Sonic Healthcare Limited's Remuneration and Nomination Committee employed the services of Aon Hewitt to review its existing remuneration policies and to provide recommendations in respect of both short-term and long-term incentive plan design. Under the terms of the engagement, Aon Hewitt provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid \$29,256 for these services.

Aon Hewitt has confirmed that the above recommendations have been made free from undue influence by members of the Group's key management personnel.

The following arrangements were made to ensure the remuneration recommendations were free from undue influence:

- Aon Hewitt was engaged by, and reported directly, to the Chair of the Remuneration and Nomination Committee. The agreement for the provision of remuneration consulting services was executed by the Chair of the Remuneration and Nomination Committee under delegated authority on behalf of the Board.
- The report containing the remuneration recommendations was provided by Aon Hewitt directly to the Chair of the Remuneration and Nomination Committee; and
- Aon Hewitt was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Aon Hewitt was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

### (g) Voting at the Company's 2011 Annual General Meeting

Over 90% of votes received on Sonic Healthcare Limited's Remuneration Report for the 2011 financial year were in favour.



# DIRECTORS' REPORT

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



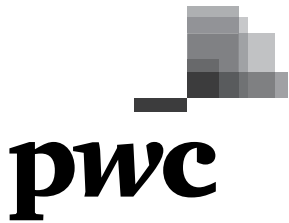
Dr C.S. Goldschmidt  
Director



C.D. Wilks  
Director

Sydney  
26 September 2012

# AUDITOR'S INDEPENDENCE DECLARATION



As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2012, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Matthew Lunn', with a horizontal line underneath it.

Matthew Lunn  
Partner  
PricewaterhouseCoopers

Sydney  
26 September 2012

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171, DX 77 Sydney, Australia

T +61 2 8266 0000, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation

# CORPORATE GOVERNANCE STATEMENT

The Board of Sonic Healthcare continues to place great importance on the governance of the Company, which it believes is vital to its well-being and success. There are two elements to the governance of companies: performance and conformance. Both are important, but it is critical that focus on conformance does not detract from the principal function of a business, which is to undertake prudent activities to:

- generate rewards for shareholders who invest their capital,
- provide services of value to customers, and
- provide meaningful employment for employees,

and to do so in a way that contributes positively to the community.

In this framework, it is crucial that shareholders have clear visibility of the actions of the Group and that they can rely on reported financial information. The Sonic Board has committed itself to provide relevant, accurate information to shareholders on a timely basis and has adopted policies and procedures designed to ensure that the Group's financial reports are true and fair, meet high standards of disclosure integrity and provide all material information necessary to understand the Group's financial performance.

Sonic's Board and management are committed to governance which recognises that all aspects of the Group's operations are conducted ethically, responsibly and with the highest standards of integrity. The Board has adopted practices and policies designed to achieve these aims. In June 2010, the ASX Corporate Governance Council published its Corporate Governance Principles and Recommendations with 2010 Amendments to apply to financial years commencing on or after 1 January 2011. Sonic supports the Recommendations in advancing good corporate governance and has applied them during the year. Sonic's Board continues to review and improve Sonic's compliance with the Recommendations, implementing change in a prudent manner. Sonic's website ([www.sonichealthcare.com](http://www.sonichealthcare.com)) includes a Corporate Governance section which sets out the information required by the Recommendations plus other relevant information, including copies of all Policies, Charters and Codes referred to herein.

Sonic's Code of Ethics and Core Values (listed below) set out the fundamental principles that govern the way that all Sonic people conduct themselves. Sonic's Core Values apply equally to every employee of Sonic and were formulated with significant input from Sonic's staff. They have been embraced throughout the Group. Sonic's Core Values are:

- **Commit to Service Excellence**  
To willingly serve all those with whom we deal with unsurpassed excellence.
- **Treat each other with Respect & Honesty**  
To grow a workplace where trust, team spirit and equity are an integral part of everything we do.
- **Demonstrate Responsibility & Accountability**  
To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.
- **Be Enthusiastic about Continuous Improvement**  
To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.
- **Maintain Confidentiality**  
With regard to patient records and all information pertaining to patients as well as other professional and commercial issues.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place throughout the year. Any issues of current non-compliance with the Recommendations are specifically noted and explained.

## 1. Board of Directors

### (a) Role of the Board

The Board of Directors is accountable to shareholders for the performance of the Company and the Group and is responsible for the corporate governance practices of the Group. The Board's principal objective is to increase shareholder value while ensuring that the Group's overall activities are properly managed.

# CORPORATE GOVERNANCE STATEMENT

## 1. Board of Directors (continued)

### (a) Role of the Board (continued)

Sonic's corporate governance practices provide the structure which enables the Board's principal objective to be achieved, whilst ensuring that the business and affairs of the Group are conducted ethically and in accordance with law.

The Board's overall responsibilities include:

- providing strategic direction and approving corporate strategies,
- monitoring management and financial performance and reporting,
- monitoring and ensuring the maintenance of adequate risk management identification, control and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.

The Board delegates authority for operational management of the business to the Managing Director and senior executives. The Managing Director also oversees the implementation of strategies approved by the Board. The Board uses a number of Committees to support it in matters that require more intensive review and involvement. Details of the Board Committees are provided below.

As part of its commitment to good corporate governance, the Board regularly reviews the practices and standards governing the Board's composition, independence and effectiveness, the accountability and compensation of Directors (and senior executives) and the Board's responsibility for the stewardship of the Group.

The role and responsibilities of the Board, the functions reserved for the Board and those delegated to management have been formalised in the Sonic Board Charter.

### (b) Composition of the Board

The Directors of the Company in office at the date of this statement are:

Name	Age	Term of office (Years)	Position	Expertise	Committees
Mr Peter Campbell	67	19	Chairman, Non-executive, independent Director	Finance and accounting, information technology and company management	Member of Remuneration and Nomination Committee and Audit Committee
Dr Colin Goldschmidt	58	19	Managing Director	Healthcare industry and company management	Member of Risk Management Committee
Mr Chris Wilks	54	22	Finance Director	Finance, accounting, banking, secretarial and company management	Member of Risk Management Committee
Dr Philip Dubois	66	11	Executive Director	Radiology industry and company management	Member of Risk Management Committee
Mr Colin Jackson	64	12	Executive Director	Finance, pathology industry and company management	
Mr Lou Panaccio	55	7	Non-executive, independent Director	Finance, pathology industry and company management	Chair of Audit Committee and member of Remuneration and Nomination Committee
Ms Kate Spargo	60	2	Non-executive, independent Director	Law, governance and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee
Dr Jane Wilson	54	2	Non-executive, independent Director	Medicine, finance, governance and company oversight	Chair of Risk Management Committee and member of Remuneration and Nomination Committee

# CORPORATE GOVERNANCE STATEMENT

## 1. Board of Directors (continued)

### (b) Composition of the Board (continued)

The composition of Sonic's Board is consistent with the principle of medical management and leadership, which has been a core strategy of Sonic since 1992. Sonic's Managing Director is a qualified pathologist, and the Board also includes a radiologist and a general practitioner, ensuring that it has the capacity to understand complex medical issues and be in close touch with the medical marketplace. The presence of medical practitioners on Sonic's Board also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices which Sonic seeks to acquire. This strategy has resulted in a Board which has a relatively high proportion of Executive Directors.

Dr Dubois and Mr Jackson were appointed to the Board following acquisitions of practices in which they held leadership positions. Their presence on the Board has played an important role in consolidating several of the larger independent practices acquired by Sonic into a cohesive group.

In addition, the Sonic Board comprises members with a diverse mix of business skills, including industry specific management skills and experience, and broader management experience, finance and legal skills and expertise in corporate governance.

Sonic's Non-executive Directors, including the Chairman, are considered independent and perform major roles in the Board Committees.

For the reasons described above Sonic does not comply with ASX Corporate Governance Council Recommendation 2.1: "A majority of the board should be independent directors". The Board currently comprises four independent and four Executive Directors.

The Board has resolved that the position of Chairman of the Board be held by an independent Director, and the position of Chairman and Managing Director will be held by different persons. The Board has also resolved that, in its view, the mere fact that a Director has been in office for a period greater than 10 years does not change that Director's status as an independent. The Board has specifically considered the position of Mr Peter Campbell and is of the view that he is independent.

The size and composition of the Board is determined by the full Board acting on recommendations of the Remuneration and Nomination Committee. Sonic's constitution requires that the Board comprise no more than 12 and no fewer than 3 Directors at any time. Sonic's constitution also requires all Directors, other than the Managing Director, to offer themselves for re-election at an AGM, such that they do not hold office without re-election for longer than three years.

### (c) Board meetings

The Board meets formally at least 10 times a year to consider a broad range of matters, including strategy, financial performance reviews, capital management and acquisitions. Details of meetings (both full Board and Committees) and attendances are set out in the Directors' Report.

### (d) Independent professional advice and access to information

Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required and may consult with other employees and seek additional information on request.

### (e) Conflicts of interest of Directors

The Board has guidelines dealing with disclosure of interests by Directors and participation and voting at Board meetings where any such interests are discussed. In accordance with the *Corporations Act 2001*, any Director with a material personal interest in a matter being considered by the Board does not receive the relevant Board papers, must not be present when the matter is being considered, and may not vote on the matter.



# CORPORATE GOVERNANCE STATEMENT

## 1. Board of Directors (continued)

### (f) Securities trading

Under Sonic's Securities Trading Policy, all Sonic employees are prohibited from buying or selling or otherwise trading Sonic Healthcare securities (including shares, options, debt securities) at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all Directors and senior executives (and specified related parties), are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following the provision to the market at any time by Sonic of definitive guidance regarding the next annual result to be released. Exceptions to this prohibition can be approved by the Chairman (for other Directors) or the Managing Director (for all other employees) in circumstances of severe financial hardship (as defined in the Policy). All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to trading in financial instruments related to Sonic's securities, including products which limit the economic risk of option or share holdings in Sonic, and to trading in the securities of other entities using information obtained through employment with Sonic. In addition, the Managing Director and Finance Director are required to obtain approval from the Chair of the Sonic Board before selling any shares. All Sonic securities dealings by Directors are promptly notified to the Australian Securities Exchange (ASX).

### (g) Remuneration of Non-executive Directors

The current remuneration for Non-executive Directors is \$125,000 per annum plus \$10,000 per annum for each Board Committee upon which they serve (\$5,000 for the Remuneration and Nomination Committee). The maximum total remuneration per annum for Non-executive Directors of \$1,000,000 was approved by shareholders in November 2010. Options are not issued and bonuses are not payable to Non-executive Directors. No retirement benefit schemes (other than statutory superannuation) apply to Non-executive Directors. Further details of Sonic's remuneration policies for Executive Directors and senior executives of the Company, and the relationship between such policy and the Company's performance are provided in the Directors' Report.

## 2. Board Committees

To assist the Board in fulfilling its duties, there are currently three Board Committees whose terms of reference and powers are determined by the Board. Details of Committee meetings and attendances are set out in the Directors' Report.

### (a) Audit Committee

Members of the Audit Committee are:

- Mr L.J. Panaccio (Chair)
- Mr R.P. Campbell
- Ms K.D. Spargo

The Charter requires that the Audit Committee comprises between three and six members, all of whom must be independent Directors, and that the Chair of the Committee is not to be the Chair of the Sonic Board.

The principal role of the Audit Committee is to provide the Board, investors, owners and stakeholders with confidence that the financial reports for the Company represent a true and fair view of the Company's financial condition and operational results in all material respects, and are in accordance with relevant accounting standards.

The responsibilities of the Audit Committee are set out in its Charter and include:

- assisting the Board in its oversight responsibilities by monitoring and advising on:
  - the integrity of the financial statements of the Company,
  - the Company's accounting policies and practices in accordance with current and emerging accounting standards,
  - the external auditors' independence and performance,
  - compliance with legal and regulatory requirements and related policies,
  - compliance with the policy framework in place from time to time, and
  - internal controls, and the overall efficiency and effectiveness of financial operations.
- providing a forum for communication between the Board, executive management and external auditors.
- providing a conduit to the Board for external advice on audit and internal controls.

# CORPORATE GOVERNANCE STATEMENT

## 2. Board Committees (continued)

### (a) Audit Committee (continued)

The external auditors, the Managing Director and the Finance Director are invited to Audit Committee meetings at the discretion of the Committee.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year, and more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chair of the Audit Committee or the Chair of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

### (b) Risk Management Committee

Members of the Risk Management Committee are:

- Dr E.J. Wilson (Chair)
- Dr C.S. Goldschmidt
- Dr P.J. Dubois
- Mr C.D. Wilks

The Risk Management Committee's responsibilities are set out in its Charter and include:

- assisting the Board in its oversight responsibilities by monitoring and advising on:
  - the identification and management of risks, including but not limited to:
    - › business risks, including financial and strategic risks,
    - › operational risks, including business continuity and practice management risks,
    - › insurable risks including legal liability claims and property losses,
    - › hazard risks including environmental and OH&S risks.
  - internal controls and treatments for identified risks including the Company's insurance program.
  - the Company's overall risk management program.
- providing a forum for communication between the Board, management and external risk management advisors.
- providing a conduit to the Board for external advice on risk management.

The Committee meets at least twice per year.

### (c) Remuneration and Nomination Committee

Members of the Remuneration and Nomination Committee are:

- Ms K.D. Spargo (Chair and member from 1 May 2012)
- Mr R.P. Campbell (Chair until 1 May 2012)
- Mr L.J. Panaccio
- Dr E.J. Wilson

The Charter requires that the Remuneration and Nomination Committee comprises at least three members, all of whom are to be independent Directors.

# CORPORATE GOVERNANCE STATEMENT

## 2. Board Committees (continued)

### (c) Remuneration and Nomination Committee (continued)

The Remuneration and Nomination Committee operates under a formal Charter and meets on an as required basis. The Remuneration and Nomination Committee's role, as set out in its Charter, is to:

- review and make recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Finance Director and Non-executive Directors,
- advise the Board in relation to equity-based incentive schemes for other employees,
- ensure appropriate disclosure is provided to shareholders in relation to remuneration policies and that equity-based remuneration is within plans approved by shareholders,
- review the Board and Board Committee structures,
- advise the Board on the recruitment, appointment and removal of Directors,
- assess and promote the enhancement of competencies of Directors,
- review Board succession plans,
- make recommendations to the Board in relation to workforce and Board diversity and measurable objectives in relation to gender diversity, and monitor progress toward achievement of those objectives.

When reviewing Board succession plans or as part of identifying the need for an additional Director, the Committee reviews the skills matrix of the Board to determine any gaps in the skills, experience and expertise of the existing Directors. In addition, the level of diversity of the Board is also assessed. The Committee and Board are of the view that the current skills matrix and level of diversity are appropriate and will seek to maintain at least these levels.

When seeking to recruit a Director, the Committee, on behalf of the Board, conducts a search for potential candidates using professional networks and referrals and, if considered necessary, professional recruitment agencies. Candidates are subject to a number of interviews, resumes and references are checked, and skillsets are examined versus the perceived need. Medical qualifications, industry experience and enhancement of Board diversity are important criteria. Potential existing or foreseeable future conflicts of interest are also considered.

The Remuneration and Nomination Committee, when deemed necessary, directly obtains independent advice on the appropriateness of remuneration.

## 3. Approach to diversity

As a medical diagnostic company, Sonic Healthcare's business relies on the services provided to referrers and patients by thousands of Sonic staff every day. In addition, in seeking to continually improve Sonic's services and financial performance, the Company relies on the input and expertise of its many managers, pathologists, radiologists, other medical practitioners and staff. It is therefore critical that Sonic's workforce brings a broad range of experiences, talents and viewpoints to the business. Diversity is valued as it assists the Company to meet its objectives, and ensures that Sonic's people reflect our customers and the communities we serve.

Sonic Healthcare strives to maintain a healthy, safe and productive environment which is free from discrimination and harassment based on race, colour, religion, gender, sexual orientation, age, national origin or disability. In addition, the Company is committed to the continued development and implementation of initiatives to remove barriers that disadvantage any person or group such that everyone is able to compete on equal terms. Within Sonic, recruitment, development, promotion and remuneration are based on merit. These principles are an integral part of Sonic's corporate culture, and are encapsulated in the Sonic Core Values and the Company's Diversity Policy.

The Remuneration and Nomination Committee of the Sonic Board recommends annually measurable objectives for promoting and maintaining gender diversity and measures and reports on progress towards achievement of those objectives. The CEO has discretion with regard to the specific initiatives to be implemented by management to achieve the objectives.

# CORPORATE GOVERNANCE STATEMENT

## 3. Approach to diversity (continued)

The proportion of female employees to male employees within the Group at 30 June 2012 was 77% (2011: 77%) female and 23% (2011: 23%) male. 46% (2011: 44%) of senior leadership positions are held by females, and 25% (2011: 25%) of Sonic's Directors are female (50% (2011: 50%) of Non-executive Directors).

The Company's current objective in relation to gender diversity is to monitor and maintain the percentage of females in senior leadership positions at a level of at least 40%. This objective was achieved in 2012.

## 4. Identifying and managing business risks

Sonic recognises that risk management is an integral part of good management and corporate governance practice and is fundamental to driving shareholder value across the business.

Sonic views the management of risk as a core managerial capability. Risk management is strongly promoted internally and forms part of the performance evaluation of key executives.

### (a) Responsibilities

The Board determines the overall risk profile of the business and is responsible for monitoring and ensuring the maintenance of adequate risk management policies, controls and reporting mechanisms.

To assist the Board in fulfilling its duties, it is aided by the Audit Committee and the Risk Management Committee. The Board has delegated to these Committees responsibility for ensuring:

- the Company's material business risks, including strategic, financial, operational and compliance risks, are identified,
- systems are in place to assess, manage, monitor and report on those risks, and that those systems are operating effectively,
- management compliance with Board approved policies,
- internal controls are operating effectively across the business, and
- all Group companies are in compliance with laws and regulations relating to their activities.

The Audit Committee and Risk Management Committee update the Board on all relevant matters.

Management is responsible for the identification, assessment and management of business risks. During the year, management reported on these matters, including the effectiveness of the management of Sonic's material business risks, to the Audit Committee and Risk Management Committee, who then reported these matters to the Board.

### (b) Risk management policies, systems and processes

Sonic's activities across all of its operating entities are subject to regular review and continuous oversight by executive management and the Board Committees. The Chief Executive Officers of the individual operating companies are responsible for the identification and management of risk within their business. To assist in this, executive management has developed an effective control environment to help manage the significant risks to its operations, both locally and overseas. This environment includes the following components:

- clearly defined management responsibilities, management accountabilities and organisational structures,
- established policies and procedures that are widely disseminated to, and understood by, employees,
- regular internal review of policy compliance and the effectiveness of systems and controls, in particular, through Sonic's Business Assurance Program, an internal audit function,
- comprehensive training programs for staff in relation to operational practices and compliance requirements,
- strong management reporting framework for both financial and operational information,
- creation of an open culture to share risk management information and to continuously improve the effectiveness of Sonic's risk management approach,

# CORPORATE GOVERNANCE STATEMENT

## 4. Identifying and managing business risks (continued)

### (b) Risk management policies, systems and processes (continued)

- benchmarking across operations to share best practice and further reduce the operational risk profile,
- Sonic Core Values, a unifying code of conduct embraced by Sonic employees,
- centrally administered Group insurance program ensuring a consistent and adequate approach across all operating areas, and
- the ongoing engagement of a professional Risk Manager to co-ordinate the Company's approach to material business risk management.

### (c) Regulatory compliance

Sonic's pathology, radiology and medical centre activities are subject to Commonwealth and State law in Australia, and similar regulatory control in offshore locations. These laws cover such areas as laboratory and collection centre operations, workplace health and safety, radiation safety, privacy of information and waste management.

Sonic's network of pathology laboratories, collection centres and radiology centres are required to meet and remain compliant with set performance criteria determined by government and industry bodies.

To support this, Sonic's operating policies and procedures are overseen by internal quality assurance and workplace health and safety managers who review operational compliance.

In addition, practising pathologists and radiologists are required to be registered and licensed in accordance with Medical Board and Government regulations. The accreditation and licensing of locations, equipment and personnel is subject to regular, random audits by Government experts and medical peer groups. Sonic also undertakes internal reviews to ensure continued best practice and compliance.

Sonic's established procedures, focus on best practice, medical leadership model, structured staff training and the external review activities serve to mitigate operational risk and support regulatory compliance.

### (d) Managing Director and Finance Director certification

Sonic has adopted a policy requiring the Managing Director and the Finance Director to provide the Board with written certification in relation to its financial reporting processes. For the 2012 financial year, the Managing Director and Finance Director made the following certifications:

- that the financial records of the Company have been properly maintained,
- that the financial statements and notes comply in all material respects with the accounting standards,
- that the financial statements and notes give a true and fair view, in all material respects, of the Company's financial condition and operational results, and
- that the statements above are founded on a sound system of risk management and internal control which operates effectively in all material respects in relation to financial reporting risks.

## 5. Ethical standards

The Company has a Code of Ethics policy that outlines the standards required so that the Directors and management conduct themselves with the highest ethical standards. All employees of the Company and its controlled entities are informed of the Code. The Directors regularly review this code to ensure it reflects best practice in corporate governance. The Code is further supported by the Sonic Core Values.

## 6. Continuous disclosure

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Sonic has formalised its policies and procedures on information disclosure in a Policy on Continuous Disclosure. The Policy focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities, and sets out management's responsibilities and reporting procedures in this regard.



# CORPORATE GOVERNANCE STATEMENT

## 6. Continuous disclosure (continued)

All information disclosed to the ASX is then immediately posted on the Company's website. Presentations to analysts on aspects of the Company's operations are released to the ASX and posted on the Company's website.

## 7. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:

- the Annual Report is available to all shareholders on the Company's website and is distributed to those shareholders who elect to receive it. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of likely future developments, in addition to the other disclosures required by law; and
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.

To further facilitate communication with shareholders, the Company has established electronic shareholder communication processes via its Share Registry. Shareholders are able to access online Annual Reports, notices of meetings, proxy forms and voting, and receive electronic statements (e.g. holding statements) by email. The Company has an arrangement with eTree by which it donates \$1 to Landcare Australia for each new shareholder email address recorded.

Where possible the Company provides advance notice of significant group briefings, including for the half and full year results announcements, by publishing details on the Company website and extending open invitations. Telephone dial-in details are generally made available. Records are kept of group and one-on-one briefings with investors and analysts.

The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of Directors.

## 8. External auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. Sonic requires its external auditor to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the auditor's report. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

## 9. Performance evaluation of the Board, its Committees and Directors, and key executive officers

### (a) The Board and its Committees

The Board carries out an annual evaluation of its own performance in meeting its key responsibilities in accordance with the Board Charter, by undertaking the following activities:

- the Chairman discusses with each Director their individual performance and ideas for improvement based on surveys completed by each Director assessing their own and each other Directors' performance, and
- the Board as a whole discusses and analyses its own performance, including suggestions for change or improvement and assessment of the extent to which the Board has discharged its responsibilities as set out in the Board Charter.

The performance review covers matters such as contribution to strategy development, interaction with management, operation and conduct of meetings, and specific performance objectives for the year ahead.

The Board also obtains feedback on its performance and operations from key people such as the external auditors.

Each Committee of the Board is required to undertake an annual performance evaluation and report the results of this review to the Board.

# CORPORATE GOVERNANCE STATEMENT

## 9. Performance evaluation of the Board, its Committees and Directors, and key executive officers (continued)

### (a) The Board and its Committees (continued)

Performance evaluation results are discussed by the Board, and initiatives are undertaken, where appropriate, to strengthen the effectiveness of the Board's operation and that of its Committees. The Board periodically reviews the skills, experience and expertise of its Directors and its practices and procedures for both the present and future needs of the Company.

### (b) The Managing Director and Finance Director

The performances of the Managing Director and Finance Director are formally reviewed by the Board. The performance criteria include:

- economic results of the Group,
- fulfilment of objectives and duties,
- personnel and resource management,
- promotion of and adherence to Sonic Core Values, Foundation Principles, Federation model and the concept of medical leadership,
- corporate governance and compliance,
- risk management, and
- external standing and reputation (including stakeholder management, brand and quality), and
- additionally for the Finance Director, financial leadership and innovation.

Performance evaluation results are considered by the Remuneration and Nomination Committee in determining the level and structure of remuneration for the Managing Director and Finance Director.

### (c) Key executives

The Managing Director evaluates key executives at least annually with qualitative and quantitative measures against agreed business and personal objectives. These business and personal objectives are consistent with those used in the performance reviews for the Managing Director and Finance Director.

# CONCISE FINANCIAL REPORT 30 JUNE 2012

Sonic Healthcare Limited  
ABN 24 004 196 909

- 50 Consolidated Income Statement
- 51 Consolidated Statement of Comprehensive Income
- 52 Consolidated Balance Sheet
- 53 Consolidated Statement of Changes in Equity
- 54 Consolidated Cash Flow Statement
- 55 Notes to the Consolidated Concise Financial Statements
- 66 Directors' Declaration
- 67 Independent Auditor's Report to the Members

The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2012. The financial statements and specific disclosures included in the Concise Financial Report have been derived from the full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Sonic Healthcare Limited and its controlled entities as the full Financial Report. Further financial information can be obtained from the full Financial Report.

The full Financial Report and auditor's report can be accessed via the internet on our website: [www.sonichealthcare.com](http://www.sonichealthcare.com). Alternatively, members can call +61 2 9855 5444 and request a copy of the full Financial Report and auditor's report, which will be sent free of charge.

# CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Revenue from operations	3	3,322,532	3,082,883
Other income		23,084	13,496
<b>Total revenue</b>		<b>3,345,616</b>	<b>3,096,379</b>
Labour and related costs		(1,522,717)	(1,389,869)
Consumables used		(524,710)	(512,518)
Operating lease rental expense		(175,341)	(155,716)
Depreciation and amortisation of physical assets		(110,497)	(97,227)
Transportation		(89,900)	(87,560)
Utilities		(79,707)	(73,990)
Borrowing costs expense		(76,964)	(71,074)
Repairs and maintenance		(74,010)	(68,365)
Amortisation of intangibles		(21,557)	(17,691)
Other expenses from ordinary activities		(252,285)	(231,966)
<b>Profit from ordinary activities before income tax expense</b>		<b>417,928</b>	<b>390,403</b>
Income tax expense		(100,243)	(95,914)
<b>Profit from ordinary activities after income tax expense</b>		<b>317,685</b>	<b>294,489</b>
Net (profit)/loss attributable to minority interests		(1,689)	46
<b>Profit attributable to members of Sonic Healthcare Limited</b>		<b>315,996</b>	<b>294,535</b>
		<b>Cents</b>	<b>Cents</b>
<b>Basic earnings per share</b>	6	<b>81.1</b>	<b>75.8</b>
<b>Diluted earnings per share</b>	6	<b>80.7</b>	<b>75.5</b>

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	2012 \$'000	2011 \$'000
<b>Profit from ordinary activities after income tax expense</b>	<b>317,685</b>	294,489
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations	(18,342)	(121,688)
Cash flow hedges	2,172	10,924
Actuarial (losses)/gains on retirement benefit obligations	(2,620)	1,319
<b>Other comprehensive income for the period, net of tax</b>	<b>(18,790)</b>	(109,445)
<b>Total comprehensive income for the period</b>	<b>298,895</b>	185,044
Total comprehensive income attributable to:		
– Members of Sonic Healthcare Limited	297,227	185,216
– Minority interests	1,668	(172)
	<b>298,895</b>	185,044

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	2012 \$'000	2011 \$'000
<b>Current assets</b>		
Cash and cash equivalents	168,594	174,687
Receivables	447,775	402,876
Inventories	55,701	53,357
Assets classified as held for sale	9,336	9,189
Other	33,350	27,806
<b>Total current assets</b>	<b>714,756</b>	<b>667,915</b>
<b>Non-current assets</b>		
Receivables	2,712	2,734
Other financial assets	50,028	46,396
Property, plant and equipment	561,371	531,529
Investment properties	20,847	20,517
Intangible assets	3,549,247	3,408,001
Deferred tax assets	29,787	35,357
Other	57	448
<b>Total non-current assets</b>	<b>4,214,049</b>	<b>4,044,982</b>
<b>Total assets</b>	<b>4,928,805</b>	<b>4,712,897</b>
<b>Current liabilities</b>		
Payables	277,268	233,675
Interest bearing liabilities	516,388	3,864
Current tax liabilities	44,877	27,941
Provisions	131,478	117,742
Other financial liabilities	8,737	14,359
Other	2,687	3,637
<b>Total current liabilities</b>	<b>981,435</b>	<b>401,218</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	1,223,287	1,706,449
Deferred tax liabilities	56,445	45,230
Provisions	37,526	37,664
Other	19,913	5,901
<b>Total non-current liabilities</b>	<b>1,337,171</b>	<b>1,795,244</b>
<b>Total liabilities</b>	<b>2,318,606</b>	<b>2,196,462</b>
<b>Net assets</b>	<b>2,610,199</b>	<b>2,516,435</b>
<b>Equity</b>		
Parent Company interest		
Contributed equity	2,379,525	2,345,584
Reserves	(229,478)	(187,356)
Retained earnings	439,454	356,160
<b>Total Parent Company interest</b>	<b>2,589,501</b>	<b>2,514,388</b>
Minority interests	20,698	2,047
<b>Total equity</b>	<b>2,610,199</b>	<b>2,516,435</b>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Minority interests \$'000	Total \$'000
<b>Balance at 1 July 2010</b>	2,345,145	(78,357)	289,480	2,556,268	2,473	2,558,741
Profit for period	-	-	294,535	294,535	(46)	294,489
Other comprehensive income for the period	-	(110,638)	1,319	(109,319)	(126)	(109,445)
Total comprehensive income for the period	-	(110,638)	295,854	185,216	(172)	185,044
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	(229,174)	(229,174)	-	(229,174)
On market purchase to satisfy exercise of options	-	(948)	-	(948)	-	(948)
Adjustment to tax benefits associated with past share issues	(901)	-	-	(901)	-	(901)
Transfers to share capital	1,340	(1,340)	-	-	-	-
Share based payments	-	3,927	-	3,927	-	3,927
Dividends paid to minority interests	-	-	-	-	(254)	(254)
<b>Balance at 30 June 2011</b>	2,345,584	(187,356)	356,160	2,514,388	2,047	2,516,435
<b>Balance at 1 July 2011</b>	2,345,584	(187,356)	356,160	2,514,388	2,047	<b>2,516,435</b>
Profit for period	-	-	315,996	315,996	1,689	<b>317,685</b>
Other comprehensive income for the period	-	(16,149)	(2,620)	(18,769)	(21)	<b>(18,790)</b>
Total comprehensive income for the period	-	(16,149)	313,376	297,227	1,668	<b>298,895</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	(230,082)	(230,082)	-	<b>(230,082)</b>
Shares issued	27,942	(6,222)	-	21,720	-	<b>21,720</b>
Transfers to share capital	5,999	(5,999)	-	-	-	-
Share based payments	-	3,699	-	3,699	-	<b>3,699</b>
Minority interests on acquisition of subsidiary	-	(17,451)	-	(17,451)	17,912	<b>461</b>
Dividends paid to minority interests	-	-	-	-	(929)	<b>(929)</b>
<b>Balance at 30 June 2012</b>	<b>2,379,525</b>	<b>(229,478)</b>	<b>439,454</b>	<b>2,589,501</b>	<b>20,698</b>	<b>2,610,199</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2012

	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	3,371,854	3,156,904
Payments to suppliers and employees (inclusive of goods and services tax)	(2,750,813)	(2,606,117)
	621,041	550,787
Interest received	2,817	6,300
Borrowing costs	(72,512)	(72,130)
Income taxes paid	(64,588)	(75,938)
<b>Net cash inflow from operating activities</b>	<b>486,758</b>	<b>409,019</b>
<b>Cash flows from investing activities</b>		
Payment for purchase of controlled entities, net of cash acquired	(152,450)	(279,979)
Payments for property, plant and equipment	(137,154)	(135,767)
Proceeds from sale of non-current assets	7,950	2,810
Payments for investments	(15,714)	(22,847)
Payments for intangibles	(40,863)	(34,981)
Repayment of loans by other entities	3,947	4,769
Loans to other entities	(1,452)	(2,908)
<b>Net cash (outflow) from investing activities</b>	<b>(335,736)</b>	<b>(468,903)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)	21,720	1,649
Payments for shares acquired by the Sonic Healthcare Employee Share Trust	-	(3,498)
Proceeds from borrowings	393,369	568,401
Repayment of borrowings	(338,193)	(401,779)
Dividends paid to Company's shareholders	(230,082)	(229,174)
Dividends paid to minority interests in subsidiaries	(926)	(249)
<b>Net cash (outflow) from financing activities</b>	<b>(154,112)</b>	<b>(64,650)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(3,090)</b>	<b>(124,534)</b>
Cash and cash equivalents at the beginning of the financial year	174,687	300,354
Effects of exchange rate changes on cash and cash equivalents	(3,003)	(1,133)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>168,594</b>	<b>174,687</b>

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

- 56 Note 1 Presentation currency
- 56 Note 2 Segment information
- 59 Note 3 Revenue
- 60 Note 4 Dividends
- 61 Note 5 Business combinations
- 62 Note 6 Earnings per share
- 63 Note 7 Share options
- 65 Note 8 Events occurring after reporting date

This Concise Financial Report relates to the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012. The accounting policies adopted have been consistently applied to all years presented.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## **Note 1 Presentation currency**

The presentation currency used in this Concise Financial Report is Australian dollars.

## **Note 2 Segment information**

### **Business segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (the chief operating decision makers) in assessing performance and determining the allocation of resources. The 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 operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis.

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

### **(i) Pathology**

Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland.

### **(ii) Radiology**

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

### **(iii) Other**

Includes the corporate office function, medical centre operations (IPN) and other minor operations.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 2 Segment information (continued) Business segments (continued)

2012	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Total \$'000
<b>Revenue (Constant Currency)</b>					
External sales	2,735,287	383,643	277,373	-	3,396,303
Inter-segment sales	511	178	6,741	(7,430)	-
Other income	1,433	208	21,776	-	23,417
<b>Total segment revenue (Constant Currency)</b>	<b>2,737,231</b>	<b>384,029</b>	<b>305,890</b>	<b>(7,430)</b>	<b>3,419,720</b>
Currency exchange rate movements	(77,250)	329	-	-	(76,921)
<b>Total segment revenue (Statutory)</b>	<b>2,659,981</b>	<b>384,358</b>	<b>305,890</b>	<b>(7,430)</b>	<b>3,342,799</b>
Interest income					2,817
<b>Total revenue</b>					<b>3,345,616</b>
<b>Result</b>					
<b>Segment result (Constant Currency)</b>	<b>479,371</b>	<b>44,700</b>	<b>2,427</b>	<b>-</b>	<b>526,498</b>
Currency exchange rate movements	(12,876)	10	-	-	(12,866)
<b>Segment result (Statutory)</b>	<b>466,495</b>	<b>44,710</b>	<b>2,427</b>	<b>-</b>	<b>513,632</b>
Amortisation of intangibles					(21,557)
Unallocated net interest expense					(74,147)
<b>Profit before tax</b>					<b>417,928</b>
Income tax expense					(100,243)
<b>Profit after income tax expense</b>					<b>317,685</b>
<b>Depreciation</b>	<b>64,651</b>	<b>31,962</b>	<b>13,884</b>	<b>-</b>	<b>110,497</b>
<b>Other non-cash expenses</b>	<b>3,630</b>	<b>1,351</b>	<b>5,700</b>	<b>-</b>	<b>10,681</b>

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 2 Segment information (continued) Business segments (continued)

2011	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Total \$'000
<b>Revenue</b>					
External sales	2,505,313	362,251	209,019	-	3,076,583
Inter-segment sales	505	181	5,674	(6,360)	-
Other income	996	2	12,498	-	13,496
<b>Total segment revenue</b>	2,506,814	362,434	227,191	(6,360)	3,090,079
Interest income					6,300
<b>Total revenue</b>					3,096,379
<b>Result</b>					
<b>Segment result</b>	436,386	39,406	(2,924)	-	472,868
Amortisation of intangibles					(17,691)
Unallocated net interest expense					(64,774)
<b>Profit before tax</b>					390,403
Income tax expense					(95,914)
<b>Profit after income tax expense</b>					294,489
<b>Depreciation</b>	56,145	29,759	11,323	-	97,227
<b>Other non-cash expenses</b>	(24,947)	642	5,724	-	(18,581)



# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 2 Segment information (continued)

### Geographical information

	Revenues from sales to external customers*		Non-current assets**	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australia	1,640,936	1,470,107	1,720,129	1,562,999
United States of America	765,278	721,428	1,167,853	1,117,048
Germany	541,733	541,463	625,145	630,265
Other	371,768	343,585	671,135	699,313
<b>Total</b>	<b>3,319,715</b>	<b>3,076,583</b>	<b>4,184,262</b>	<b>4,009,625</b>

\* Note that changes between years are affected by exchange rate movements and the timing of business acquisitions.

\*\* Note that this includes all non-current assets other than financial instruments and deferred tax assets.

## Note 3 Revenue

	2012 \$'000	2011 \$'000
<b>Services revenue</b>		
Medical services revenue	3,291,345	3,058,289
<b>Other revenue</b>		
Interest received or due and receivable	2,817	6,300
Rental income	12,983	12,947
Other revenue	15,387	5,347
	<b>31,187</b>	<b>24,594</b>
Revenue from operations	<b>3,322,532</b>	<b>3,082,883</b>

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 4 Dividends

	2012 \$'000	2011 \$'000
<b>Total dividends paid on ordinary shares during the year</b>		
Final dividend for the year ended 30 June 2011 of 35 cents (2010: 35 cents) per share paid on 21 September 2011 (2010: 28 September 2010), 28% (2010: 35%) franked	136,489	135,950
Interim dividend for the year ended 30 June 2012 of 24 cents (2011: 24 cents) per share paid on 22 March 2012 (2011: 24 March 2011), 35% (2011: 28%) franked	93,593	93,224
	<b>230,082</b>	<b>229,174</b>
<b>Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors declared a final dividend of 35 cents (2011: 35 cents) per ordinary share, franked to 45% (2011: 28%) based on tax paid at 30%. The aggregate amount of the final dividend payable on 9 October 2012 out of retained profits at the end of the year, but not recognised as a liability is:	137,427	136,489
<b>Franked dividends</b>		
The 2012 final dividend declared after the year end will be 45% franked out of existing franking credits and out of franking credits arising from the payment of income tax in the year ending 30 June 2013.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	20,607	12,245

The consolidated amounts include franking credits that would be available if distributable profits of subsidiaries not part of the Australian tax group were paid as dividends.

### Dividend Reinvestment Plan ("DRP")

The Board has determined that the Company's Dividend Reinvestment Plan will operate for the 2012 final dividend. Shares issued under the DRP for the 2012 final dividend will have a subscription price 2.5% below the average of the daily volume weighted average price of Sonic shares sold (excluding certain types of trades) on each of the 10 consecutive trading days from and including 11 September 2012. Shares will be allocated under the DRP on 9 October 2012, and will rank equally with Sonic's existing fully paid ordinary shares.

The DRP was suspended in respect of the interim and final dividends for the year ended 30 June 2011 and the interim dividend for the year ended 30 June 2012.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 5 Business combinations

### Acquisition of subsidiaries/business assets

Acquisitions in the period included:

- IPN, a member of the Group, acquired a number of medical centre and skin cancer clinic businesses during the period.
- A small synergistic laboratory acquisition in Germany.

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. It is impracticable to determine the contribution these immaterial acquisitions made to the net profit of the Group during the period, and what they are likely to contribute on an annualised basis, as the majority of the acquisitions were integrated with other entities in the Group. The accounting for these business combinations has been finalised at the date of this report.

The aggregate cost of the acquisitions, the values of the identifiable assets and liabilities, and the goodwill arising on acquisition are detailed below.

	Total \$'000
Consideration – cash paid	142,471
Less: Cash of entities acquired	(240)
	142,231
Deferred consideration	1,899
Total consideration	144,130
Fair value of identifiable net assets of subsidiaries/businesses acquired:	
Debtors & other receivables	901
Prepayments	92
Inventory	297
Deferred tax assets	556
Property, plant & equipment	10,644
Identifiable intangibles	880
Trade payables	(2,714)
Sundry creditors and accruals	(1,979)
Current tax liabilities	(253)
Provisions	(2,103)
	6,321
Minority interests	18,739
Goodwill	156,548

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. \$2,870,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a fifteen year period.

Acquisition-related costs of \$3,527,000 are included in other expenses in the Consolidated Income Statement. The fair value of acquired debtors and other receivables is \$901,000. The gross contractual amount due is \$901,000, of which \$nil is expected to be uncollectable.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 5 Business combinations (continued)

### Acquisition of subsidiaries/business assets (continued)

In accordance with the Group accounting policies the minority interests in Labor Dr. Steinberg were recognised at a fair value of \$18,739,000. The fair value has been calculated by reference to current prices in an active market for similar assets. The Group has entered into an option agreement to purchase the remaining shares at any time prior to 31 December 2014 otherwise the minority interests can exercise a put option to sell their shares between 1 January 2015 and 31 March 2015. The consideration payable will be based on a multiple of EBITDA at the date of exercise. A financial liability has been recognised for the option.

There were no subsequent changes to the accounting for the business combinations in the 2011 financial year from those included in the 2011 financial statements.

## Note 6 Earnings per share

	2012 Cents	2011 Cents
Basic earnings per share	81.1	75.8
Diluted earnings per share	80.7	75.5

	2012 Shares	2011 Shares
<b>Weighted average number of ordinary shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	389,835,777	388,429,875
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	391,769,391	390,196,374

Options over ordinary shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

Details of the options exercised and issued in the period between the reporting date and the date of this report are detailed in Note 7.

	2012 \$'000	2011 \$'000
<b>Reconciliations of earnings used in calculating earnings per share</b>		
Net profit	317,685	294,489
Net (profit)/loss attributable to minority interests	(1,689)	46
Earnings used in calculating basic and diluted earnings per share	315,996	294,535

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 7 Share options

### (a) Shares under option

Unissued ordinary shares of Sonic Healthcare Limited under option at the date of this report are as follows:

#### (i) Sonic Healthcare Limited Employee Option Plan

Grant date	Expiry date	Issue price of shares	Number of options at date of report
31/07/08	31/05/13	\$13.65	60,000
21/11/08	22/11/13	\$12.98	1,068,375
27/03/09	27/01/14	\$11.10	1,140,000
10/06/10	10/04/15	\$10.57	1,000,000
03/03/11	03/01/16	\$11.13	440,000
18/11/11	18/11/16	\$11.43	1,341,058
18/11/11	18/11/17	\$11.43	1,302,250
18/11/11	18/11/18	\$11.43	1,705,263
20/02/12	20/12/16	\$11.14	600,000
07/03/12	07/03/17	\$11.14	500,000
07/03/12	07/03/19	\$11.14	1,000,000
02/07/12	02/07/19	\$12.57	300,000
Total			10,456,946

The above options granted are able to be exercised subject to the following vesting periods:

- Up to 50% may be exercised after 30 months from the date of grant
- Up to 75% may be exercised after 42 months from the date of grant
- Up to 100% may be exercised after 54 months from the date of grant

Options granted under the plan expire after 58 months and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

The grants of options on 7 March 2012 and 2 July 2012 are subject to different vesting and expiry periods. For the options granted on 7 March 2012 up to 500,000 options are exercisable from 7 March 2015 until expiry on 7 March 2017. Up to a further 1,000,000 options are exercisable from 7 March 2017 until expiry on 7 March 2019. Options granted on 2 July 2012 which satisfy the vesting conditions will be exercisable from 2 July 2017 until expiry on 2 July 2019.

The performance options granted on 18 November 2011 relate to the Long Term Incentive component of the revised remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks for the five year period commencing from 1 July 2011. The vesting conditions attached to the options are as detailed in the Remuneration Report.

# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## Note 7 Share options (continued)

### (a) Shares under option (continued)

#### (ii) Executive Incentive Plan

At the date of this report the following options are on issue:

Grant date	Expiry date	Issue price of shares	Number of options at date of report
22/08/08	22/08/13	\$7.50	1,540,000
Total			1,540,000

Executive Incentive Plan options expire 60 months after issue and are able to be exercised subject to the following vesting periods:

- Up to 50% may be exercised after 24 months from the date of issue
- Up to 100% may be exercised after 36 months from the date of issue

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

#### (iii) Sonic Healthcare Limited Performance Rights Plan

Performance rights are granted under the Sonic Healthcare Limited Performance Rights Plan for no consideration and carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share. No rights holder has any right to participate in any other share issue of the Company or of any other entity.

The performance rights granted on 18 November 2011 relate to the Long Term Incentive component of the revised remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks for the five year period commencing from 1 July 2011. The vesting conditions attached to the performance rights are as detailed in the Remuneration Report.

Grant date	Expiry date	Issue price of shares	Number of rights at date of report
18/11/11	18/11/16	Nil	141,732
18/11/11	18/11/17	Nil	141,732
18/11/11	18/11/18	Nil	188,976
Total			472,440

### (b) Shares issued on the exercise of options up to the date of this report

#### (i) Sonic Healthcare Limited Employee Option Plan options

A total of nil ordinary shares of Sonic were issued during the year ended 30 June 2012 under the Sonic Healthcare Limited Employee Option Plan. 140,000 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 140,000 ordinary shares. The amount paid by the option holders per share was \$11.10.

#### (ii) Executive Incentive Plan options

A total of 1,540,000 ordinary shares were issued during the year ended 30 June 2012 on the exercise of Executive Incentive Plan options. A further 1,540,000 options were exercised since that date, but prior to the date of this report, resulting in the issue of 1,540,000 ordinary shares. The amount paid by the option holders per share was \$7.50.

No amounts are unpaid on any of these shares.



# NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

## **Note 7 Share options (continued)**

### **(c) Options granted to officers**

During the year nil options were issued to the five highest remunerated officers of the Company and the Group who are not already disclosed as key management personnel.

## **Note 8 Events occurring after reporting date**

Since the end of the financial year, 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 follows:

On 20 August 2012 Sonic's Directors declared a final dividend of 35 cents (45% franked) per ordinary share, payable on 9 October 2012. Sonic's Dividend Reinvestment Plan is in operation for this dividend. The final dividend included no conduit foreign income.

In September 2012 the Group successfully established a new club bank debt facility for €195M, expiring in 2017.

# DIRECTORS' DECLARATION

The Directors declare that in their opinion, the Concise Financial Report of the Group for the year ended 30 June 2012 as set out on pages 49 to 65 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2012. The financial statements and specific disclosures included in the Concise Financial Report have been derived from the full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full Financial Report, which is available on request.

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



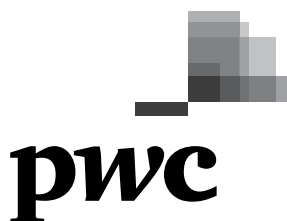
Dr C.S. Goldschmidt  
Director



C.D. Wilks  
Director

Sydney  
26 September 2012

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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

### Report on the Concise Financial Report

We have audited the accompanying Concise Financial Report of Sonic Healthcare Limited (the Company) which comprises the Consolidated Balance Sheet as at 30 June 2012, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended and related notes, derived from the audited Financial Report of the Company for the year ended 30 June 2012 for both Sonic Healthcare Limited and the Sonic Healthcare Group (the consolidated entity). The Concise Financial Report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the Concise Financial Report is not a substitute for reading the audited Financial Report.

### Directors' responsibility for the Concise Financial Report

The Directors are responsible for the preparation of the Concise Financial Report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the Directors determine are necessary to enable the preparation of the Concise Financial Report.

### Auditor's responsibility

Our responsibility is to express an opinion on the Concise Financial Report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the Financial Report of the consolidated entity for the year ended 30 June 2012. We expressed an unmodified audit opinion on that Financial Report in our report dated 26 September 2012. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Concise Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Concise Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Concise Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures include testing that the information in the Concise Financial Report is derived from, and is consistent with, the Financial Report for the year, and examination on a test basis, of audit evidence supporting the amounts and other disclosures which were not directly derived from the Financial Report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the Concise Financial Report complies with AASB 1039 *Concise Financial Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

---

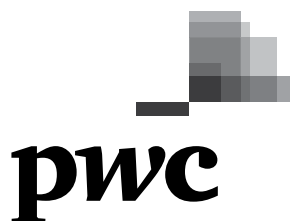
**PricewaterhouseCoopers, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171, DX 77 Sydney, Australia

T +61 2 8266 0000, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



## Independent Auditor's Report to the Members of Sonic Healthcare Limited (continued)

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### Auditor's opinion

In our opinion, the Concise Financial Report of the consolidated entity for the year ended 30 June 2012 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

### Report on the Remuneration Report

The following paragraphs are copied from our report on the Remuneration Report for the year ended 30 June 2012.

We have audited the Remuneration Report included in pages 26 to 36 of the Directors' Report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion

In our opinion, the Remuneration Report of Sonic Healthcare Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

### Matters relating to the electronic presentation of the audited Financial Report

This Auditor's Report relates to the Financial Report and Remuneration Report of Sonic Healthcare Limited (the Company) for the year ended 30 June 2012 included on the Sonic Healthcare Limited web site. The Company's Directors are responsible for the integrity of the Sonic Healthcare Limited web site. We have not been engaged to report on the integrity of this web site. The Auditor's Report refers only to the Financial Report and Remuneration Report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the Financial Report or the Remuneration Report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited Financial Report and Remuneration Report to confirm the information included in the audited Financial Report and Remuneration Report presented on this web site.

The PricewaterhouseCoopers logo is written in a cursive, handwritten-style font.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Matthew Lunn'.

Matthew Lunn  
Partner

Sydney  
26 September 2012

# SHAREHOLDERS' INFORMATION

## 1. Information relating to shareholders

### (a) Distribution schedule as at 14 September 2012

	No. of holders ordinary shares
1 – 1,000	17,300
1,001 – 5,000	15,193
5,001 – 10,000	1,313
10,001 – 100,000	686
100,001 and over	98
	34,590
Voting rights	
– on a show of hands	1/member
– on a poll	1/share
Percentage of total shares held by the twenty largest registered holders	77.93%
Number of holders holding less than a marketable parcel	475

### (b) Substantial shareholders as at 14 September 2012

The Company has received substantial shareholding notices to 14 September 2012 in respect of the following holdings:

	No. of securities	Percentage held
The Capital Group Companies, Inc.	46,262,112	11.91%
Manning & Napier Advisors, LLC	25,097,655	6.42%

# SHAREHOLDERS' INFORMATION

## 1. Information relating to shareholders (continued)

### (c) Names of the twenty largest registered holders of equity securities as at 14 September 2012

	No. of securities	Percentage held
J P Morgan Nominees Australia Limited	89,823,245	22.88%
HSBC Custody Nominees (Australia) Limited	77,796,563	19.81%
National Nominees Limited	62,427,276	15.90%
Jardvan Pty Ltd	15,958,704	4.06%
Citicorp Nominees Pty Limited	11,910,787	3.03%
JP Morgan Nominees Australia Limited <Cash Income A/C>	9,085,136	2.31%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	6,823,448	1.74%
BNP Paribas Noms Pty Ltd <Master Cust DRP>	6,193,152	1.58%
Perpetual Trustee Company Limited	4,268,533	1.09%
Polly Pty Ltd <A/C Patterson Family>	3,816,646	0.97%
HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C>	3,580,814	0.91%
Bainpro Nominees Pty Limited	2,457,555	0.63%
AMP Life Limited	2,355,365	0.60%
Argo Investments Limited	2,274,483	0.58%
Goodoil Investments Pty Ltd <Timothy Roberts Invest A/C>	1,973,717	0.50%
Quintal Pty Ltd <Harken Family A/C>	1,521,138	0.39%
BNP Paribas Noms Pty Ltd <DRP>	1,095,255	0.28%
Mrs Jennifer Margaret Robson	889,718	0.23%
Dr Anthony John Clarke	885,000	0.23%
BNP Paribas Noms Pty Ltd <SMP Accounts DRP>	819,285	0.21%
	<b>305,955,820</b>	<b>77.93%</b>

## 2. Unquoted equity securities as at 14 September 2012

	No. on issue	No. of holders
Options over unissued ordinary shares	13,096,946	44
Performance rights	472,440	2



# SHAREHOLDERS' INFORMATION

## 3. Share Registry

### Computershare Investor Services Pty Limited

Registered address: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Postal address: GPO Box 1903, Adelaide, SA 5001

Enquiries within Australia: 1300 556 161

Fax within Australia: 1300 534 987

Enquiries outside Australia: +61 3 9415 4000

Fax outside Australia: +61 3 9473 2408

Email: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

Shareholders with enquiries should email, telephone or write to the Share Registry.

Separate shareholdings may be consolidated by advising the Share Registry in writing or by completing a Request to Consolidate Holdings form which can be found online at the above website.

Shareholders who are issuer sponsored holders should notify the Share Registry of a change of address without delay. Shareholders who are broker sponsored on the CHESS sub-register must notify their sponsoring broker of a change of address.

Direct payment of dividends into a nominated account may be arranged with the Share Registry. Shareholders are encouraged to use this option by completing a payment instruction form online or advising the Share Registry in writing with particulars.

The Annual Report is produced for your information. However, should you receive more than one or wish to be removed from the mailing list for the Annual Report, please advise the Share Registry. You will continue to receive any Notices of Meetings and Proxy Forms.

### Supporting the environment through electronic communication

Sonic Healthcare Limited is a participating member of eTree and is proud to support this environmental scheme encouraging security holders to register to access all their communications electronically. Our partnership with eTree is an ongoing commitment to driving sustainable initiatives that help security holders contribute to a greener future.

For every email address registered at [www.eTree.com.au/sonichealthcare](http://www.eTree.com.au/sonichealthcare), a donation of \$1 is made to Landcare Australia. With your support of the eTree project and other electronic communication channels, Sonic Healthcare has significantly decreased its shareholder communication print production. Only about 6% of Sonic's shareholders still request a hard copy Annual Report, and over 25% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production, and in conjunction with Landcare Australia, thousands of new trees being planted in reforestation projects around Australia and New Zealand.

We also encourage you to visit eTree if your email address has changed and you need to update it. For every updated registration, 50 cents will be donated to Landcare Australia. To register, you will need your Security Holder Reference Number (SRN) or Holder Identification Number (HIN).

## 4. Annual General Meeting

The Annual General Meeting will be held in Ballroom 2 at the Four Seasons Hotel, 199 George Street, Sydney at 10.00am on Thursday 22 November 2012.

This page has been intentionally left blank.





SONIC  
HEALTHCARE  
LIMITED